Leopalace21 Corporation

Financial Results for Q3 FY2022

This document and reference materials may contain forward-looking statements, but please note that actual results may differ significantly from these forecasts due to various factors.

50th Re・connect

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Occupancy rates	Continued execution of boosting measures made the occupancy rate increase by 0.08 points during October – December timeframe. It is for the first time in 16 years since FY2006 that the occupancy rate at the end of Q3 was higher than that of Q2.
PL	Sales were lower than the plan due to the unplanned business transfer of Morizou, a subsidiary, and lowered occupancy rate of Guam resort facilities affected by COVID-19. Operating profit and net income outperformed the plan.
Construction defects management	Good progress of plan made the remaining number of rooms with obvious defects decline to 31,700, decreased by 6,300 from end of April 2022 to end of January 2023.

Chapter 1

Outline of the Financial Results for Q3 FY2022

1: Essence of Management Plan FY2022

Management Policy FY2022

Constant Structural Reforms

- Increase occupancy rate through following occupancy improvement measures.
  - ・Foreign national customers:
    Capture demand generated by specified skilled workers and by international students
  - ・Corporate customers:
    Obtain buy-in for realizing corporate housing strategy as an expert
  - ・Individual customers:
    Utilize the real estate agents network and attract customers through web-based approach
- Improve ownership equity by profitable operation aiming for increased occupancy rate and controlled cost structure

Promoting Sustainability

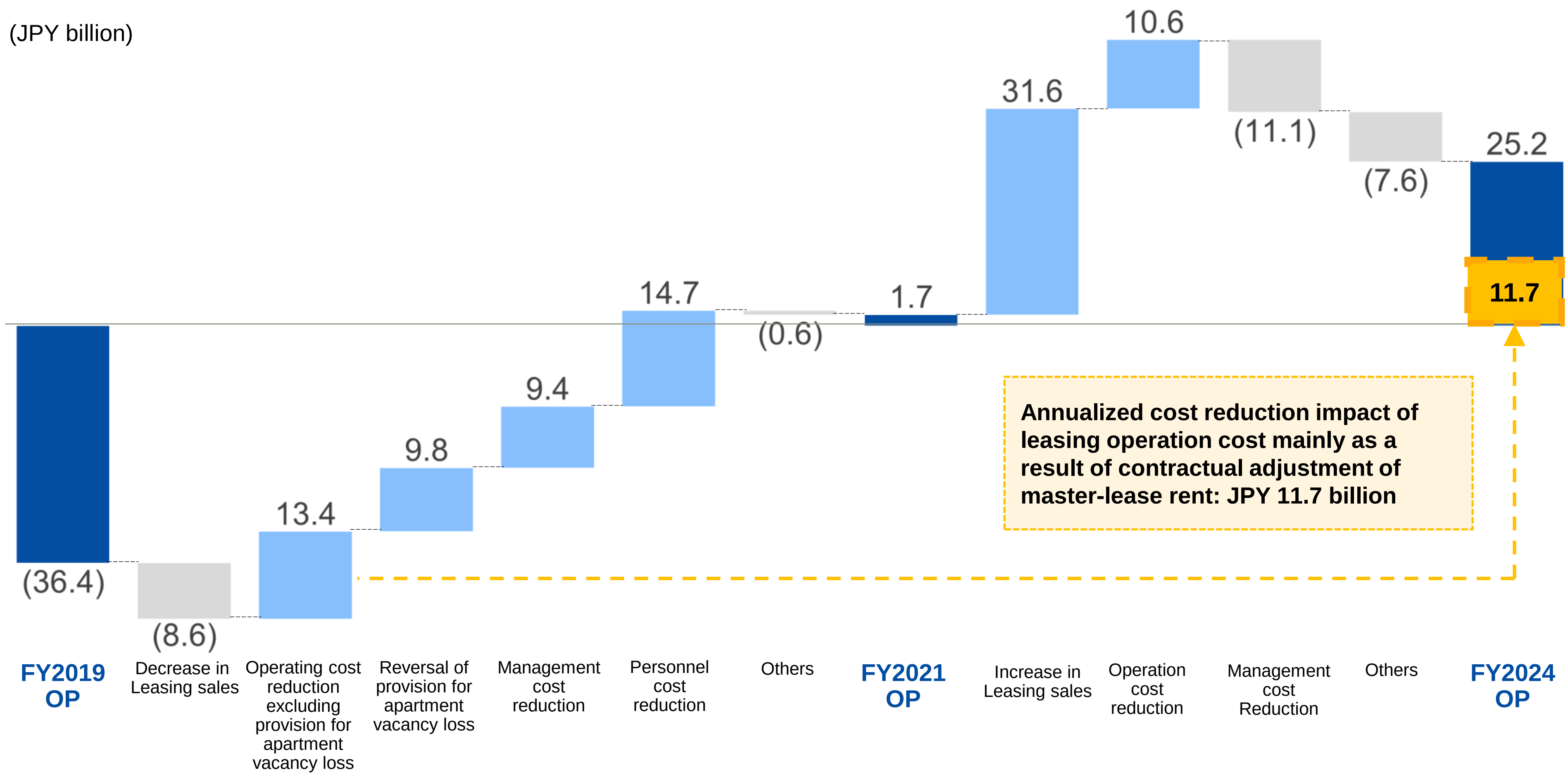
- Increase operational sustainability from environmental, social and economical aspects
- Achieve sustainable growth and increase mid- to long-term corporate value through promoting sustainable initiatives in parallel to operation of offering company houses and dormitories

