Leopalace21

Integrated Report 2023

For fiscal year ended March 31, 2023

Leopalace21

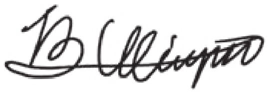
Leopalace21 Aims To Realize Our Long-Term Vision by Taking Action Every Day While Embracing Our Corporate Philosophy

Corporate Philosophy — **Creating New Value**

Long-Term Vision — **Ensure competitive advantage in our business, with the provision of rental housing as social infrastructure at its core, and achieve sustainable growth along with stakeholders**

Contents

To Our Stakeholders



Bunya Miyao
President and CEO

We will strive to enhance corporate value through a virtuous cycle of dialogue

Since its founding, Leopalace21 has continued to provide new value through housing based on its corporate philosophy of "creating new value." This Integrated Report 2023 is designed to provide institutional investors and analysts with an understanding of both financial information, such as management strategies, priority measures, and business overviews, and non-financial information, such the strengths we have built up over our 50-year history. It has been 10 years since we published our first integrated report in the form of combining annual report and CSR report for the fiscal year ended March 31, 2014.

This Integrated Report 2023 was created with significant input from property owners, tenants, companies that use our properties as corporate housing, and business partners who support our business on a daily basis. If you pay attention to the voices of our stakeholders, I am sure that you will be able to analyze the Company from an angle different from the one in the past.

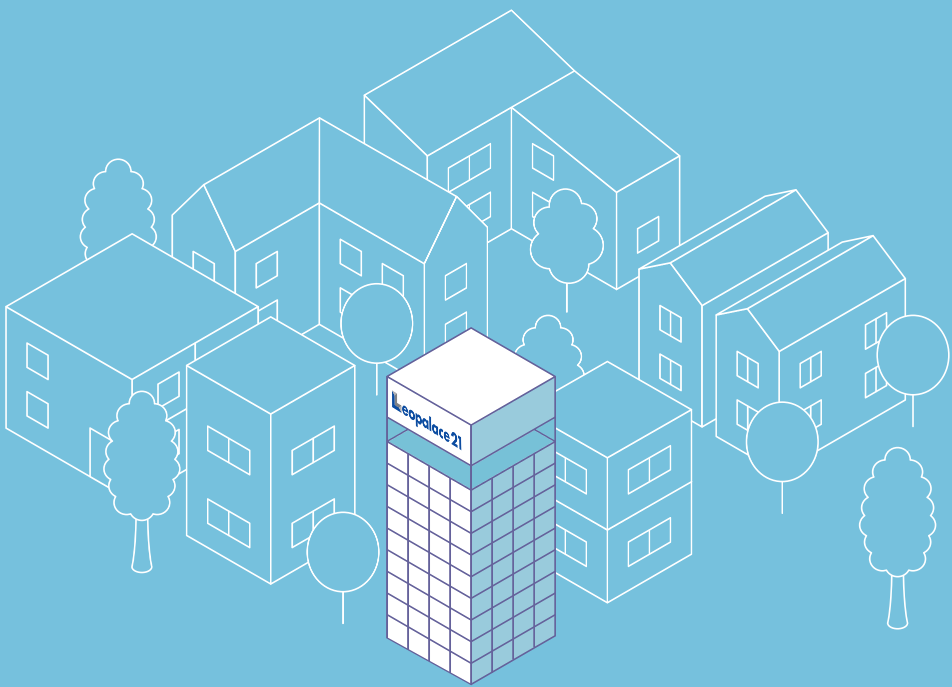
Once again, I offer my deepest apologies to all our stakeholders for the serious distress and inconvenience caused by the problems that came to light in and after 2018, including construction defects and the disposal processing procedure for discarded home appliances. I deeply regret that these problems arose because the Company's path had been based on a mindset that prioritizes growth, and we had lacked a compliance perspective.

In light of this past history, at present, we are reviewing our compliance check framework and optimizing various workflows while remaining constantly aware of the need to strengthen corporate governance, which is our foundational management task. In conjunction with this, we are also revamping our management team. Going forward, we are determined to grow and strengthen our financial base under a strong compliance and governance framework.

Constructive dialogue with stakeholders is the key to both strengthening our organization and growing our business.

I hope that this Integrated Report 2023 will serve as a catalyst for the dialogue.

What is our Purpose, or raison d'être?



Our Purpose, or raison d’être is to create new value and provide better living solutions based on the theme of housing.

We have been striving to solve social challenges to date in the field of rental and other forms of housing by providing innovative services that meet the needs of the times and create new social value, while simultaneously achieving Leopalace21’s sustainable growth in expanding economic value.

To elaborate on one part of our Purpose in detail based on the above, we are a rare company that provides uniform rental housing across Japan. More specifically, we are managing and operating approximately 560,000 units of rental housing nationwide but primarily in the three major metropolitan areas, with single-person households as the main target segment. There are approximately 20 million single-person households in society overall, and we are the only company providing and managing good and homogenous quality housing which serves as the foundation of a safe and secure life to this demographic segment, both in large volume and throughout the country. We believe that this fact makes our business a part of the social infrastructure, and this in itself is of great value and significance.

Another part of our Purpose is that we offer apartments equipped with furniture and home appliances, which is also the foundation of Leopalace21’s business model. In 1999, we started offering *Monthly Leopalace* fit for temporary use, with furniture and home appliances and by expanding the well-equipped rental housing convenient to start living right away to a scale of nationwide 560,000 units. We play a major role in facilitating the relocation of single-person households from an ecological perspective. Meanwhile, we offered a 30-year master lease program to support the construction, management, and operation of apartments. We also believe it is valuable that we have offered an option of running an apartment business to property owners who are worried about how to handle asset succession and inheritance tax. In recent years, types of people who need quality single-person apartments, including international students from abroad, students who leave their parents’ homes to attend college, and businesspeople relocating alone are increasing, and we believe that meeting these needs is also a source of great social value.

We will continue to provide high-quality housing as the basis of safe and secure living under a business model that benefits both tenants and property owners.

Our Journey in New Value Creation

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Two Major Challenges to be Solved Through Business Activities

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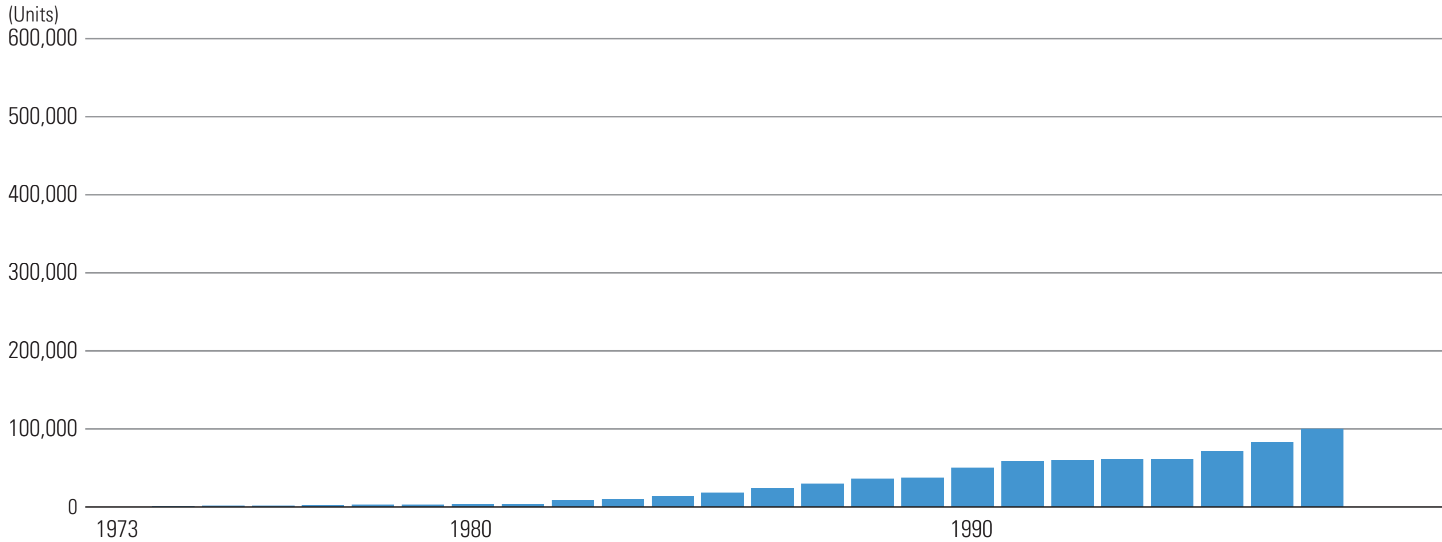
Cover Story

Our Purpose Our Journey in New Value Creation

Leopalace21 has pioneered a variety of industry first initiatives to provide new value to society

Changes in the number of units under management



Challenge/needs

Want to run apartment business without worry

1995

Provided value

Established and launched an industry-first master lease program to pay rents for all units in apartments for up to 30 years

We were the first in the industry to introduce a master lease program in which the landowners ask Leopalace21 to construct apartments on their land, and Leopalace21 leases the entire apartment building from the landowner for sublease. The program has a mechanism under which Leopalace21 handles the recruitment of tenants, management of the apartments and all of the other related aspects of the business for the apartments during the period of use. Providing an integrated service from construction of the rental apartments to leasing and management makes it possible for the owners to utilize their land without cumbersome management burden while retaining ownership, and has become an effective means of stable asset management over a long period of time.

Challenge/needs

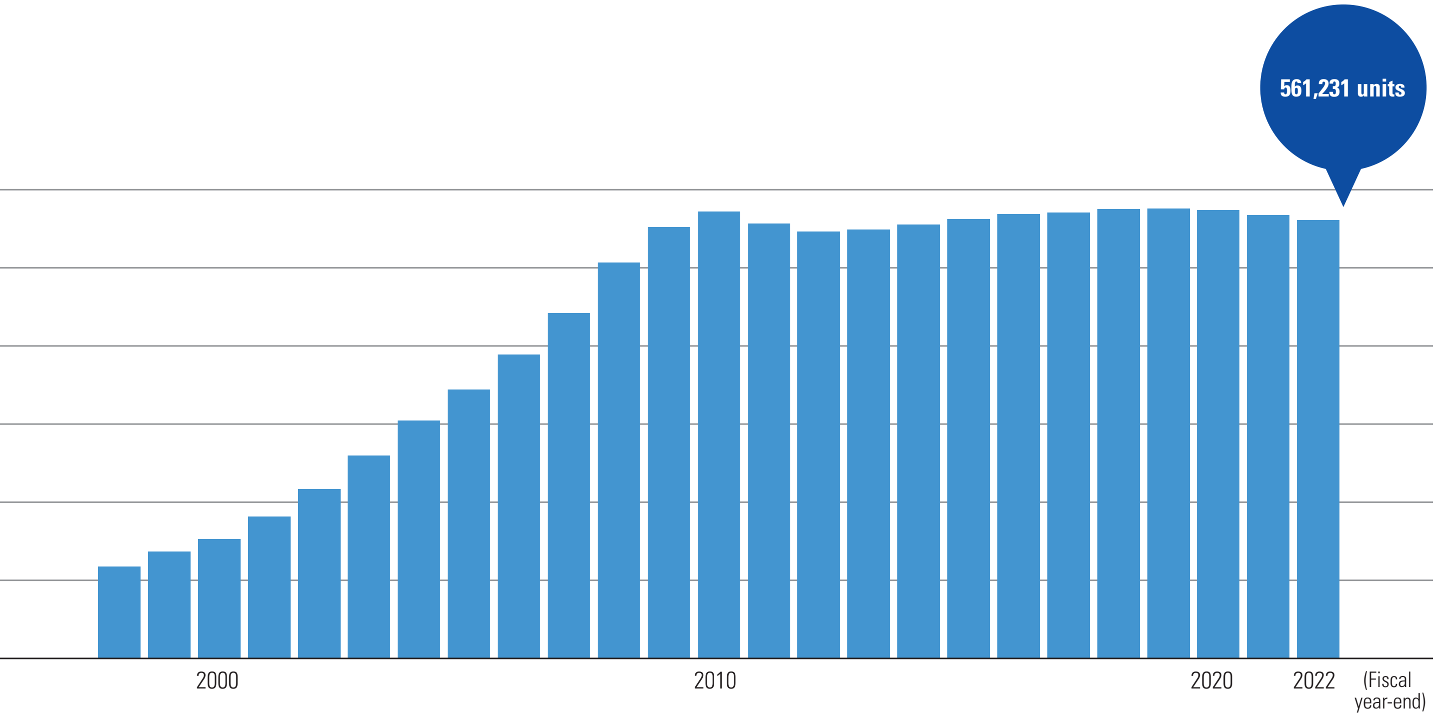
Easy moving/use as company-leased housing

1999

Provided value

Launched the *Monthly Leopalace* short-term rental service, furnished with furniture and home appliances

The mainstream of rental housing business has been traditionally based on a medium-term contractual arrangement with a contract period of about two years. The companies, however, have a variety of needs such as long-term business trips, assignment of employees to remote job locations away from their family, and employee housing. The individuals also have needs such as a temporary residence during relocation or a short-term house in cases of limited period of stay. Our *Monthly Leopalace* equipped with furniture and home appliances is a product which meets these kinds of temporary use needs, and currently has become quite popular.



Challenge/ needs

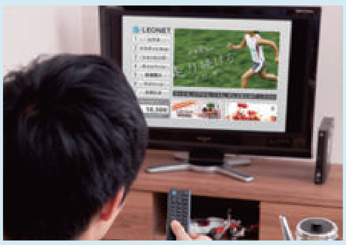
Want to enjoy internet in my room

2002

Provided value

Launched Internet broadband business

In 1997 the Internet use rate for individuals was a mere 9.2%, but it rapidly increased due to the widespread adoption of PCs for individuals, the expansion of Internet shopping, growing popularity of smartphones, and other factors, to reach 92.9% in 2021. Leopalace21 launched the broadband business in 2002 before this rapid and extensive adoption of the Internet. Currently, we are providing diverse services including the Internet connection, the CS channels, and online shopping, among others, to support the Internet-based lifestyle of our tenants.



Challenge/ needs

Convenient housing

2022

Provided value

Promote real estate tech business

In anticipation of the digital transformation (DX) of society, Leopalace21 has been promoting the introduction of real estate tech business that combines real estate services with IT. This started with our introduction of electronic contracts for individuals using tablet devices in 2015, installation of cloud-based security cameras and smart locks that enable tenants to unlock the front doors with smartphones or other devices instead of door keys, each of these were examples of real estate tech into a variety of our operations which used to require face-to-face communication. Due to the introduction of smart locks, we can handle almost all procedures online, and will utilize these advanced DX initiatives in all aspects of the rental contract conclusion, apartment management jobs, and others.

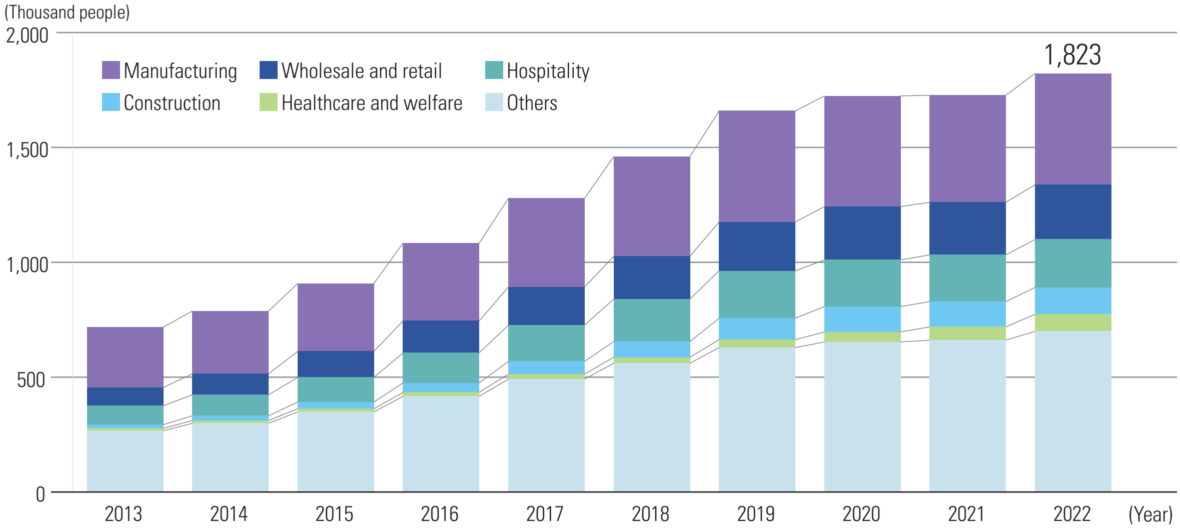
Our Purpose Two Major Challenges to be Solved Through

1. Provide housing for the increasing number of foreign nationals

Social challenge

The continuously increasing number of foreign national workers and international students

Number of foreign national workers



*Status of reporting on the employment of foreign workers (as of October 31, 2022), Ministry of Health, Labour and Welfare

Provided value

Support to foreign national customers covering everything from searching for an apartment room to advising do's and don'ts in daily life after they move in

Leopalace21 provides integrated support to foreign national customers who have anxieties about searching for apartment rooms, a process which they are not familiar with in Japan. The support covers everything from searching for an apartment room to the things they may face when starting daily life. Currently, foreign national customers account for just under 10% of all of the tenants, and people from China, Vietnam, and English-speaking countries account for about 40%, 40%, and 20%, respectively, of the foreign national customers. To respond to this, we have established the International Front Center specialized in servicing foreign national customers and have staff on duty at all times in the center who can speak Mandarin, Korean, and Vietnamese. Going forward, we expect an increase in the number of foreign workers and international students in Japan, and therefore we will continue to employ reasonable number of foreign national employees to prepare customer-friendly atmosphere so that foreign national customers can relax in looking for apartment rooms without worrying about communication.

Meanwhile, as support after moving in, we sometimes provide assistance even in the cases that are not directly related to our company business if the customers face a problem in public utilities necessary for daily life, such as turning on gas when no one at the gas company can help in a foreign language. In this way, while proceeding with our response to the unique needs of foreign national customers, we play a part in solving the social challenge of providing housing to foreign nationals.

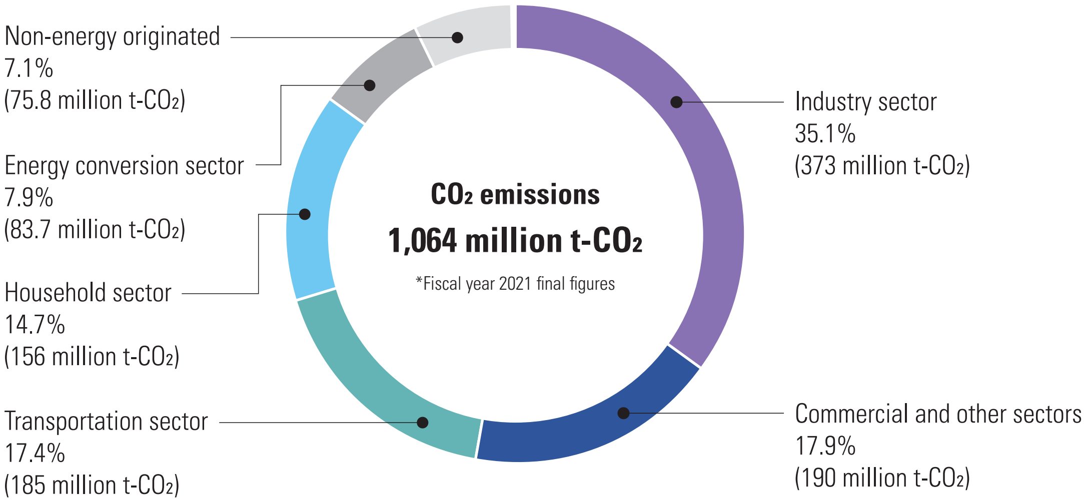
Business Activities

2. Environmental initiatives (toward carbon neutrality)

Social challenge

CO_2 emissions from the household sector have a large impact on overall CO_2 emissions

CO_2 emissions by sector in fiscal year 2021



*Source: About Greenhouse Gas Emissions and Absorptions by the Ministry of the Environment and National Institute for Environmental Studies

Provided value

Restraining CO_2 emissions by providing apartments equipped with furniture and home appliances

When starting living alone, in the case of unfurnished apartments, tenants are required to buy a complete set of furniture and appliances necessary for daily life. On the other hand, when moving into one of our apartments equipped with furniture and home appliances, tenants are not required to purchase furniture and appliances, nor do they need to dispose of them later, and such apartments make it possible to reduce the number of belongings that have to be transported upon moving.

We looked into the environmental contribution of the above.* Based on the average number of years that tenants stay in our apartments as well as the number of years before we have to buy replacement furniture and appliances, it is assumed that we can ensure that the reuse of furniture and appliances is advantageous compared to the case in which the tenant purchases the furniture and appliances for about 57,000 contracts out of the approximately 390,000 rental contracts per year (actual results for fiscal year 2022). Considering the CO_2 emissions due to the furniture and appliance manufacturing process and the CO_2 emissions due to the disposal process for about 57,000 apartments, and calculating the CO_2 emissions reduction due to the decreased number of things to transport while moving using officially published values, we found that CO_2 emissions were reduced by 40,000 t-CO_2 for the year. This is equivalent to the CO_2 emissions of 22,000 people based on a conversion to the annual per capita CO_2 emissions for a household person. Going forward, we will continue to contribute to solving the social challenge of restraining CO_2 emissions by providing apartments equipped with furniture and home appliances.

*Based on research by the Company (Source: The GHG Emissions Data of Japan (FY1990-FY2021), Final Figures, National Institute for Environmental Studies

Reduction in CO_2 emissions due to apartments equipped with furniture and home appliances

40,434 t-CO_2

Why can Leopalace21 create new value?

This is because we have capital with a competitive advantage and we are constantly working to upgrade this advantage.

Leopalace21 possesses capital with a competitive advantage, such as the sheer volume of approximately 560,000 units under management, the accumulated leasing business expertise over around forty years, capable staff members with flexible mindsets, and partnerships with property owners and business partners.

The number of units under management accounts for approximately 10% of some 5.4 million units for rent that have 29m² of floor space or less, which is equivalent to the Company's majority of apartments throughout Japan. This is the largest scale in Japan among private companies. In addition to the advantages of this scale, we anticipate strong demand for apartments for single persons in Japan which suffer from shrinking population. Since we mainly service single person households which accounts for our main business, we believe we can keep our competitive advantage for years to come. Moreover, due to the master lease program which serves as the foundation of our business model, we have built close partnerships with property owners and business partners through trusted relationship over many years. With respect to the tenants, we have provided a variety of industry-first services during the past approximately fifty years, including providing apartments equipped with furniture and home appliances, *Monthly Leopalace*, the broadband business, and others. The leasing business expertise we have built up in that process has also become a source of ideas which generate new services.

In recent years, as a result of changing our business portfolio to focus primarily on the Leasing Business, our employee hiring activities were more focused on mid-career hires. We hope such employees bring in experiences in other industries or other companies to increase the corporate ability to create new innovations by utilizing their ideas, skills, and knowledge.

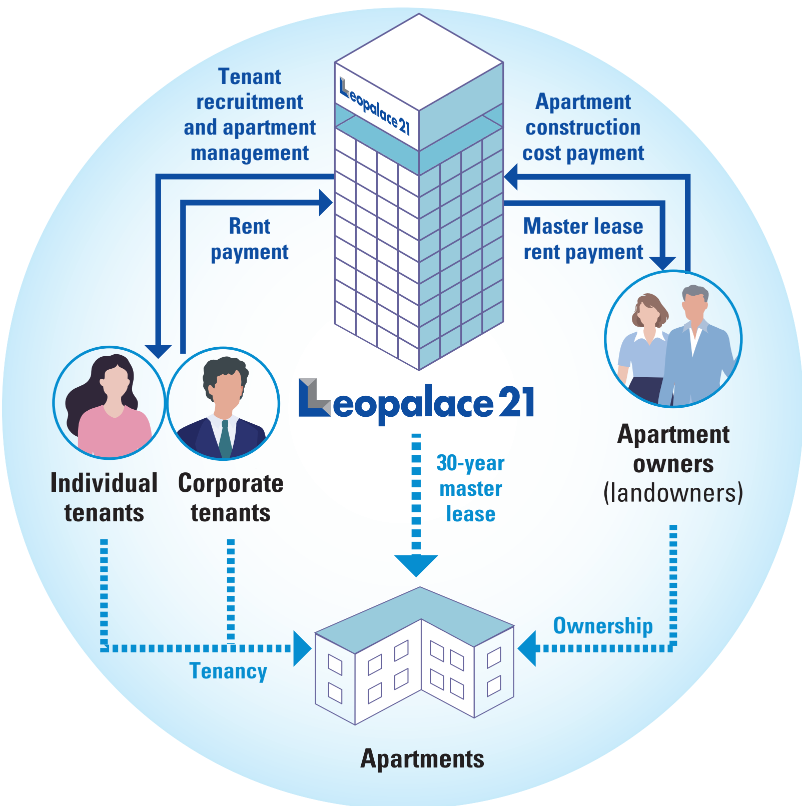
About Leopalace21's Business Model

We have created a unique business model that combines the construction and leasing of apartments.

With real estate business expertise as its core competency, we have created a unique business model that combines apartment construction, leasing and management.

The Leasing Business is mainly engaged in leasing and management of leased apartments and other properties through master lease program and maintenance work of apartments and others, provision of various leasing related services, broadband services, and construction subcontracting of apartments. The tenants can choose from two types of rental services: a leasing contract with a contract period of one year or more and a monthly contract with a period of 30 days or more. The characteristics of the sales activities of the Leasing Business is that our apartments are mainly targeted to single persons, and therefore we are carrying out an area intensive strategy which gives priority to the regions where many single persons live and where many people are moving into due to economic growth and other factors, namely the regions of Kanto, Kansai, and Chukyo. In addition to these, we are strengthening initiatives to meet the needs of companies with a large volume of demand at one time, in particular the needs of company-leased housing. We developed a distinctive business model as a leasing business.

Moreover, in recent years we have strengthened our relationship with Village House, a rental housing management company, in order to utilize real estate agents, and tried to attract the foreign national migrant workers, who are on the rise to solve labor shortages. The Leasing Business is refining its unique business model as it specializes in providing housing to single persons.



What are Leopalace21's important issues, or materiality items?

Leopalace21 has identified eight materiality items sorted by ESG category.

In fiscal year 2022, we have revised the materiality while taking into account the current Company and socio-economic conditions. Specifically, we have identified the promotion of real estate tech business, which is a pillar of our sustainability management, as a new materiality item, and determined the installation of smart locks as a KPI.

As a framework for identifying the materiality, we first identify social challenges related to the Company, and then judge whether those items represent opportunity or risk. The materiality items are sorted by ESG category.

Managing construction defects problem was identified as one of the materiality items unique to the Company. In order to ensure the execution of publicly announced construction defects elimination plan and prevent similar issues from reoccurring, we designated two KPIs for the materiality items under the purview of governance, and continue to address them as important issues.

Step 1 Identify social challenges related to the Company business

Step 2 Determine whether issue represents opportunity or risk in fiscal year 2022

Step 3 Sort the materiality items by ESG category

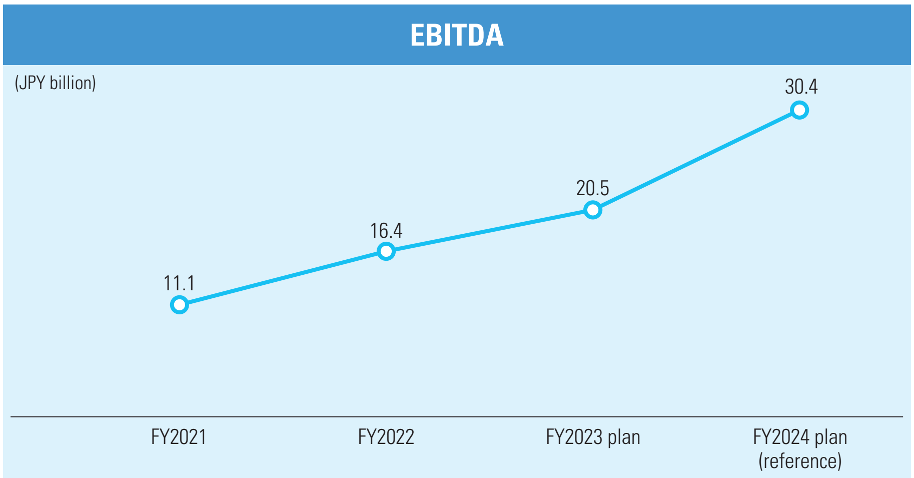
Step 4 Receive approval from Sustainability Committee and report to the Board of Directors

Eight materiality items

- Offer rental housing with stable operation
- Communication with stakeholders
- Promote real estate tech business
- Maintain the effective corporate governance system
- Work-style reform and HR development
- Strengthen compliance
- Respect for human rights
- Environmental initiatives

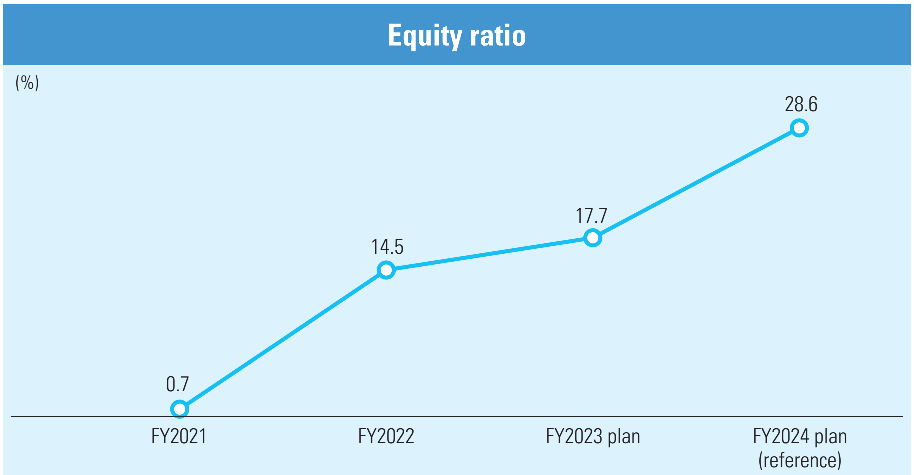
About the outlook of Leopalace21's major financial indicators

Due to our continuation of structural reforms and the improvement of the balance sheet, among other factors, the major financial indicators are expected to attain a high level in fiscal year 2024.



*EBITDA = Operating profit + Depreciation

Due to the progress of the structural reforms and the successful results of our occupancy rate improvement measures, we have seen a large improvement in earnings. For EBITDA, one of the major financial indicators, we achieved JPY 16.4 billion in fiscal year 2022, an increase of JPY 5.3 billion year on year. We will continue efforts to expand earnings, with the aim of achieving JPY 30.0 billion in fiscal year 2024.



*Equity ratio = Shareholders' equity ÷ Total assets (Liabilities + Net assets) × 100

Due to the large improvement of earnings, net income recovered to JPY 19.8 billion and as a result of this and other factors the equity ratio has also recovered to 14.5%, which is 13.8 points up compared to the end of fiscal year 2021. Going forward, we will continue aiming for strengthened financial position while also implementing a flexible and agile shareholder return policy.

Cover Story

Leopalace21's Value Creation Process

We aim to solve social challenges and create new value in the housing sector—particularly the rental housing sector—by providing innovative services that meet the needs of the times, while simultaneously achieving sustainable growth (expansion of economic value) for Leopalace21.

Social challenges

- Shrinking labor force because of falling birthrate and aging population
- Employment issues
- Demographic trends
- Innovations in digital technology
- Rising demand for convenient living conditions
- Tighter checks on corporate governance
- Climate change: realizing recycling and eco-friendly society

INPUT

Financial capital

- Equity capital: JPY 24.1 billion
- Interest-bearing debt: JPY 31.8 billion

Human capital

- Consolidated No. of employees: 3,991
- No. of sales personnel in Leasing Business: 1,103

Intellectual capital

- Master lease program
- Apartment management expertise

Social capital

- No. of owners: approximately 26,700
- No. of tenants: approximately 500,000
- No. of business partners: approximately 1,650
- No. of leasing sales offices: 109
- No. of units under management: 561,231
- No. of rooms installed with smart locks: approximately 150,000

BUSINESS MODEL

Purpose

Create new value and provide better living solutions based on the theme of housing

Corporate philosophy

Creating new value

Leopalace21's strengths

- Scale
- Product appeal
- Service capabilities
- Tenant matching capabilities

Long-term vision

Ensure competitive advantage in our business, with the provision of rental housing as social infrastructure at its core, and achieve sustainable growth along with stakeholders

8 materiality items

- Offer rental housing with stable operation
- Promote real estate tech business
- Work-style reform and HR development
- Respect for human rights
- Communication with stakeholders
- Maintain the effective corporate governance system
- Strengthen compliance
- Environmental initiatives

OUTPUT

Sales

FY2022

JPY **406.4** billion

Occupancy rate

Average for FY2022

84.66 %

OUTCOME

Improve corporate value

- Operating profit: JPY 9.8 billion
- Free cash flows: JPY 11.4 billion
- EPS: JPY 60.22

Strengthen human resource base

- Improvement of employee engagement
- Realization of a fulfilling work environment
- Active participation of diverse human resources

Offer rental housing with stable operation

- Used as company-leased housing by approximately 80% of listed companies
- Lifestyle support for foreign national workers and international students
- Provision of housing for new hires and new students

Message from the President

Implementing a three-pronged management policy to strengthen profitability and stabilize financial base, promote structural reforms and DX, and carry on repairing construction defects

Bunya Miyao
President and CEO

Fiscal Year 2022 Review

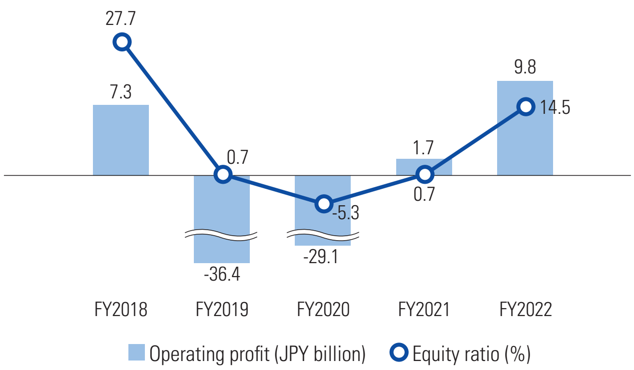
In fiscal year 2022 we recorded net sales of JPY406.4 billion, operating profit of JPY9.8 billion, and net income of JPY19.8 billion. This marks the second-straight year of operating profitability, and we also managed to keep net income in positive territory from last year.

The increase in net income also lifted our equity ratio to 14.5%. Moreover, cash and deposits and EBITDA rose sharply to JPY53.5 billion and JPY16.4 billion, respectively, which demonstrates that our financial position is steadily improving. Also, since the start of fiscal year 2023 we have implemented recapitalization, which has allowed us to eliminate losses on retained earnings brought forward, which serves as the source of dividends. We have established a system with which we can return profits, including share buybacks and the resumption of dividends, to shareholders at the earliest opportunity in a flexible and timely manner. And now that fiscal year 2023 is underway, we recently announced the acquisition of our treasury stock.

Whilst we have achieved profitability for two years in a row and made progress on improving our financial situation, our operating profit margin last fiscal year remained at 2.2%. Internally, there is a shared recognition that an operating profit margin of 5.0% or lower is still far from our target.

Looking at this situation, if I were to liken our progress to the climbing of a mountain, I would probably say that we have just reached the sixth or seventh station. (In Japan, the summit of a mountain is considered to be the 10th station.) The fact that our mainstay Leasing Business was able to increase the occupancy rate by nearly 3.5 percentage points last year over a 12-month period is really commendable, however, our annual average occupancy rate has still not yet reached 85.0%. Furthermore, we are still grappling with the problem of construction defects, and last year there was an issue in relation to Japan's Act on Recycling of Specified Kinds of Home Appliances. We are fully aware that we cannot let our guard down because we are still in the midst of addressing a whole host of challenges.

Operating profit and equity ratio



Occupancy Rates

We were able to maintain an earnings recovery in fiscal year 2022 first and foremostly because the occupancy rate continues to improve. In fact, the occupancy rate at the end of fiscal year 2022 had improved 3.73 points compared with the previous year to 88.83%, while the annual average occupancy rate had increased 3.44 points to 84.66%. We had initially targeted an annual average of 85.05% for fiscal year 2022, so in that sense we almost got there, but 85.0% is still low compared to our industry peers and not a level that we feel entirely satisfied with. Nevertheless, in the context of an achievement over the course of one year, a 3.5% improvement can be considered quite remarkable, and I applaud the hard work of all our employees.

This result can be attributed to the steady implementation of measures in recent years aimed at establishing a position as the brains behind the company-leased housing strategy, which I think has yielded strong results and helped us gain corporate customers.

With this goal in mind, we have continued to drive top-level sales with the aim of presenting comprehensive solutions on a nationwide level to address mainly the company-leased housing issues of client companies. In addition, we have added more sales departments primarily in the Tokyo metropolitan area and formulated and executed strategies for each corporate customer in a bid to capture their detailed needs and requirements. I also believe that having focused on six specific industries in which demand for company-leased housing is well entrenched—namely, staffing & outsourcing, construction, transportation, food & beverage, wholesale/retail, and nursing care—along with our efforts to establish relationships with local companies in different regions across Japan, has helped us to establish a position as the brains behind the company-leased housing strategy.

Establish a position as the brains behind the company-leased housing strategy

Top-level sales activities
Involve senior management team in customer interaction for resolving issues faced by the customer.

Reinforce sales organizational structure
Reorganized the sales teams mainly for Tokyo metropolitan area. 11 departments instead of 8 for increased customer interaction time.

Individual customer strategy
Encourage use of rooms by responding to specific requirements.

Extended Corporate Sales Department
Strengthen relationships with six industries: staffing & outsourcing, construction, transportation, food & beverage, wholesale/retail, and nursing care

Regional Corporate Sales Department
Build strong relationships with local companies in each region

Message from the President

Addressing Construction Defects

Looking back on our efforts to deal with the problem of construction defects, up until fiscal year 2020 we had concentrated our managerial resources on the Leasing Business in order to pull out of a crisis situation. This meant we were only able to carry out work on roughly 3,000 to 4,000 units annually. Over the past two years however, our earnings have been on track for a recovery and we have had more resources available, so we have been able to increase the number of repair works. In July last year we undertook a review of our progress goals and we carried out repair works on approximately 6,000 units from July 2022 through to March 2023. That said, I believe we still need to accelerate the pace of repair works in order to achieve the goal of fixing all obvious defects by the end of 2024.

To repair some 26,900 units as forecasted in July this year, we will need to fix more than 1,000 units per month, which is why we are currently taking steps to augment our construction capabilities.

To be more specific, we are not only expanding the number of contractors that undertake the work, but ramping up our approach to repairing units currently occupied in addition to our hitherto focus on units that had been vacated. Of the rooms subject to the investigation, some have been occupied by the same tenant for 10 years or more and from the outset there was little progress made on the investigation of these rooms, but with the repairs approaching the final stage, we will continue to steadily undertake repair work, as promised, whilst also rebuilding our financial base. Our goal of repairing all obvious defects by the end of 2024 therefore remains unchanged.

Home Appliance Recycling Issue

Even though I have already provided an explanation about the issue that occurred in relation to the Act on Recycling of Specified Kinds of Home Appliances, as president of the Company, I would like to once again briefly discuss how this issue came about.

This law, which is also known as the Home Appliance Recycling Act, requires consumers to properly dispose of four types of used home appliances—air conditioners, televisions, refrigerators, and washing machines—and also share the costs of doing so by paying collection and recycling fees. Retailers are required to take back the used appliance from the consumer and deliver it to the manufacturer, who in turn, must collect it from a designated collection point and recycle it.

The issue stemmed from the fact that we were not aware that we had been classified as a retailer under this law in relation to rental property owners. As a retailer, we were obligated to collect appliances from rental property owners, that are the consumers discarding the items, and hand them over to the manufacturers, all under our own name. However, because we outsourced this entire operation to another company and the activities were carried out under their name, we were deemed to have not met our obligations as a retailer and consequently received a recommendation notice from the Ministry of the Environment and the Ministry of Economy, Trade and Industry for violating our obligations under the Home Appliance Recycling Act. Specifically, we were found to have not fulfilled our obligations as a retailer for a total of 99,440 items across the four categories from April 2020 onwards.

In response to the recommendation notice, we have taken actions to address the situation, including monitoring the appliance collection process as required by the recommendations. We are also setting up a new scheme for the installation and disposal of appliances and we are conducting compliance checks on other aspects of our operations to ensure comprehensive measures are in place to prevent a recurrence of issues in a broader sense.

Management Policy for Fiscal Year 2023

Strengthen profitability and stabilize financial base

Our management policy for fiscal year 2023 consists of three pillars: (1) Strengthen profitability and stabilize financial base; (2) Promote structural reforms and digital transformation (DX); and (3) Carry on repairing construction defects. Last fiscal year, we focused on implementing constant structural reforms, promoting sustainability, and managing construction defects. This change in approach reflects the progress we have made on the structural reforms we need to undertake and the fact that we are now in a position to be able to actually discuss earnings and financial matters. It also owes to the ongoing digitalization of society and the growing need for us to incorporate digital technology into our operations.

1 Strengthen profitability and stabilize financial base

Increase shareholders' equity by strengthening profitability, and consider improving shareholder return and capital efficiency

Annual average occupancy rate 87.20% | FY-end occupancy rate 91.40% ▶ Operating profit JPY13.9bn | Net income JPY7.4bn ▶ Equity ratio 17.7%

2 Promote structural reforms and DX

Continue with constant structural reforms and utilize digital technology to improve customer convenience and operational efficiency

Transfer or withdraw from non-core/unprofitable businesses | Promote an effective HR strategy | Build up smart lock installations

3 Carry on repairing construction defects

Continue to repair obvious construction defects to fix them by the end of December 2024

Reinforce the structure to achieve the repair plan and utilize Company-wide available resources

Strengthen governance

In all of this, continuing to improve the occupancy rate is most important if we are to strengthen profitability and stabilize financial base. This fiscal year, in the Leasing Business we aim to achieve an occupancy rate of 91.40% by the end of the term and an annual average occupancy rate of 87.20%. To reach these targets in occupancy rates, we will deploy a number of measures. For example, we will expand corporate contracts as part of our approach to being the brains behind the company-leased housing strategy, increase individual customers with the use of real estate agents and online channels, and drive an increase in foreign national customers, including foreign workers on corporate contracts and international students on individual contracts.

With these occupancy improvement measures we aim to generate stronger revenue and achieve operating profit of JPY13.9 billion and net income of JPY7.4 billion. As a result, we are targeting an equity ratio of 17.7% as part of our aim to stabilize our financial base.

Promote structural reforms and DX

Up until now we have been concentrating on our mainstay Leasing Business with a view to improving profitability while also implementing a selective concentration approach in order to reorganize our non-core businesses. As such, in the past fiscal year we divested the custom-built wooden homes subsidiary Morizou and the overseas subsidiary Woori & Leo PMC Co., Ltd., liquidated our Cambodian subsidiary, and split a part of the Elderly Care Business. As a result, the withdrawal from the International Business that was previously part of our business portfolio is almost done. We are downsizing non-core businesses not closely related to the Leasing Business and, at the same time, focusing on businesses that will be needed in society going forward and that are related to the Leasing Business, such as the power generation business at Leopalace Power and the environment business of Leopalace Green Energy. In this way, we aim to establish a more selected and concentrated business structure.

In connection with the structural reforms, we are pursuing a DX strategy aimed at improving customer convenience and making our operations more efficient with the use of digital technology. The DX strategy, which we announced in August last year, is underpinned by four strategic themes and three platforms. Then, in November, we were recognized as a DX-certified Company based on the DX certification system of the Ministry of Economy, Trade and Industry. We are implementing DX, including the use of smart locks, web-based contracts, and AI-powered voicebot, for contracts, inquiries, and other tasks of the Leasing Business. In addition to these initiatives, we are exploring opportunities to seed new businesses by harnessing the vast amounts of data we have accumulated internally.

August 5, 2022
Announced our DX strategy

↓

November 1, 2022
Recognized as a DX-certified Company

↓

Continue to promote DX with the aim of being selected as a DX Stock by 2025

Leopalace21 DX

Digital Transformation Certification

DX銘柄 Digital Transformation

HR Strategy

We consider human resources to be an integral part of management capital and the Company's Board of Directors is currently spearheading the development of a new human resources strategy. Leopalace 21's human capital management has been organized into six categories, and by publicly disclosing them, we have demonstrated our commitment to emphasizing their importance to employees and to people outside of the Company.

The six categories are: (1) Well-being management; (2) Diversity & Inclusion; (3) Compliance and ethics; (4) Employee engagement; (5) Diverse talents acquisition; and (6) Leadership and succession. Of these categories, we believe the last two to be indispensable to future growth. More specifically, for Diverse talents acquisition, we are aiming to resume the hiring of new graduates and recruit personnel best suited to the different ways of working in this new era, mainly by utilizing our so-called come back rehiring system, a specialist worker scheme, and part-time workers. As for Leadership and succession, our focus is on encouraging sustainable growth in the careers of every single employee.

The inclusion of Compliance and ethics in these six categories of human capital management reflects our determination to never let a problem like the construction defects happen again.

Message from the President

Medium- to Long-Term Approach

Some people may think we are getting ahead of ourselves too soon, but in my view, because we can now see a path to recovery in the Leasing Business, the time has come for us to start thinking about our medium- and long-term direction in terms of what the Company should be aiming to achieve after completing the process of fixing all obvious construction defects by the end of December 2024.

I believe that as a starting point for the future direction of the Company, we should first get everything back to normal. My idea of "normal" is having a balance between the leasing and construction businesses. Our traditional business model involved the construction of apartments and then managing and operating those apartments. In other words, the Company was running on two wheels of leasing and construction. Over the past five years, we have undertaken hardly any new construction projects, basically running on just one wheel, which is why I think we need to once again become a company that operates with two core businesses.

However, it is not our goal to return to a situation where construction takes precedence over leasing, as was the case at one point in time. I believe engaging in construction within the framework of a business that is based on underlying leasing operations would therefore be ideal. So why do we need a construction business? The biggest reason is that many of our apartments will soon be over 30 years old and the time is approaching for them to be rebuilt. It is hard to maintain the nationwide uniform quality that characterizes our apartments unless the properties are designed and constructed by us. If we are to continue drawing on the characteristics of our Leasing Business, I believe it is essential that we resume construction activities centering on the rebuilding of existing properties.

I should also mention that because we have long managed these 30-year-old properties, we have data on the kinds of tenants that lived in them from the time they were newly constructed and stretching over the last couple of decades. I believe that making new proposals based on these data is not only within the scope of our expertise, but is something we must carry out.

We need to start running on two wheels, leasing and construction, and envision the Company's future, driven by the new environment and energy businesses we are currently launching, as well as new DX-powered businesses based on our data resources.

In Conclusion

I believe everyone is starting to sense the acceleration in our earnings recovery, highlighted by the two consecutive years of profitability and operating cash flow turning positive for the first time in five years.

Even though we still expect to face challenges up ahead, I kindly ask all of our stakeholders for their continued understanding and support.

Bunya Miyao

President and CEO

September 2023

Message from the Chief of the Corporate Management Headquarters

Steady progress on improving profitability and strengthening financial base

Shinji Takekura
Director, Executive Officer,
Chief of the Corporate Management Headquarters

Fiscal Year 2022 Review

In fiscal year 2022 we posted net sales of JPY406.4 billion, operating profit of JPY9.8 billion, and net income of JPY19.8 billion. This strong earnings recovery was primarily driven by the considerable improvement in our annual average occupancy rate. As a result, both operating profit and net income have remained in the black for two years in a row.

The annual average occupancy rate, a key factor in our earnings recovery, improved sharply, rising 3.44 percentage points year on year. Despite some special factors, including a review of accounting treatment for the cost of sales when certain home appliances are installed, profit was boosted by a year-on-year reduction of JPY800 million in SG&A expenses. This mainly reflects the full benefits of the drastic cost-cutting measures we implemented in fiscal year 2021. Also, net income has further improved because we recorded deferred tax assets for multiple years. As a result, the equity ratio has improved to 14.5% as of the end of the fiscal year.

As part of efforts to improve our profit structure, we are concentrating our resources on the Leasing Business and withdrawing from others. In fiscal year 2022, we divested our equity stake in the equity method affiliate Woori & Leo PMC Co., Ltd., sold the subsidiary Morizou, filed an application for the closure of our Cambodian subsidiary, and split a part of the Elderly Care Business.

Message from the Chief of the Corporate Management Headquarters

Progress of Management Policy

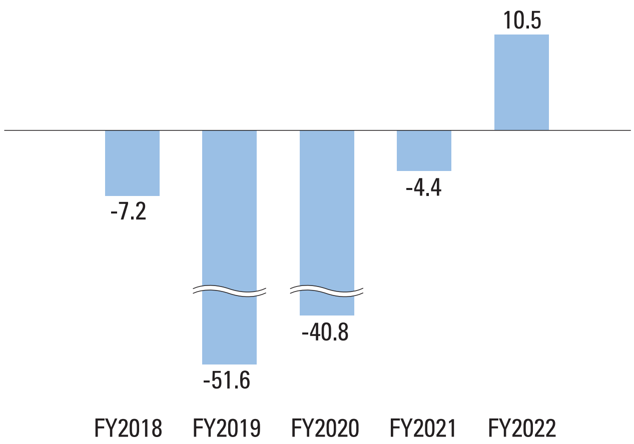
Our management policy for fiscal year 2023 has three themes: (1) Strengthen profitability and stabilize financial base; (2) Promote structural reforms and digital transformation (DX); and (3) Carry on repairing construction defects. Of these, we recognize that strengthening our profitability and stabilizing our financial base are the objectives we must achieve by fiscal year 2024.

Improving occupancy rates is the biggest challenge to strengthening profitability. The annual average occupancy rate in fiscal year 2022 was 84.66%. The sharp year-on-year improvement of 3.44 points is attributable to the success of our concerted efforts in aiming to expand the share of corporate contracts. For example, some administrative department employees were also involved in leasing sales work during busy periods. However, material unit prices, labor costs, utilities, and other expenses are increasing, and we have been forced to lower our fiscal year 2024 earnings targets due to the inevitable increase in the cost of sales.

On the other hand, because we have continued to pursue structural reforms, our cash flow has improved. Operating cash flow turned positive in fiscal year 2022 for the first time in five years.

Cash flows from operating activities

(JPY billion)



Financials for Medium- to Long-Term Growth

Our mainstay Leasing Business inherently operates on a cash flow structure where receipts precede payments. Capital investments and the like are not required under this business model. Accordingly, as long as we can maintain a certain occupancy rate and surpass the breakeven point, the system is designed to steadily increase our cash reserves, providing that no extraordinary situations arise.

The improvement in occupancy rates and the structural reforms we have executed thus far are proving fruitful and our financial position is steadily improving. In particular, our equity ratio has recovered from 0.7% in fiscal year 2021 to 14.5% in fiscal year 2022. At present, we aim to lift the equity ratio to 30%. After that, we will turn our attention to capital efficiency and endeavor to maximize ROE and ROIC whilst taking into account a balance between shareholder returns and growth investments.

As for cash outflows going forward, we expect to (1) extend stable shareholder returns, (2) aggressively invest in rental housing with DX solutions to attract tenants in order to reassure rental property owners, (3) invest in human resources such as hiring of new graduates, reskilling, etc., and (4) develop an organizational framework in readiness for the resumption of operations in the Construction Contracting Business. We will steadily push ahead with these initiatives even though the timing and scale of each one will depend on our financial situation.

In connection with this, we have decided to buy back 50 million treasury shares, or up to JPY10.0 billion worth, which represents 15.2% of issued stock. As a shareholder return strategy, paying dividends was also an option. However, considering the time it takes to convene a shareholders' meeting and the dilution associated with the exercise of stock acquisition rights, we have decided to conduct a share buyback at this time. I should also add that at the time of the resolution, management felt that the share price did not reflect the true value of the Company.

Another financial matter is that we are considering the repayment of a loan that we took out in 2020, which is scheduled to mature in November 2025. At the time, the loan carried an interest rate of 14.5%, and because it will become eligible for early repayment from November this year, there is a consensus among management to repay the loan at the earliest opportunity. We are currently discussing our course of action, including the possibility of refinancing.

Acquisition of treasury stock

	Number of shares to be acquired	Total acquisition value	Acquisition period
Matters resolved	50 million shares (maximum)	JPY10.0 billion (maximum)	July 6, 2023 to January 5, 2024

Human Capital

From my position as Chief of the Corporate Management Headquarters, I believe that human capital initiatives are just as important as financial ones for ensuring the Company's sustainable growth.

We recently disclosed our basic approach to human capital management, along with concrete initiatives, in our securities report. This demonstrates to stakeholders outside of the Company our stance on human capital and also represents management's commitment to employees about how serious we are about implementing human capital management.

In terms of specific initiatives, we have identified six categories, including Leadership and succession, Diverse talents acquisition, and Compliance and ethics. And for each category, we have established targets. We will aim to improve employee engagement with a management approach that emphasizes well-being and D&I by including a compliance item as one of the six categories. At the same time, we have placed a strong emphasis on boosting the motivation of younger employees, and to achieve that, we incorporated leadership development from non-managerial positions as a theme.

While the Company's finances were largely affected by the construction defects problem, the mental well-being of our employees was also significantly impacted. The various initiatives related to human capital management that we have announced are not only measures for sustainable growth, but are also meant to help each and every employee make the right decisions. This is not just about making decisions based on compliance; the greater aim is to nurture employees who, in their day-to-day decisions, regardless of their position in the Company, consider how best to achieve results and can look back in time and say that their decisions were to the best of their ability and free of self-interest. It's not so simple and it is rather a challenge of the highest order, however, I am sure that our employees can be truly proud of their company if it is a collective entity with such personnel.

Compliance

In dealing with the construction defects problem, we are pressing ahead with the plan to have all obvious defects repaired by the end of December 2024. At the same time, we are seeking to fundamentally transform our corporate culture with a core focus on promoting compliance as a preventive measure to ensure that such problems never happen again.

Given that the commitment of the management team is most critical to promoting compliance, the Compliance Committee, whose role is to promote compliance related to overall management, meets every month in an effort to strengthen the Group's compliance system. In addition to this, we run compliance training sessions on an ongoing basis for both officers and employees. Along with our preventive measures, I get the feeling that an awareness of the transformation in our corporate culture is taking root.

The goal of our compliance promotion efforts is to achieve a self-propelled compliance culture in which employees think and act on their

Message from the Chief of the Corporate Management Headquarters

own, rather than merely following instructions. We have therefore appointed compliance managers and coordinators in each business site and clarified what tasks each of them is responsible for in anticipation of how to respond in the event that a problem has occurred, similar to the time when a BCP is activated.

Other measures we have taken to continuously improve compliance include the announcement of a declaration to eliminate harassment in 2020, the establishment of rules to prevent harassment in 2021, and the development of Guidelines on Customer Abuse of Employees in 2023.

In order to get an idea of how these initiatives have increased employee awareness of compliance, every year we ask all employees to complete a compliance awareness survey. The results of the survey have shown that the percentage of officers and employees answering that they are conscious of compliance increased from 83% in 2019 to 99% in 2023. This indicates that awareness of compliance has steadily increased and that our corporate culture is changing.

In Conclusion

It is said that when a company experiences a significant event that causes substantial damage to its business, a true recovery will take at least 10 years. The construction defects problem at Leopalace21 came to light in 2018 and five years have now passed, so we only have another five years to the 10-year mark.

I have been thinking a lot lately about what we can set our sights on and what we can do to achieve renewed growth within this timeframe. Needless to say, during this period it will be important that we carry on with sustained efforts to regain the capacity to generate revenue, strengthen our financial base, and invest in growth, while producing some results. However, of the many forms of evaluation, I would like to set ourselves the goal of being ranked among the top companies that new graduates want to join, as we enhance employee satisfaction and corporate value. To achieve this, many objectives naturally come into play. And they are directly linked to both corporate value and the share price.

On August 17 of this year on the occasion of the Company's 50th anniversary, we sent out the following message.

"Your first apartment: where it all begins."

The company where one begins their career as a new employee is akin to such a room. Our work involves their lifetimes through our business operations, and we will keep these sentiments in mind and strive to improve our corporate value as a Company needed in society, providing residential infrastructure in the shape of company housing. I look forward to your ongoing support.

Strategy

Our raison d'être, or purpose, is to create new value and provide better living solutions on the theme of housing, while also aiming to expand both social and economic value through our business.

To that end, we are implementing a competitive advantage strategy, a sustainability strategy, and a business strategy. In this section, we discuss these three strategies in detail.

Competitive Advantage Strategy

Industry № 1 for Number of Single-person Apartments

Maintaining competitive advantages in economies of scale, quality and tenant acquisition

Not only do we have an advantage of scale with the largest number of apartments for single-person households under management in Japan, but we have the quality advantage of being able to provide the market with uniform properties. In addition, our properties come with furniture, appliances, and internet as standard equipment, which gives us a competitive edge in attracting tenants for short-term stays, such as people on business trips, or students that require housing for a fixed period.

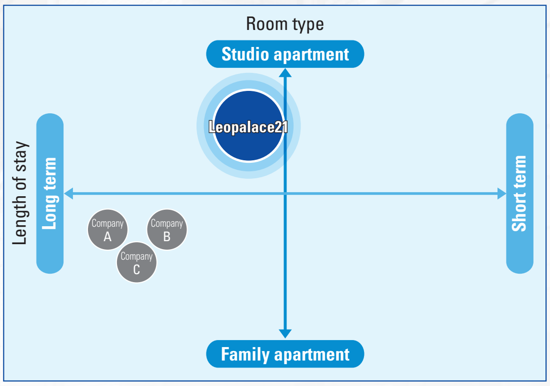
Characteristics 1 Largest-scale private landlord in Japan

5.4 million units of roughly the same size as Leopalace21 offers; our market share is around 10%

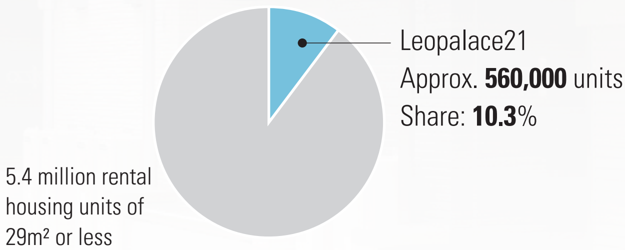
According to the 2018 Housing and Land Survey conducted by the Statistics Bureau, Ministry of Internal Affairs and Communications, approximately 19 million households live in rental units in Japan. Of the roughly 19 million units, some 5.4 million of them are in rented houses with floor space of no more than 29m², which is more or less the same size as our mainstay apartments. We therefore estimate that we hold a market share of about 10% in this category based on our number of units under management. While there are many companies providing rental housing, considering that we alone provide the market with approximately 560,000 units, we are considered to be the largest-scale private landlord in Japan.

While other companies primarily engaged in the leasing business tend to target families and employ a business model focused on long-term tenancy, we specialize in studio apartments for single people. Another key aspect of our unique business model is that we have a relatively high proportion of properties located near train stations.

Our market positioning



Our market share in the single-person apartment industry



Characteristics 3 560,000 uniform properties throughout Japan

Specializing in **560,000 studio apartments nationwide**

Uniform layout

Company-built standard properties throughout Japan; uniform specifications eliminate regional differences

We have traditionally operated two core businesses: leasing and construction. We would build apartments with our own standardized floor plan on land owned by landowners and then manage those apartments. As a result, many of the 560,000 apartments that we manage nationwide have the same room specifications. For businesses that operate all over Japan, having access to properties that are more or less the same everywhere is a really important factor in ensuring equal treatment of their employees.

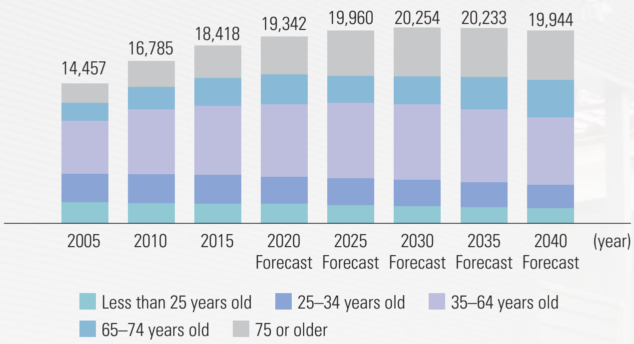
under Management

Increase in single-person households is supporting our business of specializing in studio apartments

Even though Japan's population is declining after peaking out in 2008, the number of single-person households is expected to increase in the future. The number of households in our target demographic segment, the single working age population (age 15 to 64), is projected to hover around 15–17 million for the next 20 years or so. We have identified single-person households in urban areas in particular to be our main customer segment, and we have endeavored to provide better facilities to meet the needs of tenants and make it easier for them to sign a leasing contract. We have also catered to corporate demand for company housing and business trip lodgings by offering monthly contracts.

Future estimates of households

(1,000 households)



Charac-teristics 2

Equipped with furniture, appliances, and internet

95% of our properties come with furniture and home appliances for the convenience of tenants

Usually equipped with **furniture**, **appliances**, and **internet**

Reasons why customers choose us

1 Single point of contact

Owing to the fact that we can provide housing anywhere in Japan, we can offer a single point of contact for our corporate customers, thereby reducing their administrative burden.

2 Standardized services across the country

By maintaining consistent standards of apartment grade, layout, and equipment across all regions, we can reduce any feelings of inequality among employees in company-leased housing.

3 Reduced expenses

We alone can meet a significant amount of demand, which benefits our corporate customers in the form of lower brokerage fees and other expenses.

Strategy

Competitive Advantage Strategy

Leasing Expertise

Accumulating know-how in step with customer changes and evolving technology

We have continued to accumulate expertise to keep abreast of changes in customer preferences and advancements in technology in order to establish a competitive advantage in the Leasing Business. The services that we pioneered in the industry, such as electronic contracts and multilanguage support, have greatly contributed to the building of our competitive advantage as a point of differentiation apart from the properties themselves.

Strength 1 Contracts

Network

We have 109 directly managed sales offices, six International Front Centers (IFCs) in Japan, and six directly managed sales offices overseas. Our directly managed sales offices are located throughout Japan in regions where there is strong demand for housing, while for the increasing number of foreign customers in Japan, our IFCs provide multilanguage support and contract services. In addition, our directly managed sales offices overseas can help customers find an apartment before they arrive in Japan.

This network of sales offices enables us to cover most of our individual customers, but in regions where we do not have a presence, we provide assistance to tenants by working with franchise stores or real estate agents.

One of our directly managed sales offices

Electronic contracts

As part of our efforts to improve services with a view to digital transformation (DX), we have adopted real estate tech, which integrates real estate with information technology.

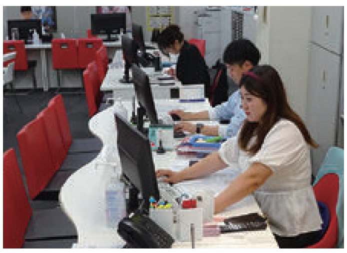
We are actively pressing ahead with the use of electronic contracts after first deploying *Leo-sign*, an electronic contract management system for corporate clients in 2015. Following the establishment of regulations related to real estate business, the use of electronic contracts for lease agreements and the like have been possible since May 2022, and as a result, roughly 40% of our corporate contracts have been switched to electronic format.

Leo-sign

Electronic contract management service for corporate customers

Multilanguage support

We currently continue to acquire foreign national tenants following the easing of immigration restrictions by the Japanese government in March 2022 as a post-pandemic policy, which has resulted in an influx of foreigners coming to Japan. Accordingly, we are expanding our number of leasing sales offices that can provide tenant support services in languages other than Japanese. In particular, our IFCs are staffed with personnel ready to cater to the needs of foreign national customers in the native languages of many of our tenants, including Chinese, Vietnamese, and English.


Staff at one of our IFCs

Streamlining at Contract Administration Center

At our Contract Administration Center, we are centralizing contract operations previously undertaken at each branch and endeavoring to minimize tasks and standardize quality and services across the board with the use of RPA for electronic contracts. We have completed the centralization of contract work for the Corporate Sales Department and we aim to finish the same for all other contracts by the end of the year. In the future, the Center will also handle administrative tasks other than contracting in a bid to streamline the organization and boost productivity.


Contract Administration Center staff hard at work

Strength 2 Tenant management

Tenants Support Center

Our Tenants Support Center operates 24 hours a day, seven days a week and responds to a wide range of inquiries from tenants. Phone support was the primary method of communication in the past, but we faced operational challenges when experiencing a high volume of inquiries. To address that problem, in February 2023 we introduced an AI-powered chatbot and voicebot to improve our capacity to provide quick support.


Tenants Support Center staff handling tenant inquiries

Chatbot, voicebot, and 24/7 support

With the use of a chatbot, we can now provide fast and accurate responses, linked to FAQs, as a way of handling the inquiries fed through our website. For telephone inquiries about apartment keys or plumbing, we utilize a voicebot to make operations more efficient and to strengthen our support system during peak inquiry times. We will continue to further enhance the customer experience and make every effort to reduce the burden on tenants and improve convenience.


Chatbot inquiry screen

Multilanguage support

We have established a dedicated support line for foreign national tenants. As of March 2023, we have approximately 22,000 (individual contracts only) foreign nationals living in our apartments, and we receive around 40,000 inquiries annually, or roughly 3,500 per month on average. We provide support to tenants in five languages: English, Chinese, Korean, Portuguese, and Vietnamese. We provide briefings during the move-in process, as well as general support on any issues that arise during their tenancy to ensure that their time in our apartments is as comfortable as possible.


Foreign national employees responding to inquiries

Management centers across the country

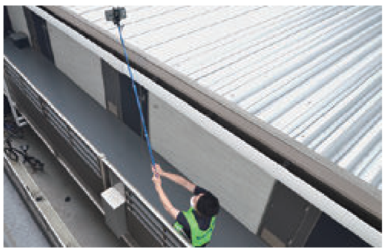
Under our property management system, we have 103 directly operated management centers and four Tenants Support Centers throughout Japan. The assignment of employees to these centers means we have a thoroughgoing system in place that can respond swiftly to various on-site tasks, including legally mandated inspections, fee management, insurance procedures, disaster response, replacement of broken furniture or appliances, and any issues that may arise during the tenancy. In addition to the management centers, we work closely with partner companies to provide tenants with a safe and comfortable living environment.


Management center staff carrying out an inspection

Strength 3 Building management

Periodic building inspections

We conduct periodic building inspections to ensure the safety and security of our rental properties. For the safety of tenants, we have established a program to detect any building defects at the earliest possible time by checking 100 items during each inspection.


Building inspection in progress

Special Feature Competitive Advantage of Our Apartments and

Mayumi Hayashima
Director and Managing Executive Officer
Chief of the Leasing Business Headquarters

Message from Chief of the Leasing Business Headquarters

Leveraging some 40 years of rental expertise to remain the company of choice

Since launching sale of Leopalace21 urban apartments in 1985, we have been at the forefront of introducing a wide range of services, including housing equipped with furniture and home appliances, internet connectivity as a standard feature, and the installation of smart locks. Initially, the majority of our tenants were students, but over time we expanded our customer base to a broader spectrum of society to meet the accommodation needs of people working away from family and those who requiring short-term stays. At the same time, we continued to accumulate a wealth of knowledge related to rental housing.

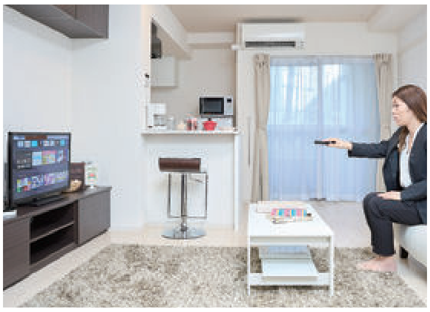
Thereafter, corporate demand grew sharply mainly due to a decrease in company-owned housing, and corporate contracts now account for over 70% of our new lease agreements, which total more than 300,000 per year. Corporate contracts require a plentiful number of available properties, a nationwide presence, and a uniform quality at all properties across Japan. We hold a competitive advantage because we satisfy all of these requirements.

We will continue to leverage the know-how we have accumulated in the apartment business so that we remain the company of choice for tenants as the leading provider of single-person apartments.

Advantage 1 Furniture and appliances as standard equipment

Ever since launching our Leopalace21 urban apartments in 1985, we have been committed to meeting the needs of singles. In 1999 we started offering *Monthly Leopalace* apartments furnished with furniture and home appliances—a revolutionary idea at the time. Later, with the arrival of the internet, we added internet connectivity as a standard feature alongside furniture and appliances. Currently, approximately 95% of our properties under management are equipped with furniture and home appliances. In this way, we have established a competitive edge by always considering and proactively introducing the kinds of services required in apartments for single people.

Microwave oven



Television offering unique content through *LEO-NET*

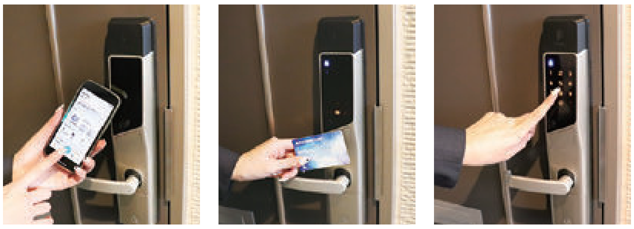
Separate wash basin

Leasing Expertise

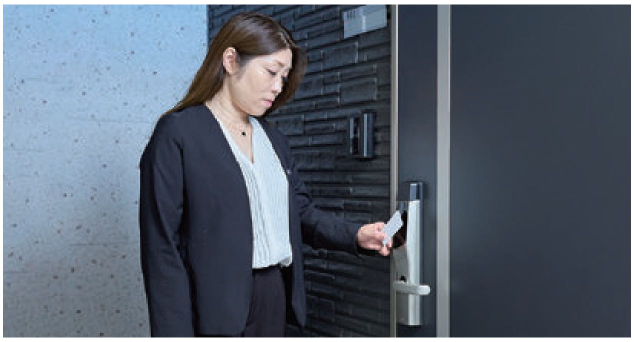
Advantage 2 Smart lock

We continue to install smart locks that let tenants unlock their front door with the use of smartphones or similar devices instead of door keys. Starting in June 2022, we have prioritized the installation of these locks at apartments for which tenants were scheduled to move in, and over the two-year period through to May 2024, we plan to complete the installations at 440,000 of our rental properties, or roughly 80% of apartments under management.

The introduction of smart locks not only eliminates the need for customers to visit our offices to pick up a key, but it also streamlines our work by minimizing key handover tasks. It helps reduce paper usage. Given that we are pushing ahead with the online handling of contract procedures for the rental properties under our management, we believe this rollout of smart locks will enable us to conduct nearly all procedures online.



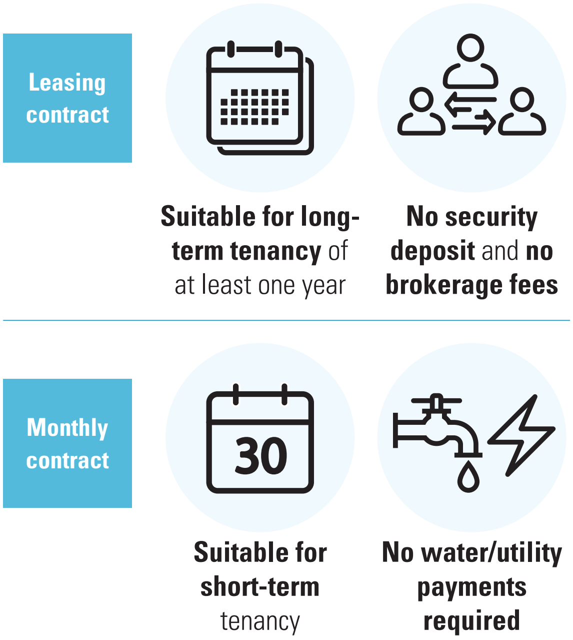
Door can be unlocked with a smartphone or smart card



Smart lock

Advantage 3 Flexible contract options

We have long catered to the various needs of studio apartment tenants. For example, we were the first in the industry to offer apartments furnished with furniture and appliances with our *Monthly Leopalace* series. One way of meeting customer needs is by offering different contract types. While many rental properties typically have leases of about two years with the option of renewing, we offer flexible lease options designed to accommodate tenant circumstances. For instance, we offer lease agreements based on long-term tenancy of one year or longer, as well as monthly contracts tailored to short-term stays. Our leasing contracts offer tenants the advantages of no security deposit and no brokerage fees, and for our monthly contracts, water and utilities are included in the monthly rent, which makes our lease conditions more favorable than those of our competitors. All of these factors have enabled us to gain a competitive edge over our rivals.



Strategy

Competitive Advantage Strategy

Property Owners

Sharing goals with property owners

In partnership with 26,700 property owners throughout Japan

Sharing goals with 26,700 property owners throughout Japan

Supporting property owners at 65 branches throughout Japan

Comments from a property owner

Leopalace21 has always tried new things; I look forward to the same approach to attract tenants

Ms. Yoko Ishihara

My relationship with Leopalace21 dates back to the days when the company was known as MDI. At the time, I was approached by someone who asked if I would be interested in building apartments on the land that was used as a parking lot. At first, I was looking around the residential building exhibit on my own, and there were many companies I could have chosen to entrust the project to. In the end, I shortlisted Leopalace21 and another major housing company. The other major housing company offered a sense of stability, but I finally decided on Leopalace21 because I felt that it was doing something new and appealing. Since then, I've built more apartment buildings, not only on land I owned but also on new land I purchased for that purpose, and I currently own nine buildings. Apartment management involves many complexities such as inheritance tax strategies, and the landlord is often the owner, but this does not apply in my case. When I look for new pieces of land to build apartments on, I find it very reassuring that Leopalace21 is able to propose a total solution, including a specific plot of land, the land acquisition cost, and the rate of return.

Some of the properties I currently own are in Osaka, which is far away from my home. For these properties, I receive reports with easy-to-understand images showing not only their occupancy status but also their daily maintenance. The fact that I can entrust this to Leopalace21 is another point of reassurance. I get the sense that Leopalace21 not only offers solutions to owners, but also introduces services to attract tenants, such as internet access, changing wallpaper to suit the tenant's tastes, and adopting smart locks. I think competition for tenants will become even tougher in the future, so I hope Leopalace21 will continue to create unique services, whether for the young or for the elderly. There are many owners who see their tenants on a daily basis, so I think it would be interesting to ask the owners for their opinions.

Tenants

Bringing comfort and peace of mind to tenants

Customer's Voice collecting customer feedback

Improving the quality of customer service at leasing sales offices

Conducting customer surveys and **sharing them throughout the Company**

Comments from tenants

There are many benefits for long-term tenants, which is why I've continued to live here for so long

Mr. Rokuro Nishida

I have been living in my current Leopalace21 apartment since the spring of 2011. It's been more than 10 years already. Most people may think that short-term tenants or students are the majority, but nowadays, I see people with a variety of lifestyles, and I think there are many people like me who have lived for a long time.

There are many reasons why I continue to live here, and one of them is convenience. My current apartment is in a good location, and there are also many advantages in terms of in-room facilities, such as having furniture and appliances already provided when you move in, and being able to use the internet without troublesome contracts or installation work. I also appreciate that it is just the right size for a single person like me. If it's too large, it is hard to clean, and if it's too small, it feels cramped. I feel comfortable in a floor plan where what I want is within easy reach, but I don't feel cramped. Living alone, it's also very reassuring to have a service center just a phone call away when I need help. There are also advantages in terms of cost. Typically, the renewal fee is equivalent to one month's rent, but Leopalace21's fees are cheaper. It's an apartment building that's more suitable for long-term tenants than you might expect.

It's reassuring to know that I can sign a contract in my native language and that foreign language support is available even after moving in.

Mr. HA VAN HIEU

I first learned about Leopalace21 through the internet. Later, I was referred to one by a friend. I have a lot of friends who live in Leopalace21 apartments. There are two main reasons for choosing Leopalace21.

First, the process of signing the contract is so smooth. I signed the contract through a real estate agent who brokers Leopalace21 properties, and the contract went very smoothly. In particular, being able to communicate in Vietnamese was very helpful.

Other good points are the building security and the in-room facilities. I was very happy that the furniture and home appliances necessary for daily life were provided, and that the building had good security. Also, the room is equipped with internet, which I also use. I didn't have to sign up for a separate internet contract, which was very useful.

I've been living in my room for more than two years now. I once had a problem with the electric stove in my room, but I called the foreign language support center and they took care of it immediately. I would recommend Leopalace21 apartments to my friends because of the convenience of being able to receive support in Vietnamese from the time of signing the contract and during tenancy, and because the necessary furniture and appliances are provided so you can move in right away.

Strategy

Competitive Advantage Strategy

Business Partners

Providing value through collaboration with our business partners

Working together with business partners to early resolve the construction defects problem and maintain apartment quality

Number of business partners involved in building and facility construction:
approx. 400

Comments from a cleaning partner

Quality comes first; We have built a system centered on our employees, who perform a variety of daily tasks such as small-scale repairs in addition to cleaning duties

Mr. Kotaro Miyake, Representative Director, Miyake Building Maintenance Co., Ltd.

I think it was around 1988 that our company began providing cleaning services. At that time, we were probably responsible for fewer than ten properties.

At first, only my mother did the cleaning, but later, as the number of Leopalace21 properties increased in Fukuoka, my father, who was doing another job, also came in to support us. Meanwhile, we judged that this cleaning business had a good future and decided to incorporate, and we have been in business for over 30 years now.

To be honest, when the construction defects problem was revealed, it was a surprise.

Leopalace21 then explained the situation, and we also made every effort to share as much information as we knew in order to alleviate the concerns of our employees and part-time and temporary workers. I know the construction defects problem is a big one, but I was confident that the problem would be resolved and things would return to normal, just as we had overcome the 2008 global financial crisis.

At present, the number of properties that we have been contracted to clean has increased, reaching approximately 4,000 rooms in Fukuoka Prefecture if you count it by room. The actual work involves restoring the property to its original state after the tenant vacates the property and cleaning the common areas of the building four times a month. In addition to this, we are also contracted to provide tenant services, such as handling problems during tenancy, and we are able to handle routine matters other than major repairs. For example, our staff members share photos of problems found during cleaning, and then go back to the site to fix them.

When it comes to outsourcing of operations, quality is important. In the past, when we had only a few staff members, we outsourced more and more work to subcontractors. However, we decided that we cannot guarantee quality with that approach, and in recent years we have increased the percentage of work we handle in-house.

Currently, we have about 10 employees and about 40 part-time and temporary workers under our direct control, which allows us to have as much direct feedback and communication as possible.

We recently received an award from Leopalace21 for outstanding performance as a cleaning company. I would like to use this as encouragement to further dedicate ourselves to the work going forward.

Number of cleaning visit partners:
approx. 110

Number of house cleaning partners:
approx. 90

Number of property maintenance partners:
approx. 1,050

Comments from a maintenance partner

Because of Leopalace21's maintenance forecast for six months, we are able to handle tasks such as kitchen replacements very quickly.

Mr. Shushi Fujikawa, Representative Director, Seiko Materia Co., Ltd.

Our main business is the sale and installation of interior materials such as kitchens and shoe cupboards for newly built properties. We also carry out after-sales maintenance work such as replacing kitchen cooktops and supplying materials for interior finishing work that has already been installed. Our network, including partner companies, covers all 47 prefectures in Japan, and we have built a system that enables quick turnaround time from order receipts to replacements.

Our relationship with Leopalace21 began in 2007 when we took charge of replacing their cooktops. At first, we were engaged in sales and installation, and later, we had the opportunity to undertake after-sales service related to mini-kitchens, and starting in 2009, we also started doing maintenance work.

Our maintenance work for Leopalace 21 started with kitchens, and later expanded to a wide range of interior finishing products, including fixtures and fittings, and storage, As the scope of our responsibilities has expanded, we have had more opportunities to talk with other service providers, and I believe that sharing information with these service providers has also led to the expansion of our maintenance work.

When the construction defects problem came to light in 2018, tenants would occasionally question us about the construction defects during our visits to replace their cooktops. We had trouble in responding to these queries since it was outside of the scope of our responsibilities. Leopalace21, however, assured us that it was steadily pressing ahead with its efforts to resolve the defects problem, and we still have the same close relationship as before.

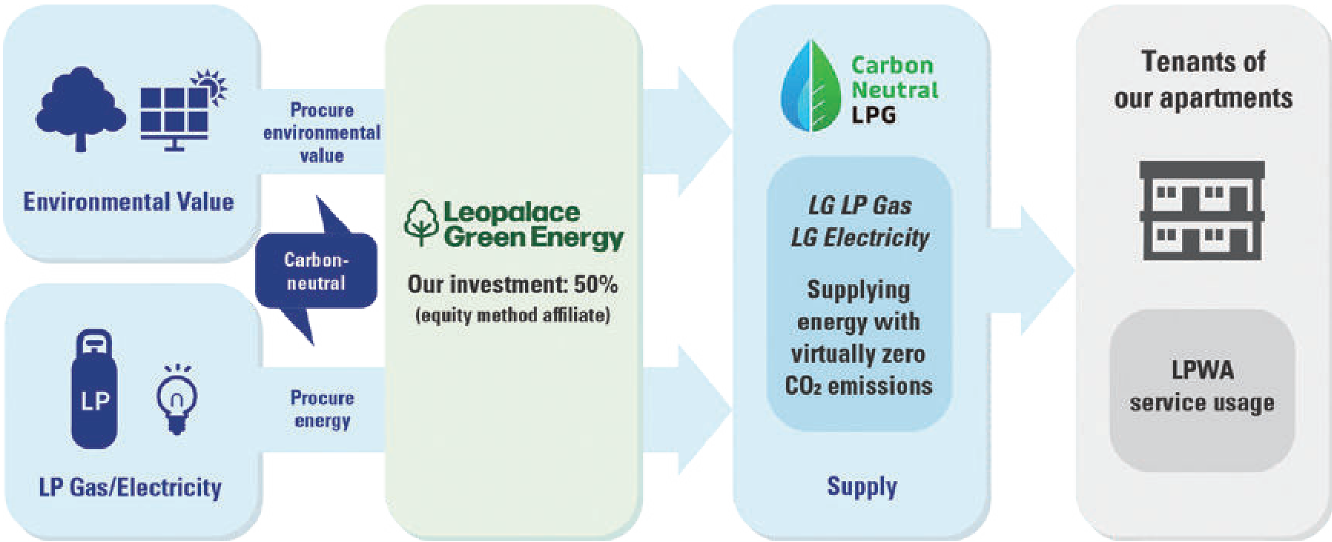
Our company originally started as an interior design firm. Today, we still do design work, and we are jointly developing some products for Leopalace21. In the future, I hope to make use of the knowledge and experience we have gained through our maintenance work to propose new home products, for example the ones that are less likely to break.