Construction Defects Management

- Make steady progress in repairing the construction defects while prioritizing to restore the financial foundation
- Materialize repair completion for obvious defects by the end of 2024

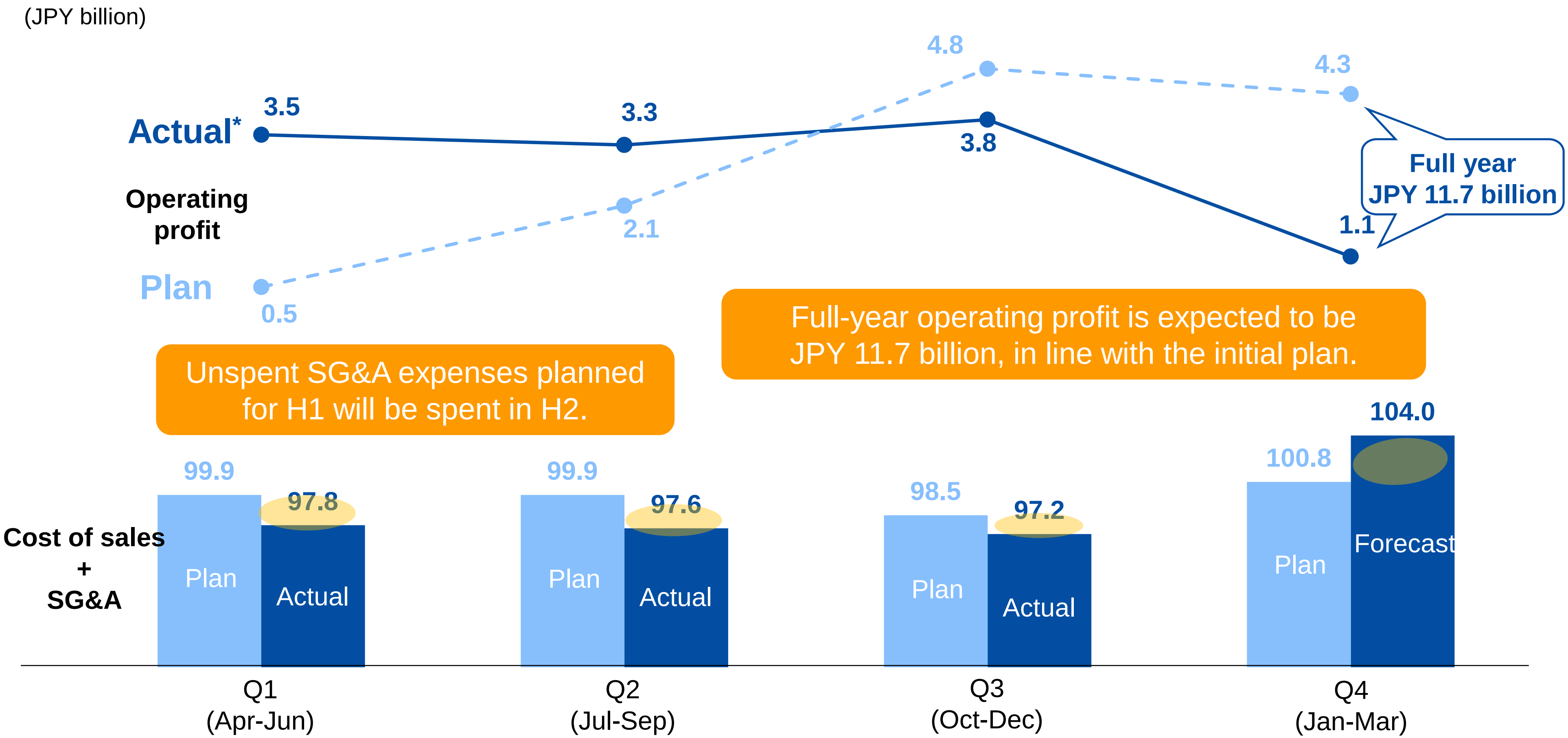
Continued measures for structural reforms to increase operating profit by JPY 38.1 billion in FY2021.
Already achieved additional JPY 11.7 billion if annualize the impact; total JPY 49.8 billion of improvement is done. The Company aims to realize operating profit of JPY 25.2 billion through additional structural reform measures and sales efforts.