Special Feature 1

Leopalace21's Energy Strategy

In response to increased efforts to reduce greenhouse gas emissions at the corporate level, Leopalace21 is strengthening GX (green transformation) initiatives for rental housing, such as promoting the introduction of LP gas and green electricity—which have virtually zero CO_2 emissions—as part of its energy strategy.

Leopalace Green Energy Project



Starting provision of *Leopalace Green LP Gas*, which has virtually zero CO_2 emissions, and LPWA service to rental housing we manage

As part of Leopalace21's goal of contributing to global warming countermeasures, improving convenience and safety for our tenants, and promoting real estate tech business, we have begun to provide the rental housing we manage with *Leopalace Green LP Gas (LGLP Gas)*, which has virtually zero CO_2 emissions, as well as providing an LPWA service that allows remote control of gas meters when using *LGLP Gas*. Going forward, we also plan to gradually begin supplying *Leopalace Green Electricity (LG Electricity)*, an essentially renewable energy source that utilizes non-fossil fuel energy certificates (certifying the value of no carbon dioxide emissions during power generation) as soon as preparations are complete.

LGLP Gas offsets the greenhouse gases generated in the entire value chain of LP gas, from production to consumption, including transportation, with carbon credits gained from environmental conservation projects carried out by the producer across the world (carbon offset), and is designed to reduce emissions from LP gas usage to virtually zero. Meanwhile, *Leopalace Green Electricity* is essentially renewable electricity that has virtually zero carbon emissions due to combination with non-fossil fuel energy certificates.

We aim to supply *LGLP Gas* to approximately 400,000 units by 2025. By supplying both *LGLP Gas* and *LG Electricity* to 400,000 units in this way, we can contribute to reducing CO_2 emissions by approximately 360,000 t-CO_2 per year, which is equivalent to 25.7 million cedar trees, and by offsetting the energy use of gas and electricity by approximately 360,000 t-CO_2 per year via carbon offset, we can realize rental housing with virtually zero CO_2 emissions.

In addition to supplying *LGLP Gas*, we will also introduce an LPWA service that allows gas meters to be controlled remotely. The introduction of this service will improve the convenience and safety of energy usage for tenants such as online application for starting gas use, online billing, and 24-hour gas usage monitoring, while also providing *LGLP gas* supply companies with improved operational efficiency. In this way, we believe that we will be able to provide a service which is beneficial to both our tenants and gas suppliers.

Message from Leopalace Green Energy management

Promoting the introduction of *LGLP Gas* as part of our efforts to work towards a zero-carbon society.

Our *Leopalace Green LP Gas*-related initiatives are based on Leopalace21's strong intention to differentiate itself from other companies, so as to be recognized as a company of choice by society.

As part of these initiatives, we have decided on support of zero-carbon measures as an important method of differentiation. Specifically, the approach we plan to work towards this zero-carbon goal is by providing environmentally friendly rental housing. For this reason, we decided to start providing our own energy supply, and to sell carbon-neutral LP gas and electricity with non-fossil fuel energy certificates.

Next, we focused on improving convenience for tenants. The introduction of *LGLP Gas* comes as a set with the LPWA service, which enables us to remotely control starting and stopping gas use and automatically detect gas leaks. Centralized monitoring using LPWA subsequently allows tenants to apply, visualize usage fees, and receive the content of bills online.

Furthermore, we aim to make energy charges more accountable, and to work to ensure fairness in transactions. LP gas is an important energy source that we make much use of in our daily lives, but consumers have long pointed out issues with the opacity of charges and transaction methods, and we hope to resolve these issues with our service.

One of the things which made our efforts here possible was our partnership with Astomos Group, a leader in the industry. The Astomos Group is one of the world's largest LP gas companies, and capable of transporting gas from production sites and distribute it for sale in the domestic market. We aim to supply *LGLP Gas* to 400,000 units, which are equivalent to approximately 2% of roughly 20 million households in Japan that are supplied with propane gas. Now that the introduction of clean energy is becoming an important point in national policy, we believe that our initiative can make a major contribution to the transition to use of clean energy in Japan's households.

Tetsu Otsuka
President, Leopalace Green Energy Corporation

Ko Sato
Director, Leopalace Green Energy Corporation

Third Party Opinion

July 2023 has gone down as the hottest month on record, and the United Nations Secretary-General has issued an emergency warning using the term "global boiling." Companies are currently racking their brains trying to think of ways to achieve the high greenhouse gas reduction targets set for 2030 and 2050. Those with a high level of environmental awareness are including greenhouse gas emissions from company-leased housing provided to employees in Scope 3, and viewing them as subjects for reduction. The challenge is whether we can achieve net zero greenhouse gas emissions while maintaining and improving our quality of life.

Other companies also provide electricity derived from renewable energy or electricity with non-fossil fuel energy certificates, but the *LGLP gas* supply offered by Leopalace21 proposes a scheme that would eliminate greenhouse gas emissions from rental housing as a whole, and is part of a service which I find to be highly unique.

There are only seven years left until 2030, the year by which most companies have set their medium- to long-term goals. For customers who are looking for a rental home in which to live until then, I believe that Leopalace21's rental apartments, which guarantee a supply of *LGLP gas*, are a strong choice for consideration.

Mr. Takashi Fukushima
Chief Executive, CPA, Sustainability Accounting, Co., Ltd.

Special Feature 2 Leopalace21's DX Strategy

Through the use of data and digital technology, we aim to strengthen our ability to connect with stakeholders, and, by rebuilding ourselves into a company that continues to create new value, we contribute to the creation of a society that will help realize a better future. With this vision for DX at the core of our plans, we have formulated a DX strategy, consisting of a promotion system, key initiatives, promotion indicators, and the like. Following the decision of the Board of Directors, we are working on DX conversion as part of our management matters.

DX Foundation and Strategic Themes

We have set four DX strategic themes and provide new value to stakeholders by digitization of processes, centralization and visualization of data, training of personnel in promotion of DX, and making full use of the vast amount of data and technology available within the Company. Through building DX foundation underpinning the four DX strategic themes, we aim to achieve sustainable growth and increase our corporate value.

DX Strategic Themes

- Strengthen customer contacts
- Enhance value proposition
- Sophisticate decision-making
- Create new revenue model

DX Foundation

Digitization of processes

- Expand the scope of agile development using low-code development tools, differentiate it from core systems, and increase productivity.
- Further promote the use of RPA including automation of processing at the Contract Administration Center, which consolidates contract operations which used to be performed at each leasing sales office nationwide.

Centralization and visualization of data

- Centrally manage data siloed from various types of data sources in order to ensure data freshness and accuracy.
- Promote standardization and visualization of data in order to ascertain company-wide data and enable multifaceted analysis.

Training of personnel in promotion of DX

- Provide all employees, employees in charge of IT, and employees in charge of DX promotion with training to allow them to acquire knowledge and skills tailored to their respective roles.
- Expand the scope of in-house business system development, and build an organizational structure that does not rely too heavily on external vendors.

Build a resilient digital infrastructure that quickly responds to changes in customer needs and the external environment, based on the development of a data utilization environment.

DX Key Initiatives

Maximize the value we provide by developing DX initiatives that meet current needs from our customers' perspectives, such as implementing online contracts, introducing smart locks, and making use of vast amounts of transaction data using AI technology. At the same time, we will promote more sophisticated management decision-making by analyzing the accumulated data.

Strategic Themes: Strengthen custopmer contacts; Enhance value proposition; Sophisticate decision-making; Create new revenue model

DX Key Initiatives	
Optimize digital marketing	• Start adding new media and begin complete renewal of our apartment-hunting site. • Organize tracking and manage profitability of each category of media.
Promote online contracts	• Create a scheme to digitize a series of rental contract procedure, and enable the contract to be completed without a face-to-face meeting. • Introduce digitization for fixed-term house lease contracts in accordance with revisions to the Act on Land and Building Leases.
Install smart locks	• Gradually install a new type of smart lock to approximately 80% of units under management. • Make it unnecessary to come to a leasing sales office in person for picking up keys for apartment viewing or at the time of move-in.
Build integrated customer management system	• Introduce CRM, and create and manage customer-oriented business strategies and sales processes. • Improve customer satisfaction by providing meticulous support and services.
Establish management dashboard	• Extract and visualize information necessary for management using a centralized data platform. • Improve the accuracy of data-driven management with real-time tracking of KPIs.
Utilize AI technology	• Aim to eliminate labor shortages and improve productivity by making full use of accumulated data and AI. • Further consider plans to sell data externally and develop new businesses.

Message from DX Promotion member

Promoting DX in response to changes in circumstances, such as future advances in digital technology and a decline in the working population.

To date, Leopalace21 has been promoting the incorporation of DX into its operations, through such methods as introducing electronic contract services, smart locks, and online contracts. In the future, the business environment is expected to change significantly due to advances in digital technology and a decline in the working population, leading us to feel that there is a greater need than ever to promote DX. As such, we have examined our past DX initiatives, and formulated a DX strategy that defines our vision, strategic themes, promotion structure, key initiatives, promotion indicators, and the like.

The foundation of our DX strategy is a variety of data, such as transaction data we have accumulated over many years. By applying AI technology to this accumulated data, we believe we can contribute not only to sales aspects—such as expanding the value we provide through such methods as strengthening our points of contact with customers and improving convenience for our tenants—but also contribute to sophisticate management decision-making. Beyond that, we aim to create new revenue models by selling data externally and developing new businesses.

On the other hand, since housing is an indispensable social infrastructure for local communities, we are also thinking about how we can contribute to communities through cooperating with local governments in areas such as disaster prevention and regional development, using information such as traffic volume, flow of people, and rainfall in areas where our apartments are located.

Seiya Onoda
Group Manager, DX Promotion Group,
Information Systems Department

DX Key Parameters

As achievement indicators for DX promotion, we have established what quantitative effects are expected from the plan's progress and the promotion of the strategy. The DX Subcommittee of the IT Committee will manage DX conversion by periodically evaluating and reviewing the progress of the plan.

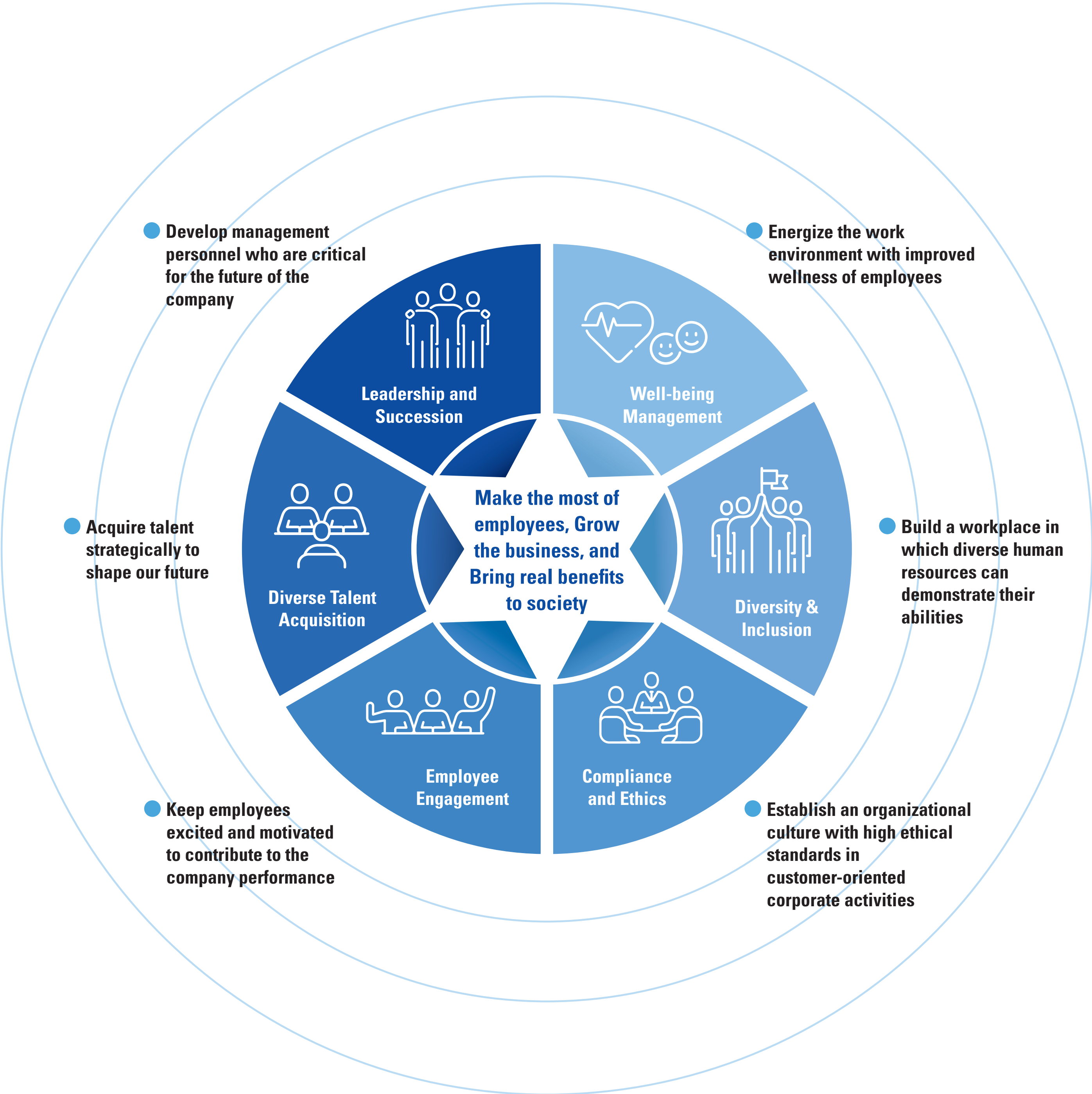
Category	Initiatives	KPI	Target value	Target year for achievement	Remarks
Infrastructure development	**Automation of operations using RPA**	Reduction of business time	73,000 hours	FY2024	Total annual reduction in business time
	Promote further utilization of cloud software	No. of cloud migration servers	180 servers	FY2024	Cumulative no. of cloud migration servers
	Implementation of in-house security training	Comprehension quiz average score	+10%	FY2023	Training comprehension quiz average score (rate of increase compared to FY2021)
	Strengthening in-house system creation capability	No. of in-house IT engineers	+15 people	FY2024	Number of employees in the Information Systems Department (number increased compared to FY2021)
Strategy promotion	**Implementation of online contracts**	No. of online contracts	55,753 contracts	Actual values	Cumulative number of online rental contracts (as of the end of FY2021)
	Installation of smart locks	No. of smart lock installations	440,000 units	FY2024	Cumulative number of smart lock installations (equivalent to approximately 80% of managed apartments)
	Utilization of AI technology	Amount of analysis data	100,000 pieces	FY2024	Cumulative total of data collected and learned

Special Feature 3

Leopalace21 Human Capital Management

We consider human resource development to be the most important theme for the continued growth of the Group, and in May 2023, it was decided our new human capital management vision to be "Make the most of employees, Grow the business, and Bring real benefits to society."

Furthermore, we also established an additional six themes: Leadership and Succession, Diverse Talent Acquisition, Employee Engagement, Compliance and Ethics, Diversity & Inclusion, and Well-being Management. We intend to establish what sort of issues and KPIs we need to resolve on our own in order to achieve the future goals we are aiming for, along with gradually enhancing the Company capabilities.



Leadership and Succession

Total employee participation time in education and training

FY2022	FY2023 (Target)
4,096 hours	9,000 hours

Diverse Talent Acquisition

Recruitment

	FY2022	FY2023 (Target)
New graduate recruitment	—	50
Mid-career recruitment	54	146

(Note) Excluding recruitment at nursing care facilities, Azumi En, in the Elderly Care Business

Employee Engagement

Indicators of employee engagement

FY2022	FY2023 (Target)
8.6%	9.0%

Turnover rate

FY2022	Target
11.1%	Within 5 – 10%

Compliance and Ethics

Strengthening of compliance

	FY2022	FY2023 (Target)
No. of E-learning sessions	10	9
Awareness rate of compliance hotlines	92.1%	No quantitative target values set

Well-being Management

Rate of thorough examinations undergone after periodic medical examination

FY2022	FY2025 (Target)
27.1%	80.0%

Percentage of smokers

FY2022	FY2024(Target)
31.9%	25.0%

Diversity & Inclusion (D&I)

Rate of female managers

	FY2022	FY2025 (Target)
No. of female managers	35	50
Rate of female managers	5.5%	7.8%

Rate of male employees taking childcare leave and other leave for childcare purposes

	FY2022	FY2023 (Target)
No. of male employees on childcare leave	20	—
Rate of childcare leave usage	35.7%	Within 30 – 40%

Gender wage gap

	FY2022	FY2023 (Target)
Regular employee	69.1%	70.6%
Non-regular employee	63.6%	63.5%
Total	55.4%	55.5%

Sustainability Strategy

Human Resources

Leopalace21 is pursuing a human resources (HR) strategy that positions HR development as the most important issue to improve corporate value and achieve sustainable growth over the medium to long term. We have therefore formulated a new HR vision and six themes with the aim of further invigorating our employees and organizations and entrenching a corporate culture.

Message from a manager in charge of the HR strategy

I believe the most important thing is to carefully communicate to employees an HR strategy that aligns with management strategy.

Our approach to human resources

In formulating a new HR strategy, the most important point is alignment between the HR Department and employees, and between the HR Department and management. If these elements are not linked, the HR Department's efforts may not make sense to employees, and the HR strategy may not produce effective results that management expects. Rather than relying on unilateral measures by the HR Department, I believe it will be most important to carefully communicate to employees our HR strategy that aligns with management strategy.

To that end, the first step we took was to set up a forum for discussions with directors on specific HR development policies and identifying and sharing HR strategies. In March this year, we began holding Human Capital Meeting, which was also held in May. Starting in July, joined by executive officers, the name was changed to People Meeting and the meeting is now held monthly to discuss and decide on matters related to people. Going forward, we plan to carry out many personnel strategies through this meeting, which will stimulate the exchange and sharing of opinions.

Meanwhile, with regard to alignment with employees, starting this fiscal year, the HR Department members are also participating in the Town Meetings where the President engages with frontline employees at each branch, thereby creating an opportunity to build trust with employees. By expanding the communication channels that were previously lacking, we will be able to directly hear the voices of many employees.

Our HR measures will include a new engagement survey. Through this survey, we intend to incorporate feedback and ideas from employees to shape an interactive personnel strategy that enhances employee engagement.

Takeru Sato

Group Manager, Planning Group, Human Resources and General Affairs Department

The kind of human resources we seek

In determining the type of talent we seek, we set two axes: one related to work and performance, and the other related to the ability to build interpersonal relationships, and then proceeded to identify the human resources we seek through interviews and discussions with directors.

The key point that emerged from this process was the need to foster a customer-oriented corporate culture. The results of collecting diverse opinions from directors can be summarized as follows.

Leopalace21 is in a position to continue to create new value. We have the foundation to grasp new needs and trends and promote the improvement and proposal of services through the improvement of the customer experience. The definition of the word "customer" implies "other person." Therefore, it is extremely important to foster empathy with other people.

From this, we identified a basic employee requirement: being aware of and incorporating the perspectives of colleagues, superiors, and subordinates in one's activities. In the past, the Company as a whole was driven mainly by a top-down approach to achieving goals. Of course, experiencing the success of achieving goals is extremely important. However, such success needs to include aspects such as the extent to which one thinks of others and has a sense of one's own purpose.

I think the biggest difference from the past is that it's no longer about progressing towards the goals set by the Company and the human resources we are looking for are those seeking change towards something better and new because they're not satisfied with the status quo, and those who have a purpose for their own work that involves thinking about others.

Promotion of the HR strategy: leadership and results

After Leopalace21 announced its HR strategy to the outside world and began implementing it, President Miyao stated the following:

"We have shifted our thinking from people as a cost to people as an investment. Going forward, we will promote increased engagement under the belief that personal growth is a necessary part of training and of well-being management." The employees listened attentively and looked excited at first, but the atmosphere turned a little tenser when he continued: "As the word investment suggests, I expect a return. I want you to link your personal growth and skill improvement to the increased value of the entire organization." I felt that just by conveying his words and ideas the President created positive motivation with a sense of tension, but in a good sense.

Of course, the promotion of an HR strategy is expected to bring positive effects as well. In the future, we would like to demonstrate, through quantitative assessment, results such as the impact on profitability of promoting well-being management and enhancing education and training, and how the creation of new ideas and lower turnover through increased engagement impacts the performance of the entire organization.

The resumption of new hiring

As we explore various HR-related themes, a particularly important issue for Leopalace21 at present is our employee age structure. Because we stopped hiring new graduates five years ago, the number of young people at the Company has declined, resulting in an imbalance in the age structure. Restoring this balance is essential to achieving medium- to long-term growth. On the other hand, if we take into account the investment cost, we could make the case for hiring mid-career professionals only. Accordingly, there had been frequent debates about this within the Company.

However, the reason we resumed hiring new graduates was not simply to adjust the age structure, but also to give a sense of purpose to hiring new employees. After we stopped hiring new graduates five years ago, there was an increase in the number of employees with no subordinates or juniors in the organization. There were few opportunities for promotion, few junior employees to mentor, and concerns that this was constraining growth across the organization. Although we stopped hiring new graduates because of management difficulties caused by the construction defects problem, we decided to resume hiring new graduates as part of our efforts to overcome these challenges and as a symbol of the revitalization of the organization.

Recruitment website

Training

We also fully resumed our leadership development and succession planning this year. We designed a wide range of training programs to cover every job level and category.

Leadership training is conducted at all levels from manager to director, with 360-degree feedback provided to each participant. This feedback is the basis for analyzing numerical data and organizational performance indicators to detect trends, identify issues, and re-incorporate them into training to solve organizational issues at an early stage.

With regard to leadership development, this fiscal year we established a new Next-Generation Leaders Program to select non-managerial personnel who are expected to become future executives. With regard to succession planning, we select the next executive officers from all over the Company, as well as those who will follow them in succession, to participate in an external lecture program to cultivate a perspective suitable for management.

Even though department heads make up only about 1% of Leopalace21's total workforce, those human resources fostered in the organization demonstrate leadership that is deeply rooted in the culture of the organization and are best positioned to train the next generation. We will aim to ensure that the sustainable growth of individuals is linked to the enhancement of our corporate value.

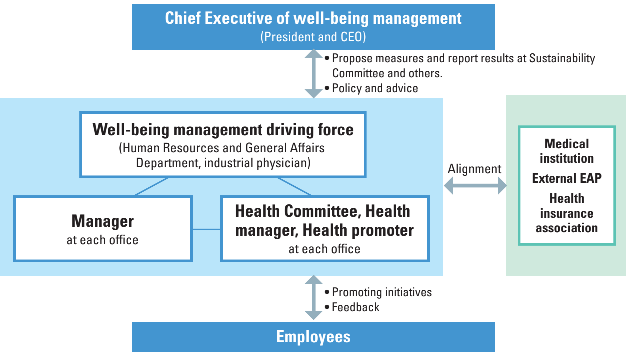
Well-being Management

Refer to link for specific initiatives for well-being management.
https://www.leopalace21.co.jp/english/sustainability/esg/humancapital/health/index.html

We are constantly challenging ourselves to “create new value.” In order to vigorously pursue improvements in productivity and attain sustainable corporate growth, we strive to maintain and improve the mental and physical health of our employees, as well as achieve a form of “well-being management” that brings vitality to the workplace through the fostering of active connections between employees, and which realizes positive mutual relationships with stakeholders, including customers, business partners, and shareholders.

Promoting System for Well-being Management

President and CEO himself serves as chief executive and promotes well-being management. Positioning the Human Resources and General Affairs Department as the well-being management driving force, sharing and reporting with each department, Health Committee and external organizations. We will develop various measures while deepening cooperation with them.



Certification as a Health and Productivity Management Organization

Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi, an assembly of health promotion organizations jointly praise well-performing large and medium to small companies which support employees’ health management in accordance with addressing regional health issues and promoting health-related measures. We have been praised for seven consecutive years since 2017.

2023
健康経営優良法人
Health and productivity

Issues and Policies

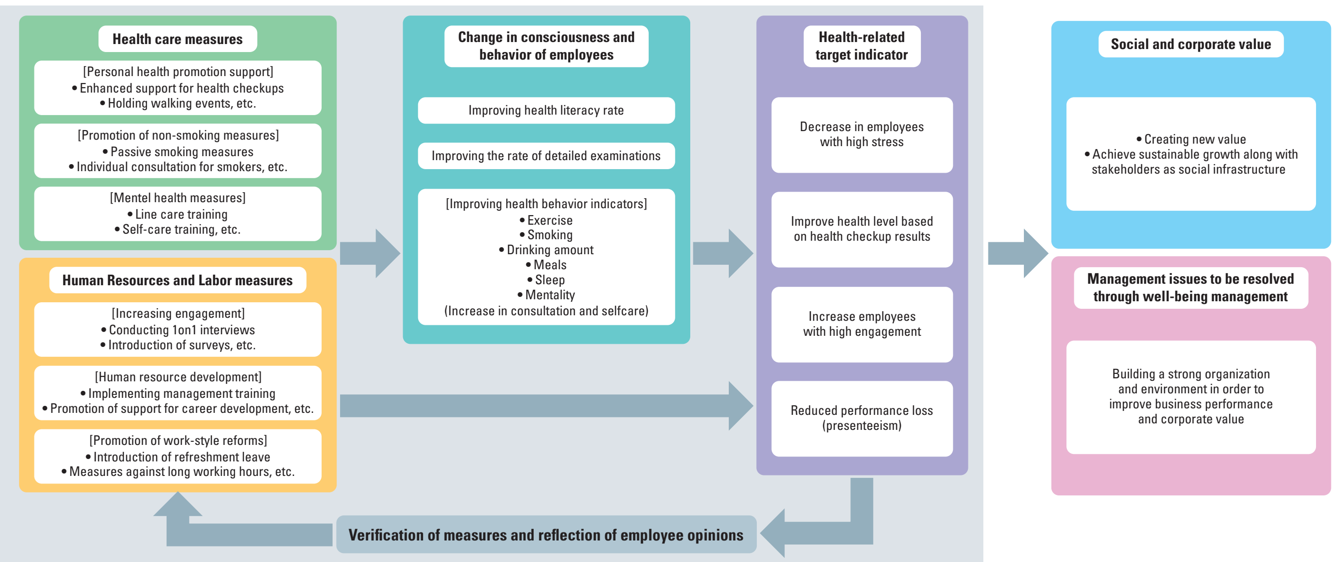
Our three priority issues are: Support related to health checkups, Promotion of cessation of smoking, and Mental health support, and we are working on measures related to each of them based on the following policies.

Policies

1. With President and CEO as chief executive, the Human Resources and General Affairs Department, each office, and Health Committee promote well-being management in cooperation with external organizations.
2. In addition to health checkups and stress checks, we will use internal questionnaires to promote mental health from the prevention stage, take measures against lifestyle-related diseases, and implement measures to improve engagement.
3. Efforts to visualize the current status of health and the work environment to employees so that they can think about it as their own.
4. Promote work-style reforms and human resource development measures that form the foundation for creating an environment where everyone can work with peace of mind and grow.

Initiatives for Well-being Management

The overall strategy regarding well-being management is as follows. Please visit our website for specific policies and numerical targets.



Sustainability Strategy

Respect for Human Rights

While keeping in mind our Purpose, which is to create new value and provide better living solutions based on the theme of housing, the Group acts in a manner that respects the human rights of all people in our day-to-day business activities. Respect for human rights is the foundation of our business activities, and we believe that protecting human rights is an important responsibility that companies must fulfill.

To supplement and clarify this principle of respect for human rights, which we have already adopted as a materiality in accordance with our Corporate Ethics Charter, CSR Procurement Guidelines, and Basic Policies on Sustainability, we are establishing a Leopalace21 Group Human Rights Policy.

Our journey in respect for human rights

Statement of respect for human rights:
2006: Established Corporate Ethics Charter
2019: Established CSR Procurement Guidelines

Initiatives to respect human rights:
2020: Declaration to eliminate harassment
2021: Rules to prevent harassment
2021: Rules on handling personal information of employees
2023: Guidelines on Customer Abuse of Employees

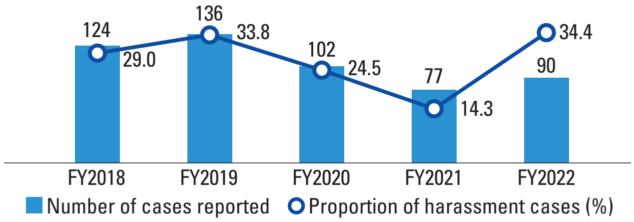
In formulating our Human Rights Policy, which will represent the culmination of the individual statements listed above, we are preparing specific initiatives in anticipation of the implementation of human rights due diligence, and plan to roll them out internally and externally as soon as they are completed.

We will steadfastly promote these initiatives not only within the Group but also with our business partners.

Declaration to eliminate harassment

In April 2020, in an effort to maintain a healthy work environment, improve trust relationships in the workplace, and thereby achieve an invigorated work environment with a pleasant atmosphere, the Group formulated a basic policy for eliminating harassment and announced the declaration to eliminate harassment. In accordance with this declaration, the Group implemented training aimed at preventing harassment as part of its compliance-related training. In addition, we conduct a harassment field survey targeting all officers and employees. Since the declaration to eliminate harassment, harassment as a percentage of incident reports showed steady decline with a sudden rise in in the fiscal year ended March 31, 2023. We analyzed that this is because the harassment prevention training deepened employees' interest in and understanding of harassment, which led to an increase in the number of employees who realized that they could seek advice on matters they previously thought they could not. To address this, as an initiative to raise everyone's awareness of harassment, we are asking managers at a certain level and above to proactively join the declaration to eliminate harassment by publishing their own versions of statement on the company-wide bulletin board.

Proportion of cases of harassment in the whistleblowing system

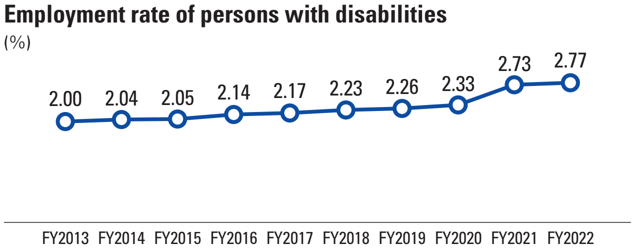


Declaration to eliminate harassment
We will not tolerate harassment
We will not overlook any acts of harassment
We will make serious efforts to eliminate acts of harassment

Employment of persons with disabilities

The Group believes that providing an environment for a broad range of personnel from diverse backgrounds and with different values contributes to the creation of new value, and greatly helps the Company grow. We established a special subsidiary called Leopalace Smile in August 2009, which employs people with disabilities. We want to provide a rewarding place to work for all people, and we do not stop there by just meeting the statutory employment rate, but increase the rate year by year.

Employment rate of persons with disabilities



Offer Rental Housing with Stable Operation

We regard our Leasing Business, which provides rental housing, as a social infrastructure. With approximately 560,000 rental housing units across Japan, we serve corporate customers as a company housing provider and provide rental housing for individuals and students with stable operation. In addition to this, we have begun providing housing to personnel who are involved in disaster recovery efforts.

Approximately 80% of the listed companies in Japan have used Leopalace21 services

Units used by corporate customers

Approx. 300,000 units

Approx. 80%* of listed companies have used units as dormitories and company residences

*Percentage of companies listed on domestic stock exchanges (average of the past five years)

As part of the efforts to reduce assets that are not directly related to the business, the companies have been phasing out company-leased housing. As a consequence of phase-out, growing number of companies have contracted with Leopalace21, which resulted in increased corporate contracts. Currently, companies in all kinds of industries, including construction, temporary staffing and outsourcing, retail, and manufacturing, have contracts with us, and approximately 80% of listed companies in Japan have used Leopalace21 apartments.

Leopalace21 offers various advantages to the corporate customers. Examples of such behind the wide use of our apartments include our ability to provide housing anywhere in Japan; simpler operation through a single point of contact; standardized apartments in all regions in terms of grade, floor plan, and major equipment; and zero brokerage fees and other cost savings.

The wide range of industries and low level of reliance on any particular companies ensures a safe and secure environment for the client companies to use our services. On top of that, because the Company is not affected by the business performance of particular industries or companies, we can constantly secure a stable number of contracts.

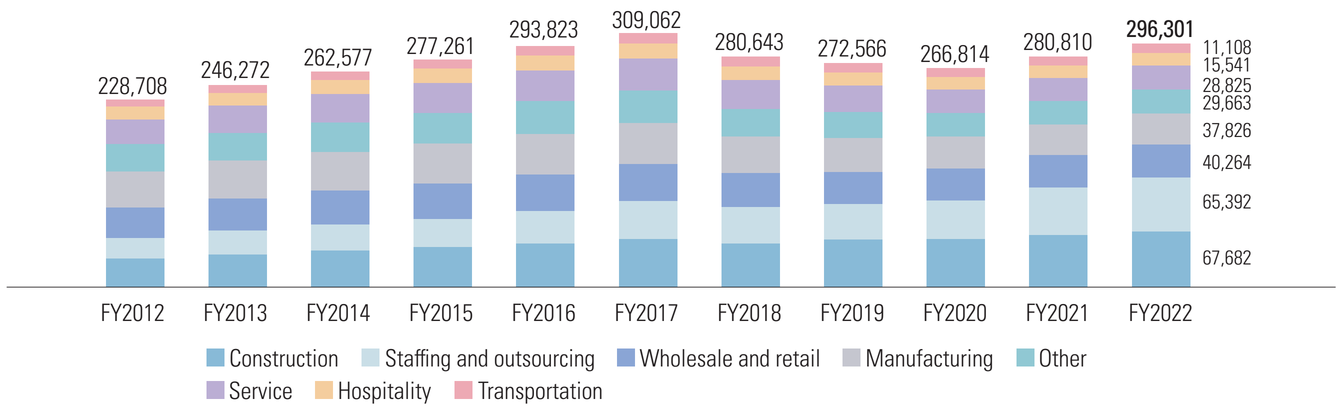
Changes in corporate-occupied units

We categorize our customer base into three categories: corporate, individual, and student, and develop sales strategies that suit each target. Of these, corporate users account for just under 60% of the total, making it the largest customer segment. We have traditionally focused on the manufacturing industry, but have diversified the portfolio of industries since the 2008 global financial crisis.

After that, there was a decline in corporate usage due to factors such as the construction defects problem and the COVID-19 pandemic. However, corporate usage has made a remarkable recovery since we intensified efforts to acquire corporate contracts with an idea of establishing our position as the brains behind the company-leased housing strategy; strengthened sales to specific industries with serious labor shortages such as transportation and construction; and promoted thorough implementation of individual company-specific strategies. The number of corporate-occupied units at the end of March 2023 was 296,301, the second highest level after the record high of 309,062 units at the end of March 2018.

Changes in corporate-occupied units by industry

(Units)



Established the Leopalace21 scholarship program for students

Entering a university or vocational school is a new step in life for students, but the economic hurdles to higher education continue to rise due to the recent soaring tuition fees and the prolonged economic stagnation. As a result, students have become increasingly dependent on scholarships, and the long-term repayments after graduation has become a major burden on students in their daily lives, which has recently become a social issue in Japan.

Amid these difficult economic conditions for students, we have established a new scholarship program for students who are joining universities, junior colleges, and vocational schools in April 2025. It is intended to support talented students who will lead the future and help solve the social problem. Under this scholarship program, students can choose either (1) use of a room of Leopalace21 apartment without paying rent, or (2) receive a benefit-type scholarship. Applications will open in October 2023, and payment will start in April 2025.

Applicants must be in the second year of high school who wish to enter a university, junior college, or vocational school. There are no restrictions on nationality, household income, or intended field of study.

<Outline of the program>

	(1) Use of a room of Leopalace21 apartment without paying rent	(2) Benefit-type Scholarship
Support content	Provision of apartment room free of charge up to JPY 1.2 million/year	JPY 360,000 per year (JPY 30,000 per month)
Support period	Period in school (maximum 6 years)	
Beneficiary	New students to universities, junior colleges, or vocational schools	

Providing housing in the event of a disaster

Numerous natural disasters such as earthquakes and typhoons have hit various parts of Japan in recent years and securing rooms for a restoration team to stay in around the affected areas has become a major issue in the restoration activities. With the goal of strengthening business continuity planning, Leopalace21, which provides rental housing throughout Japan, and Obayashi Corporation, which undertakes recovery activities in disaster-stricken areas, have signed an agreement on the leasing of apartment in the event of a disaster.

Under the terms of this agreement, in the event of a large-scale disaster, Leopalace21 will provide apartments under its management to Obayashi Corporation employees and others involved in recovery and reconstruction activities. This applies to our apartments located all over Japan, with no specific area restrictions. In recent years, in addition to earthquakes, various natural disasters such as typhoons and heavy rains have been increasing in Japan, and this agreement envisages cooperation in all cases of Obayashi Corporation's on-site response to disaster recovery, regardless of the scale of the disaster.

On this occasion, the agreement was signed with Obayashi Corporation, but since it is conceivable that there could be disaster recoveries involving other companies, we believe it makes good sense to provide similar housing to other companies in the event of disaster.

Disaster recovery is an emergency for disaster victims and requires a prompt response. Until now, however, no solution has been presented to the problem of housing for the personnel involved in the recovery. Since Leopalace21 apartments are mainly for single-person households and are available nationwide, it is possible to move in immediately with just personal belongings, making our units ideally suited for urgent cases such as disaster recovery. As a company with approximately 560,000 units under management across Japan, we hope to contribute to disaster recovery efforts by providing such housing to restoration team.

Leopalace21 × OBAYASHI

Business Strategy

Occupancy Rate Improvement Measures

Leopalace21 is promoting measures to improve occupancy rates, including establishing a position as the brains behind the company-leased housing strategy, expanding corporate customers in each area, strengthening relationships with real estate agents, and attracting more foreign national customers. Through these measures, we aim to achieve an occupancy rate of over 90% at an early stage.

Strategy 1 Establish a position as the brains behind the company-leased housing strategy for corporate customers

Interview with Naomichi Mochida, Director

By taking advantage of the strengths that set us apart from the competitors, we aim to establish a position as the brains behind the company-leased housing strategy for corporate customers.

Naomichi Mochida
Director, Executive Officer
Deputy Chief of the Leasing Business Headquarters
General Manager, Corporate Sales Division

Q What do you mean by the brains behind the company-leased housing strategy?

It's about being our customers' partner for company-leased housing. To use a bank analogy, we want to be like their main bank. In other words, we want to receive the first inquiries they make for all matters related to company housing. Our Corporate Sales Division is a special organization that the competitors in the same industry do not have and cannot replicate. Our staff in the Corporate Sales Dvision will complete all arrangements related to our customers' company housing in Japan, from searching for each apartment to signing a contract. As a result, our customers come to realize that there's no point in using anyone other than Leopalace21, and we build a relationship of trust not as a rental housing agent but as their partner, which leads to an increase in our room usage share.

Q How does being the brains behind the company-leased housing strategy benefit your customers and Leopalace21?

The benefits for our customers are absolute cost savings and increased operational efficiency and productivity. Our business model, in which we act as the lender ourselves, saves the customer money. In addition, our position as the brains behind the company-leased housing strategy allows us to offer tailor-made products that are able to significantly reduce costs and increase productivity. For customers, using Leopalace21 contributes to slimming down their BS/PL.

For Leopalace21, being the brains will increase our room usage share, which leads directly to improved occupancy rates and more stable rental housing management.

Q What is the biggest key to becoming the brains behind the company-leased housing strategy?

Simply arranging rooms is not enough to become the brains behind the company-leased housing strategy. Of course, we deal in company-leased housing, but I believe it's important to respond to the issues faced by the customers beyond company housing by proposing solutions. Our goal is to become a partner and not just an agent. I believe the most important point is to have the customer's management understand the value of using our Company, build a relationship of trust, and work closely together. We also aim to be able to support the growth of our customers.

Company Housing Strategy

Become a solution provider for our corporate customers' company housing needs

In corporate sales, we aim to raise the occupancy rate based on the concept of being the brains behind the company-leased housing strategy. The first step towards becoming the brains is to interview potential customers about their issues related to company housing and then provide comprehensive solutions to those issues. Regarding solutions, we will promote the features and strengths of our business model, including no security deposit and no brokerage fee; approximately 560,000 rooms spread across the major regions of Japan; no difference in the quality of rooms due to standardization of property specifications; and the property information network we have built.

I think that ultimately the brains behind company-leased housing strategy come down to creating a state in which customers can enjoy the same benefits as they owned the company housing themselves, except that now they are free from the cumbersome company housing-related tasks that their general affairs departments had to deal with before using Leopalace21.

Based on this strategy of establishing a position as the brains, we are proceeding with initiatives to achieve an occupancy rate of over 90% at an early stage. As a specific target for this fiscal year, we aim to increase corporate contracts by approximately 9,000 rooms in addition to our existing level. To achieve this target, we will proceed with initiatives centered on strengthening relationships with client companies through top-level sales led by the President and the General Manager of the Corporate Sales Division; strengthening the sales organizational structure by expanding the number of sales departments, mainly in the Tokyo metropolitan area; and thoroughly implementing individual customer strategies based on the characteristics and needs of individual customers.

Feedback from
our corporate customer

As our group has grown, we have signed a growing number of contracts for Leopalace21's properties.

In addition to commuting method of obtaining a driver's license, in which learners commute from home to our driving school, Smart Driver School Shoei operates a training camp program in which learners temporarily live in facilities we provide while they take lessons continuously almost every day. While it takes almost three months to obtain a license in our commuter training program, it takes only two weeks in our training camp. Leopalace21 has been a great help to us in securing the housing needed for our training camps.

Operating a training camp program requires the learners to stay for a certain period of time, with the cost of accommodation added to their tuition fee. Properties like Leopalace21's, with no security deposit and no broker's fee, cost less than other properties, which allows us to lower our tuition fee, which is very advantageous in attracting learners. Another reason I'm very grateful to Leopalace21 is that, because they own such a large number of properties throughout Japan, there is very little chance of losing a sale because there are no properties available to accommodate the driving learners.

Our relationship with Leopalace21 began in 2005, almost 20 years ago. When I joined the company in 2001, the group had about 6 driving schools, but now we have expanded to 27 schools. As the number of our driving schools has increased, the number of rooms we use has also increased dramatically, and we now rent just under 300 rooms.

We are still in a growth phase and expect our need for temporary housing to continue to increase. Leopalace21 aims to be the brains behind the company-leased housing strategy, and I am sure we will be consulting with them on many matters in the future. My request to Leopalace21 at this time is to resume their construction business as soon as possible, because we may open more schools in areas where there are currently no Leopalace21 apartments.

SAFETY DRIVING SYSTEMS JAPAN

Mr. Takashi Yoshimura
Senior Managing Director
Smart Driver School Shoei Co., Ltd.

Business Strategy

Occupancy Rate Improvement Measures

Strategy 2 Area intensive strategy

We are promoting an area intensive strategy that divides Japan into seven areas and aims to optimize sales in each area. Our area intensive strategy also calls for focusing on acquiring corporate customers by forging close connections to each area. In addition, to increase the number of contracts, we are promoting sales activities targeting real estate agents and expanding partnership and collaboration with them.

Interview with Masato Fukase, Executive Officer

Targeting approximately 2,000 companies across Japan, we will acquire corporate customers through sales activities that take into account regional characteristics and by strengthening relationships with real estate agents.

Masato Fukase
Executive Officer, Property Management Division

Q What is the current percentage of corporate contracts?

Looking at our current occupancy by contract type, corporate contracts account for about 60% of occupants, and individual contracts account for about 40%. In terms of the number of contracts, about 70% are corporate contracts.

The Property Management Division, which covers all of Japan and is in charge of both corporate and individual customers in each region, has a policy of strengthening corporate sales, which aligns with the overall policy of Leopalace21.

Q What are the goals for this year?

Whereas the Corporate Sales Division mainly covers large companies across Japan, we in the Property Management Division are working to win corporate contracts targeting local companies in each region. For this year, we will select approximately 2,000 companies from our sales activities that we believe we can expand our business with, and then strengthen our follow-up and support in hopes of increasing the number of corporate contracts by 30% over the previous fiscal year.

Q What initiatives will you pursue to achieve the goals?

For the corporate customers we are targeting, the Property Management Division will centrally manage goals, progress of initiatives, and so on, while individual sales offices will concentrate their efforts on about 10 to 20 of these target customers each to expand the number of rooms occupied.

Furthermore, we will strengthen our relationships mainly with real estate agents who have sales capabilities across a wide area and those who are strong in areas where we are struggling, in the hope that they can serve as intermediaries for not only individual contracts but also corporate contracts.

Strategy 3 Strengthen relationships with real estate agents for individual customers

As part of our tenant acquisition efforts, we are strengthening our relationships with real estate agents with the expectation that they will be able to acquire tenants in areas that cannot be covered by directly managed sales offices.

Feedback from our real estate agent

The increased cooperation has helped us to achieve results.

We have been working with Leopalace21 for over ten years, but I think the number of deals has increased rapidly in the last three years. Previously, our branch managers and Leopalace21 representatives worked together to bring about some successes at some branches, but there was no momentum for a company-wide effort. I think the increase in the number of deals in the past three years has been due largely to the formalization of the business alliances and the clear setting of commission fees for agents. As a result of this, we are now able to set goals as a company, and we are now in a position to strengthen cooperation, such as sharing our successes in one area with other areas.

However, even now that we have entered into a business partnership, there are areas where the number of contracts is high and areas where it is low. The areas where the numbers are good are the areas where our company and Leopalace21 are collaborating well, so I hope that we can further strengthen our cooperation in the future.

If I had a request for Leopalace21, it would be to promote smart locks. I've heard that smart locks are currently in use in just over 100,000 units. In real estate properties, keeping or not keeping keys is a big issue. In fact, there are cases where we are not able to actually make the referral because it takes too long to hand over the keys. If you can speed up the spread of smart locks, I think it will lead to a further increase in the number of contracts.

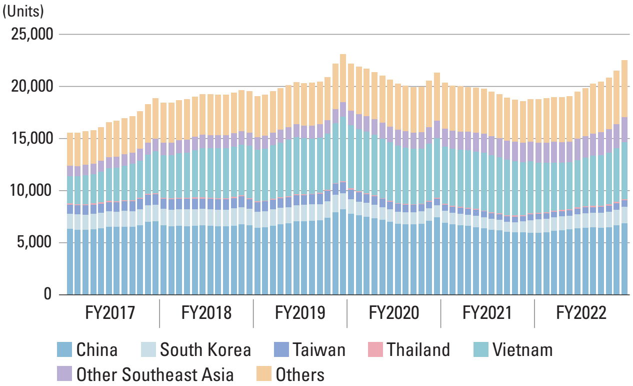
Mr. Taku Egami
Director and General Manager
Town Group Public Relations Office
Manager
Town Housing Inc.

Strategy 4 Attract more foreign national customers

Foreign national customers are returning once again as the COVID-19 pandemic subsides.

The proportion of foreign national customers had been on an upward trend over the past decade due to labor shortages in Japan. The number of foreign national customers temporarily declined due to the COVID-19 pandemic, however, is once again on the rise as the pandemic subsides and immigration restrictions are eased. We are focusing on acquiring foreign national customers as our next target after corporate customers.

Number of units used by foreign nationals (individual contracts)



Message by our IFC manager

We handle contract procedures and post-move-in follow-up for foreign national tenants in English or their native languages.

Wang Peng
Manager, IFC Tokyo Branch 2
International Block (PM)

International Front Center's (IFC's) basic work is to provide suggestions for finding rooms for foreign nationals and then handling contract procedures and post-move-in follow-up.

Today, in addition to China, Korea, and Vietnam, we have an increasing number of European and American customers and customers from the Philippines and other Southeast Asian countries. We serve these customers in English or in their native languages. Post-move-in follow-up includes monthly rent remittance reminders, trash separation, and checking for any problems during the tenancy period. If this is their first time living in Japan, we take the time to give detailed explanations, taking into consideration various factors such as the tenant's lifestyle habits in order to prevent culture shock. The property owners seem to appreciate IFC because we are able to follow up on any problems that may arise.

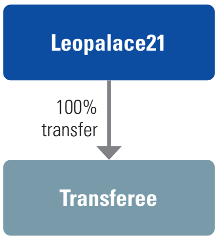
Structural Reforms

To strengthen our profitability, we are promoting structural reforms, including a review of our business portfolio. We are basically reorganizing and downsizing businesses other than the Leasing Business to focus on the Leasing Business.

Structural Reforms of Non-Core Businesses

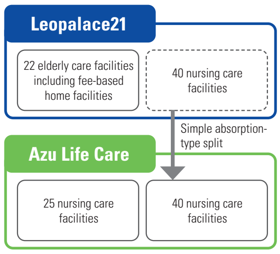
To focus management resources on the Leasing Business, we are proceeding with stock transfers and company liquidation for non-core businesses such as sales of custom-built homes and overseas businesses. We also split off some elderly care facilities in the Elderly Care Business.

Transfer of Morizou (sales of custom-built homes)



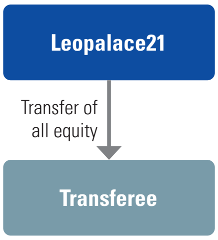
- Transferred 100% of the shares of Morizou Co., Ltd., which was a consolidated subsidiary
- Execution date: October 1, 2022

Split off some elderly care facilities in the Elderly Care Business



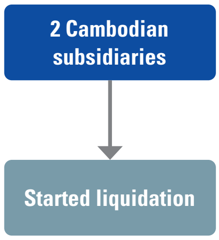
- Transferred 40 nursing care facilities to Azu Life Care Co., Ltd., a consolidated subsidiary
- The Company keeps the remaining 22 facilities and will aim to improve profitability.
- Effective date: November 1, 2022

Transfer of Woori & Leo



- Transferred all shares of Woori & Leo PMC Co., Ltd., which was an equity method affiliate
- Transfer agreement: August 8, 2022

Liquidation of subsidiaries in Cambodia



- Started liquidation procedures for two consolidated subsidiaries in Cambodia
- Application for company closure: August 12, 2022

Changes in Group Company Composition

Regarding Group companies, we are proceeding with the liquidation of Group companies related to non-core businesses such as the International Business and the Development Business. Meanwhile, we have newly established Leopalace Green Energy Corporation, an environment-related company associated to our Leasing Business.

End of May 2018

Leasing Business	Leopalace Leasing Corporation Corporate housing agent	Plaza Guarantee Co., Ltd. Rent guarantee	ASUKA SSI Tenant household contents insurance
	Leopalace Power Corporation Power generation	Leopalace21 Business Consulting (Shanghai) Tenant recruitment	Woori & Leo PMC Co., Ltd. Leasing management in South Korea
International Business	Leopalace21 (Thailand) CO., LTD. Real estate brokerage and referral in Thailand	LEOPALACE21 VIETNAM CO., LTD. Real estate brokerage and referral in Vietnam	Leopalace21 (Cambodia) Co., Ltd. Real estate brokerage and referral in Cambodia
	LEOPALACE21 PHILIPPINES INC. Real estate referral in the Philippines	PT. Leopalace Duasatu Realty Real estate business in Indonesia	Leopalace21 Singapore Pte. Ltd. Investment consulting business
	Enplas Corporation Relocation management		
Development Business	Morizou Co., Ltd. Custom-built homes	Life Living Co., Ltd. Property development	Leopalace Trust Land trust and real estate management trust
Elderly Care Business	Azu Life Care Co., Ltd. Elderly Care Business		
Hotel resorts and other businesses	Leopalace Guam Corporation Resort business	WING MATE CO., LTD. Business travel management	Leopalace Smile Co., Ltd. Special subsidiary

End of March 2023

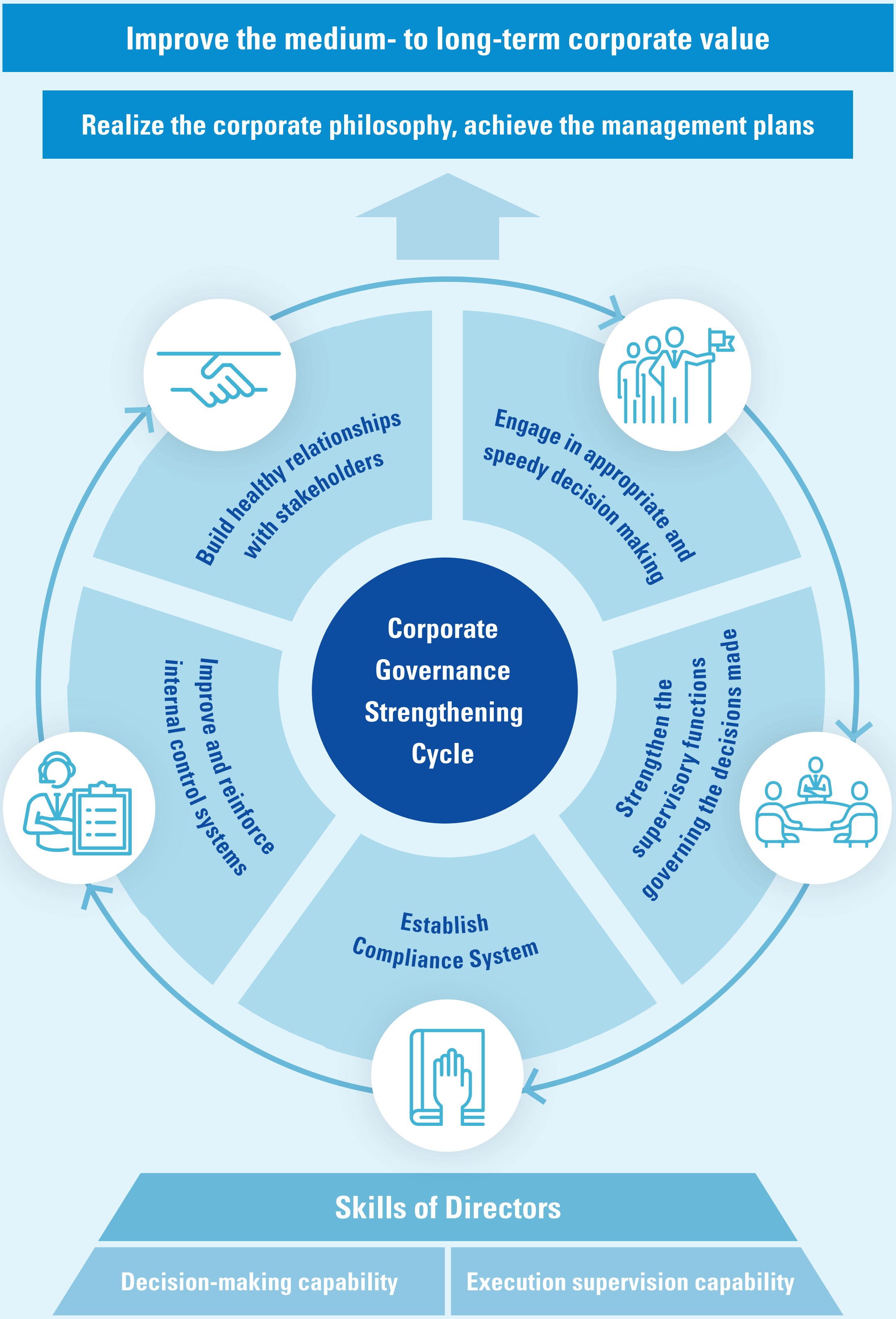
Leasing Business	Leopalace Leasing Corporation Corporate housing agent	Plaza Guarantee Co., Ltd. Rent guarantee	ASUKA SSI Tenant household contents insurance
	Leopalace Power Corporation Power generation	Leopalace21 Business Consulting (Shanghai) Tenant recruitment	Leopalace Green Energy Corporation Environment
International Business	Leopalace21 Singapore Pte. Ltd. Investment management		
Elderly Care Business	Azu Life Care Co., Ltd. Elderly Care Business		
Other businesses	Leopalace Guam Corporation Resort business	Leopalace Smile Co., Ltd. Special subsidiary	

Corporate Governance

Strengthening of governance is essential in order to achieve sustained growth and improve the medium- to long-term corporate value. In this section, we introduce the specific initiatives for corporate governance, for example the progress towards strengthening governance to date, and sustained improvement of effectiveness of the Board of Directors.

Leopalace21's Corporate Governance

Leopalace21's distinctive corporate governance contributes to improvement of the medium- to long-term corporate value though the strengthening cycle



Corporate Governance System

Basic approach to Corporate Governance

We consider developing and strengthening corporate governance to be a key management issue. By strengthening corporate governance, we are aiming to realize the corporate philosophy, achieve the management plans, enhance the corporate value over the medium to long term, and achieve sustainable growth. In addition, to realize higher corporate value for all stakeholders, we consider aiming for efficient, fair, and highly transparent management to be the basic approach underpinning our corporate activities.

Based on this approach, the Company has the Board of Directors to decide important matters concerning business operations, such as the decision of management plans, and resolutions set by the law, regulations, and the articles of incorporation. It also monitors the business activities as well. This improves corporate value by responding dynamically to changes in the business and management environment.

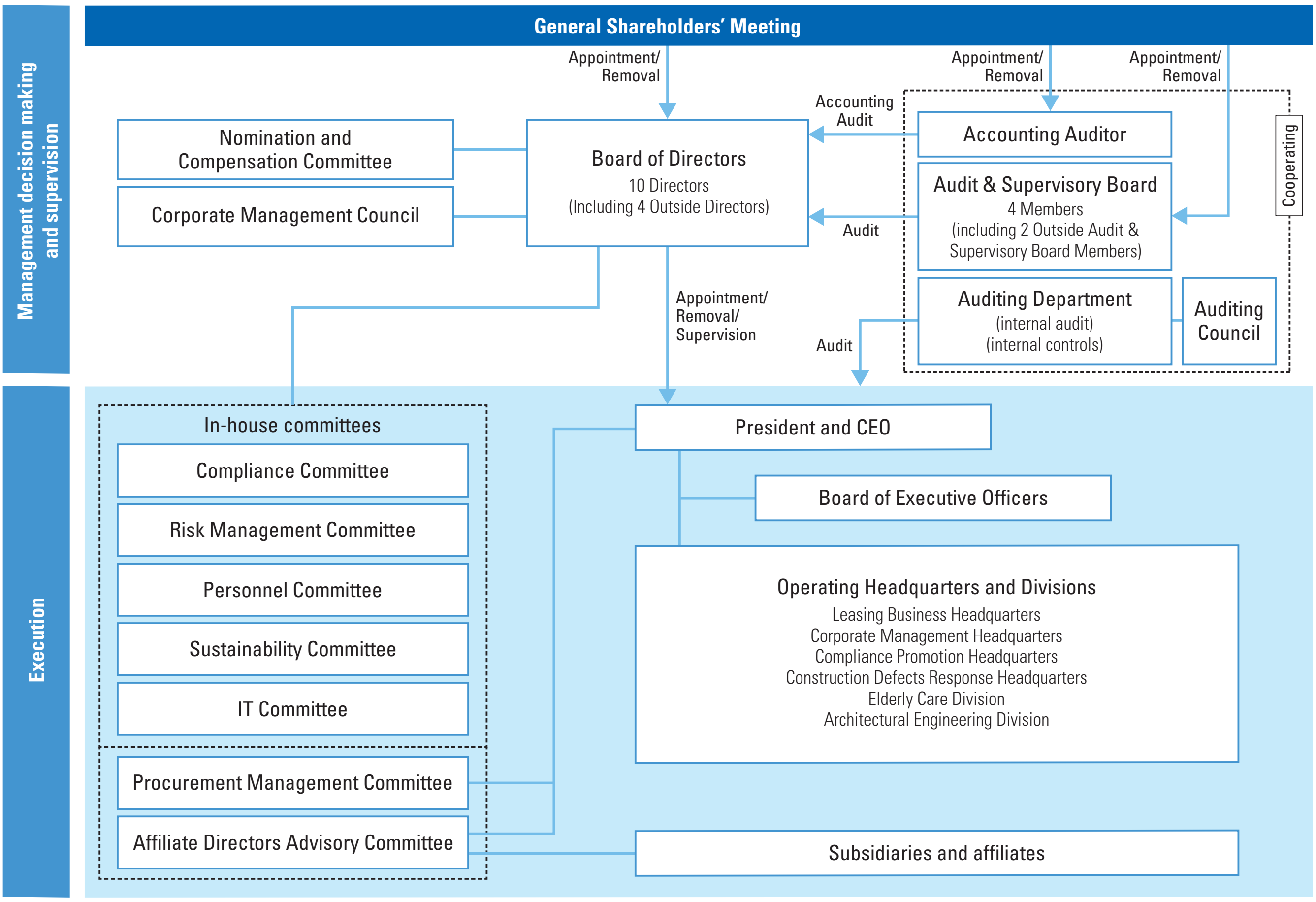
To achieve even faster decision making and smoother business execution, the Board of Directors has established the Corporate Management Council and the Board of Executive Officers. The former convenes to discuss important matters related to overall business execution prior to Board of Directors meetings, while the latter shares information about Company management with the aim of strengthening collaboration so that business execution proceeds smoothly. Furthermore, the Board of Directors set up in-house committees to discuss the major management challenges of the Company. The various committees consider and offer recommendations on management issues to the Board of Directors so the Board can thoroughly examine them.

Specifically, the Board of Directors established the Nomination and Compensation Committee to confer about selection and remuneration of directors, the Risk Management Committee to manage risks in the business operation, the Compliance Committee to develop and manage the legal compliance systems, the Personnel Committee to confer about personnel utilization, the Sustainability Committee to promote sustainability initiatives, and the IT Committee to maintain the IT environment.

In the business execution structure, Leopalace21 has put in place four headquarters comprised of: the Leasing Business Headquarters which manages the Company's core leasing business; the Corporate Management Headquarters which establishes and monitors the management strategies, increases inter-divisional synergy and supports smooth business operation; the Compliance Promotion Headquarters which aims to develop and monitor our legal compliance systems; and the Construction Defects Response Headquarters which manages construction defects. We also see the enhancement of business administration audit functions as our critical management task, and will try to reinforce the management monitoring function by setting the Audit & Supervisory Board as a supervising body for directors' business execution, and by setting the Auditing Department which is responsible for internal audit functions. With this structure in place to clarify responsibilities and authorities, we aim to continuously enhance our corporate governance.

Corporate Governance System

As of June 29, 2023



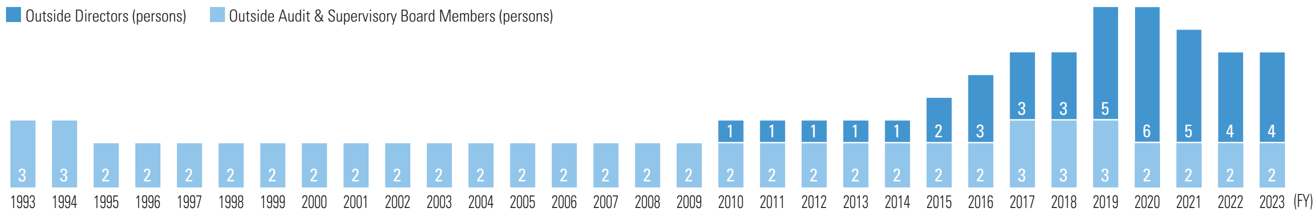
Strengthening Our Management Structure

Progress towards strengthening governance

We have strengthened our corporate governance system in order to achieve the corporate philosophy, attain the management plan, improve the 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 outside directors since immediately after the global financial crisis, which had a major effect on the management of the Company.

We subsequently increased the number of outside directors to considerably strengthen the supervisory function of the management. We currently have four independent outside directors, making up over one third of all directors. Based on our reflections on the construction defects problem, we have also reshuffled our executive directors, reducing their number to four from eight, five years ago, and as a result their average age has also become nearly three years younger. In addition, the Board of Directors has set up various committees and has pursued timely inquiries in order to examine major management issues faced by the Company.

Major Corporate Governance Initiatives



Compliance Committee	July 2006 1st meeting
Risk Management Committee	May 2008 1st meeting
Sustainability Committee (former 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
Affiliate Directors Advisory Committee	July 2021 1st meeting
Procurement Management Committee	March 2022 1st meeting

Members of each advisory body

Position	Name	Board of Directors	Corporate Management Council	Board of Executive Officers	Nomination and Compensation Committee	Compliance Committee	Risk Management Committee	Personnel Committee	Sustainability Committee	IT Committee
President and CEO	Bunya Miyao	◎	◎	◎	○	○	◎	◎	○	○
Director	Mayumi Hayashima	○	○	○		○	○	○		○
Director	Naomichi Mochida	○	○	○			○	○		
Director	Shinji Takekura	○	○	○		○	○	○	◎	◎
Director	Akio Yamashita	○	○		○					
Director	Jin Ryu	○	○		○					
Outside Director	Akira Watanabe	○	○		◎	○	○			
Outside Director	Yutaka Nakamura	○	○		○	◎	○			
Outside Director	Takumi Shibata	○	○		○	○	○			
Outside Director	Kan Ishii	○	○		○	○	○			
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	Kazutaka Shimohigoshi	(Notes 2)	○							
Executive Officers	—			10		2	6	4	1	2
Employees	—					2	5	3	12	5
Affiliated companies	—								4	
Outside Experts and others	—					2	2			

Notes 1. ◎ indicates a chairperson, 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.

Nomination and Compensation Committee

Believing that strengthening of independence, objectivity, and accountability is particularly necessary regarding the nomination and remuneration of directors and other upper management, we have established the Nomination and Compensation Committee with an independent outside director serving as chairperson, and we are obtaining appropriate involvement and advice from the Committee. The Nomination and Compensation Committee consists of four independent outside directors, two non-executive directors and one internal director, and the fact that the independent outside directors account for the majority of the members increases the Committee's independence and objectivity.

Members	Chairperson: an independent outside director Committee members: three independent outside directors, President and CEO, and two non-executive 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 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 fiscal year 2022	8
Main deliberation content	The Committee discussed the appointment of directors, executive officers, and Audit & Supervisory Board members, and deliberated on personnel, compensation, and evaluation systems for directors, Audit & Supervisory Board members, and executive officers. In the executive officer appointment process, the Committee got each of the new executive officer candidates to give presentations, and finally appointed three new executive officers. Regarding the evaluation of directors and executive officers, the Committee has adopted a process under which a final decision is made regarding the evaluation based on discussions of the self-reported evaluation content at the Nomination and Compensation Committee, and there have been cases where self-reported evaluation results were changed. Director and executive officer evaluations took place twice a year instead of once a year as they used to be, so as to clarify the link to the Company performance. The Committee has deliberated cases for promotion and demotion as and when required.

Board members' compensation

Our basic policy regarding decisions on the amounts of remuneration and other compensation for Directors and the method for calculating them is to adopt a compensation system which contributes to improvement of the Company performance and improvement of corporate value over a diverse range. The composition of remuneration for the executive directors consists of two types: the basic performance-based annual compensation which fluctuates in accordance with the rate of achievement of the targets in the annual management plans, and the incentive bonus which is paid only if a shareholder dividend is paid. The incentive bonus can be paid as monetary remuneration and non-monetary remuneration.

Regarding the composition of remuneration for non-executive directors, we only pay a basic remuneration as a fixed remuneration in light of their duties. When establishing the compensation system, we established a compensation table taking into consideration the level of other companies, the Company's business performance, and the level of employee salaries and considering each director's roles and the associated risks, and ensured that the compensation would be decided based on this table.

Skills of officers

The 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 as necessary given the business environment and other factors. Effective June 29, 2022, the Board consists of ten directors in total, of which four are appointed as independent outside directors, so that more than one-third are independent outside directors.

The Company requires its directors to have an extremely broad range of expertise, experience, and knowledge, and therefore many of the appointed directors satisfy multiple required territories. Particular focus is given to knowledge of corporate management, structural reforms, quality management, and compliance and risk management when appointing outside directors. We expect that directors will be able to leverage these skills to make significant contributions to the Company's efforts to continue structural reforms and strive to recover performance and trust.

Skill set matrix

		Attribute						Skills particularly required by Leopalace21					
	Name	Title	Execution of business	Independency	Nomination and Compensation Committee	Age	Gender	Corporate management	Structural reforms	Sales and marketing	Compliance and risk management	Quality management	Finance
1	Bunya Miyao	Representative Director, President and CEO Chairperson of the Board of Directors	Executive		Member	63	Male	○	○		○		○
2	Mayumi Hayashima	Director and Managing Executive Officer	Executive			50	Female		○	○	○		
3	Naomichi Mochida	Director and Executive Officer	Executive			60	Male		○	○			○
4	Shinji Takekura	Director and Executive Officer	Executive			51	Male			○	○		○
5	Akio Yamashita	Director	Non-executive		Member	61	Male	○	○				○
6	Jin Ryu	Director	Non-executive		Member	39	Male		○	○			○
7	Akira Watanabe	Director	Non-executive	Independent outside	Member	76	Male	○	○		○		
8	Yutaka Nakamura	Director	Non-executive	Independent outside	Member	64	Male				○	○	
9	Takumi Shibata	Director	Non-executive	Independent outside	Member	70	Male		○		○		○
10	Kan Ishii	Director	Non-executive	Independent outside	Member	69	Male	○	○				○

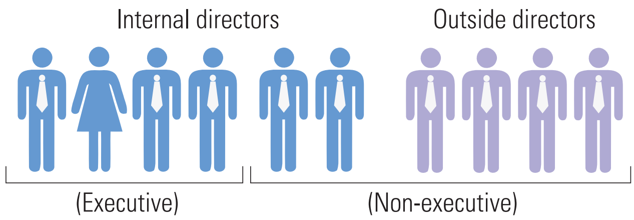
Note: Ages of each director are listed as of June 29, 2023

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 ten directors, including four outside directors. To improve our corporate value, we believe it is important to appoint suitable directors and determine their compensation, and we have incorporated deliberation by the Nomination and Compensation Committee which is made up of outside directors, into the determination process.

In addition to regular monthly meetings, the Board of Directors flexibly convenes meetings as necessary to make important management decisions and monitor how business is being executed.



Evaluation of the effectiveness of the Board of Directors

After the end of fiscal year 2022, we evaluated the function and other duties 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 directors and Audit & Supervisory Board members. The secretariat of the Board of Directors reported the aggregated and analyzed results to the Board of Directors, and discussions were held. As a result, for fiscal year 2022, we confirmed that our Board of Directors and governance system generally functioned effectively.

More specifically, based on the evaluation of the Board of Directors for the previous fiscal year, we boosted the profitability of the Leasing Business and strengthened the risk and crisis management system as initiatives to make improvements related to management issues identified in fiscal year 2022.

In the recent evaluation of the Board of Directors, the Board agreed to implement the business plan as a top priority and to monitor the progress of the below-mentioned initiatives, hold timely discussions and make decisions including any necessary corrections: boosting the profitability of the Leasing Business, strengthening the risk and crisis management system, and eliminating the construction defects problem.

Priority issues during fiscal year 2022	
1. Formulate a medium-term management strategy 2. Boost the profitability of the Leasing Business 3. Strengthen the risk and crisis management system	
Positive points	**Points to be improved**
• Achieve the fiscal year-end occupancy rate plan through occupancy rate improvement measures • Set rents and put cost control in place with paying attention to the profitability of the Leasing Business • Strengthen the risk and crisis management system • Carry out the construction defects repair works	• Increase profitability through establishing a leasing profit plan for each region unit and encouraging the competitive rivalries between regions • Visualize the progress of construction defects repair against the plan by region • Develop a system enabling identification and control ascertainment and restraint of potential risks

Priority issues during fiscal year 2023
1. Boost the profitability of the Leasing Business 2. Strengthen the risk and crisis management system 3. Eliminate the construction defects problem

Communication with Stakeholders

To realize higher corporate value for all stakeholders, we consider aiming for efficient, fair, and highly transparent management to be the basic approach underpinning our corporate activities. Based on this approach, we tackle the improvement of corporate value by stipulating the relationships we are supposed to hold, and have communication with our stakeholders, including customers, business partners, shareholders, investors, employees, and others.

Initiative 1 *Class L* member organization for property owners

About *Class L*

Class L is a forum that develops the ties between the property owners and the Company; furthermore, it is also a place which deepens exchanges among the property owners themselves. The official name of *Class L* is *Leopalace Exclusive member's*. As a partner which supports the property owners in their respective life stages, it provides a menu of services which satisfies property owners and their family members.

Current number of members

as of 2023/4/1

Main members: **25,268**
Family members: **49,678**
Total: **74,946**

Services provided by *Class L*

A full range of individual consultation meetings (nationwide)	
Held as needed	
Fiscal year 2022 results	
Days held	2022/11 to 2023/3
Places held	127 places
No. of participants	506 groups consisting of 652 people

Property owner briefing sessions	
Twice a year in principle	
Fiscal year 2022 results	
No. of days held	2022/12/4, 12/9, 12/17
No. of participants	1,743 groups consisting of 1,952 people

Online seminars	
Twice a year in principle	
Fiscal year 2022 results	
Days held	2022/9/28, 2023/2/7
<Session 1: About inheritance tax> No. of participants: 31 <Session 2: About the invoice and tax system revision> No. of participants: 99	

Publication of the newsletter
Twice a year in princile
Fiscal year 2022 results
January 2023 publication/ 24,000 copies published

Initiative 2 Business Partner Engagement

Held the outstanding cleaning partners award ceremony

We have introduced an evaluation system for our cleaning partners and are trying to improve the quality of cleaning, in order to fulfil the wish of apartment property owners to keep apartments in a clean condition over the long term and meet the need of tenants to live in clean apartments.

We held the ceremony of Award Presentation for Outstanding House Cleaning Partners to express our gratitude to the cleaning partners who have contributed to improving customer satisfaction by achieving outstanding results in two items in the evaluation system: the user evaluation in which the tenants evaluate on a four-step scale the cleaning quality when they move in, and the number of complaints received by the call centers during the tenancy.

This was the first time we held this award ceremony. A total of seven companies, three in the Eastern Japan block and four in the Western Japan block, were selected and given award as outstanding partners.

On the day of the award ceremony, in addition to the ceremony, we organized a meeting for exchange of opinions and a model room tour. We shared the event and the good examples of opinions in the meeting with the other cleaning partners across the country who did not receive any award this time, in order to encourage them to improve the quality.

Outstanding cleaning partners award ceremony

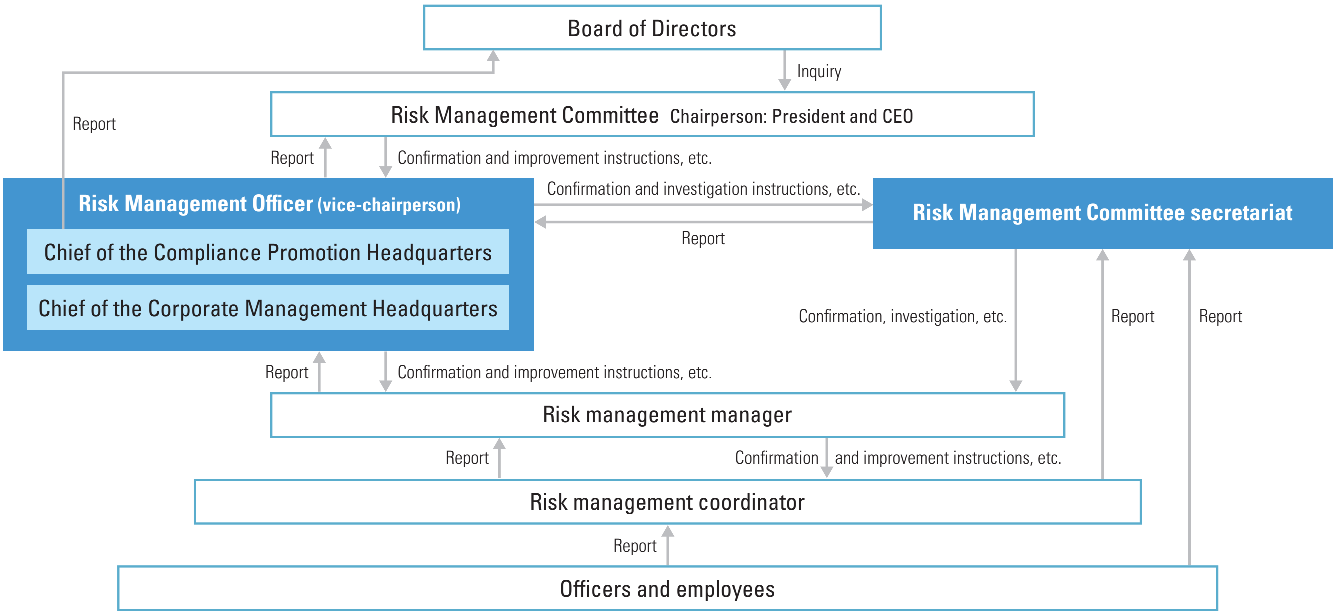
Risk Management

The risk management system

In order to grasp and manage Company-wide risks, the Group has put in place a Risk Management Committee as an advisory body to the Board of Directors. The President and CEO serves as chairperson of the Risk Management Committee, the Chief of the Corporate Management Headquarters and Chief of the Compliance Promotion Headquarters serve as vice-chairperson, while other members of the Committee comprise external experts such as lawyers. The Committee not only monitors risk management status and provides improvement guidance, but also works to mitigate or prevent risks from materializing.

Each department identifies, analyzes, and evaluates risks related to the work it is in charge of, formulates risk response measures to manage those risks, and reports the results to the Risk Management Committee. The Risk Management Committee offers consultation and guidance to ensure that risk is appropriately controled by each department. Furthermore, the Chief of the Compliance Promotion Headquarters reports on the status of risk management to the Board of Directors on a quarterly basis.

Risk management system diagram



Organized Risk Review Meetings

We implemented Risk Review Meetings which are positioned as a Subcommittee of the Risk Management Committee and carried out a reorganization of the potential risks based on the current situation. In the first meeting the Risk Management Committee members shared the risks and incidents they thought about and in the second meeting they extracted the risks which became agenda items for the Risk Management Committee.

◆ Participants: Risk Management Committee members

◆ Dates held:
Session 1: June 19, 2023, Session 2: July 3, 2023

◆ Venue: the small meeting room on the first basement level at the Head Office

◆ We invited external instructors to give the lectures

◆ Content:
- Lectures by external instructors about current issues and how we will tackle them going forward
- Risk perception for each specific business environment, for example competitors and suppliers (discussion format)
- Identification of important risks and consideration of the direction of risk countermeasures

Risk Review Meeting

Compliance

Ever since the construction defects problem came to light, Leopalace21 has established and executed measures to prevent recurrence, repeatedly held meetings of the Compliance Committee and conducted compliance training, among other measures, and continued activities to firmly make a culture of compliance awareness take root inside the Company. Going forward, we will aim to upgrade our compliance further, based on the key concept of advancing to the next stage in eliminating construction defects. As the first step in that process, we implemented an external diagnosis concerning compliance for the first time in fiscal year 2022.

The important thing is for each and every one of the officers and employees to understand compliance to be their own business and to practice compliance with a sense of ownership. We place priority on the promotion of self-propelled compliance and have assigned a compliance manager and compliance coordinator to each department. Each of them carries out their duties to ensure the continuous penetration of compliance awareness from the management team to employees.

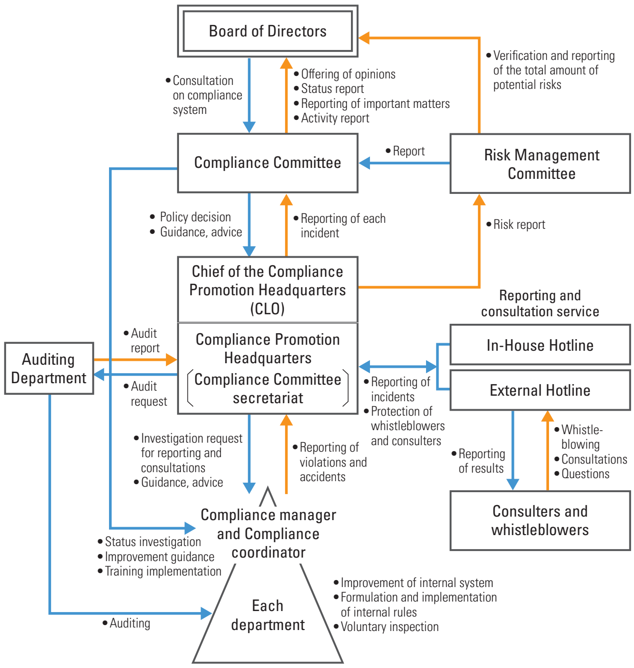
Compliance promotion system

We have put in place a Compliance Committee as an advisory body to the Board of Directors with an outside director serving as the chairperson. The Compliance Committee meets 12 times a year, and is working to strengthen the compliance system of the Group. In particular, it is working on a drastic reform of our corporate culture prompted by the construction defects problem and, regarding our measures to prevent recurrence, even after it completed the initial plan it has implemented continuous initiatives so that the memories of the problem never fade away over time.

We have put in place the Compliance Promotion Headquarters as a body for the promotion of daily compliance. This Promotion Headquarters plans and formulates measures pertaining to compliance promotion, and in addition verifies the legal compliance of new businesses, new services, and new products in the Group.

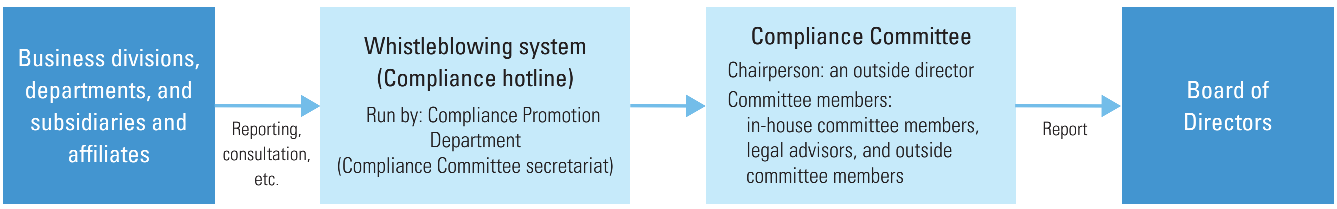
We are also building systems for realizing the promotion of self-propelled compliance, under which a compliance manager is appointed to each department and affiliate to actively implement measures related to compliance in the business execution. After building these systems in the current fiscal year, we received a third-party evaluation to identify issues for upgrading compliance. Going forward we will aim to upgrade our compliance for continuous improvement.