Main Factors of Increase/Decrease of Operating Profit



3: Operating profit forecast for full fiscal year

Operating profit in Q1 and Q2 was significantly higher than planned, but this was due to the postponement of costs to H2 of the fiscal year, and variance from the plan is expected to narrow.



*Q4 is forecast

4: PL (Q3 Cumulative Actual)

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Recorded increase in the operating profit, recurring profit and net income both YoY and against the plan although sales and gross profit were lower than the plan due to the unplanned business transfer of Morizou, a subsidiary, and declined occupancy rate of Guam resort facilities affected by COVID-19. .

(JPY million)	Q3 FY2021 Actual	Q3 FY2022 Plan	Q3 FY2022 Actual	YoY	Compared with Plan	Factors contributing to changes
Net sales	297,470	305,700	**303,517**	+6,046	(2,182)	Negative compared to plan due to the transfer of subsidiary Morizou, lowered occupancy rate of Guam, and lower occupancy rates in July and Aug.
Cost of sales	262,264	263,300	**261,821**	(442)	(1,478)	Reversal of provision for apartment vacancy loss of JPY 2.6 bil was recorded in cost of sales (planned to be reversal of JPY 3.0 bil in Q4), despite the recording of management costs that were delayed from H1.
Gross profit	35,206	42,400	**41,695**	+6,489	(704)	
%	11.8%	13.9%	**13.7%**	+1.9 p	(0.1) p	
SG&A	30,930	35,000	**30,926**	(4)	(4,073)	SG&A expenses were significantly lower than planned due to continued cost reduction.
Operating profit	4,275	7,400	**10,768**	+6,493	+3,368	
%	1.4%	2.4%	**3.5%**	+2.1 p	+1.1 p	Recurring profit was higher than planned due to foreign exchange gains of JPY 0.4 bil despite interest expenses of JPY 3.2 bil.
Recurring profit	1,444	3,700	**8,448**	+7,004	+4,748	
Net income	5,865	2,300	**5,548**	(316)	+3,248	Extraordinary losses included loss related to repairs of JPY 0.4 bil and impairment loss of JPY 0.3.
Ave. occupancy rate	80.65%	84.49%	**83.92%**	＋3.27 p	(0.57) p	Although the current occupancy rate gained momentum, the rates in July and August held back the average compared to the plan due to affected sales capacity caused by the spread of COVID-19 within the Company.
EPS (JPY)	17.83	6.98	**16.87**	(0.97)	＋9.88	

5: PL (Quarterly Comparison)

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Costs for H2 FY2022 are higher than the initial plan due to the postponement of preventive maintenance costs (cost of sales) and IT system investment (SG&A expenses) that were planned to be recorded in H1 FY2022.