Compliance system diagram



Compliance consulting service

To handle cases where legal violations or similar acts by officers and employees are discovered, the Group has established a whistleblowing system, or compliance hotline service, to deal with the associated consultation. Three contact points were set up: for in-house, the Compliance Committee secretariat, for outside of the company, a law firm, and any Audit & Supervisory Board members apart from the said two. We have also established a business partners hotline to handle cases involving business partners who do continuous business. In addition, we have established a Compliance Mailbox so that we can promptly respond to any incidents that may occur by receiving a wide variety of information and consultations from Company officers and employees and having a system to discover potential risks.



Compliance initiatives

Training, E-learning

The Group implements compliance training that utilizes E-learning in an effort to boost the compliance awareness of all its officers and employees. We are also working on strengthening the awareness improvement and knowledge acquisition of each individual officer and employee. In the training, we implement group training and E-learning for understanding the basic concepts of compliance and also based on themes adapted to the needs of this era; for example, harassment prevention, or the handling of personal information. We are also regularly and continuously working for further improvement of our compliance and ethics. For example we disclose information as needed in response to amendments to laws and other changes.

In fiscal year 2022 we implemented E-learning related to compliance ten times, and in fiscal year 2023 we plan to implement E-learning on themes such as harassment prevention nine times.

Change Day

In order to regain the social trust, we established May 29 every year as *Change Day 5.29* to remind ourselves that each of the officers and employees in Leopalace21 Group should play an integral role in the restoration challenge, and to pledge to make continued emphasis on preventing the recurrence of construction defects.

May 29 is related to the construction defects problem because on that day in 2018 we released the "Notice Concerning Construction Deficiencies of Apartment Parting Walls (six series)" and disclosed the other construction defects which we subsequently discovered during the course of all-building investigations, and on that day in 2019 we announced the "Notice Concerning Causes and Measures to Prevent Recurrence of Construction Defects" based on the final report and recommendations by the External Investigation Committee.

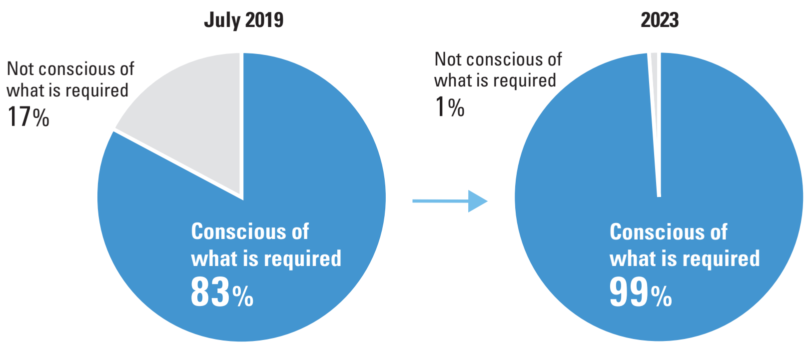
By establishing a specific day related to the construction defects problem in this way as *Change Day 5.29*, we intend to raise the awareness of all the officers and employees in the Group so that they can newly prepare themselves to take measures against recurrence.

External compliance diagnosis

To entrench an enduring compliance-first policy within the organization, we are fundamentally reviewing the compliance system to rebuild it as a solid framework. We constantly update the various compliance promotion measures, which include training aiming to strengthen the awareness improvement and knowledge acquisition of each individual officer and employee and conducting a range of awareness surveys using questionnaires, by receiving advice from a consulting company as well. We are making our initiatives more effective by incorporating not only internal points of view but also third party points of view.

Changes in compliance awareness

We are working on a drastic reform of our corporate culture as a measure to prevent a recurrence of the construction defects problem. In conjunction with this reform, we have been also conducting regular awareness surveys targeting all Group officers and employees. In the awareness survey conducted in 2023, 99% of the officers and employees responded that the overall compliance awareness has improved. Based on this result, we believe that the number of officers and employees who are aware of compliance and taking some initiatives in their operations has increased and that we have made steady progress on reforming our corporate culture and raising this awareness.



Directors and Audit & Supervisory Board Members

Internal Directors (As of September 1, 2023)

Executive

Representative Director, President and CEO
Chief of the Construction Defects Response 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 and 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	Chief of the Business Operation Headquarters
May	2022	Chief of the Construction Defects Response Headquarters (current)

Executive

Director and Managing Executive Officer
Chief of the Leasing Business Headquarters

Mayumi Hayashima

Apr	1996	Joined Leopalace21 Corporation
Apr	2009	Deputy Department Manager of the Eastern Japan Corporate Sales Department, Leasing Sales Section 3, Leasing Business Division
Jul	2010	Department Manager of the Corporate Sales Department, Eastern Japan Section 2, 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, Chief of the Compliance Management Headquarters, Chief Legal Officer (CLO)
Jun	2020	Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO)
Jul	2020	Chief of the Management Headquarters
May	2021	Deputy Chief of the Corporate Management Headquarters
May	2022	Director and Managing Executive Officer (current) Chief of the Leasing Business Headquarters (current)

Executive

Director and Executive Officer,
Deputy Chief of the Leasing Business Headquarters, General Manager of the Corporate Sales Division

Naomichi Mochida

Apr	1985	Joined The Mitsui Bank, Limited (now Sumitomo Mitsui Banking Corporation)
Jun	2007	Joined Leopalace21 Corporation Director, General Manager of the Corporate Planning Department
Apr	2009	Director and Executive Officer Department Manager of the 3rd Sales Department, Leasing Business Division Department Manager of the Broadband Service Promotion Department
Apr	2010	Head of the Related Businesses Controlling Division
Jun	2010	Executive Officer
May	2011	Head of the Corporate Sales Management Division
Apr	2013	Deputy General Manager of the Leasing Business Division
Apr	2014	Managing Executive Officer
Jul	2015	Deputy General Manager of the Construction Contracting Business Division
Jun	2020	Representative Director of Leopalace Leasing Corporation
May	2021	Administrative Officer and Department Manager of the Corporate Sale Planning Department
May	2022	Executive Officer, Deputy Chief of the Leasing Business Headquarters (current) General Manager of the Corporate Sales Division (current)
Jun	2022	Director and Executive Officer (current)

Executive

Director and Executive Officer,
Chief of the Corporate Management Headquarters,
Chief of the Compliance Promotion Headquarters,
Chief Legal Officer (CLO)

Shinji Takekura

Apr	1996	Joined Leopalace21 Corporation
Apr	2014	Department Manager of the 1st Construction Contracting Business Department, West Japan Region
May	2018	Department Manager of the 3rd Construction Contracting Business Department, East Japan Region
Jun	2020	Department Manager of the 2nd Wealth Management Department, East Japan Region, and responsible for the Emergency Response Project for Construction Defects Problem
Oct	2020	Senior Department Manager of the Corporate Planning Department
Apr	2021	Executive Officer
May	2022	Chief of the Corporate Management Headquarters (current) Chief of the Compliance Promotion Headquarters, Chief Legal Officer (CLO) (current)
Jun	2022	Director and Executive Officer (current)

Non-executive

Director

Akio Yamashita

Apr	1984	Joined Japan Development Bank (now Development Bank of Japan Inc.)
Jan	2006	Joined Morgan Stanley Securities Co., Ltd. (now Morgan Stanley MUFG Securities Co., Ltd.)
Jun	2008	Joined Fortress Investment Group (Japan) GK, Managing Director (current)
Mar	2013	Representative in Japan, Fortress Investment Group (Japan) GK (current)
Jun	2021	Outside Director, Leopalace21 Corporation
Jan	2022	Director, PJC Investments (current) Director, Accordia Golf Co., Ltd. (current)
Jun	2022	Director, Leopalace21 Corporation (current)
Sep	2023	Director, Sogo & Seibu Co., Ltd. (current)

Non-executive

Director

Jin Ryu

Apr	2010	Joined Morgan Stanley MUFG Securities Co., Ltd.
Apr	2011	Joined RBS Securities Japan Ltd.
May	2012	Joined Fortress Investment Group (Japan) GK
Apr	2020	Director, FHK Company (current)
Dec	2020	Managing Director, Fortress Investment Group (Japan) GK (current)
Jun	2021	Outside Director, Leopalace21 Corporation
Jan	2022	Director, PJC Investments (current) Director, Accordia Golf Co., Ltd. (current)
Jun	2022	Director, Leopalace21 Corporation (current)
Sep	2023	Representative Director, Sogo & Seibu Co., Ltd. (current)

Outside Directors (As of September 1, 2023)

Non-executive

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; Outside Audit & Supervisory Board Member, KADOKAWA GROUP HOLDINGS, INC. (now KADOKAWA CORPORATION)
- 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)
- Jun 2022 Outside Director, KADOKAWA CORPORATION

Non-executive

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 and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.
- Apr 2012 Senior Councilor and Manager of Corporate Quality & Environmental Division, Panasonic Homes Co., Ltd.
- Apr 2018 Senior Principal for Quality & Customer Satisfaction, Panasonic Homes Co., Ltd.
- Mar 2019 Retired from Panasonic Homes Co., Ltd.
- Feb 2020 Outside Director, Leopalace21 Corporation (current)

Non-executive

Outside Director

Takumi Shibata

- Apr 1976 Joined Nomura Securities Co., Ltd.
- Jul 1997 Managing Director, Nomura International plc.
- Jul 1998 Director, Nomura Securities Co., Ltd.
- Apr 2000 Managing Director, Nomura Europe Holdings plc.
- Apr 2005 President and CEO, Nomura Asset Management Co., Ltd.
- Jul 2007 Deputy President and COO, Nomura Holdings, Inc.
- Jul 2013 Executive Chairman, Nikko Asset Management Co., Ltd.
- Jan 2014 President and COO, Nikko Asset Management Co., Ltd.
- Jun 2020 Representative Director, Fiducia, Inc. (current)
- Jun 2022 Outside Director, Leopalace21 Corporation (current)
- Jul 2022 Outside Director, Nano Summit Co., Ltd. (current)
- May 2023 Chairman and Representative Director, Terra Foods Corporation (current); Outside Director, Sees Co.,Ltd. (current)
- Jun 2023 Outside Director, PJC Investments (current); Outside Director, Accordia Golf Co., Ltd. (current)

Non-executive

Outside Director

Kan Ishii

- Apr 1977 Joined Japan Development Bank (now Development Bank of Japan Inc.)
- Oct 2008 Managing Executive Officer, Development Bank of Japan Inc.
- Jan 2010 Trustee Representative, Japan Airlines Co., Ltd.
- Aug 2011 Representative Director President, FUKUOKA JISHO CO., LTD.
- Jun 2017 Outside Director, NIPPON PISTON RING CO., LTD.
- Apr 2018 Visiting Professor, The Graduate School of Project Design
- Jun 2018 Director, The Nishinippon Shimbun
- Apr 2019 Specially Appointed Professor, The Graduate School of Project Design (current)
- Jun 2021 Advisor, TERRACE MILE, Inc. (current)
- Jun 2022 Outside Director, Leopalace21 Corporation (current); Representative Director, PJC Investments (current); Representative Director, President and CEO, Accordia Golf Co., Ltd.(current)

Audit & Supervisory Board Members (As of September 1, 2023)

Full-time Outside Audit & Supervisory Board Member

Jiro Yoshino

- Apr 1978 Joined The Dai-Tokyo Fire & Marine Insurance Co., Ltd. (now Aioi Nissay Dowa Insurance Co., Ltd.)
- Apr 2011 Executive Officer, 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 Outside 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

Yoshitaka Murakami

- Apr 1972 Joined Ministry of Finance
- Jun 1983 Consul at Consulate-General of Japan in Hong Kong
- Feb 1987 Director, Banking Bureau, Ministry of Finance
- 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)

Outside Audit & Supervisory Board Member

Kazutaka Shimohigoshi

- Oct 1979 Joined Asahi Auditing Firm (now KPMG AZSA LLC)
- Aug 1983 Registered as a Certified Public Accountant
- Jul 1985 Joined Nihon Keieikeikaku Co., Ltd. (now Alma Co.,Ltd.)
- Sep 1992 Managing Director, Pendel Management Institute (current); Head of Shimohigoshi Certified Public Accountant Office (current)
- Jun 1993 Registered as a Certified Public Tax Accountant
- Jan 2007 Representative Partner, Pendel Certified Public Tax Accountant Firm
- Jun 2009 Auditor, Fourteenforty Research Institute, Inc. (now FFRI Security, Inc.)
- Aug 2015 Representative Director, JP Consultants Group Co., Ltd.(current)
- Jun 2016 Director and Audit Committee Member, FFRI, Inc. (now FFRI Security, Inc.)
- Jun 2023 Outside Audit & Supervisory Board Member, Leopalace21 Corporation (current)

Ten-Year Consolidated Financial Highlights

[Progress of the Medium-Term Management Plan] — EXPANDING VALUE

[Major Measures and Major Events] — The period from fiscal year 2014 to fiscal year 2016 was a period of renewed growth following the collapse of Lehman Brothers, and the Company promoted diversification of its business.

(JPY million) (USD thousand)	FY2013	FY2014	FY2015	FY2016*
Net sales	470,883	483,247	511,513	520,488
Leasing Business	388,562	399,375	410,641	416,594
Development Business	63,135	61,312	74,160	74,566
Elderly Care Business	10,171	10,608	10,798	11,536
Hotel, Resort & Other Businesses	9,013	11,950	15,913	17,791
Cost of sales	401,510	407,433	422,604	427,820
Selling, general and administrative expenses	55,906	60,992	67,823	69,769
Operating profit (loss)	13,467	14,822	21,085	22,898
Leasing Business	15,364	20,590	22,848	22,459
Development Business	2,951	211	3,340	5,051
Elderly Care Business	(610)	(606)	(1,354)	(1,650)
Hotel, Resort & Other Businesses	(981)	(1,257)	(360)	664
Adjustments	(3,256)	(4,116)	(3,388)	(3,626)
EBITDA	19,460	22,558	30,700	32,235
Recurring profit (loss)	11,368	13,483	19,909	22,355
Net income (loss)	15,730	15,175	19,631	20,401
At fiscal year-end: (JPY million)				
Total assets	288,165	308,882	327,609	337,828
Net assets	103,354	124,928	144,865	158,870
Interest-bearing debt	37,227	44,487	50,824	49,918
Cash and deposits balance	74,767	75,221	88,043	104,432
Cash flows: (JPY million)				
Cash flows from operating activities	15,584	15,715	22,104	27,504
Cash flows from investing activities	(6,929)	(17,550)	(11,087)	(8,653)
Cash flows from financing activities	8,848	1,747	1,374	(14,048)
Free cash flows (FCF)	8,654	(1,834)	11,017	18,850
Amounts per share: (JPY)				
Net assets	393.05	475.17	550.94	603.76
Net income (loss)	69.38	57.73	74.68	77.61
Cash dividend	–	–	10.00	22.00
Index:				
Units under management	548,912	554,948	561,961	568,739
Average annual occupancy rate (%)	84.58	86.57	87.95	88.53
Construction contracting orders received (JPY million)	81,139	87,395	86,439	87,139
Equity ratio (%)	35.9	40.4	44.2	47.0
Return on equity (ROE) (%)	19.7	13.3	14.6	13.4
Return on assets (ROA) (%)	4.1	4.5	6.3	6.7
Dividend payout ratio (%)	–	–	13.4	28.3
Number of employees	6,758	7,339	7,846	7,695
Acquisition rate of childcare leave (%)	22.6	22.2	31.7	31.2
Rate of paid leave usage (%)	31.7	33.0	70.1	72.2
Rate of workforce turnover (%)	11.3	9.1	8.0	7.1

*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. EBITDA = Operating profit + depreciation
2. In this report, net income attributable to shareholders of the parent is stated as net income.
3. Return on equity (ROE) = Net income/average ownership equity during the fiscal year x 100
4. Return on assets (ROA) = Recurring profit/average total assets during the fiscal year x 100
5. Regarding the Hotels, Resort & Other Businesses, we added the results of the Hotels & Resort Business to the results of Others for the period from fiscal year 2010 to fiscal year 2015, and then we changed the segments in fiscal year 2017, so we retroactively changed the figures for fiscal year 2017 to the new segment (Hotels, Resort & Other Businesses).
6. Development Business was integrated to Leasing Business from fiscal year 2020.

Creative Evolution 2020			Fundamental restructuring of business strategy		
Performance slowed in fiscal year 2018, due to the revelation of construction defects problem.			The COVID-19 began to spread in fiscal year 2020, and the Company's business once again slumped; at the end of fiscal year 2020, the Company recorded excessive liabilities under TSE standards, but it eliminated the excessive liabilities in fiscal year 2021.		

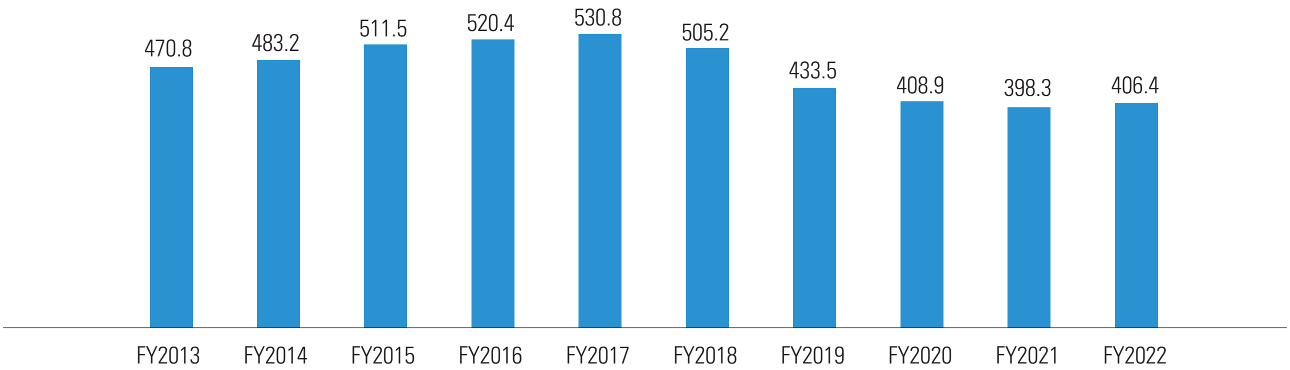
	FY2017	FY2018	FY2019	FY2020	FY2021	**FY2022**
	530,840	505,223	433,553	408,959	398,366	**406,449**
	435,537	426,388	388,939	391,964	383,043	**391,438**
	76,587	58,992	23,806	–	–	**–**
	12,807	13,922	14,620	14,524	14,258	**13,941**
	5,908	5,919	6,186	2,469	1,064	**1,069**
	434,762	428,988	408,112	387,872	352,289	**353,163**
	73,147	68,844	61,915	50,269	44,302	**43,406**
	22,930	7,390	(36,473)	(29,182)	1,774	**9,879**
	26,062	14,987	(20,828)	(19,385)	7,719	**16,887**
	3,663	(995)	(5,181)	–	–	**–**
	(1,596)	(846)	(559)	(720)	(789)	**(1,208)**
	(846)	(1,346)	(1,000)	(1,551)	(1,668)	**(2,706)**
	(4,353)	(4,407)	(8,903)	(7,524)	(3,486)	**(3,092)**
	34,656	20,336	(24,316)	(18,766)	11,127	**16,449**
	22,354	7,063	(36,341)	(34,170)	(2,151)	**6,526**
	14,819	(68,662)	(80,224)	(23,680)	11,854	**19,810**
	337,257	291,790	196,953	161,708	145,430	**166,548**
	159,438	81,338	1,589	3,277	11,034	**32,922**
	53,829	48,047	36,137	35,409	33,045	**31,849**
	106,543	84,536	60,501	54,863	45,523	**53,560**
	27,338	(7,212)	(51,639)	(40,816)	(4,460)	**10,545**
	(2,336)	7,379	39,533	11,829	886	**906**
	(18,354)	(15,181)	(12,048)	23,571	(5,886)	**(2,819)**
	25,001	167	(12,106)	(28,986)	(3,574)	**11,452**
	630.84	331.87	5.34	(25.83)	3.25	**73.29**
	58.02	(278.58)	(328.77)	(84.88)	36.04	**60.22**
	22.00	–	–	–	–	**–**
	570,672	574,798	575,798	573,673	567,314	**561,231**
	90.59	88.34	80.78	78.89	81.22	**84.66**
	75,905	64,495	7,814	5,927	2,792	**394**
	47.2	27.7	0.7	(5.3)	0.7	**14.5**
	9.3	(57.2)	(195.1)	–	–	**157.3**
	6.6	2.2	(14.9)	(19.1)	(1.4)	**4.2**
	37.9	–	–	–	–	**–**
	7,690	7,600	7,043	5,082	4,356	**3,991**
	51.3	55.7	55.0	87.3	67.0	**79.5**
	74.1	76.8	84.3	90.5	81.7	**81.2**
	8.1	8.6	13.1	30.7	16.0	**11.1**

Financial Highlights

Net sales

JPY **406.4** billion Up 2.0 % y/y

(JPY billion)

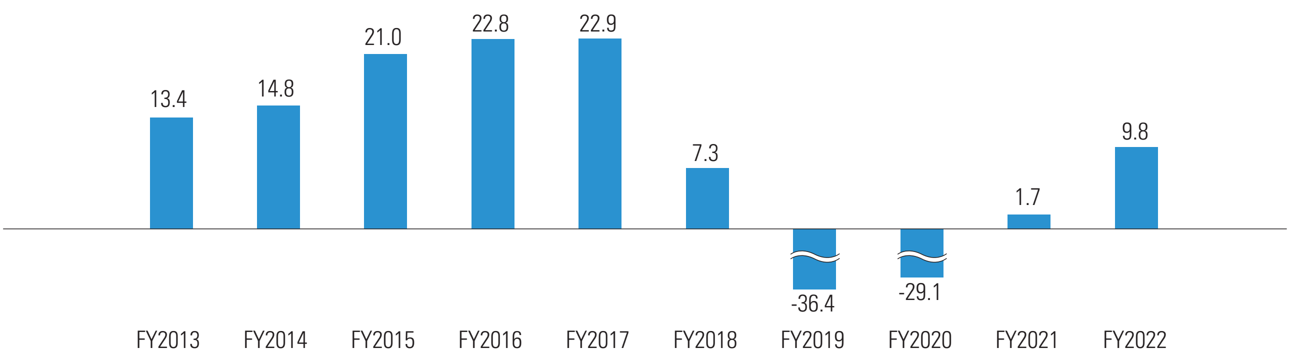


The Company shifted to a business model centered on the Leasing Business after the collapse of Lehman Brothers. Net sales trended upwards until peaking in fiscal year 2017. Thereafter, profits continued to fall due to declining occupancy rates resulting from the construction defects problem revealed in 2018. However, our sales strategies targeting corporate contracts, the progress of response to the construction defects problem, and other measures have been recovering the occupancy rates. As of fiscal year 2022, the Company has increased profit for the first time in five fiscal years.

Operating profit (loss)

JPY **9.8** billion Up 456.7% y/y

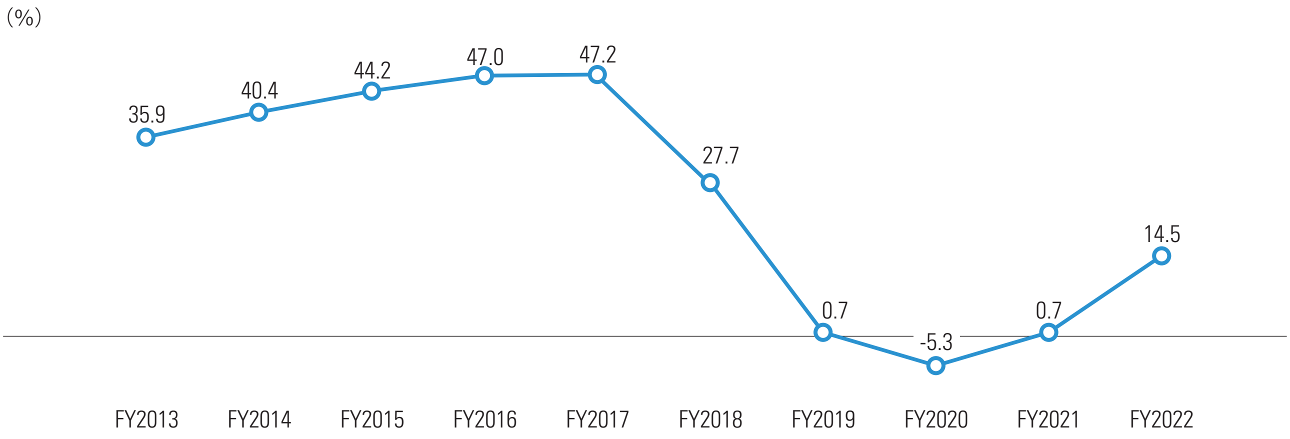
(JPY billion)



The shift to a business model centered on the Leasing Business in the fiscal year 2011 continually increased profit. However, the construction defects problem revealed in the fiscal year 2019 and the effects of the COVID-19 pandemic from the fiscal year 2020 resulted in operating losses for two consecutive fiscal years. The success of thorough cost reductions brought the Company back to profitability in the fiscal year 2021 for the first time in three fiscal years. This fiscal year is the second consecutive fiscal year generating positive operating profit.

Equity ratio

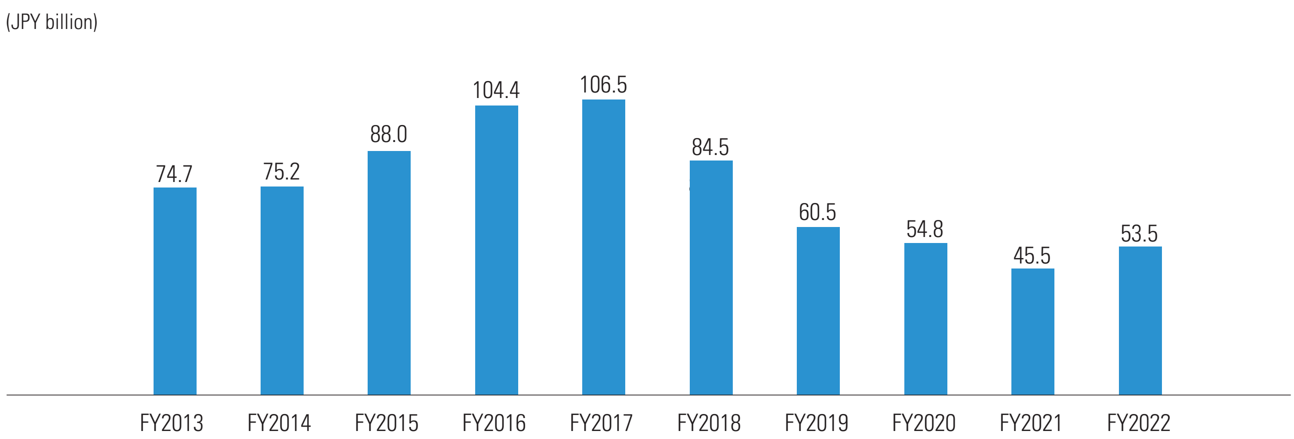
14.5 % **Up 13.8 points from the end of the previous year**



As with net sales, the equity ratio of the Company in recent years peaked at 47.2% in fiscal year 2017. However, it began dropping due to declining business earnings and stood at a negative 5.3% at the end of fiscal year 2020. Thereafter, we have been further strengthening financial base while regaining earnings. Equity ratio in fiscal year 2022 has recovered to 14.5%.

Cash and deposits balance

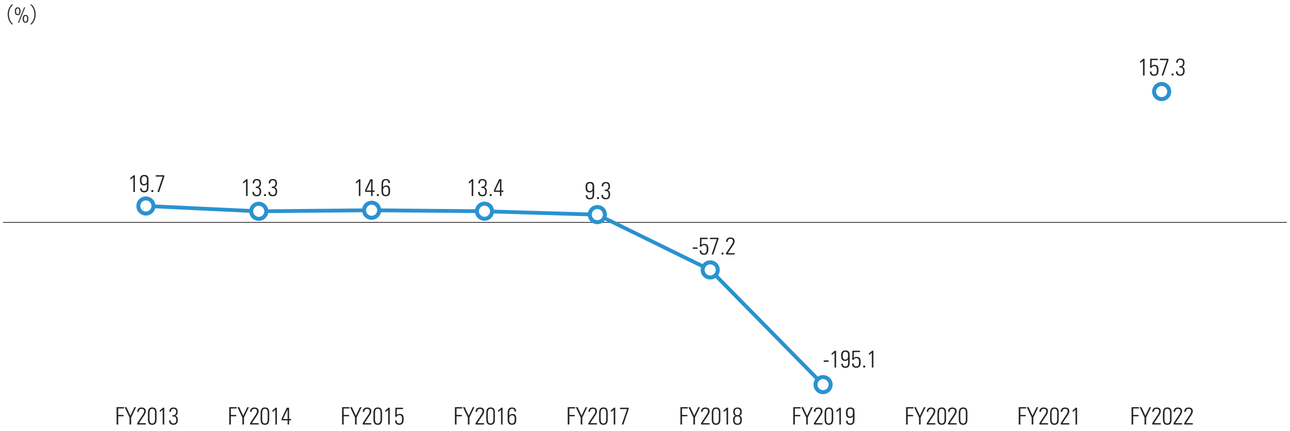
JPY 53.5 billion **Up 17.7 % from the end of the previous year**



The balance of cash and deposits continued to increase until the end of March 2018 due to increases in operating cash flows. However, it had been trending downwards since fiscal year 2018 mainly due to negative operating cash flows. The Company increased the balance of cash and deposits in fiscal year 2022 for the first time in five fiscal years primarily by improving occupancy rates and controlling cost.

ROE

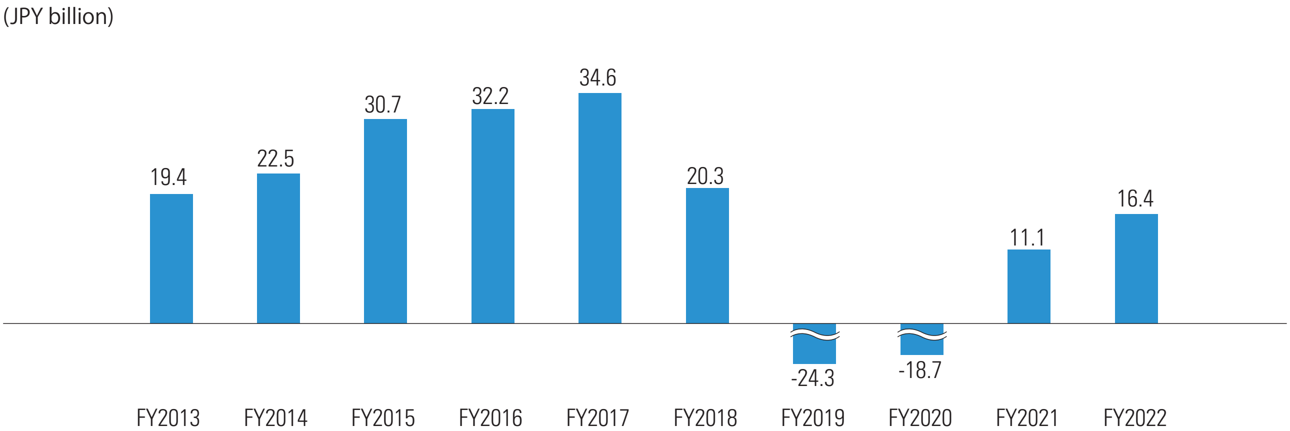
157.3 %



ROE hovered around 10% from fiscal year 2014, as a result of steadily expanding earnings primarily in the Leasing Business. ROE fell into a slump due to a dramatic decrease in profit from fiscal year 2018 as a result of construction defects. The Company has a positive ROE as of the fiscal year 2022 thanks to a recovery in business performance, including two consecutive fiscal years of positive operating profit.

EBITDA (Operating profit + depreciation)

JPY 16.4 billion **Up 47.8 % y/y**

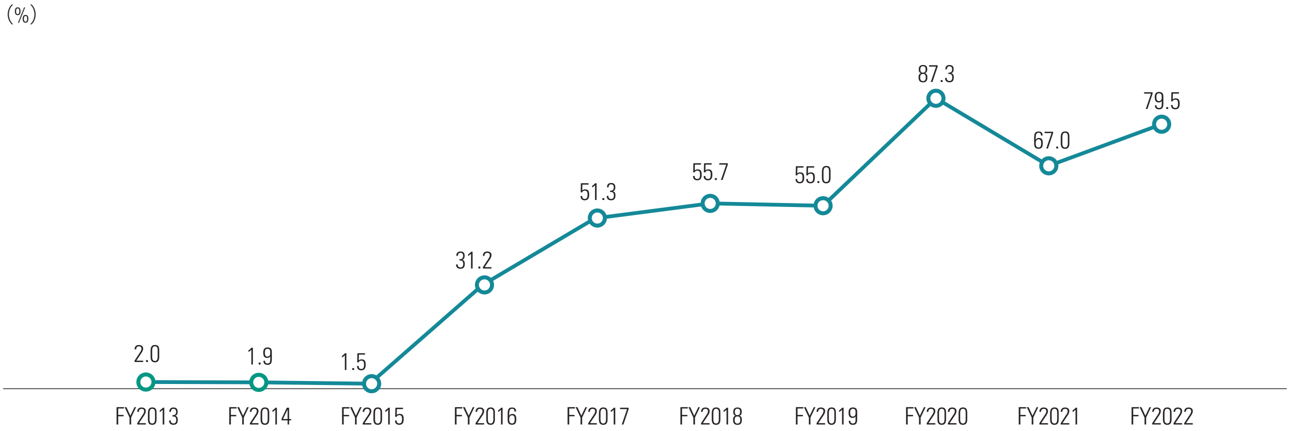


EBITDA, the sum of operating profit and depreciation, had been on an increasing trend up until fiscal year 2017, due to increased operating profit and active capital investments in new businesses. EBITDA in fiscal years 2019 and 2020 were negative mainly due to a decrease in operating profit in fiscal year 2018. EBITDA turned to positive because of positive operating profit in fiscal year 2021 for the first time in two fiscal years and has stayed positive for the second consecutive years this fiscal year.

Non-Financial Highlights

No. of employees on childcare leave

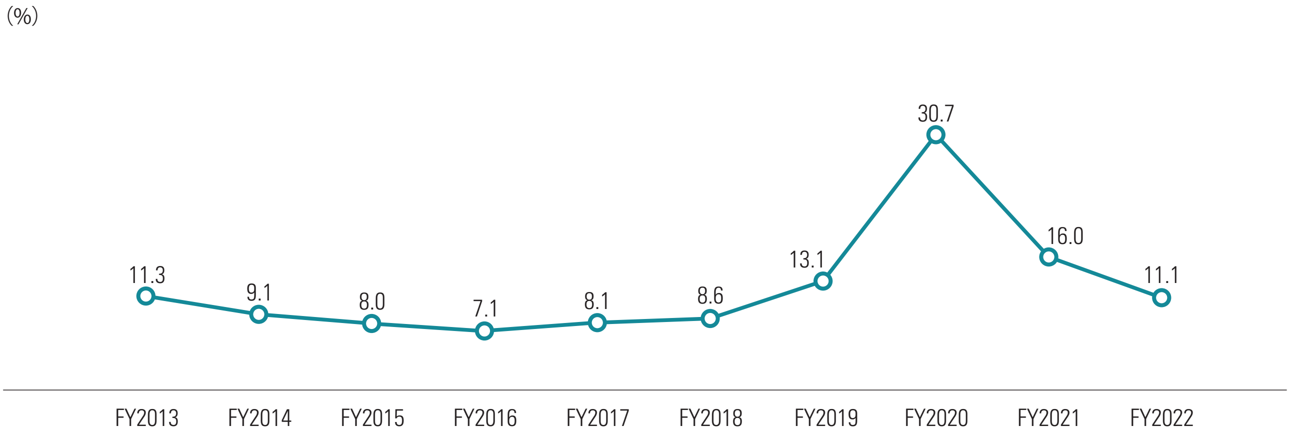
79.5 % Up 12.5 points y/y



We have been promoting work-style reforms led by the government of Japan that include raising awareness and changing the work styles of both men and women. We have been working to improve our working environment by giving due consideration to achieving work-life balance by reducing overtime work, increasing the percentage of people taking paid leave, and by creating a framework that makes it easier to take childcare leave. As a result, we had a high 79.5% childcare leave acquisition rate in fiscal year 2022.

Rate of workforce turnover

11.1 % Down 4.9 points y/y



The Company considers human resources as an important management capital, and as such we have established an employee training system and other measures that allow all employees to demonstrate their own diverse individuality and abilities. In addition, we are underway in building a more comfortable work-friendly environment in order to tackle the issue of long working hours, an issue that is particular to this industry. The turnover rate temporarily increased in fiscal year 2020 due to implementing the voluntary retirement, but the rate dropped greatly in the next fiscal year. As of fiscal year 2022, the turnover rate fell below where it was in fiscal year 2019.

Management's Discussion and Analysis

1. Operating Environment

While restrictions on activities associated with the COVID-19 pandemic have eased and economic activities have normalized, the outlook for the Japan's economy remained uncertain due to soaring energy prices and raw material prices and other factors.

The new housing starts of leased units increased for two years in a row (up 5.0% year on year). In order to secure a stable occupancy rates in the rental housing market where the number of vacant houses continues to rise due to declining population, falling birthrate and aging population, the Company believes it is important to focus on serving still growing single-person households, to implement sales strategies that match regional and customer characteristics, to maintain and enhance the value of apartments through proper maintenance, and to provide highly convenient tenant services through the promotion of DX solutions.

Under these circumstances, Leopalace21 Group (the "Group") has been continuing structural reforms which was disclosed in June 2020, concentrating management resources on the core Leasing Business and thoroughly reviewing and reducing all costs, the Group has worked to stabilize the financial base and continuously improve profitability.

2. Analysis of Business Results

(1) Net Sales

Net sales for the consolidated fiscal year 2022 amounted to JPY 406,449 million (up 2.0% year on year). The increase was mainly caused by the higher unit rents and improved occupancy rates.

Net Sales by Segment

	JPY million		
	FY 2021	**FY 2022**	**Change**
Leasing Business	383,043	**391,438**	**8,394**
Elderly Care Business	14,258	**13,941**	**(317)**
Other Businesses	1,064	**1,069**	**5**
Total	398,366	**406,449**	**8,082**

(2) Earnings

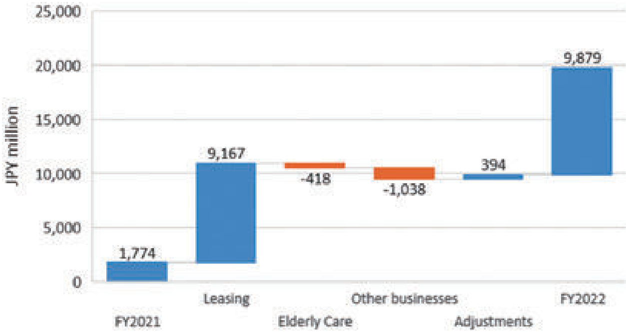
Operating profit was JPY 9,879 million, an increase of 456.7% year on year, due to the reduction of cost of sales and SG&A expenses. Recurring profit was JPY 6,526 million, which was compared with JPY (2,151) million for the previous fiscal year, mainly due to interest payment of JPY 4,370 million.

Net income attributable to shareholders of the parent was JPY 19,810 million, an increase of 67.1% year on year, caused by the recording of income taxes-deferred (profit) of JPY 18,538 million due to buildup of deferred tax assets despite the recording of loss related to repairs of JPY 2,544 million due to soaring material prices and an increase in the ratio of subcontracted repair work to eliminate obvious defects by the end of 2024.

Operating Profit by Segment

	JPY million		
	FY 2021	**FY 2022**	**Change**
Leasing Business	7,719	**16,887**	**9,167**
Elderly Care Business	(789)	**(1,208)**	**(418)**
Other Businesses	(1,668)	**(2,706)**	**(1,038)**
Adjustments	(3,486)	**(3,092)**	**394**
Total	1,774	**9,879**	**8,104**

Change in Operating Profit



(3) Segment Information

Leasing Business

In the Leasing Business, the Company aims at stable occupancy rate and higher profitability by implementing various measures: providing abundant value-added services such as web-based integrated services which allows a customer complete all steps from searching an apartment to signing a rental contract without the need of face-to-face meeting; promotion of the transition to smart apartments which enables electrical appliances and door locks to be operated by smartphone; further developing corporate customers; working with real estate agents; adopting sales strategies catering for the customer and region specific requirements; and unit rent increase.

The occupancy rate at the end of March 2023 was 88.83% (up 3.73 points from the end of the previous fiscal year) with average occupancy rate of 84.66% (up 3.44 points year on year). The demand recovery for apartment rooms mainly from corporate customers due to the slowdown impact of COVID-19 pandemic and various occupancy rate boosting measures produced positive results. The number of units under management at the end of March 2023 was 561 thousand (down 6,000 from the end of the previous fiscal year). The number of direct leasing sales offices at the end of March 2023 was 109 (no change from the end of the previous fiscal year).

As a result, net sales came to JPY 391,438 million, up 2.2% year on year due to the higher unit rent and improved occupancy rates. Operating profit was increased to JPY 16,887 million, up 118.8% year on year, mainly due to the effect of increased profitability resulting from successful contractual adjustment of master-lease rent with the apartment owners.

Elderly Care Business
The Company has been cutting the operational cost by continuous efficiency improvement for the Elderly Care Business. Net sales during fiscal year 2022 were JPY 13,941 million (down 2.2% year on year), and operating loss was JPY 1,208 million (an increased loss of JPY 418 million year on year) due to a decrease in the number of users for elderly care services concerning about the infection risk of COVID-19. The number of facilities was 87 as of the end of fiscal year 2022.

Other Businesses
Net sales of the Other Businesses including resort facilities in Guam and others, were JPY 1,069 million (up 0.5% year on year due to weaker JPY) and operating loss was JPY 2,706 million (an increased loss of JPY 1,038 million year on year) mainly due to continuous a significant decline in occupancy rates in Guam.

3. Analysis of Consolidated Financial Position

(1) Position of Assets, Liabilities, and Net assets
Assets at the end of March 31, 2023 increased by JPY 21,117 million from the end of the previous fiscal year to JPY 166,548 million. This was mainly attributable to an increase of JPY 8,037 million in cash and deposits, and JPY 18,556 million in deferred tax assets, despite a reduction of JPY 937 million in machinery equipment and vehicles (net), reduction of JPY 2,209 in others (net) in property, plant, and equipment, and increase of JPY 1,635 million in allowance for doubtful accounts.

Total liabilities decreased by JPY 770 million from the end of the previous fiscal year to JPY 133,625 million. This was mainly attributed to the decrease of following items; JPY 852 million in accrued income taxes, JPY 1,583 million in provision for fulfillment of guarantees, JPY 503 million in provision for losses related to repairs, and decrease of JPY 2,042 million in provision for apartment vacancy loss, despite increase of JPY 2,699 million in accounts payable – other and increase of JPY 1,648 million in advances received and long-term advances received.

Net assets were JPY 32,922 million, an increase of JPY 21,888 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 3,371 million in foreign currency translation adjustments and the recording of JPY 19,810 million in net income attributable to shareholders of the parent, on the other hand, decrease in non-controlling interests of JPY 1,086 million was recorded due to payment of treasury stock purchase price and dividend payment to non-controlling shareholders of a consolidated subsidiary. The equity ratio improved by 13.8 points from the end of the previous fiscal year to 14.5%.

(2) Cash Flow Position
Cash flows from operating activities was a net inflow of JPY 10,545 million, which was compared with a net outflow of JPY 4,460 million in the previous fiscal year. This was mainly due to a recording of JPY 2,847 million in income before taxes and other adjustments, JPY 6,570 million in depreciation, JPY 2,544 million in loss related to repairs, and increase of JPY 1,680 million in advances received, whereas JPY 2,042 million for the reduction of provision for apartment vacancy loss, JPY 4,371 million in interest paid, and JPY 3,337 million in payment related to repairs were recorded.

Cash flows from investing activities were a net inflow of JPY 906 million, an increase of JPY 20 million in net inflow year on year. This was mainly due to proceeds from collection of loans receivable of JPY 700 million and proceeds from withdrawal of time deposits (net) of JPY 800 million, while there was an outflow of JPY 711 million from sales of investments in subsidiaries resulting from change in scope of consolidation.

Cash flows from financing activities were a net outflow of JPY 2,819 million, a decrease of JPY 3,067 million in net outflow year on year. This was mainly due to JPY 741 million of expenditure in repayment of finance lease obligations, JPY 990 million of expenditure in payment for purchased treasury stock by a consolidated subsidiary, and JPY 972 million of expenditure in payment of dividends to a non-controlling shareholder.

As a result, cash and cash equivalents at the end of the fiscal year ended March 2023 became JPY 52,860 million, increased by JPY 8,837 million from the end of the previous fiscal year.

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

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 Group sets the management policies for fiscal year 2023 consisting of the three components to strengthen its governance: Strengthen profitability and stabilize financial base, promote structural reform and DX, and carry on repairing construction defects.

Strengthen profitability and stabilize financial base
by improving occupancy rate
We aim to increase ownership equity by strengthening profitability, and consider improving shareholder returns and capital efficiency by refining the occupancy rate boosting measures exercised since FY2022 to achieve the occupancy rate plan.

(i) Increasing occupancy rate at March-end to 91.40%
We aim to achieve our targets by implementing strategies for increasing occupancy rate for each of the following defined customer categories:

Corporate customers:	Deploy top sales representation, boost sales structure, and implement strategies tailored to the individual company to increase market share and increase the room usage balance.
Individual customers:	Strengthen sales to real estate agents.
Foreign national customers:	Expand business by working with staffing agencies for foreign nationals and support agencies. Capture demand from foreign national students by utilizing IFCs and reinforce relationship with real estate agents, companies that support foreign national human resources and service providers which cater for students' needs.

(ii) Controlling cost Structure
Although we have been cutting costs drastically since the construction defect problem, we have started to focus on optimizing costs to actively invest in property maintenance, system for DX promotion, and human resource, which are necessary for sustainable growth.

(iii) Strengthen ownership equity
We aim to strengthen ownership equity by improving profitability and move toward shareholder returns such as dividend resumption and share buybacks.

Promote structural reform and DX
We continue constant structural reforms and utilize digital technology to improve customer convenience and operational efficiency.

(i) Transfer or withdraw from non-core unprofitable businesses
We have made stable progress in transferring or withdrawing from non-core and unprofitable business since fiscal year 2020 and will continue to progress the transfer and liquidation of subsidiaries related to the International Business.

(ii) Work out an effective human resources strategy
We disclosed the human capital management in June 2023 in order to enhance corporate value and achieve sustainable growth over the medium to long term. The six themes for promoting human resources strategies were elected, with the aim of further revitalizing the individuals and the organization, and of establishing the supporting corporate culture.

(iii) Steadily build up smart lock installation
We began installing smart locks in managed apartments in June 2022 and have exceeded 150,000 units by September 2023, the industry's largest number of units installed by a single company. We remain committed to utilizing digital technology and pursuing further innovations in the business, in order to contribute to an ideal society where everyone can enjoy a high quality of life and to provide a housing platform with safe and comfortable life in rented apartments.

Carry on repairing construction defects
In response to the problem of construction defects that have occurred in the Company's constructed apartments, we will make steady progress in repairing the construction defects while working to restore the financial foundation with the aim of completely eliminating obvious defects by 2024. We have completed the repairs for about 60,700 units by the end of August 2023 and continue another 5,500 units by the end of December 2023 to eliminate all obvious defects by the end of 2024.

Moreover, keeping recurrence prevention at the top of management's priorities, we are continuing initiatives to avoid similar incidents taking place by concentrating on the following policies: Fundamental Reform of the Corporate Culture, Restructuring of the System for Compliance and Risk Management, and Revision of the Construction Business Framework. In addition to providing progress status reports on repair work, we present the information on the Company's website.
https://www.leopalace21.co.jp/info/en/

(2) Key Issues to Address
(i) Structural reforms
The Group has been continuing structural reforms which was disclosed in June 2020, concentrating management resources on the core Leasing Business and thoroughly reviewing and reducing all costs, the Group has worked to stabilize the financial base and continuously improve profitability.

Leopalace21 (Thailand) CO., LTD. was excluded from the scope of consolidation in the first quarter of the current consolidated fiscal year due to its decreased importance, but its liquidation was completed in the fourth quarter of the current consolidated fiscal year and it is no longer a specified subsidiary of the Company.

In the second quarter of the consolidated fiscal year, Morizo Co., Ltd. was excluded from the scope of consolidation due to the sale of all shares of Morizo, which had been a specified subsidiary. The Company also implemented an absorption-type company split in which the rights and obligations relating to 40 facilities, excluding 22 fee-based nursing homes, of the Elderly Care Business is succeeded to by the Company's wholly owned subsidiary, Azu Life Care, Inc.

In the fourth quarter of the current consolidated fiscal year, LEOPALACE PHILIPPINES INC. was excluded from the scope of consolidation due to the sale of all shares of LEOPALACE PHILIPPINES INC. which was a specified subsidiary of the Company.

(ii) The administrative recommendation

The Group received the administrative recommendation regarding improper disposal procedure for home appliances in the Leasing Business by the Ministry of the Environment dated March 23, 2023. We deeply apologize to our shareholders, business partners, and all other stakeholders for any concern and inconvenience caused by this matter. We began a new processing procedure for discarded home appliances to ensure proper operation, as well as to prevent recurrence and strengthen and enhance the compliance system.

We remain committed to make further efforts in improving efficiency, strengthening management structure and implementing sales initiatives in order to further enhance the corporate value.

(3) Business Environment

Regarding population trends, a factor affecting the business environment as a mid to long-term point of view, the total number of households in Japan is expected to decline after the peak of 2023 but the number of single-person households tends to decline at a smaller rate than the number of family households, which will be directly affected by the declining birthrate, aging population, and population decline. Therefore, we expect that there will be a certain level of demand for the apartments we supply for single-person households, and that a rapid downtrend will not occur. Net domestic migration to the three major metro regions (inflows exceed outflows) will continue.

Although the new housing starts of leased units increased for the second consecutive year (up 5.0% year on year), the number of vacant houses continues to increase in the rental housing market.

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 will keep realizing our purpose as a provider of social infrastructure for housing amounting to 560,000 managed units.

Financial Section

Consolidated Balance Sheet

Leopalace21 Corporation and consolidated subsidiaries

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
ASSETS				
Current assets:				
Cash and deposits	3, 6, 7, 13	53,560	45,523	401,115
Trade receivables	7	8,121	8,618	60,822
Accounts receivable for completed projects	7	432	443	3,240
Securities	3, 7, 8, 13	—	200	—
Real estate for sale	3, 13	273	693	2,049
Payment for construction in progress		159	213	1,192
Raw materials and supplies	3	775	405	5,809
Prepaid expenses		1,320	1,634	9,887
Other accounts receivable		710	730	5,318
Others		4,425	3,954	33,142
Allowance for doubtful accounts	3, 7, 12	(3,027)	(2,255)	(22,674)
Total current assets		66,752	60,161	499,903
Non-current assets:				
Property, plant and equipment:	3, 10, 16, 17, 18, 26			
Buildings and structures	3, 13, 16, 17, 18	60,829	56,173	455,548
Accumulated depreciation		(41,663)	(37,321)	(312,018)
Net		19,165	18,852	143,530
Machinery, equipment, and vehicles	3, 10, 13, 16, 17	21,071	20,794	157,801
Accumulated depreciation		(14,474)	(13,260)	(108,400)
Net		6,596	7,534	49,401
Land	10, 13, 16, 17	31,220	31,269	233,808
Leased assets	3, 10, 24	21,921	26,461	164,168
Accumulated depreciation		(20,375)	(24,485)	(152,590)
Net		1,546	1,976	11,578
Construction in progress		119	92	893
Others	10, 16, 18	16,960	18,483	127,016
Accumulated depreciation		(14,243)	(13,557)	(106,671)
Net		2,716	4,926	20,344
Total property, plant and equipment		61,364	64,652	459,557
Intangible fixed assets:				
Goodwill	3, 26	—	6	—
Others	13, 18	2,612	3,130	19,563
Total intangible fixed assets		2,612	3,136	19,563
Investments and other assets:				
Investment securities	7, 8, 13	5,384	5,180	40,321
Long-term loans	7	510	1,126	3,825
Bad debts	7, 11	249	267	1,866
Long-term prepaid expenses	3	422	577	3,167
Deferred tax assets	3, 12	25,152	6,596	188,368
Others		5,877	4,647	44,018
Allowance for doubtful accounts	3, 7, 12	(1,778)	(914)	(13,318)
Total investments and other assets		35,819	17,480	268,249
Total non-current assets		99,796	85,269	747,370
Total assets		166,548	145,430	1,247,273

The accompanying notes are an integral part of these statements.

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	7	2,549	2,552	19,091
Accounts payable for completed projects	7	34	427	258
Current portion of long-term debt	13	59	53	443
Lease obligations	7, 13	1,155	1,992	8,655
Accounts payable – other	7, 12	12,673	9,123	94,911
Accrued income taxes		451	1,304	3,383
Advances received	3, 12	34,134	31,733	255,632
Customer advances for projects in progress		144	268	1,081
Provision for warranty obligations on completed projects	3	4	7	31
Provision for fulfillment of guarantees	3, 12	603	2,187	4,520
Provision for losses related to repairs (short-term)	3	6,053	1,941	45,330
Provision for apartment vacancy loss (short-term)	3, 12	—	4,218	—
Others		3,860	3,732	28,911
Total current liabilities		61,724	59,542	462,252
Non-current liabilities:				
Long-term debt	7, 13	30,359	30,429	227,358
Lease obligations	7, 13	275	569	2,063
Long-term advances received	3	6,399	7,151	47,923
Lease/guarantee deposits received		7,548	7,382	56,531
Provision for losses related to repairs		11,530	16,145	86,347
Deferred tax liabilities	12	13	11	98
Provision for apartment vacancy loss	3, 12	3,590	1,414	26,886
Liability for retirement benefit	3, 14	9,714	9,525	72,749
Others		2,470	2,222	185,504
Total non-current liabilities		71,901	74,854	538,464
Total liabilities		133,625	134,396	1,000,717
Net assets				
Shareholders' equity:				
Common stock: Authorized: 500,000,000 shares in 2023 and 2022 Issued: 329,389,515 shares in 2023 and 2022	15, 23, 28, 32	100	100	748
Capital surplus	32	136,240	136,345	1,020,296
Retained earnings		(116,006)	(135,749)	(868,764)
Treasury stock: 335,221 shares in 2023 and 493,610 shares in 2022	23, 32	(205)	(302)	(1,540)
Total shareholders' equity		20,128	392	150,740
Accumulated other comprehensive income:				
Net unrealized gains (losses) on other securities		(97)	(39)	(731)
Foreign currency translation adjustments	3	4,117	746	30,836
Remeasurements of defined benefit plans	14	(32)	(31)	(247)
Total accumulated other comprehensive income		3,986	675	29,858
Share subscription rights		284	357	2,132
Non-controlling interests		8,522	9,608	63,825
Total net assets		32,922	11,034	246,556
Total liabilities and net assets		166,548	145,430	1,247,273

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2023 and 2022

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
Net sales	31	**406,449**	398,366	**3,043,880**
Sales from Leasing Business		**391,438**	383,043	**2,931,463**
Sales from Other Businesses		**15,011**	15,322	**112,416**
Cost of sales		**353,163**	352,289	**2,644,824**
Cost of sales from Leasing Business		**336,132**	336,339	**2,517,278**
Cost of sales from Other Businesses		**17,031**	15,950	**127,545**
Gross profit		**53,285**	46,077	**399,056**
Selling, general and administrative expenses		**43,406**	44,302	**325,069**
Advertising expenses		**2,674**	2,718	**20,031**
Sales commission expense		**2,380**	2,328	**17,830**
Transfer to allowance for bad debt		**919**	2,202	**6,887**
Directors' bonuses		**290**	302	**2,176**
Salary and bonuses		**16,737**	14,960	**125,344**
Retirement benefit cost		**1,112**	1,263	**8,329**
Rent expense		**2,069**	2,517	**15,497**
Depreciation and amortization		**965**	2,079	**7,226**
Taxes and public charges		**4,328**	4,530	**32,413**
Others		**11,928**	11,399	**89,331**
Operating profit (loss)	26	**9,879**	1,774	**73,986**
Non-operating income		**1,210**	827	**9,067**
Interest income		**227**	34	**1,701**
Dividend income		**72**	65	**542**
Gains on valuation of investment securities		**129**	129	**972**
Foreign exchange gains		**386**	1	**2,896**
Share of profit of entities accounted for using equity method		**14**	—	**107**
Employment adjustment subsidy		**15**	242	**116**
Others		**364**	354	**2,730**
Non-operating expenses		**4,563**	4,754	**34,174**
Interest expenses		**4,370**	4,474	**32,733**
Share of loss of entities accounted for using equity method		**—**	162	**—**
Others		**192**	117	**1,441**
Recurring profit (loss)		**6,526**	2,151	**48,879**
Extraordinary income		**75**	12,080	**563**
Gain on sale of property, plant and equipment		**29**	120	**220**
Gain on sale of investment securities		**—**	0	**—**
Gain on liquidation of subsidiaries		**45**	—	**342**
Reversal of provision for losses related to repairs		**—**	11,959	**—**
Extraordinary losses		**3,754**	234	**28,119**
Loss on sale of property, plant and equipment		**44**	—	**336**
Loss on retirement of property, plant and equipment		**181**	45	**1,358**
Impairment loss		**830**	118	**6,220**
Loss related to repairs		**2,544**	—	**19,055**
Loss on sale of shares in subsidiaries		**153**	—	**1,149**
Loss on closure of offices		**—**	69	**—**
Income (loss) before income taxes		**2,847**	9,693	**21,322**
Income taxes	3	**702**	1,444	**5,264**
Current		**(17,835)**	2,956	**(133,570)**
Deferred		**(18,538)**	4,401	**(138,835)**
Net income (loss)		**20,682**	12,650	**154,893**
Net income (loss) attributable to non-controlling interests		**872**	795	**6,531**
Net income (loss) attributable to shareholders of the parent	31	**19,810**	11,854	**148,361**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2023 and 2022

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
Net income (loss)		**20,682**	12,650	**154,893**
Other comprehensive income (loss)				
Net unrealized gains (losses) on other securities		**(58)**	(38)	**(439)**
Foreign currency translation adjustments	3	**3,377**	2,623	**25,296**
Remeasurements of defined benefit plans	14	**(1)**	111	**(11)**
Share of other comprehensive income of entities accounted for using equity method		**(3)**	1	**(26)**
Total		**3,314**	2,697	**24,818**
Comprehensive income (loss)		**23,996**	15,348	**179,712**
Comprehensive income (loss) attributable to shareholders of the parent		**23,121**	14,550	**173,159**
Comprehensive income (loss) attributable to non-controlling interests		**875**	798	**6,553**

The accompanying notes are an integral part of these statements.

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
Net unrealized gains (losses) on other securities				
Amount accrued in the fiscal year		**(58)**	(38)	**(439)**
Rearrangements and adjustments		**—**	—	**—**
Amount before tax effects adjustments		**(58)**	(38)	**(439)**
Tax effects		**—**	—	**—**
Net unrealized gains (losses) on other securities		**(58)**	(38)	**(439)**
Foreign currency translation adjustments	3			
Amount accrued in the fiscal year		**3,377**	2,623	**25,296**
Rearrangements and adjustments		**—**	—	**—**
Amount before tax effects adjustments		**3,377**	2,623	**25,296**
Tax effects		**—**	—	**—**
Foreign currency translation adjustments		**3,377**	2,623	**25,296**
Remeasurements of defined benefit plans				
Amount accrued in the fiscal year		**(42)**	57	**(320)**
Rearrangements and adjustments		**23**	53	**177**
Amount before tax effects adjustments		**(19)**	111	**(142)**
Tax effects		**17**	—	**130**
Remeasurements of defined benefit plans		**(1)**	111	**(11)**
Share of other comprehensive income of entities accounted for using equity method				
Amount accrued in the fiscal year		**(3)**	1	**(26)**
Total		**3,314**	2,697	**24,818**

Consolidated Statement of Changes in Equity

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2023 and 2022

	JPY million											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) 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, 2021	81,282	55,174	(142,586)	(344)	(6,474)	(0)	(1,877)	(142)	(2,019)	388	11,383	3,277
Cumulative effect due to change in accounting policy			(4,963)		(4,963)							(4,963)
Balance at the previous year-end reflecting the change in accounting policy	81,282	55,174	(147,550)	(344)	(11,438)	(0)	(1,877)	(142)	(2,019)	388	11,383	(1,686)
Issuance of new shares					—							
Capital reduction	(81,182)	81,182			—							—
Net income (loss) attributable to shareholders of the parent			11,854		11,854							11,854
Disposal of treasury stock		(10)		41	30							30
Change in the scope of consolidation			(53)		(53)							(53)
Change in share of parent from transactions with non-controlling interests		(1)			(1)							(1)
Net change of items other than shareholders' equity						(38)	2,623	111	2,695	(30)	(1,774)	890
Total change during period	(81,182)	81,170	11,800	41	11,830	(38)	2,623	111	2,695	(30)	(1,774)	12,721
Balance as of March 31, 2022	100	136,345	(135,749)	(302)	392	(39)	746	(31)	675	357	9,608	11,034
Cumulative effect due to change in accounting policy												
Balance at the previous year-end reflecting the change in accounting policy	**100**	**136,345**	**(135,749)**	**(302)**	**392**	**(39)**	**746**	**(31)**	**675**	**357**	**9,608**	**11,034**
Issuance of new shares												
Capital reduction												
Net income (loss) attributable to shareholders of the parent			**19,810**		**19,810**							**19,810**
Acquisition of treasury stock				**(0)**	**(0)**							**(0)**
Disposal of treasury stock		**(24)**		**97**	**72**							**72**
Change in the scope of consolidation			**(67)**		**(67)**							**(67)**
Change in share of parent from transactions with non-controlling interests		**(80)**			**(80)**							**(80)**
Net change of items other than shareholders' equity						**(58)**	**3,371**	**(1)**	**3,311**	**(72)**	**(1,086)**	**2,152**
Total change during period	**—**	**(105)**	**19,743**	**97**	**19,735**	**(58)**	**3,371**	**(1)**	**3,311**	**(72)**	**(1,086)**	**21,877**
Balance as of March 31, 2023	**100**	**136,240**	**(116,006)**	**(205)**	**20,128**	**(97)**	**4,117**	**(32)**	**3,986**	**284**	**8,522**	**32,922**

	USD thousand (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) 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, 2022	748	1,021,085	(1,016,624)	(2,268)	2,940	(292)	5,588	(235)	5,060	2,676	71,960	82,638
Cumulative effect due to change in accounting policy												
Balance at the previous year-end reflecting the change in accounting policy	**748**	**1,021,085**	**(1,016,624)**	**(2,268)**	**2,940**	**(292)**	**5,588**	**(235)**	**5,060**	**2,676**	**71,960**	**82,638**
Issuance of new shares												
Capital reduction												
Net income (loss) attributable to shareholders of the parent			**148,361**		**148,361**							**148,361**
Disposal of treasury stock		**(183)**		**728**	**545**							**(0)**
Acquisition of treasury stock												**545**
Change in the scope of consolidation			**(501)**		**(501)**							**(501)**
Change in share of parent from transactions with non-controlling interests		**(605)**			**(605)**							**(605)**
Net change of items other than shareholders' equity						**(439)**	**25,248**	**(11)**	**24,797**	**(543)**	**(8,135)**	**16,118**
Total change during period	**—**	**(788)**	**147,859**	**728**	**147,799**	**(439)**	**25,248**	**(11)**	**24,797**	**(543)**	**(8,135)**	**163,917**
Balance as of March 31, 2023	**748**	**1,020,296**	**(868,764)**	**(1,540)**	**150,740**	**(731)**	**30,836**	**(247)**	**29,858**	**2,132**	**63,825**	**246,556**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2023 and 2022

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	2023
Cash flows from operating activities:				
Income (loss) before income taxes		**2,847**	9,693	**21,322**
Depreciation and amortization		**6,570**	9,352	**49,203**
Impairment loss	10, 21, 26	**830**	118	**6,220**
Reversal of provision for losses related to repairs		**—**	(11,959)	**—**
Loss related to repairs		**2,544**	—	**19,055**
Amortization of goodwill		**7**	7	**53**
Increase (decrease) in allowance for doubtful accounts	3	**84**	2,355	**635**
Increase (decrease) in liability for retirement benefits	3	**201**	(14)	**1,512**
Increase (decrease) in provision for apartment vacancy loss	3	**(2,042)**	(6,629)	**(15,298)**
Interest and dividend income		**(299)**	(100)	**(2,243)**
Interest expense		**4,370**	4,474	**32,733**
Foreign exchange loss (gain)	3	**(386)**	(1)	**(2,896)**
Equity in losses (earnings) of affiliated companies using equity method		**(14)**	162	**(107)**
Loss (gain) on sale of property, plant and equipment		**15**	(120)	**115**
Loss on retirement of property, plant and equipment	18	**181**	45	**1,358**
Loss (gain) on valuation of investment securities		**(129)**	(129)	**(972)**
Loss (gain) on sale of investment securities		**—**	(0)	**—**
Loss (gain) on sale of shares in subsidiaries		**153**	—	**1,149**
Loss (gain) on liquidation of subsidiaries		**(45)**	—	**(342)**
Decrease (increase) in accounts receivable		**498**	(523)	**3,731**
Decrease (increase) in real estate for sale in process		**508**	2	**3,805**
Decrease (increase) in payment for construction in progress		**24**	25	**183**
Decrease (increase) in long-term prepaid expenses	3	**327**	535	**2,456**
Increase (decrease) in accounts payable		**873**	(1,029)	**6,538**
Increase (decrease) in customer advances for projects in progress		**191**	(272)	**1,436**
Increase (decrease) in advances received		**1,680**	(2,188)	**12,587**
Increase (decrease) in guarantee deposits received		**246**	701	**1,842**
Increase (decrease) in accrued consumption taxes		**88**	121	**666**
Others		**181**	(2,023)	**1,359**
Subtotal		**19,509**	2,603	**146,106**
Interest and dividends received		**298**	105	**2,233**
Interest paid		**(4,371)**	(4,455)	**(32,737)**
Payment related to repairs paid		**(3,337)**	(2,172)	**(24,994)**
Income taxes paid		**(1,553)**	(541)	**(11,633)**
Net cash provided by operating activities		**10,545**	(4,460)	**78,975**

The accompanying notes are an integral part of these statements.

	Notes	JPY million		USD thousand (Note 1)
		2023	2022	**2023**
Cash flows from investing activities:				
Payment for purchase of property, plant and equipment		**(377)**	(705)	**(2,825)**
Proceeds from sale of property, plant and equipment		**513**	1,458	**3,842**
Payment for purchase of intangible assets		**(233)**	(781)	**(1,747)**
Payment for purchase of investment securities		**(229)**	(313)	**(1,715)**
Proceeds from sale of investment securities		**182**	1,180	**1,366**
Payments for purchase of stock of subsidiaries and associated companies		**(5)**	—	**(37)**
Proceeds for sale of stock of subsidiaries and associated companies		**225**	—	**1,687**
Proceeds from liquidation of subsidiaries		**63**	—	**473**
Payments for sale of shares in subsidiaries resulting in change in scope of consolidation		**(711)**	—	**(5,329)**
Payment for loans		**(24)**	(31)	**(182)**
Proceeds from collection of loans		**700**	73	**5,245**
Payments for deposit of time deposits		**(700)**	—	**(5,242)**
Proceeds from withdrawal of time deposits		**1,500**	17	**11,233**
Others		**2**	(10)	**18**
Net cash provided by (used in) investing activities		**906**	886	**6,788**
Cash flows from financing activities:				
Repayment of long-term debt		**(115)**	(75)	**(864)**
Repayment of finance lease obligations		**(741)**	(3,239)	**(5,554)**
Payment for acquisition of treasury stock		**(0)**	—	**—**
Payment for purchase of treasury stock by a consolidated subsidiary		**(990)**	(1,400)	**(7,414)**
Payment for acquisition of shares in subsidiaries not resulting in change in scope of consolidation		**—**	(0)	**—**
Payment of dividends to non-controlling shareholders		**(972)**	(1,171)	**(7,280)**
Proceeds from exercise of stock options		**0**	0	**1**
Net cash provided by (used in) financing activities		**(2,819)**	(5,886)	**(21,112)**
Effect of exchange rate changes on cash and cash equivalents		**318**	220	**2,388**
Net increase (decrease) in cash and cash equivalents		**8,951**	(9,240)	**67,040**
Cash and cash equivalents at beginning of year		**44,023**	53,346	**329,689**
Decrease in cash and cash equivalents on exclusion from consolidation		**(114)**	(82)	**(857)**
Cash and cash equivalents at end of year	6	**52,860**	44,023	**395,873**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Leopalace21 Corporation and consolidated subsidiaries
For the years ended March 31, 2023 and 2022

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, 2023, which was JPY 133.53 to USD 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 JPY 1,000,000 or USD 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 (13 in total)

Leopalace Leasing Corporation
Plaza Guarantee Co., Ltd.
Leopalace Power Corporation
Leopalace Energy Corporation
ASUKA SSI
Leopalace21 Business Consulting (Shanghai) Co., Ltd.
Leopalace21 Singapore Pte. Ltd.
Azu Life Care Co., Ltd.
Leopalace Guam Corporation
Leopalace Smile Co., Ltd.

Morizou Co., Ltd and LEOPALACE21 PHILIPPINES INC. have been excluded from the scope of consolidation in the consolidated fiscal year ended March 2023 because the Company transferred all the shares of its holding.

Leopalace (Thailand) CO., LTD. has been excluded from the scope of consolidation in the consolidated fiscal year ended March 2023 because it was liquidated.

Leopalace21 (Cambodia) Co., Ltd. has been excluded from the scope of consolidation in the consolidated fiscal year ended March 2023 due to the decrease in materiality.

The accompanying consolidated financial statements as of March 31, 2023 include the accounts of the Company and its 13 (18 as of March 31, 2022) subsidiaries and three associated companies Ancora Residential Fund LP, PT TEGUH BINA KARYA, and Leopalace Green Energy Corporation in equity method (together, "the Companies").

The Company established Leopalace Green Energy Corporation in the fiscal year ended March 2023. The Company holds the shares in it and include it in the companies where the Company applies the equity method for consolidation. The Company transferred all of its shares in Woori & Leo PMC Co., Ltd. and Learn JP Corp. in the fiscal year ended March 2023 and excluded them in the companies where the Company applies the equity method for consolidation.

For companies accounted for by the equity method of which fiscal year closing dates are different from the consolidated balance sheet date, the respective financial statements of the companies were used for consolidation.

The Company holds the shares in TRUMAN HOLDINGS LIMITED and five other companies but did not include them 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 and other five 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 deposits or 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 and deposits. 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. Cash equivalents, on the other hand, is defined as those including maturities of greater than three months.

(3) Inventories

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

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

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

(4) Securities

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

Other securities with available fair values are stated at fair value at the end of the fiscal year of each consolidated 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 are fair value method. But there is no derivative transaction with/without hedge accounting during the fiscal year ended March 2023 and 2022.

(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 5 to 7 years for master lease rent and 5 years for non-deductible consumption taxes on non-current assets

(9) Stock issue expenses

Stock issue expenses are charged to funding costs when incurred.

(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 allowance 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) Provision 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.

(i) The amount stated in the fiscal year ended March 2023 and 2022

	JPY million		USD thousand
	2023	2022	**2023**
Provision for losses related repairs (current liabilities)	**6,053**	1,941	**45,330**
Provision for losses related repairs (non-current liabilities)	**11,530**	16,145	**86,347**
Total	**17,583**	18,086	**131,678**

(ii) Accounting estimates per item

The Company established the Emergency Headquarters for Construction Defects and carried out all-building investigations related to the announcement of parting wall defects in the attics in April 2018 and other defects in May 2018, in February and May 2019. The Company has been repairing the defects which were identified at the investigations to make them to comply with the related laws and regulations.

The Company provided the provision for losses related to repairs based on the assumed amount in accordance with the actual defects rate to be prepared for possible repair expenses and associated expenses for the apartment buildings constructed by the Company.

The Company has built the provision provided for repairing all the significant defects that the Company has recognized and there would not be any further expenses which may incur in the future.

The Company employed the following methods.

a. Repair expenses

Sort out the repairs by the types of defects and repair method and calculate the number of defective rooms based on the defective rate as a result of the all-building investigations, which is then multiplied by the actual unit cost or estimated unit cost.

b. Relocation expenses

Calculate the number of rooms which the Company manages, which is then multiplied by the actual unit cost for relocation.

The Company has been striving to calculate more reasonable and highly accurate provision regarding repair costs and incidental costs per unit considering some of the estimates presented by external contractors and the change in the estimated unit price resulting from decreased rate of in-house repairs; and impact of reviewing the repair schedule.

In case of changes in conditions and assumptions based on which the estimate was prepared, provision for losses related to repairs may be changed in the consolidated financial statements for the fiscal year ending March 2024.

(13) Provision for apartment vacancy loss

Provision for vacancy loss 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.

(i) The amount stated in the fiscal year ended March 2023 and 2022

	JPY million		USD thousand
	2023	2022	**2023**
Provision for apartment vacancy loss (current liabilities)	—	4,218	—
Provision for apartment vacancy loss (non-current liabilities)	**3,590**	1,414	**26,886**
Total	**3,590**	5,632	**26,886**

(ii) Accounting estimates per item

To prepare for possible vacancy losses from the bulk leasing contracts in the Leasing Business, provision for vacancy losses is provided for the amount of losses expected to occur within a reasonably estimable period, based on rents rented for each individual leased property and the expected future occupancy rate.

The specific calculation method started from identifying apartments with the potential for future losses. The Company compared the sum of revenues, which consists of rent income from the tenants and ancillary service income for each apartment multiplied by the average projected future occupancy rate for the remaining period of the fixed-rent term of the master lease contracts, and the sum of expenses, which consists of master lease rent and leasing management costs. Then the Company multiplied the negative balance for apartments for which sum of expenses exceeds sum of revenues by the number of months remaining in the fixed-rent term of the master lease contracts.

The Company made projected future occupancy rate considering the apartment's surrounding conditions and room demand.

In case of changes in conditions and assumptions based on which the estimate was prepared, provision for apartment vacancy loss may be changed in the consolidated financial statements for the fiscal year ending March 2024.

(14) Provision for warranty obligations on completed projects

Provision for warranty obligations on completed projects is accrued to reserve for execution of warranty obligations under non-conformance liability in the future. It is calculated using the percentage of the past execution of warranty obligations on the completed projects.

(15) Provision 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 is recognized.

(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 it into acquisition cost of property, plant and equipment.

Capitalized interests included in carrying value of property, plant and equipment were JPY 385 million (USD 2,889 thousand) as of March 31, 2023.

(24) Earnings per share

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

(25) Accounting Standard for Revenue Recognition

The Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 31, 2020, hereinafter the "Accounting Standard for Revenue Recognition") and related Guidance. The Company recognizes revenues at the amount expected to be received in exchange for the promised goods or services when control of the promised goods or services is transferred to the customer.

The following is a summary of the main performance obligations in the Company's and its consolidated subsidiaries' primary businesses relating to the revenues from contracts with customers and a point in time or a period of time at or over which such performance obligations are satisfied (a point in time or a period of time at or over which revenues are recognized).

In the Leasing Business, the Company primarily leases and manages apartments. For these transactions, the performance obligation is deemed to be performed when the contractual conditions are satisfied, and revenue is recognized at that time. Accordingly, key money, rent discounts, monthly contract fees, and various service fees, etc., are recognized as revenue on a pro-rata basis over the average period of occupancy.

In addition, for *LEONET* video subscription fees the Company recognizes revenue at the net amount received from customers less amounts paid to suppliers. The Company considers that it is dealing with a third-party service provider as an agent and it is the Company's performance obligation to arrange for such service to be provided.

The consideration for transactions related to the Leasing Business is received in accordance with the terms of the contract and generally prior to the satisfaction of performance obligations, and the amount of consideration does not include a significant financial component.

4. Changes in Accounting Policies

(1) Application of Guidance on Accounting Standard for Fair Value Measurement

The Company has adopted "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter the "Guidance on Accounting Standard for Fair Value Measurement") from the beginning of the fiscal year ended March 2023, and has applied prospectively the new accounting policy prescribed in the Accounting Standard for Fair Value Measurement in accordance with the transitional treatment stipulated in Paragraph 27-2 of the Guidance on Accounting Standard for Fair Value Measurement. This change has no impact on the consolidated financial statements.

5. Accounting Standard for Revenue Recognition

(1) Information on the breakdown of revenues from contracts with customers

Information on the breakdown of revenues from contracts with customers is presented in Notes (27. Segment Information).

(2) Basis for understanding revenue from contracts with customers

The Group recognizes revenue from contracts with customers based on the following five-step approach.

Step 1: Identify the contracts with customers.
Step 2: Identify the performance obligations in the contracts.
Step 3: Calculate the transaction prices.
Step 4: Allocate the transaction prices to the performance obligations in the contracts.
Step 5: Recognize revenue when the obligation is satisfied.

Information that provides a basis for understanding revenues and expenses is presented in Notes (Basis of Presenting Consolidated Financial Statements) 3. Summary of Significant Accounting Policies (25) Accounting Standard for Revenue Recognition (Basis for recording significant revenues and expenses.)

(3) Information about the relationship between contractual obligations with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in the fiscal year ended March 2024 or later from contracts with customers that exist at the end of the fiscal year ended March 2023

(a) Balance of contractual assets and liabilities

	JPY million		USD thousand
March 31, 2023	**2023**	2022	**2023**
Receivables arising from contracts with customers (beginning balance)	**8,618**	7,930	**64,541**
Receivables arising from contracts with customers (ending balance)	**8,121**	8,618	**60,822**
Contract assets (beginning balance)	**443**	524	**3,318**
Contract assets (ending balance)	**432**	443	**3,240**
Contract liabilities (beginning balance)	**39,153**	41,613	**293,217**
Contract liabilities (ending balance)	**40,678**	39,153	**304,637**

In the consolidated financial statements, credits arising from contracts with customers are recorded in accounts receivable, contract assets are recorded in accounts receivable for completed projects; contract liabilities are recorded in advances received, customer advances for projects in progress, and long-term advances received.

Contract assets consist primarily of unbilled accounts receivable related to revenues recognized based on the measurement of the stage of completion of construction contracts. Contract liabilities consist primarily of rents for which performance obligations have not been satisfied as of the end of the fiscal year.

The amount of revenue recognized in the fiscal year ended March 2022 that was included in the contract liability at the beginning balance was JPY 32,509 million.

Contract liabilities decreased by JPY 2,460 million in the fiscal year ended March 2022. This was mainly due to an increase in the beginning balance as a result of the application of the revenue recognition accounting standard, while there was a reversal of the beginning balance due to the revenue recognition.

The amount of revenue recognized in the fiscal year ended March 2023 that was included in the contract liability balance at the beginning of the period was JPY 30,929 million (USD 231,629 thousand). In addition, contract liabilities increased by JPY 1,525 million (USD 11,420 thousand) in the fiscal year ended March 2023, mainly due to an increase in advances received such as rent as a result of higher occupancy rates in the Leasing Business.

(b) Transaction price allocated to remaining performance obligations

The aggregate transaction price allocated to the remaining performance obligations and the period over which revenue is expected to be recognized are as follows.

	JPY million		USD thousand
March 31, 2023	**2023**	2022	**2023**
Equal or less than one year	**302,235**	289,104	**2,263,429**
More than one year	**133,798**	133,860	**1,002,010**
Total	**436,034**	422,965	**3,265,440**

(Note) The table shows the remaining performance obligations related to rent income, ancillary service income and maintenance presented in Notes 26. Segment Information (3) Information Regarding Sales, Profits (Losses), Assets, Liabilities, and other Items by Reportable Segment.

6. 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:

	JPY million		USD thousand
	2023	2022	**2023**
Cash and deposits in the consolidated balance sheet	**53,560**	45,523	**401,115**
Time deposits with original maturities of more than three months	**(700)**	(1,500)	**(5,242)**
Cash and cash equivalents in the consolidated statement of cash flows	**52,860**	44,023	**395,873**

7. 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 excluding special cases. Temporary excess funds are invested in highly secured financial assets, and short-term working capital is raised by borrowing from the bank.

(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 are mainly for the purpose of raising funds necessary for the repair works, and lease obligations related to finance lease transactions are mainly for investment in facilities, and the longest repayment date is 4 years and 9 months subsequent to the fiscal year end.

As of end of the year ended March 2023, 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.

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 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, 2023 and 2022 as well as the differences between these values are described below. The table does not include the financial instruments whose market prices do not exist.

	JPY million		
March 31, 2023	Carrying value	Fair value	Difference
(1) Investment securities	1,915	1,915	(0)
(2) Long-term loans	510		
Allowance for doubtful accounts *(iii)	(112)		
Net	398	419	20
(3) Bad debts	249		
Allowance for doubtful accounts *(iii)	(249)		
Net	—	—	—
Total	2,314	2,335	20
(1) Long-term debt *(iv)	30,418	29,586	(831)
(2) Lease obligations	1,431	1,441	10
Total	31,849	31,028	(820)

*Notes:

(i) Cash is not stated, and deposits, accounts receivable, accounts payable, accounts payable for completed projects and accounts payable-other are not stated because they are settled in a short period of time and their fair value approximates their book value.

(ii) The following financial instruments are not included in "(1) Investment securities" because they do not have market prices. The carrying amounts of such financial instruments on the consolidated balance sheets are as follows.

March 31, 2023	JPY million
Unlisted stocks	1,695
Shares in unconsolidated subsidiaries and affiliates	1,653
Investment in anonymous association	119
Total	3,468

(iii) Allowance for doubtful accounts provided individually for long-term loans and fixed operating claims is deducted.

(iv) As of March 31, 2023, long-term debt due within one year of JPY 59 million are included in long-term debt.

	JPY million		
March 31, 2022	Carrying value	Fair value	Difference
(1) Securities and investment securities	2,179	2,180	0
(2) Long-term loans	1,126		
Allowance for doubtful accounts *(iii)	(140)		
Net	985	908	(77)
(3) Bad debts	267		
Allowance for doubtful accounts *(iii)	(267)		
Net	—	—	—
Total	3,165	3,089	(76)
(1) Long-term debt *(iv)	30,483	29,682	(800)
(2) Lease obligations	2,562	2,575	12
Total	33,045	32,257	(787)

*Notes:

(i) Cash is not stated, and deposits, accounts receivable, accounts payable, accounts payable for completed projects and accounts payable-other are not stated because they are settled in a short period of time and their fair value approximates their book value.

(ii) The following financial instruments are not included in "(1) Securities and investment securities" because they do not have market prices. The carrying amounts of such financial instruments on the consolidated balance sheets are as follows.

March 31, 2022	JPY million
Unlisted stocks	1,694
Shares in unconsolidated subsidiaries and affiliates	1,394
Investment in anonymous association	111
Total	3,201

(iii) Allowance for doubtful accounts provided individually for long-term loans and fixed operating claims is deducted.

(iv) As of March 31, 2022, long-term debt due within one year of JPY 53 million are included in long-term debt.

March 31, 2023	USD thousand		
	Carrying value	Fair value	Difference
(1) Investment securities	14,347	14,347	(0)
(2) Long-term loans	3,825		
Allowance for doubtful accounts *(iii)	(842)		
Net	2,983	3,141	157
(3) Bad debts	1,866		
Allowance for doubtful accounts *(iii)	(1,866)		
Net	—	—	—
Total	17,331	17,488	156
(1) Long-term debt *(iv)	227,802	221,575	(6,226)
(2) Lease obligations	10,719	10,798	79
Total	238,521	232,373	(6,147)

*Notes:

(i) Cash is not stated, and deposits, accounts receivable, accounts payable, accounts payable for completed projects and accounts payable-other are not stated because they are settled in a short period of time and their fair value approximates their book value.

(ii) The following financial instruments are not included in "(1) Investment securities" because they do not have market prices. The carrying amounts of such financial instruments on the consolidated balance sheets are as follows.

March 31, 2023	USD thousand
Unlisted stocks	12,697
Shares in unconsolidated subsidiaries and affiliates	12,382
Investment in anonymous association	893
Total	25,973

(iii) Allowance for doubtful accounts provided individually for long-term loans and fixed operating claims is deducted.

(iv) As of March 31, 2023, long-term debt due within one year of USD 443 thousand million are included in long-term debt.

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

March 31, 2023	JPY million			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	53,560	—	—	—
Trade receivables and accounts receivable for completed projects	8,121	—	—	—
Investment securities				
Held-to-maturity debt securities (Government bonds)	—	100	200	—
Other securities with maturities				
(1) Government bonds	—	36	—	—
(2) Bonds (Corporate bonds)	—	—	—	824
(3) Others	—	—	—	852
Long-term loans	19	50	8	432
Bad debts	—	—	—	249
Total	61,701	186	208	2,358

March 31, 2022	JPY million			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	45,523	—	—	—
Trade receivables and accounts receivable for completed projects	8,618	—	—	—
Securities and investment securities				
Held-to-maturity debt securities (Government bonds)	200	100	200	—
Other securities with maturities				
(1) Government bonds	—	—	36	—
(2) Bonds (Corporate bonds)	—	—	—	824
(3) Others	—	—	—	857
Long-term loans	18	644	21	441
Bad debts	—	—	—	267
Total	54,360	744	257	2,389

March 31, 2023	USD thousand			
	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	401,115	—	—	—
Trade receivables and accounts receivable for completed projects	60,822	—	—	—
Investment securities				
Held-to-maturity debt securities (Government bonds)	—	748	1,497	—
Other securities with maturities				
(1) Government bonds	—	269	—	—
(2) Bonds (Corporate bonds)	—	—	—	6,172
(3) Others	—	—	—	6,382
Long-term loans	144	376	63	3,241
Bad debts	—	—	—	1,866
Total	462,082	1,394	1,561	17,662

(4) Scheduled repayment amounts of long-term debt and lease obligations subsequent to fiscal year end are as follows:

March 31, 2023	JPY million					
	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
Long-term debt	59	80	30,080	107	90	—
Lease obligations	1,155	235	31	5	2	—
Total	1,215	316	30,112	113	92	—

March 31, 2022	JPY million					
	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
Long-term debt	53	62	73	30,084	97	111
Lease obligations	1,992	465	77	26	0	—
Total	2,046	528	150	30,110	97	111

March 31, 2023	USD thousand					
	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
Long-term debt	443	605	225,274	803	675	—
Lease obligations	8,655	1,763	238	44	15	—
Total	9,099	2,369	225,512	848	690	—

(5) Matters concerning the breakdown of the fair value of financial instruments by level

The fair value of financial instruments is classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1 fair value: Fair value calculated based on quoted market prices for assets or liabilities for which such fair value is calculated in an active market among the inputs used to calculate observable fair value.

Level 2 fair value: Fair value calculated using inputs other than Level 1 inputs to the calculation of observable fair value among the inputs used to calculate observable fair value.

Level 3 fair value: Fair value calculated using inputs related to the calculation of unobservable fair value

When multiple inputs that have a significant impact on the calculation of fair value are used, fair value is classified to the level with the lowest hierarchy in the calculation of fair value among the levels to which each of those inputs belongs.

(a) Financial instruments carried on the consolidated balance sheet at fair value

March 31, 2023	JPY million			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Government bonds, municipal bonds, etc.	35	—	—	35
Credits (corporate bonds)	—	778	—	778
Others	—	800	—	800
Total	35	1,579	—	1,615

March 31, 2022	JPY million			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Other securities				
Government bonds, municipal bonds, etc.	35	—	—	35
Credits (corporate bonds)	—	806	—	806
Others	—	836	—	836
Total	35	1,642	—	1,678

March 31, 2023	USD thousand			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Government bonds, municipal bonds, etc.	268	—	—	268
Credits (corporate bonds)	—	5,829	—	5,829
Others	—	5,997	—	5,997
Total	268	11,826	—	12,095

(b) Financial instruments other than those recorded on the consolidated balance sheets at fair value

March 31, 2023	JPY million			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities (Government bonds)	300	—	—	300
Long-term loans	—	419	—	419
Total	300	419	—	720
Long-term debt	—	29,586	—	29,586
Lease obligations	—	1,441	—	1,441
Total	—	31,028	—	31,028

March 31, 2022	JPY million			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity securities (Government bonds)	502	—	—	502
Long-term loans	—	908	—	908
Total	502	908	—	1,410
Long-term debt	—	29,682	—	29,682
Lease obligations	—	2,575	—	2,575
Total	—	32,257	—	32,257

March 31, 2023	USD thousand			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities (Government bonds)	**2,252**	—	—	**2,252**
Long-term loans	—	**3,141**	—	**3,141**
Total	**2,252**	**3,141**	—	**5,393**
Long-term debt	—	**221,575**	—	**221,575**
Lease obligations	—	**10,798**	—	**10,798**
Total	—	**232,373**	—	**232,373**

Note:

Explanation of valuation methods used in the fair value measurement and on inputs related to the fair value measurement;

Securities and investment securities
Government bonds are valued using quoted market prices. Since government bonds are traded in active markets, their fair value is classified as Level 1 fair value. On the other hand, bonds (corporate bonds) and other (subordinated beneficiary rights) held by the Company are classified as Level 2 fair value because they are traded infrequently in the market and are not considered quoted prices in an active market.

Long-term loans
The fair values of long-term loans are categorized by period for each credit risk under credit management. They are calculated using the discounted present value method based on the interest rate obtained by adding a credit spread to the future cash flows and an appropriate index such as the yield of government bonds. They are classified as Level 2 fair value.

Long-term debt and lease obligations
The fair values of these items are determined using the discounted present value method based on the sum of the principal and interest, plus an interest rate that takes into account the remaining term of the debt and credit risk. They are classified as Level 2 fair value.

8. Securities

(1) On March 31, 2023 and 2022, information with respect to held-to-maturity debt securities for which market prices are available is summarized as follows:

March 31, 2023	JPY million		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the consolidated balance sheet amount:			
Government bonds	**100**	**100**	**0**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**100**	**100**	**0**
Securities whose fair value does not exceed the consolidated balance sheet amount:			
Government bonds	**200**	**199**	**(0)**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**200**	**199**	**(0)**
Total	**300**	**300**	**(0)**

March 31, 2022	JPY million		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the consolidated balance sheet amount:			
Government bonds	**300**	**301**	**1**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**300**	**301**	**1**
Securities whose fair value does not exceed the consolidated balance sheet amount:			
Government bonds	**200**	**200**	**(0)**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**200**	**200**	**(0)**
Total	**501**	**502**	**0**

March 31, 2023	USD thousand		
	Consolidated balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the consolidated balance sheet amount:			
Government bonds	**749**	**756**	**7**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**749**	**756**	**7**
Securities whose fair value does not exceed the consolidated balance sheet amount:			
Government bonds	**1,503**	**1,496**	**(7)**
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	**1,503**	**1,496**	**(7)**
Total	**2,252**	**2,252**	—

(2) Investment securities classified as other securities as of March 31, 2023 and 2022 are as follows:

March 31, 2023	JPY million		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Bonds:	—	—	—
Government bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Bonds:			
Government bonds	35	36	(0)
Corporate bonds	778	824	(45)
Others	800	852	(51)
Subtotal	1,615	1,712	(97)
Total	1,615	1,712	(97)

Note:

March 31, 2023

Unlisted shares of JPY 1,695 million, shares in unconsolidated subsidiary and associates of JPY 1,653 million, and investments in silent partnership of JPY 119 million, are not included in the other securities given above, because their market prices are not available. 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, 2022	JPY million		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Bonds:	—	—	—
Government bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Bonds:			
Government bonds	35	36	(0)
Corporate bonds	806	824	(17)
Others	836	857	(20)
Subtotal	1,678	1,717	(39)
Total	1,678	1,717	(39)

Note:

March 31, 2022

Unlisted shares of JPY 1,694 million, shares in unconsolidated subsidiary and associates of JPY 1,394 million, and investments in silent partnership of JPY 111 million, are not included in the other securities given above, because their market prices are not available. 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.

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March 31, 2023	USD thousand		
	Consolidated balance sheet amount	Acquisition cost	Difference
Securities whose consolidated balance sheet amount exceeds their acquisition cost:			
Bonds:	—	—	—
Government bonds	—	—	—
Corporate bonds	—	—	—
Others	—	—	—
Others	—	—	—
Subtotal	—	—	—
Securities whose consolidated balance sheet amount does not exceed their acquisition cost:			
Bonds:			
Government bonds	**268**	**271**	**(3)**
Corporate bonds	**5,829**	**6,172**	**(343)**
Others	**5,997**	**6,382**	**(385)**
Others	—	—	—
Subtotal	**12,095**	**12,826**	**(731)**
Total	**12,095**	**12,826**	**(731)**

Note:
March 31, 2023
Unlisted shares of USD 12,697 thousand, shares in unconsolidated subsidiary and associates of USD 12,382 thousand, and investments in silent partnership of USD 893 thousand, are not included in the other securities given above, because their market prices are not available.
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, 2023 and 2022 are summarized as follows:

For the year ended March 31, 2023
None

For the year ended March 31, 2022

March 31, 2022	JPY million		
	Proceeds from sale	Gain on sale in total	Loss on sale in total
Stock	**60**	**0**	—
Bonds:	—	—	—
Others	—	—	—
Total	**60**	**0**	—

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

	JPY million		USD thousand
	2023	2022	**2023**
Investment securities (stocks)	**1,653**	1,394	**12,382**
Of which, investment in joint venture	**5**	94	**37**

9. Derivative Transactions

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

For the year ended March 31, 2023
None

For the year ended March 31, 2022
None

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

For the year ended March 31, 2023
None

For the year ended March 31, 2022
None

10. Main Properties

(1) Breakdown of major property, plant and equipment

	JPY million		USD thousand
	2023	2022	**2023**
Residential properties for rent	**2,357**	3,266	**17,654**
Head office and branches	**23,607**	23,887	**176,793**
Leopalace Resort Manenggon Hills Guam	**21,761**	20,331	**162,971**
Leopalace Power (solar power systems)	**6,107**	6,932	**45,737**

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

	JPY million		USD thousand
	2023	2022	**2023**
Machinery, equipment, and vehicles	**155**	155	**1,161**
Tools, instruments, and fixtures (other in non-current assets)	**44**	44	**336**

(3) The Companies recognize impairment loss on the following asset groups for the years ended March 31, 2023 and 2022:

March 31, 2023

Purpose	Category	Location	Impairment loss	
			JPY million	USD thousand
Resort facilities	Buildings and structures	Territory of Guam, USA	**297**	**2,229**
	Land		**143**	**1,077**
	Machinery, equipment and vehicles		**4**	**32**
	Others (non-current assets)		**1**	**12**
Property for lease (apartment)	Land	Nagoya City, Aichi Prefecture	**63**	**477**
Property for lease (condominium)	Buildings and structures	Kisarazu City, Chiba Prefecture	**23**	**176**
	Land		**292**	**2,193**
Shared asset	Others (non-current assets)	Elderly Care Business Division (Kasukabe City, Saitama Prefecture, and other places)	**2**	**19**
Total			**830**	**6,220**

The Companies recognized each property in domestic rental assets as a unit, and group the overseas assets by managerial accounting segmentation. In addition, assets owned by some consolidated subsidiaries are grouped on a company basis.

In the consolidated fiscal year ended March 2023, the book value of the resort facilities, the business assets (one apartment building) whose profitability significantly declined, and the business assets (one condominium building) that was decided to be sold, was reduced to the recoverable amount, and the amount of such reduction was recorded as an impairment loss. The recoverable amount of the resort facilities was based on the appraisal value by a real estate appraiser, and the recoverable amount of the business assets was measured based on the net realizable value.

For business in Japan that have continuously posted operating losses, the book value of shared assets was reduced to the recoverable amount, and the amount of the reduction was recorded as an impairment loss. The recoverable amount of the shared assets was measured by the net realizable value based on the use value.

March 31, 2022

Purpose	Category	Location	Impairment loss JPY million
Business-use assets and shared assets	Buildings and structures	Morizou Co. Ltd. (Toda City, Saitama Prefecture)	**105**
	Machinery, equipment and vehicles		**0**
	Leased assets		**0**
	Others (non-current assets)		**0**
	Others (intangible fixed assets)		**7**
Shared assets	Others (intangible fixed assets)	Elderly Care Business Division (located in Fujimi City, Saitama Prefecture and other places)	**3**
Total			**118**

The Companies recognized each property in domestic rental assets as a unit, and group the overseas assets by managerial accounting segmentation. In addition, assets owned by some consolidated subsidiaries are grouped on a company basis.

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

The recoverable amount of business-use assets and shared assets is measured according to the net selling price based on the value in use.

11. 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, 2023 and 2022 consist of the following:

	JPY million		USD thousand
	2023	2022	**2023**
Bad debts	**70**	70	**529**
Others	**178**	196	**1,336**
Total	**249**	267	**1,866**

12. Income Taxes

(1) Significant components of deferred tax assets and liabilities as of March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Deferred tax assets:			
Loss carried forward for tax purposes *(ii)	**60,491**	59,879	**453,016**
Impairment loss	**7,121**	6,072	**53,335**
Provision for losses related to repairs	**6,081**	6,256	**45,547**
Retirement benefit liability	**3,352**	3,286	**25,104**
Allowance for doubtful accounts	**1,464**	877	**10,964**
Provision for apartment vacancy loss	**1,241**	1,948	**9,299**
Advances received	**856**	833	**6,413**
Accrued bonuses	**622**	—	**4,664**
Elimination of unrealized gain	**366**	408	**2,747**
Advances from customers	**304**	258	**2,279**
Provision for fulfillment of guarantees	**208**	756	**1,564**
Deposits received	**147**	168	**1,108**
Excess amortization on software	**131**	190	**982**
Asset retirement obligations	**111**	115	**834**
Others	**2,078**	1,955	**15,566**
Sub total	**84,581**	83,008	**633,429**
Valuation allowance for tax loss carryforwards *(ii)	**(49,008)**	(58,266)	**(367,019)**
Valuation allowance for deductible temporary differences	**(10,418)**	(18,142)	**(78,021)**
Less: valuation allowance *(i)	**(59,426)**	(76,408)	**(445,041)**
Total deferred tax assets	**25,155**	6,599	**188,387**
Deferred tax liabilities:			
Fixed asset retirement expenses	**(15)**	(14)	**(118)**
Total deferred tax liabilities	**(15)**	(14)	**(118)**
Net deferred tax assets	**25,139**	6,584	**188,269**

(Changes in presentation method)

Accounts payable - other in deferred tax assets, which was presented as a separate item in the breakdown of deferred tax assets and deferred tax liabilities in the fiscal year ended March 2022, are included in "others" in the fiscal year ended March 2023 because it became immaterial in terms of amount. To reflect this change in presentation, the notes related to tax effect accounting for the fiscal year ended March 2022 have been reclassified.

As a result, JPY 55 million in accounts payable - other, which was presented as deferred tax assets in the breakdown of deferred tax assets and deferred tax liabilities in the fiscal year ended March 2022, has been reclassified as "others" in the fiscal year ended March 2023.

*Notes:

(i) The valuation allowance decreased by JPY 16,982 million (USD 127,180). The decrease is mainly due to a change in the Company's classification of entities for determining the recoverability of deferred tax assets.

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

	JPY million						
March 31, 2023	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)	**942**	**1,297**	**887**	**867**	**529**	**55,966**	**60,491**
Valuation allowance	**(942)**	**(1,297)**	**(887)**	**(867)**	**(529)**	**(44,482)**	**(49,008)**
Deferred tax asset	—	—	—	—	—	**11,483**	**11,483 *(ii)**

*Notes:

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

(ii) Deferred tax assets of JPY 11,483 million are recorded for tax loss carryforwards of JPY 60,491 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, 2022	JPY million						
	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)	**677**	**844**	**1,158**	**826**	**1,416**	**54,955**	**59,879**
Valuation allowance	**(677)**	**(844)**	**(1,158)**	**(826)**	**(842)**	**(53,916)**	**(58,266)**
Deferred tax asset	**—**	**—**	**—**	**—**	**573**	**1,039**	**1,612** *(iv)

*Notes:

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

(iv) Deferred tax assets of JPY 1,612 million are recorded for tax loss carryforwards of JPY 59,879 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, 2023	USD thousand						
	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)	**7,059**	**9,716**	**6,648**	**6,497**	**3,967**	**419,128**	**453,016**
Valuation allowance	**(7,059)**	**(9,716)**	**(6,648)**	**(6,497)**	**(3,967)**	**(333,131)**	**(367,019)**
Deferred tax asset	**—**	**—**	**—**	**—**	**—**	**85,996**	**85,996** *(vi)

*Notes:

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

(vi) Deferred tax assets of USD 85,996 thousand dollars are recorded for tax loss carryforwards of USD 453,016 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, 2023 and 2022:

March 31, 2022	**2023**	2022
Effective statutory tax rate (Adjustment)	**34.6%**	34.6%
Impact of decrease in valuation allowances	**(550.3)**	(65.1)
Impact of exchange rate fluctuations on overseas consolidated subsidiaries	**(109.8)**	—
Difference in tax rates between consolidated subsidiaries	**(5.1)**	(2.8)
Entertainment expenses and other items not permanently deductible for income tax purposes	**(0.6)**	0.6
Equalization of residential taxes	**5.5**	1.7
Others	**(0.7)**	0.5
Effective tax rate after application of tax effect accounting	**(626.4)**	(30.5)

(3) The amount stated in the fiscal year ended March 2023

	JPY million		USD thousand
	2023	2022	**2023**
Deferred tax assets	**25,152**	6,596	**188,368**

(4) Information on significant accounting estimates for identified items

Deferred tax assets of JPY 22,061 million (USD 165,215 thousand) are recorded for schedulable deductible temporary differences and tax loss carryforwards, based on the Company's estimate of taxable income considering its future earning capacity to determine the recoverability of such assets.

The Company's business structure is now stable and profitable as a result of continued drastic structural reforms, including an improvement in occupancy rates and reductions in fixed costs through the contractual adjustment of master-lease rent, which resulted in taxable income before deducting tax loss carryforwards.

Although the Company has incurred material tax losses in previous fiscal years, based on the stabilization of its earnings structure, the Company has recognized deferred tax assets based on the estimated amount of taxable income before additions and deductions of temporary differences in future years, taking into consideration the causes of such material tax losses, its business plan, the progress in achieving its business plan in previous fiscal years, and changes in taxable income or tax losses in previous fiscal years and in the fiscal year ended March 2023. Accordingly, deferred tax assets are recognized based on the estimated amount of taxable income before addition and deduction of temporary differences for a reasonably estimable period of time, after confirming the classification of companies in accordance with the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26).

Estimates of taxable income are based on future business plans, the key assumptions being the number of rental contracts and contract unit prices, which are estimated based on the assumption that the Company can maintain a certain number of contracts and unit prices as the age of the managed properties increases.

Since the recoverability of deferred tax assets depends on estimates of future taxable income, any change in the conditions or assumptions on which these estimates are based may have a material effect on the amount of deferred tax assets in the consolidated financial statements for the fiscal year ending March 2024.

13. Short-term Borrowings and Long-term Debt

(1) Short-term borrowings, long-term debt and lease obligations on March 31, 2023 and 2022 consist of the following:

	JPY million		USD thousand
	2023	2022	**2023**
Current portion of long-term debt, with average interest rate of 9.90%	**59**	53	**443**
Current portion of lease obligations, with average interest rate of 2.74%	**1,155**	1,992	**8,655**
Long-term debt, due 2024 to 2027, with average interest rate of 14.45%	**30,359**	30,429	**227,358**
Long-term lease obligations, due 2024 to 2027, with average interest rate of 2.48%	**275**	569	**2,063**
Total	**31,849**	33,045	**238,521**

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, 2023 are as follows:

	(JPY million)			
	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 c 4 years	Due after 4 through 5 years
Long-term debt	**80**	**30,080**	**107**	**90**
Lease obligations	**235**	**31**	**5**	**2**

	(USD thousand)			
	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	**605**	**225,274**	**803**	**675**
Lease obligations	**1,763**	**238**	**44**	**15**

(3) Assets pledged as collateral for short-term borrowings and long-term debt on March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Cash and deposits	**86**	2	**650**
Real estate for sale	**38**	38	**285**
Others (current assets)	**275**	244	**2,060**
Buildings and structures	**4,321**	4,813	**32,360**
Machinery, equipment, and vehicles	**0**	1	**6**
Land	**24,137**	24,988	**180,767**
Others (intangible fixed assets)	**1,096**	1,052	**8,210**
Investment securities	**2,231**	2,261	**16,713**
Others (investments and other assets)	**107**	103	**804**
Total	**32,295**	33,604	**241,860**

(4) Liabilities with collateral at March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Current portion of long-term debt	**59**	53	**443**
Long-term debt	**30,359**	30,429	**227,358**
Total	**30,418**	30,483	**227,802**

Note:
Within the assets pledged as collateral, cash and deposits, others (current assets) and JPY 35 million (USD 268 thousand) in investment securities are pledged as collateral to customers and other borrowing parties and there are no liabilities with collateral.

(5) Securities and investment securities which have been deposited with the Legal Affairs Bureau on March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Deposit for housing construction warranty	**771**	726	**5,774**
Advanced payment certificate in accordance with Payment Services Act	**332**	332	**2,486**
Deposit for operation stipulated in Building Lots and Buildings Transaction Business Act	**70**	70	**524**
Deposit for business security under the Insurance Business Act	**200**	200	**1,503**
Deposit for housing defect warranty	**105**	214	**792**
Others	**—**	2	**—**

14. 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 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:

	JPY million		USD thousand
	2023	2022	**2023**
Beginning balance of retirement benefit obligations	**9,525**	9,650	**71,336**
Service cost	**881**	983	**6,603**
Interest cost	**30**	39	**231**
Actuarial gains and losses accrued	**(42)**	(56)	**320**
Retirement benefits paid	**(730)**	(1,092)	**(5,474)**
Others	**(35)**	—	**(267)**
Closing balance of retirement benefit obligations	**9,714**	9,525	**72,749**

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

	JPY million		USD thousand
	2023	2022	**2023**
Unfunded retirement benefit obligations	**9,714**	9,525	**72,749**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**9,714**	9,525	**72,749**
Liability for retirement benefit	**9,714**	9,525	**72,749**
Net amount of the liabilities and assets posted in the consolidated balance sheet	**9,714**	9,525	**72,749**

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

	JPY million		USD thousand
	2023	2022	**2023**
Service cost	**881**	983	**6,603**
Interest cost	**30**	39	**231**
Amortization of actuarial gain or loss	**23**	53	**177**
Retirement benefit expenses related to the defined benefit plan	**936**	1,077	**7,012**

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

	JPY million		USD thousand
	2023	2022	**2023**
Actuarial gains/losses	**19**	(111)	**142**
Total	**19**	(111)	**142**

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

	JPY million		USD thousand
	2023	2022	**2023**
Unrecognized actuarial gains/losses	**50**	31	**377**
Total	**50**	31	**377**

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

	2023	2022
Discount rate	**0.03 – 0.64%**	0.03 – 0.64%

(3) Defined contribution pension plan

The necessary contribution amount for the defined contribution plan was JPY 357 million (USD 2,674 thousand) and JPY 368 million for the years ended March 31, 2023 and 2022, respectively.

15. Stock Options

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

None

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

None

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

(a) Outline of stock options:

	2016 Stock Option	2017 Stock Option	2018 Stock Option
Title and number of grantees	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: 252,700 shares	Common stock: 282,800 shares	Common stock: 348,000 shares
Grant date	August 18, 2016	September 14, 2017	September 14, 2018
Vesting conditions	Not applicable vesting conditions are specified		
Vesting period	Not applicable period of service is specified		
Exercise period	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, 2023 is reported by converting to the number of shares.

Number of stock options:

	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	90,800	99,700	118,700
Vested	—	—	—
Exercised	45,600	52,200	60,600
Forfeited	—	—	—
Outstanding	45,200	47,500	58,100

Price information (JPY):

	2016 Stock Option	2017 Stock Option	2018 Stock Option
Exercise price	1	1	1
Average stock price at exercise	282	282	282
Fair value at the grant date	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.

16. Gain on Sale of Property, Plant and Equipment
Gain on sale of non-current assets for the years ended March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Buildings and structures	**27**	82	**209**
Machinery, equipment, and vehicles	**1**	—	**9**
Land	—	34	—
Others (Property, plant and equipment)	**0**	3	**1**
Total	**29**	120	**220**

17. Loss on Sale of Property, Plant and Equipment
Loss on sale of non-current assets for the years ended March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Buildings and structures	**27**	—	**205**
Machinery, equipment, and vehicles	**2**	—	**19**
Land	**14**	—	**111**
Total	**44**	—	**336**

18. Loss on Retirement of Non-current Assets
Loss on disposal of non-current assets for the years ended March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Buildings and structures	**155**	37	**1,167**
Others (Property, plant and equipment)	**19**	8	**147**
Others (Intangible fixed asset)	**5**	0	**43**
Total	**181**	45	**1,358**

19. Loss Related to Repairs
For the year ended March 2023, repair costs and incidental expenses are incurred as repair works to the defect properties constructed by the Company.

For the year ended March 2022
None

20. Reversal of Provision for Losses Related To Repairs
For the fiscal year ended March 2023
None

For the fiscal year ended March 2022, it was due to a reduction in unit repair cost as a result of efforts to place batched orders, use in-house manpower resources for repair works, and agreements with property owners to change repairing methods; due to a decrease in the number of apartment buildings because of reviewed defects judgment criteria and demolition agreements with property owners.

21. Rental Properties
The Companies possesses rental apartments in major cities and regions throughout Japan. Some subsidiaries possess rental residences and rental buildings. For the years ended March 31, 2023 and 2022, income arising from these rental properties are JPY 516 million (USD 3,865 thousand) and JPY 504 million, and impairment losses are JPY 394 million (USD 2,956 thousand) and JPY - million, respectively.

Furthermore, the changes in book value of rental properties during the years ended March 31, 2023 and 2022, and the fair value as of March 31, 2023 and 2022 and increase (decrease) during the period are as follows:

March 31, 2023

JPY million			
Balance as of April 1, 2022	Increase/(Decrease)	Balance as of March 31, 2023	Fair value as of March 31, 2023
6,920	**(838)**	**6,082**	**8,811**

March 31, 2022

JPY million			
Balance as of April 1, 2021	Increase/(Decrease)	Balance as of March 31, 2022	Fair value as of March 31, 2022
8,092	(1,171)	6,920	9,754

March 31, 2023

USD thousand			
Balance as of April 1, 2022	Increase/(Decrease)	Balance as of March 31, 2023	Fair value as of March 31, 2023
51,828	**(6,276)**	**45,551**	**65,988**

Note:
(i) Book values recorded on the consolidated balance sheets are the amount after deducting accumulated depreciation and accumulated impairment loss from acquisition cost.
(ii) For the years ended March 31, 2023 and 2022, the main decreases are due to the sale of rental properties and rental buildings of JPY 501 million (USD 3,754 thousand) and JPY 1,178 million, and impairment losses of JPY 394 million (USD 2,956 thousand) and JPY - million, respectively.
(iii) Fair values as of the end of the fiscal years are calculated by the Company mainly based on “Real-estate appraisal standards”.

22. Asset Retirement Obligations

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

23. Supplemental Information to the Statement of Changes in Equity

(1) Main changes in equity for the year ended March 31, 2023

(a) Shares issued and treasury stocks for the year ended March 31, 2023 are as follows:

	Shares			
Type of shares	April 1, 2022	Increase	Decrease	March 31, 2023
Shares issued Common stock *(i)	329,389,515	—	—	329,389,515
Total	329,389,515	—	—	329,389,515
Treasury stock Common stock *(ii)	493,610	1	158,400	335,211
Total	493,610	1	158,400	335,211

Notes:
(i) The increase of 1 share in the number of treasury stock of common stock is due to the purchase of fractional unit shares.
(ii) A decrease of 158,400 shares in treasury stock is due to exercise of subscription rights to shares.

(b) Stock acquisition rights (SAR) and treasury share acquisition rights for the year ended March 31, 2023 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, 2023	
		April 1, 2022	Increase	Decrease	March 31, 2023	JPY million	USD thousand
5th series SAR*	Common stock	159,748,700	—	—	159,748,700	**215**	**1,615**
SARs as stock option	—	—	—	—	–	**69**	**517**
Total	—	159,748,700	—	—	159,748,700	**284**	**2,132**

(c) Matters concerning dividends for the year ended March 31, 2023 are as follows:
None

There are no dividends with record dates in the consolidated fiscal year ended March 2023 but with effective dates in the following fiscal year.

(2) Main changes in equity for the year ended March 31, 2022

(a) Shares issued and treasury stocks for the year ended March 31, 2022 are as follows:

	Shares			
Type of shares	April 1, 2021	Increase	Decrease	March 31, 2022
Shares issued Common stock	329,389,515	—	—	329,389,515
Total	329,389,515	—	—	329,389,515
Treasury stock Common stock*	561,610	—	68,000	493,610
Total	561,610	—	68,000	493,610

Notes:
A decrease of 68 thousand shares in treasury stock is due to exercise of subscription rights to shares.

(b) Stock acquisition rights (SAR) and treasury share acquisition rights for the year ended March 31, 2022 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, 2022
		April 1, 2021	Increase	Decrease	March 31, 2022	JPY million
5th series SAR*	Common stock	159,748,700	—	—	**159,748,700**	**215**
SARs as stock option	—	—	—	—	**—**	**141**
Total	—	159,748,700	—	—	**159,748,700**	**357**

(c) Matters concerning dividends for the year ended March 31, 2022 are as follows:
None

There were no dividends with record dates in the consolidated fiscal year ended March 2022 but with effective dates in the following fiscal year.

24. Leased assets

(1) Finance lease transactions

The Company primarily leases furniture and electronic appliances to apartments in their leasing business. Leased assets are depreciated in the straight-line method over the lease-term of respective assets.

(2) Operating lease transactions

Future minimum lease payments related to non-cancelable operating leases subsequent to March 31, 2023 and 2022 are as follows:

	JPY million		
March 31, 2023	Future lease payments	Prepaid lease payments	Differences
Due within one year	**219,367** **(218,441)**	**174** **(174)**	**219,192** **(218,267)**
Due after one year	**87,897** **(86,504)**	**111** **(111)**	**87,785** **(86,392)**
Total	**307,264** **(304,945)**	**286** **(286)**	**306,978** **(304,659)**

	JPY million		
March 31, 2022	Future lease payments	Prepaid lease payments	Differences
Due within one year	216,521 (216,396)	332 (332)	216,189 (216,064)
Due after one year	88,810 (88,701)	282 (282)	88,528 (88,419)
Total	305,332 (305,098)	614 (614)	304,718 (304,484)

March 31, 2023	USD thousand		
	Future lease payments	Prepaid lease payments	Differences
Due within one year	**1,642,832** **(1,635,898)**	**1,306** **(1,306)**	**1,641,526** **(1,634,592)**
Due after one year	**658,260** **(647,825)**	**838** **(838)**	**657,422** **(646,986)**
Total	**2,301,093** **(2,283,723)**	**2,144** **(2,144)**	**2,298,948** **(2,281,579)**

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

25. Guarantee Obligations

Guaranteed obligations as of March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Guarantee obligations to financial institutions for customers who have a home mortgage	**240**	392	**1,801**
Total	**240**	392	**1,801**

26. Segment Information

(1) Overview of Reportable Segments

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

The Company comprises three segments, the Leasing Business, the Elderly Care Business and the Other Businesses.

The Leasing Business operations comprise the leasing and management of apartment rooms and other properties, repair works, broadband internet service, rent obligation guarantee, company residence agency business, solar power generation business, and small-amount short-term insurance business, real estate brokerage and others.

The Elderly Care Business operates elderly care facilities. The Other Businesses operate resort facilities in Guam and others.

(2) Calculation Method for Sales, Profits or 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 (or losses) represent operating profits (or losses). Inter-segment sales and transfers are based on prevailing market prices.

(3) Information Regarding Sales, Profits (Losses), Assets, Liabilities, and other Items by Reportable Segment for the years ended March 31, 2023 and 2022 are as follows:

March 31, 2023	JPY million					
	Reportable segments				Adjustments *(i)	Consolidated total *(ii)
	Leasing Business	Elderly Care Business	Other Businesses	Segment total		
Sales						
Rent income	299,494	—	—	299,494	—	299,494
Ancillary service income	44,762	—	—	44,762	—	44,762
Maintenance	35,761	—	—	35,761	—	35,761
Rental guarantee	4,295	—	—	4,295	—	4,295
Company housing agency fee	837	—	—	837	—	837
Roof lease solar power generation	2,717	—	—	2,717	—	2,717
Construction subcontracting	1,222	—	—	1,222	—	1,222
Other	381	13,941	1,069	15,392	—	15,392
Sales from contracts with customer	389,471	13,941	1,069	404,482	—	404,482
Furniture insurance	1,966	—	—	1,966	—	1,966
Other sales	1,966	—	—	1,966	—	1,966
Sales to customers	391,438	13,941	1,069	406,449	—	406,449
Inter-segment sales and transfers	51	—	263	314	(314)	—
Total	391,489	13,941	1,333	406,764	(314)	406,449
Segment profit (loss)	16,887	(1,208)	(2,706)	12,971	(3,092)	9,879
Segment assets	56,561	4,137	22,753	83,452	83,096	166,548
Other items						
Depreciation	4,592	34	1,261	5,888	681	6,570
Increase in property, plant and equipment, and intangible fixed assets	1,637	21	24	1,684	61	1,745

March 31, 2022	JPY million					
	Reportable segments				Adjustments *(i)	Consolidated total *(ii)
	Leasing Business	Elderly Care Business	Other Businesses	Segment total		
Sales						
Rent income	291,430	—	—	291,430	—	291,430
Ancillary service income	40,827	—	—	40,827	—	40,827
Maintenance	35,315	—	—	35,315	—	35,315
Rental guarantee	4,559	—	—	4,559	—	4,559
Company housing agency fee	788	—	—	788	—	788
Roof lease solar power generation	2,775	—	—	2,775	—	2,775
Construction subcontracting	3,145	—	—	3,145	—	3,145
Other	456	14,258	1,064	15,779	—	15,779
Sales from contracts with customer	379,299	14,258	1,064	394,621	—	394,621
Furniture insurance	3,744	—	—	3,744	—	3,744
Other sales	3,744	—	—	3,744	—	3,744
Sales to customers	383,043	14,258	1,064	398,366	—	398,366
Inter-segment sales and transfers	76	—	249	326	(326)	—
Total	383,120	14,258	1,314	398,692	(326)	398,366
Segment profit (loss)	7,719	(789)	(1,668)	5,261	(3,486)	1,774
Segment assets	63,393	3,261	21,369	88,024	57,406	145,430
Other items						
Depreciation	6,480	32	1,087	7,600	1,752	9,352
Increase in property, plant and equipment, and intangible fixed assets	1,596	5	22	1,624	513	2,137

March 31, 2023	USD thousand					
	Reportable segments				Adjustments *(i)	Consolidated total *(ii)
	Leasing Business	Elderly Care Business	Other Businesses	Segment total		
Sales						
Rent income	**2,242,899**	—	—	**2,242,899**	—	**2,242,899**
Ancillary service income	**335,224**	—	—	**335,224**	—	**335,224**
Maintenance	**267,812**	—	—	**267,812**	—	**267,812**
Rental guarantee	**32,167**	—	—	**32,167**	—	**32,167**
Company housing agency fee	**6,270**	—	—	**6,270**	—	**6,270**
Roof lease solar power generation	**20,349**	—	—	**20,349**	—	**20,349**
Construction subcontracting	**9,155**	—	—	**9,155**	—	**9,155**
Other	**2,857**	**104,404**	**8,012**	**115,274**	—	**115,274**
Sales from contracts with customer	**2,916,736**	**104,404**	**8,012**	**3,029,153**	—	**3,029,153**
Furniture insurance	**14,726**	—	—	**14,726**	—	**14,726**
Other sales	**14,726**	—	—	**14,726**	—	**14,726**
Sales to customers	**2,931,463**	**104,404**	**8,012**	**3,043,880**	—	**3,043,880**
Inter-segment sales and transfers	**382**	—	**1,975**	**2,358**	**(2,358)**	—
Total	**2,931,846**	**104,404**	**9,987**	**3,046,238**	**(2,358)**	**3,043,880**
Segment profit (loss)	**126,466**	**(9,051)**	**(20,269)**	**97,145**	**(23,158)**	**73,986**
Segment assets	**423,583**	**30,985**	**170,401**	**624,970**	**622,302**	**1,247,273**
Other items						
Depreciation	**34,393**	**254**	**9,447**	**44,095**	**5,107**	**49,203**
Increase in property, plant and equipment, and intangible fixed assets	**12,262**	**164**	**184**	**12,611**	**462**	**13,074**

Notes:

(i) Breakdown of adjustments is as follows:

Segment profit (loss)

	JPY million		USD thousand
	2023	2022	**2023**
Inter-segment eliminations Corporate expenses*	**201** **(3,293)**	153 (3,639)	**1,505** **(24,664)**
Total	**(3,092)**	(3,486)	**(23,158)**

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

Segment assets

	JPY million		USD thousand
	2023	2022	**2023**
Surplus operating funds, long-term investment funds and assets not belonging to any reportable segments	**83,096**	57,406	**622,302**

Increase in non-current assets and intangible assets

	JPY million		USD thousand
	2023	2022	**2023**
Capital expenditures which do not belonging to any reportable segments	**61**	513	**462**

(ii) Segment profit (loss) is adjusted to operating profit (loss) on the consolidated statement of income.

Related information

1. Products and services

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

2. Geographic area

(1) Sales

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

(2) Plant, property, and equipment

March 31, 2023

JPY million			
Japan	Trust territory of U.S.A. Guam	Other	Total
39,572	**21,761**	**30**	**61,364**

March 31, 2022

JPY million			
Japan	Trust territory of U.S.A. Guam	Other	Total
44,212	20,331	108	64,652

March 31, 2023

USD thousand			
Japan	Trust territory of U.S.A. Guam	Other	Total
296,359	**162,971**	**225**	**459,557**

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, 2023

	JPY million				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Impairment loss	**380**	**2**	**447**	**—**	**830**

March 31, 2022

	JPY million				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Impairment loss	115	3	—	—	118

March 31, 2023

	USD thousand				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Impairment loss	**2,848**	**19**	**3,352**	**—**	**6,220**

Information concerning goodwill amortization and unamortized balance by reportable segments

March 31, 2023

	JPY million				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Goodwill amortization	**7**	**—**	**—**	**—**	**7**
Balance	**—**	**—**	**—**	**—**	**—**

March 31, 2022

	JPY million				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Goodwill amortization	7	—	—	—	7
Balance	6	—	—	—	6

March 31, 2023

	USD thousand				
	Leasing Business	Elderly Care Business	Other Businesses	Adjustments	Consolidated total
Goodwill amortization	**53**	**—**	**—**	**—**	**53**
Balance	**—**	**—**	**—**	**—**	**—**

Information concerning gain on negative goodwill by reportable segments

For the years ended March 31, 2023 and 2022.

None

27. Revenues from Contracts with Customers

Revenues are not separately presented for revenues derived from contracts with customers and other revenues.

The amount of revenue from contracts with customers is presented in “26. Segment information (3) Information Regarding Sales, Profits (Losses), Assets, Liabilities, and other Items by Reportable Segment”.

28. Amounts per Share

The following tables set forth the net assets and net income per share of common stock for the years ended March 31, 2023 and 2022.

	JPY		USD
	2023	2022	**2023**
Net assets	**73.29**	3.25	**0.549**
Net income (loss) attributable to shareholders of the parent	**60.22**	36.04	**0.451**
Diluted net income per share	**48.20**	32.23	**0.361**

Notes:

Basis of computation of basic and diluted net income per share for the year ended March 31, 2023 and 2022 are as follows:

	JPY million		USD thousand
	2023	2022	**2023**
Net income (loss) per share			
Net income (loss) attributable to shareholders of the parent	**19,810**	11,854	**148,361**
Amount not attributable to common stock	**—**	—	**—**
Net income (loss) attributable to common stock	**19,810**	11,854	**148,361**
Basic weighted-average shares during the year (Thousands of shares)	**328,995**	328,888	**2,463**
Diluted net income per share			
Adjustments of net income (loss) attributable to shareholders of the parent	**—**	—	**—**
The number of increase in common stock (Thousands of shares)	**82,014**	38,927	**614**
Dilutive securities without dilutive effects and excluded from calculation of diluted net income per share.		—	

29. Related Party Transactions

For the year ended March 31, 2023

Transactions with officers and/or their close relatives of the Company's important subsidiaries.

Attribute	Name	Business or position	Percentage of share ownership (%)	Relation	Business	Transaction amount	
						JPY million	USD thousand
Director	Masamichi Soma (1)	Director of a subsidiary	—	Lease of land and building (2)	Leasing of apartments	14	105

Account	Balance	
	JPY million	USD thousand
—	—	—

Notes:

(i) Mr. Masamichi Soma is a Director of Azu Life Care Co., Ltd., a Company's consolidated subsidiary.

(ii) The price for the lease of land and building is based on the same terms and conditions as those applied to other parties that are not related to the Company.

For the year ended March 31, 2022

None

30. Business Combinations

Business Combination under common control

The Company resolved at a meeting of its Board of Directors held on August 26, 2022 to implement a company split in which the rights and obligations relating to 40 facilities, excluding 22 fee-based nursing homes, of the Company's Elderly Care Business. The rights and obligations relating to 40 facilities were succeeded to by the Company's wholly owned subsidiary, Azu Life Care, Co., Ltd. by means of an absorption-type company split.

1. Outline of transaction
   (1) Name and description of the subject business
   Name: Elderly Care Business
   Description: Nursing care business
   (2) Date of business combination
   November 1, 2022
   (3) Method of the company split
   The Company was the splitting company and Azu Life Care was the succeeding company in the company split.
   (4) Name of the combined company
   Azu Life Care Co., Ltd.
   (5) Other matters related to outline of transaction
   (i) In the environment surrounding the nursing care industry, the number of people requiring nursing care is increasing due to the super aging society, and the related market is expanding. On the other hand, combined with the increase in the number of facilities and the difficulty in recruiting caregivers, competition among companies in the industry is intensifying. In this environment, the purpose of this transfer is to establish a flexible organizational structure to provide better services to customers in a timely manner by integrating businesses and accelerating decision-making.
   (ii) Details of allocation of shares in the company split
   Since the company split was conducted between the Company and its wholly owned subsidiary, no shares or other consideration were allocated upon the company split.

2. Summary of accounting procedures performed
   The transaction was accounted for as a transaction under common control in accordance with the Accounting Standard for Business Combinations and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

31. Other

The following tables set forth quarterly information for the year ended March 31, 2023.

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (JPY million)	**101,406**	**202,460**	**303,517**	**406,449**
Income (loss) before income taxes (JPY million)	**2,235**	**5,113**	**7,341**	**2,847**
Net income (loss) attributable to shareholders of the parent (JPY million)	**1,630**	**3,691**	**5,548**	**19,810**
Net income (loss) per share (JPY)	**4.96**	**11.22**	**16.87**	**60.22**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (JPY)	**4.96**	**6.26**	**5.65**	**43.34**

Cumulative period	First quarter	Second quarter	Third quarter	Full-year
Net sales (USD thousand)	**759,432**	**1,516,220**	**2,273,028**	**3,043,880**
Income (loss) before income taxes (USD thousand)	**16,739**	**38,297**	**54,982**	**21,322**
Net income (loss) attributable to shareholders of the parent (USD thousand)	**12,208**	**27,644**	**41,554**	**148,361**
Net income (loss) per share (USD)	**0.037**	**0.084**	**0.126**	**0.451**

Accounting period	First quarter	Second quarter	Third quarter	Full-year
Net income (loss) per share (USD)	**0.037**	**0.047**	**0.042**	**0.325**

32. Subsequent Events

1. A resolution of Capital Reserve Reduction and Appropriation of Other Capital Surplus was passed at the Company's 50th Ordinary General Shareholders' Meeting held on June 29, 2023.

(1) Purpose of Capital Reserve Reduction and Appropriation of Other Capital Surplus

The Company has come to record a deficit of JPY 106,847,975,571 (USD 800,179 thousand) in retained earnings carried forward at the end of the fiscal year ended March 31, 2023.

The Company therefore intends to eliminate the deficit in retained earnings carried forward by reducing the amount of capital reserve and appropriating other capital surplus as described below, as well as to realize a flexible and agile capital policy going forward and prepare itself to resume dividend payments as soon as possible.

(2) Details of Capital Reserve Reduction

Capital reserve of JPY 51,235,265,165 (USD 383,698 thousand) will be reduced by JPY 41,235,265,165 (USD 308,808 thousand) and the same amount will be transferred to other capital surplus and the amount of capital reserve after the reduction will be JPY 10,000,000,000*, in accordance with Article 448, Paragraph 1 of the Companies Act.

*If the stock acquisition rights issued by the Company are exercised by the effective date, the amount of capital reserve increased by such exercise will not be subject to reduction, and the amount of capital reserve after the reduction may not be the said amount.

(3) Details of Appropriation of Other Capital Surplus

Subject to the condition that the capital reserve reduction in item 2 above becomes effective, JPY 106,847,975,571 (USD 800,179 thousand) of other capital surplus after the transfer in accordance with item 2 above will be reduced and transferred to retained earnings carried forward to compensate for the deficit, pursuant to Article 452 of the Companies Act. As a result, the amount of retained earnings carried forward after the transfer will be JPY 0.

(a) Accounting Item and Amount of Surplus To Be Reduced

Other capital surplus JPY 106,847,975,571 (USD 800,179 thousand)

(b) Accounting Item and Amount of Surplus To Be Increased

Retained earnings carried forward JPY 106,847,975,571 (USD 800,179 thousand)

(4) Schedule for Capital Reserve Reduction and Appropriation of Other Capital Surplus

(a) May 12, 2023 Date of approval at the Board of Directors

(b) June 26, 2023 Final date for creditors to file objections

(c) June 29, 2023 Date of resolution at the Ordinary General Shareholders' Meeting

(d) June 29, 2023 Effective date

(5) Outlook
These transactions are accounting transfers within the net assets section, and consequently, the Company's net assets will remain unchanged and will not affect business results.

2. The Board of Directors resolution on matters relating to the acquisition of treasury stock at a meeting held on July 5, 2023, in accordance with the Articles of Incorporation pursuant to Article 165, Paragraph (2) of the Companies Act, and pursuant to Article 156 as applied pursuant to Article 165, Paragraph (3) of the said Act.

(1) Reasons for acquisition of the treasury stock
The Company has recognized the return of profits to shareholders as an important management issue and has worked on structural reforms and capital efficiency. The Company has improved its equity ratio to 14.5% at the end of the fiscal year ended March 31, 2023, by strengthening its profitability of the Leasing Business in particular, and by optimizing its cost structure, in line with its policy of stabilizing its financial base for the said fiscal year. The Company has been considering shareholder returns in light of its financial strength including liquidity on hand as well as the status of its equity capital, and has now decided to acquire its treasury stock, taking into consideration the recent undervalued stock price level.

(2) Details of matters relating to the acquisition

(a) Type of shares to be acquired	Common stock of the Company
(b) Total number of shares to be acquired	50,000,000 shares (maximum)* (15.2% of total number of shares outstanding excluding treasury stock)
(c) Total amount of shares to be acquired	JPY 10,000,000,000 (maximum)*
(d) Period of acquisition	July 6, 2023 to January 5, 2024
(e) Method of acquisition	Purchases on the Tokyo Stock Exchange (i) Purchases through Off-Auction Own Share Repurchase Trading System (ToSTNeT-3) (ii) Purchases based on discretionary trading agreement for share repurchases

*The Company understands a certain institutional investor is prepared to sell its holdings in common stock of the Company.

(3) Results for July, August and September, 2023

July

(a) Type of shares acquired	Common Stock of the Company
(b) Number of shares acquired	8,036,000 shares
(c) Total amount of shares acquired	JPY 2,436,434,200
(d) Period of acquisition (on a basis of contract conclusion)	July 6 ,2023 to July 31, 2023

August

(a) Type of shares acquired	Common Stock of the Company
(b) Number of shares acquired	3,417,200 shares
(c) Total amount of shares acquired	JPY 1,030,060,600
(d) Period of acquisition (on a basis of contract conclusion)	August 1, 2023 to August 31, 2023

September

(a) Type of shares acquired	Common Stock of the Company
(b) Number of shares acquired	0 shares
(c) Total amount of shares acquired	JPY 0
(d) Period of acquisition (on a basis of contract conclusion)	September 1, 2023 to September 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
LEOPALACE21 Corporation

Opinion

We have audited the consolidated financial statements of LEOPALACE21 Corporation and its consolidated subsidiaries (the Group), which comprise the Consolidated Balance Sheet as at March 31, 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, 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, 2023 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 Notes 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 Group

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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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Judgments regarding the recoverability of deferred tax assets of LEOPALACE21 Corporation

Description of Key Audit Matter

As of March 31, 2023, the balance of deferred tax assets on the consolidated balance sheet is 25,152 million yen, as stated in [Notes] (12. Income Taxes) , which accounts for 76% of net assets. Of this amount, parent company LEOPALACE21 Corporation (hereinafter the Company) recorded 22,061 million yen.

As a result of business structure that secures stable revenue by improving occupancy rate and progress in reducing fixed costs through optimizing master lease rent, although the Company had incurred material tax loss in previous fiscal years, it has recorded taxable income before deduction of tax loss carryforward for the year ended March 31, 2023.

Based on these business circumstances, taking into consideration the causes of such material tax losses, its business plan, the progress in achieving its business plan in previous fiscal years, and changes in taxable income or tax losses in previous fiscal years and in the fiscal year ended March 2023, the Company has recognized deferred tax assets based on the estimated amount of taxable income before additions and deductions of temporary differences in future years. Accordingly, deferred tax assets are recognized for the amounts deemed recoverable based on the estimated amount of taxable income before addition and deduction of temporary differences for a reasonably estimable period of time, after confirming the classification of companies in accordance with the Implementation Guidance on Recoverability of Deferred Tax Assets.

Estimates of taxable income are based on future business plans, the key assumptions being the number of rental contracts and contract unit prices, which are estimated based on the assumption that the Company can maintain a certain number of contracts and unit prices as the age of the managed properties increases. These assumptions involve significant management judgement and are subject to uncertainty.

For this reason, we have determined that the matter relating to the recoverability of the Company's deferred tax assets is a key audit matter.

Auditor's response

In order to assess the adequacy of judgments regarding the recoverability of the Company's deferred tax assets, we mainly performed the following audit procedures.

- We understood and assessed the design and operating effectiveness of internal controls related to assessing recoverability of deferred tax assets.
- With regard to decision of reexiamination of the classification of companies in accordance with the Implementation Guidance on Recoverability of Deferred Tax Assets, we examined appropriateness of the classification by inquiring the management and reviewing company materials for use in judgments related to the classification of companies.
- With regard to future deductible temporary differences and tax loss carryforwards, we examined appropriateness of the year in which they are expected to be utilised.
- In order to evaluate estimates of taxable income before the addition or substraction of temporary differences, we mainly performed the following audit procedures on the underlying business projects.
  - We examined the business projects used for the estimates of taxable income before the addition or substraction of temporary differences were approved by the board of directors.
  - We assessed the uncertainty of estimates by analyzing comparison of

the business projects in previous years with the results of the projects.

- With respect to estimates of the number of rent contracts and the unit price of the contracts and the assumption that the Company would be able to secure the constant unmber of rent contracts and the unit price through the several years in the future, we inquired the management, compared it with available external information and conducted trend analysis based on past results.

Estimate of provision for losses related to repairs

Description of Key Audit Matter

As stated in [Notes] (3. Summary of Significant Accounting Policies (12)), as of March 31, 2023, the balance of provision for losses related to repairs on the consolidated balance sheet is 17,583 million yen.

In order to prepare for repair work costs and incidental costs related to parting wall defects in the attics announced in April 2018 and defects in construction properties announced in May 2018, February and May 2019, the Company recorded the estimated losses as the provision for losses related to repairs.

The specific calcuartion methods of the provision are based on the followings below.

- Repair expenses
  The Company sorts out the repairs by the types of defects and repair methods and calculates the number of defective rooms based on the defective rate as a result of the all-building investigations, which is then multiplied by the actual unit cost or estimated unit cost.
- Relocation expenses
  The Company calculates the number of rooms which it manages, which is then multiplied by the actual unit cost for relocation.

Estimating the provisoin for losses related to the repairs involves significant management judgement and is subject to uncertainty since the provision is influenced by changes in repair methods, variation of estimates presented by external contractors, change in estimated unit pirce by fructuation in rate of in-house repairs, and review of repair schedules.

For thses reasons, we have determined that estimate of provision for losses related to repairs is a key audit matter.

Auditor's response

In considering the estimate of provision for losses related to repairs, we mainly performed the following audit procedures.

- We inquired the management regarding the method and implementation schedule of repair work and evaluated the feasibility based on the content of the report to the regulatory agency and the contract status with the repair contractors.
- We compared the total number of properties subject to provision calculation with the company documents that we obtained in the past, analyzed the variance in the number from the end of the previous consolidated fiscal year, and verified the consistency with other information we had obtained.
- We mainly performed the following audit procedures regarding a unit price of repair work.
  - We understood the application mehods of an actual unit price or an estimated unit price based on repair methods depending on the type of defects.
  - Regarding actual unit price, we recalculated it after matching invoices with the actual unit price for outsourcing costs on a test basis.
  - Regarding estimated unit price, we inquired management about the method of calculation and confirmed that changes in repair methods and estimates presented by external contractors are reflected in unit price calculation.
  - Regarding rate of in-house repairs, we conducted a comparative analysis of estimates in the past and subsequent results and confirmed that there were no abnormal or non-recurring factors in the difference from the analysis.
- We understood estimate method of the number of residences used in calculation of residence relocation cost and evaluated its rationality.
- We recalculated the amount of provision for losses related to repairs.
- We inspected the contents of the report to the regulatory agency and the minutes regarding the status in the Risk Management Committee and the Compliance Committee, and confirmed that important construction defects that were not covered by the provision were not recognized.

Estimate of provision for apartment vacancy loss

Description of Key Audit Matter

As mentioned in [Notes] (3. Summary of Significant Accounting Policies (13)), as of March 31, 2023, the balance of provision for apartment vacancy loss on the consolidated balance sheet is 3,590 million yen.

The Company records provision for vacancy losses, in order to prepare for possible vacancy losses from the bulk leasing contracts in the Leasing Business, for the amount of losses expected to occur within a reasonably estimable period, based on rents rented for each individual leased property and the expected future occupancy rate.

The Company firstly identifies apartments with the potential for future losses, and compared the sum of revenues, which consists of rent income from the tenants and ancillary service income for each apartment multiplied by the average projected future occupancy rate for the remaining period of the fixed-rent term of the master lease contracts, and the sum of expenses, which consists of master lease rent and leasing management costs. Then the Company multiplied the negative balance for apartments for which sum of expenses exceeds sum of revenues by the number of months remaining in the fixed-rent term of the master lease contracts.

Since the future forecast occupancy rate is influenced by the apartment's surrounding conditions and room demand, the estimate involves the significant management judgment and is subject to uncertainty.

For this reason, we have determined that the estimate of provision for apartment vacancy loss is a key audit matter.

Auditor's response
In considering the estimate of the provision for apartment vacancy loss, we mainly performed the following audit procedures below.

- Regarding the process related to recording of provision for apartment vacancy loss, we mainly evaluated decision on and change in recruiting rent, estimate of future forecast occupancy rate and design and operating effectiveness of internal controls over the registration of master lease rent.
- We understood the methods of identifying apartments with the potential for future losses.

- We reviewed the building lease contract and understood that the remaining period the fixed-rent term of the master lease contracts can be applied as the estimated period.
- We compared and confirmed the consistency between the rent used to calculate the estimated rent income and the rent stored in the company's business management system.
- We inquired the management about the assumption of estimating the future forecast occupancy rate, and confirmed that it was consistent with external information, if any.
- We conducted a comparative analysis of the monthly transitions in the future forecast occupancy rate of each individual rental property with past trends. In addition, we evaluated the accuracy of the estimation by comparing the occupancy rate estimated in the previous fisical years with the actual results thereafter, and evaluated whether management bias in estimates and the uncertainty of estimates existed.
- We recalculated the provision for apartment vacancy loss.

Other Information

The other information comprises the information included in Integrated report 2023, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. Those charged with governance are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's other information reporting process.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Group's 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 Group's financial reporting process.

Auditor's Responsibilities for the Audit of 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 Group's 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 Group's 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 Group 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 Group 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.

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.

From the matters communicated with Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Takefumi Sato
Designated Engagement Partner
Certified Public Accountant

Hidetoshi Nakano
Designated Engagement Partner
Certified Public Accountant

Takafumi Shimokawa
Designated Engagement Partner
Certified Public Accountant

Grant Thornton Taiyo LLC
Tokyo, Japan
27 October, 2023

Data Compilation

Social Key Performance Indicators

The Company engages in sustainable management initiatives under the leadership of the Sustainability Committee, which is chaired by the Sustainability Officer, in collaboration with departments and Group companies. The Sustainability Committee reports on the progress of initiatives in line with the five themes of the Basic Sustainability Action Policy based on the quantitative targets set by each department and Group company, and moves initiatives to the next phase of the PDCA cycle. For fiscal year 2021, we updated the materiality issues identified for the previous fiscal year considering the current socioeconomic climate as well as the Company's own business conditions, and set KPIs for each materiality. Key topics and KPIs are periodically reported to the Board of Directors, thereby conducting sustainability activities.

Governance

	FY2020	FY2021	**FY2022**
Outside directors	6	5	**4**
Female directors	1	1	**1**
Directors' compensation (JPY million)	170	160	**179**
Directors (excluding outside directors)	56	60	**96**
Audit & Supervisory Board members (excluding outside ASB members)	16	18	**18**
Outside directors and ASB members	97	82	**65**

Employee Composition (on a non-consolidated basis)

	FY2020	FY2021	**FY2022**
No. of employees (on a consolidated basis)	5,082	4,356	**3,991**
No. of employees	4,172	3,589	**2,804**
No. of temporary hires	1,241	1,233	**1,209**
Average age	39 years, 0 months	40 years, 3 months	**40 years, 11 months**
Average cumulative years of service	10 years, 6 months	11 years, 6 months	**13 years, 4 months**

Work-Life Balance (on a non-consolidated basis)

	FY2020	FY2021	**FY2022**
Total number of working hours per month	160.3	165.3	**166.8**
Overtime work hours per month	11.4	11.3	**13.2**
No. of employees with reduced working hours	216	228	**231**
No. of employees on childcare leave	149	191	**117**
Acquisition rate of childcare leave	87.3%	67.0%	**79.5%**
Rate of paid leave usage	90.5%	81.7%	**81.2%**
Rate of workforce turnover (%)	30.7%	16.0%	**11.1%**

Composition of Female Leaders and Managers

	FY2020	FY2021	**FY2022**
Assistant Manager	160	146	**144**
Manager	55	46	**35**
Department Manager	1	1	**0**
Director and Executive officer	1	1	**2**

Diversity (Consolidated (excluding Guam), Non-consolidated basis but with Leopalace Smile for employees with disabilities)

	FY2020	FY2021	FY2022
No. of employees with disabilities (annual average)	107.9	103.1	90.2
% of employees with disabilities (annual average rate)	2.33%	2.73%	2.77%
No. of mandatory retirees that have been rehired	16	15	12
No. of foreign national employees	171	144	116
No. of foreign national managers	16	13	11
No. of people newly employed	142	108	107
No. of managers	1,061	815	764
% of female managers	5.8%	6.5%	5.5%

Support for Employees Seeking to Obtain Qualifications

	FY2020	FY2021	FY2022
No. of employees using support for obtaining qualifications	170	179	180
No. of employees using support system for obtaining specified qualifications	69	78	79
No. of employees in program for language skills improvement	6	7	8
No. of employees awarded an incentive payment for obtaining Takken qualification	95	94	95

Community Contributions

	FY2020	FY2021	FY2022
No. of cleanup campaign participants	1,002	0	0
Of which, in vicinity of existing properties	0	0	0
Of which, in vicinity of construction sites	1,002	0	0
Total sum of donations (JPY thousand)	1,998	1,073	726
No. joining observation tours and OTJ training at Leopalace Smile	0	76	23

Labor Safety and Health

	FY2020	FY2021	FY2022
No. of labor accidents	46	33	36
Accidents requiring time off work	19	14	15
Accidents not requiring time off work	27	19	21

Stakeholder Communication Initiatives

	FY2020	FY2021	FY2022
No. of property owner briefing sessions	87	0	89
Dialogue with institutional investors (number of companies)	95	103	122

Certified Employees (as of March 2023)

(People)

Real estate broker	636
Rental property manager	397
General insurance solicitor (basic course/fire insurance course)	472
Architect (first-class, second-class)	242
Building construction management engineer (1st Grade, 2nd Grade)	148
Certified skilled worker of financial planning (1st Grade, 2nd Grade)	212
Land surveyor, Assistant land surveyor	18
Care worker	695
Care support specialist	148
Home-visit care worker (1st Grade, 2nd Grade)	289

Efforts to Reduce Environmental Impact

	FY2020	FY2021	FY2022*
Scope 1 CO_2 emissions (t-CO_2)	3,474	3,285	3,134
Scope 2 CO_2 emissions (t-CO_2)	8,089	7,232	9,039
Scope 3 CO_2 emissions (t-CO_2)	693,388	748,745	540,558
Category 1 (purchased materials)	5,850	83	122
Category 2 (capital goods)	9,621	5,041	2,068
Category 3 (electricity-related)	2,063	1,916	2,141
Category 4,9 (upstream/downstream logistics)	–	–	353
Category 5 (waste)	–	–	784
Category 6 (business travel)	1,665	1,334	1,013
Category 7 (employee commuting)	1,203	967	1,009
Category 13 (electricity and gas use by tenants in rental housing)	672,987	739,403	533,067

*The calculation method for some of the results has changed for FY2022.

Leasing Business Data

Units Under Management

The number of units under management forms the income foundation for the Leasing Business, and at the end of FY2022, that number stood at a marginal decrease of 561,231, marking three consecutive fiscal years of decline. Regionally, Hokkaido and the Tokyo metro area had the largest decline among the national decline in the number of units under management.

(Units)

	FY2020	FY2021	FY2022
Hokkaido	13,550	13,390	**13,209**
Tohoku	35,327	35,099	**34,878**
Kita-Kanto	40,437	40,260	**39,959**
Tokyo metro area	170,320	167,446	**164,392**
Hokuriku-Koshin'etsu	39,943	39,793	**39,593**
Chubu	87,756	87,030	**86,275**
Kinki	80,859	79,796	**79,123**
Chugoku	39,390	39,010	**38,700**
Shikoku	14,736	14,714	**14,644**
Kyushu-Okinawa	51,355	50,776	**50,458**
Total	573,673	567,314	**561,231**

Fiscal Year-End Occupancy Rates by Region

The year-end occupancy rates rose after hitting bottom in FY2020, and has continued to rise for two consecutive fiscal years as of FY2022. By region, the occupancy rates are also increasing throughout Japan, except in Shikoku.

(%)

	FY2020	FY2021	FY2022
Hokkaido	69.8	77.9	**83.0**
Tohoku	83.0	85.1	**87.9**
Kita-Kanto	77.3	82.0	**87.1**
Tokyo metro area	81.8	85.3	**91.2**
Hokuriku-Koshin'etsu	80.6	83.1	**88.0**
Chubu	80.3	84.8	**85.8**
Kinki	81.8	85.4	**89.5**
Chugoku	86.5	88.0	**88.6**
Shikoku	82.6	84.4	**82.7**
Kyushu-Okinawa	86.5	88.3	**91.3**
Total	78.9	81.2	**84.7**

Occupied Units by Contract Type

We have stepped up sales to corporate customers who are expected to generate stable, long-term earnings. These ramp-up sales efforts have resulted in a yearly increase of occupied units over 5% through our measure to establish a position as the brains behind the company-leased housing strategy that targets the corporate customers that make up 60% of the customer base. As a result, the number of occupied units for corporate contracts at the end of FY2022 was 296,301 units. However, units contracted by individuals declined for the first time in three fiscal years while those by students increased for the first time in five fiscal years.

	FY2020		FY2021		FY2022	
	Units	%	Units	%	**Units**	**%**
Corporate	266,814	56.9	280,811	58.2	**296,301**	**59.4**
Of which, foreign nationals (%)	14,211	5.3	14,624	5.2	**19,813**	**6.7**
Individuals	164,441	35.1	167,380	34.7	**165,168**	**33.1**
Of which, foreign nationals (%)	9,132	5.6	9,758	5.8	**11,562**	**7.0**
Students	37,548	8.0	34,597	7.2	**37,090**	**7.4**
Of which, foreign nationals (%)	12,171	32.4	9,013	26.1	**10,977**	**29.6**
Total	468,803	100.0	482,788	100.0	**498,559**	**100.0**

Number of Leasing Sales Offices and Sales Personnel

The Leasing Business aims to make sales more efficient. We have reduced the number of directly managed sales offices in inefficient areas as well as transitioned to a sales structure that utilizes real estate agents. As the Leasing Business reaches one milestone in this transition, we are strengthening recruitment of staff at sales offices lacking sales personnel, which has increased for two consecutive years to reach 1,103 employees at the end of FY2022.

	FY2020	FY2021	**FY2022**
No. of leasing sales offices	239	206	**204**
Of which, Leopalace Centers	139	109	**109**
Of which, Leopalace Partners (franchisees)	100	97	**95**
No. of leasing sales personnel	1,047	1,064	**1,103**

Monthly Occupancy Rates for the Past 10 Years

(%)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
FY2013	83.32	83.67	83.69	83.50	83.84	84.28	84.23	84.31	84.12	85.61	86.92	87.47
FY2014	86.00	86.03	85.96	85.63	85.78	86.33	86.14	86.10	85.69	87.24	88.65	89.29
FY2015	87.88	87.61	87.59	87.32	87.26	87.70	87.26	87.14	86.89	88.38	89.80	90.53
FY2016	88.97	88.55	88.60	87.95	87.78	88.31	87.50	87.41	86.97	88.41	90.18	91.66
FY2017	90.51	90.28	90.55	89.75	89.88	90.21	89.73	89.69	89.44	90.83	92.43	93.72
FY2018	92.82	92.76	92.10	90.45	89.41	88.40	87.24	86.38	85.26	85.38	85.57	84.33
FY2019	82.35	81.95	81.40	80.67	80.21	80.07	79.49	79.21	78.91	80.19	81.82	83.07
FY2020	81.40	79.91	79.43	78.56	78.18	78.09	77.46	77.09	77.07	78.16	79.60	81.72
FY2021	80.65	80.32	80.91	80.59	80.53	81.13	80.70	80.58	80.45	81.14	82.62	85.10
FY2022	**84.44**	**83.88**	**84.26**	**83.55**	**83.33**	**84.00**	**83.80**	**83.91**	**84.08**	**85.23**	**86.61**	**88.83**

*Occupancy rate = The number of contracted units (excluding the ones for which the settlement procedure is completed following the contract termination) divided by number of units under management.

Ratio of General Contracts and Monthly Contracts Over 10 Years

Rates of monthly contracts have been declining recent years, while the proportion of more stable leasing contracts is increasing in general contracts without a fixed contract period increasing from 85.8% in FY2013 to 94.5% in FY2022.

(%)

	General contracts	Monthly contracts
FY2013	85.8	14.2
FY2014	88.4	11.6
FY2015	89.8	10.2
FY2016	90.0	10.0
FY2017	91.1	8.9
FY2018	94.1	5.9
FY2019	93.2	6.8
FY2020	93.9	6.1
FY2021	93.6	6.4
FY2022	**94.5**	**5.5**

Elderly Care Business Data

Number of Facilities

The Company has been developing the Elderly Care Business as a business segment to better support Japan's aging population. At the end of March 2023, we had a total of 87 facilities, a number unchanged since FY2018.

(Facilities)

	FY2020	FY2021	FY2022
Fee-based nursing homes	21	21	**21**
Day-care services, Short-stays	64	64	**64**
Group homes	2	2	**2**
Total	87	87	**87**

Utilization Rate

The Elderly Care Business runs fee-based nursing homes, group homes, short-stays, and day-care services. The utilization rate at fee-based nursing homes, group homes, and short-stay facilities remains high at roughly 90%.

(Utilization rate, %)

	FY2020	FY2021	FY2022
Day-care services	67.1	65.9	**62.5**
Short-stays	92.1	91.1	**87.5**
Fee-based nursing homes & group homes	93.0	89.4	**84.9**

External Environment

Number of New Housing Starts

New housing starts in FY2022 decreased 0.6% year-on-year. Construction of rental units increased for two consecutive fiscal years to 347,427 units, a 5.0% increase year-on-year. Meanwhile, the number of units under 30 square meters (mainly for single occupancy) stood at 49,109 units, a 0.8% decrease year-on-year, marking two consecutive fiscal years of decline.

(Thousand units)

	FY2020	FY2021	FY2022
Rental housing	303	331	**347**
Of which, under 30m²	53	50	**49**
Other	509	535	**513**
Total	812	866	**861**

Source: Housing starts statistics, the Ministry of Land, Infrastructure, Transport, and Tourism

Number of Households

The declining birth rate and aging population of Japan is expected to result in decreased household numbers from 2025. However, the number of single-person households is expected to continue to increase until 2030.

(Thousand households)

	2010	2015	2020 (projection)	2025 (projection)	2030 (projection)	2035 (projection)	2040 (projection)
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 couple	10,269	10,758	11,101	11,203	11,138	10,960	10,715
Married couple with child(ren)	14,474	14,342	14,134	13,693	13,118	12,465	11,824
Single parent with child(ren)	4,535	4,770	5,020	5,137	5,141	5,074	4,924
Other	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: Household projections for Japan (2019), the National Institute of Population and Social Security Research

Number of Vacant Homes in Japan

With concentration of population in urban centers, the number of vacant homes, particularly in rural areas, is increasing. According to the 2018 Housing and Land Survey of Japan, the number of vacant apartments for rent or sale stands at 4.6 million, or roughly one in every five houses are vacant. The situation is becoming a grave social issue.

	1988	1993	1998	2003	2008	2013	2018
Number of vacant houses for rent or sale (thousand units)	2,336	2,619	3,520	3,978	4,476	4,600	4,604
Houses for rent (thousand units)	14,015	15,691	16,730	17,166	17,770	18,519	19,064
Ratio of vacant houses (%)	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
*Ratio of vacant houses = number of vacant houses for rent / (number of vacant houses for rent + houses for rent)

Projected Future Population of Japan

The population of Japan peaked in 2008 and has been declining ever since. The population is expected to fall down to 121.11 million in 2030, and go below 120 million mark in 2033. Meanwhile the elderly population aged 65 or over is expected to increase until 2043, meaning that the proportion of people over the age of 65 is also gradually increasing.

(Ten thousand people)

	2010	2015	2020 (projection)	2025 (projection)	2030 (projection)	2035 (projection)	2040 (projection)
Age 0–14	1,680	1,595	1,503	1,407	1,321	1,246	1,194
Age 15–64	8,103	7,735	7,509	7,170	6,875	6,494	5,978
Age 65–74	1,517	1,752	1,742	1,497	1,428	1,522	1,681
Age 75 or older	1,407	1,627	1,860	2,180	2,288	2,260	2,239
Unknown	98						
Total	12,806	12,709	12,615	12,254	11,913	11,522	11,092
Proportion age 75 or older (%)	11.0	12.8	14.7	17.8	19.2	19.6	20.2

Source: Annual Report on the Ageing Society 2022, Cabinet Office

Number of Foreign Nationals Newly Entering Japan

The number of students, workers, and other foreign nationals newly entering Japan fell dramatically in 2020 and 2021 due to the effects of the COVID-19 pandemic, but these numbers are recovering as constraints under the pandemic have eased. We expect to see the number of foreign nationals newly entering Japan continue to increase in the future.

	2018	2019	2020	2021	2022
International students	124,269	121,637	49,748	11,651	167,128
Foreign workers	293,089	359,847	130,212	38,034	301,878
Total	417,358	481,484	179,960	49,685	469,006

*Based on the statistics on the changes in the number of foreign nationals newly entering Japan nationality/region and by status of residence released by the Immigration Services Agency of Japan

Corporate Profile

Corporate Data (As of March 31, 2023)

Company Name:	Leopalace21 Corporation
Head Office:	2-54-11 Honcho, Nakano-ku, Tokyo 164-8622 TEL: +81-3-5350-0001 (Main phone number)
Established:	August 17, 1973
Common stock:	JPY 100 million
Operations:	Construction, leasing and sales of apartments, condominiums, and residential housing; development and operation of resort facilities; broadband business; and elderly care business, etc.
Number of Employees:	3,991 (consolidated basis) 2,804 (non-consolidated basis)

Members of the Board and Audit & Supervisory Board Members (As of June 29, 2023)

Directors	President and CEO	Bunya Miyao
	Director	Mayumi Hayashima
	Director	Naomichi Mochida
	Director	Shinji Takekura
	Director	Akio Yamashita
	Director	Jin Ryu
	Director (Outside)	Akira Watanabe
	Director (Outside)	Yutaka Nakamura
	Director (Outside)	Takumi Shibata
	Director (Outside)	Kan Ishii

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
Yoshitaka Murakami

Audit & Supervisory Board Member (Outside)
Kazutaka Shimohigoshi

Major Shareholders (Top 10) (As of March 31, 2023)

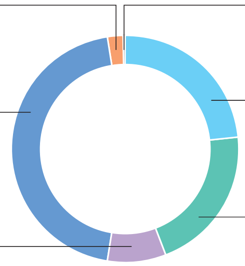
	Shareholder Name (honorific titles are omitted)	Number of Shares (thousands of shares)	Percentage of Outstanding Shares
1	Chidori Godo Kaisha	84,507	25.68
2	UH Partners 2, Inc.	50,581	15.37
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	21,197	6.44
4	MSIP CLIENT SECURITIES	16,591	5.04
5	HIKARI TSUSHIN, INC.	8,606	2.61
6	Stockholding Association for Leopalace21's Apartment Owners	6,706	2.03
7	Stockholding Association for Leopalace21's Business Connection	5,702	1.73
8	GOLDMAN SACHS INTERNATIONAL	4,374	1.32
9	STATE STREET BANK AND TRUST COMPANY 505103	4,102	1.24
10	BNYMS ANV RE BNYMIL RE LF ODEY OPUS FUND	3,682	1.11

Notes: 1. Of the shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) as of March 31, 2023, those held in trust accounts as part of trust bank operations were 6,002 thousand shares.
2. The above percentage of outstanding shares is calculated excluding treasury stock.

Corporate Data (As of March 31, 2023)

Number of shares authorized:	750,000,000
Number of shares outstanding:	329,389,515
Number of shareholders:	47,232
Listing:	Prime Market of the Tokyo Stock Exchange
Administrator of shareholder registry:	Sumitomo Mitsui Trust Bank, Limited

Shareholder Composition (As of March 31, 2023)



*Percentage figures have been adjusted.

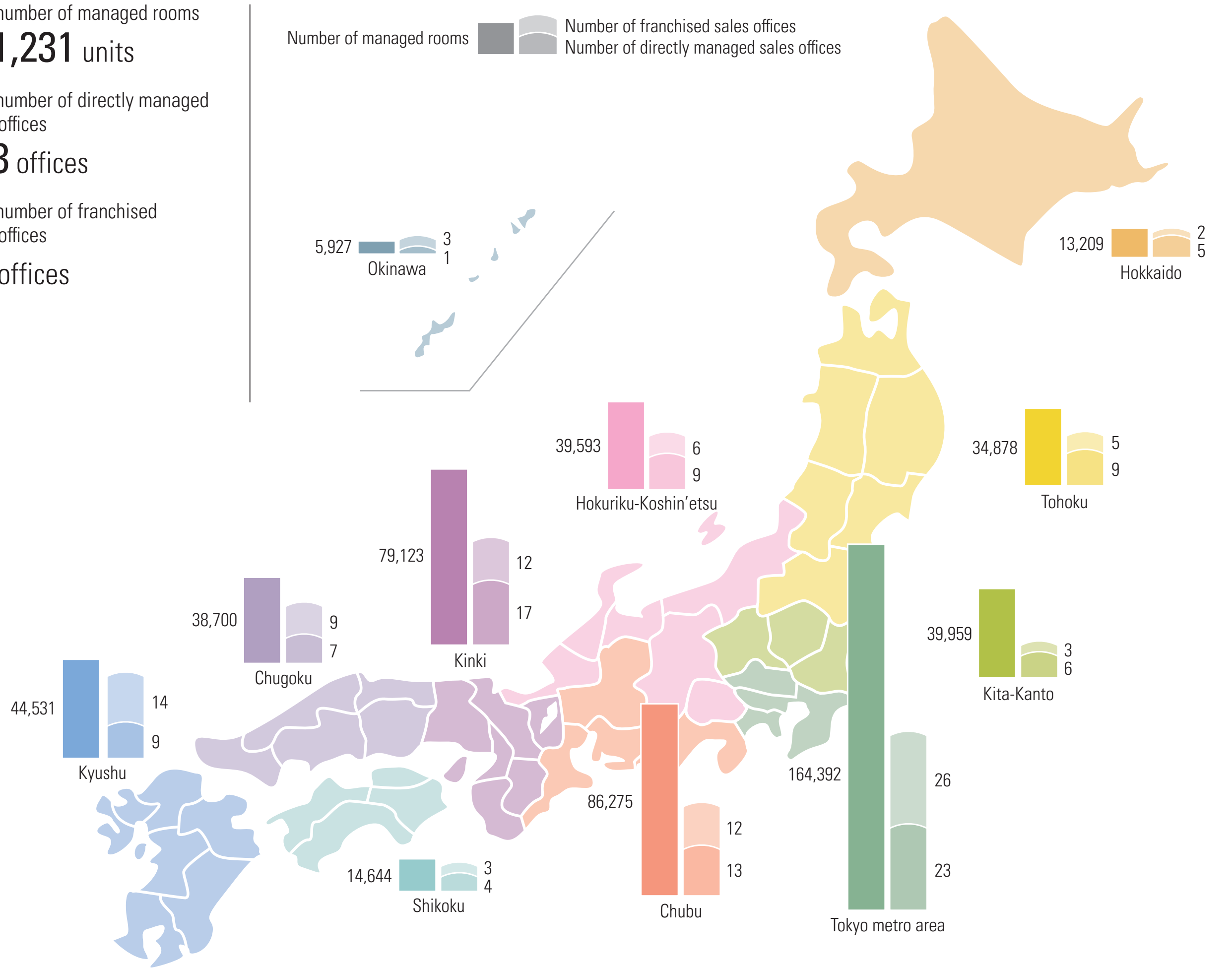
Number of Apartment Rooms under Management and Domestic Leasing Sales Offices by Region

(As of March 31, 2023)

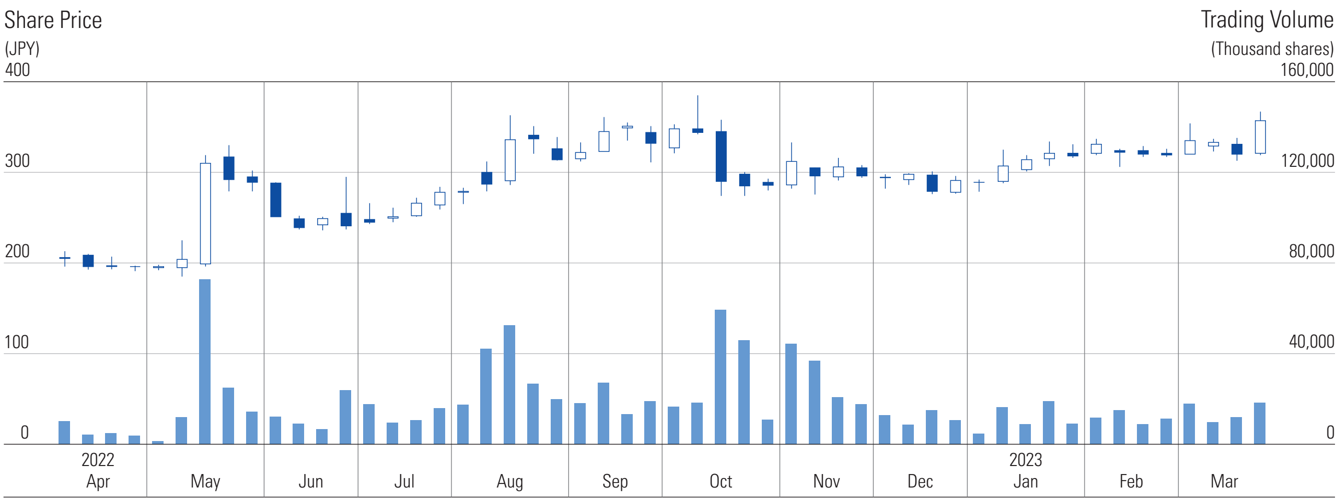
Total number of managed rooms
561,231 units

Total number of directly managed sales offices
103 offices

Total number of franchised sales offices
95 offices



Share Price and Trading Volume (As of March 31, 2023)



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Printed in Japan