(JPY million)	FY2021				FY2022						
	Q1	Q2	Q3	Q4	Q1		Q2		Q3		Q4
					Plan	Actual	Plan	Actual	Plan	Actual	Plan
Sales	100,244	99,305	97,920	100,895	100,400	**101,406**	102,000	**101,053**	103,300	**101,056**	105,100
Cost of sales	90,472	87,131	84,660	90,024	88,100	**86,908**	87,900	**87,597**	87,300	**87,315**	85,500
Gross profit	9,771	12,174	13,259	10,871	12,300	**14,498**	14,100	**13,456**	16,000	**13,740**	19,600
SG&A	11,059	10,076	9,794	13,371	11,800	**10,919**	12,000	**10,073**	11,200	**9,934**	15,300
Operating profit	(1,287)	2,097	3,465	(2,500)	500	**3,579**	2,100	**3,383**	4,800	**3,806**	4,300
Recurring profit	(2,241)	909	2,777	(3,596)	△800	**2,643**	900	**2,790**	3,600	**3,014**	3,100
Net income	(957)	1,605	5,217	5,988	△1,400	**1,630**	400	**2,061**	3,300	**1,857**	22,600

Chap 1

6: PL (Full-year Plan)

The Company expects increased sales and profit for FY2022 YoY due to planned increase in occupancy rate and cost reduction effect as a result of structural reforms. Plans for FY2023 and FY2024 indicate continuous growth in sales and operating profit.

(JPY million)	FY2022 Plan	YoY	Factors Contributing to Changes	FY2023 Plan (reference)	FY2024 Plan (reference)
Sales	**410,800**	+12,433	Sales from Leasing Business grow substantially because of increased occupancy rates.	423,100	429,300
Cost of sales	**348,800**	(3,489)	Continued contractual adjustments for master-lease rent reduce leasing operation cost whereas increase in leasing management cost related to maintaining apartments partially offsets the reduction.	353,400	350,100
Gross profit	**62,000**	+15,922		69,700	79,200
%	**15.1%**	+3.5%		16.5%	18.4%
SG&A	**50,300**	+5,997	Recording of provision for bonuses and sales initiative implementation increase mainly personnel expenses in SG&A expenses. Increase in occupancy rate and reduction in cost of sales contribute to the increase in operating profit.	52,200	54,000
Operating profit	**11,700**	+9,925		17,500	25,200
%	**2.8%**	+2.4%		4.1%	5.9%
Recurring profit	**6,800**	+8,951	No extraordinary income/losses are planned. Income taxes–deferred is posted based on business performance recovery for a few coming fiscal years which contributes to large increase in net income.	12,900	22,100
Net income	**24,900**	+13,045		13,400	19,400
Average Occupancy rate	**85.1%**	+3.8 p	Occupancy rate follows the trend similar to that of FY2017.	88.3%	91.3%
ESP (JPY)	**75.69**	+39.65	The number of outstanding shares remains the same as FY2021, therefore EPS increases in accordance with net income.	40.74	58.99

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(JPY million)	End of FY2021	End of Q2 FY2022	End of Q3 FY2022
Cash and deposits	45,523	46,630	**48,149**
Trade receivables	8,618	8,389	**7,981**
Total assets	145,430	146,336	**148,282**
Interest-bearing debt*	33,045	32,903	**32,867**
Provision for loss related to repairs	18,086	16,875	**16,498**
Provision for apartment vacancy loss	5,632	4,101	**2,947**
Total liabilities	134,396	127,897	**127,309**
Common stock	100	100	**100**
Capital surplus	136,345	136,249	**136,240**
Retained earnings	(135,749)	(131,986)	**(130,128)**
Total shareholders' equity (A)	392	4,122	**6,005**
Total accumulated other comprehensive income (B)	675	4,861	**6,273**
Ownership equity (A) + (B)	1,068	8,983	**12,279**
Equity ratio	0.7%	6.1%	**8.3%**
Share subscription rights	357	310	**284**
Non-controlling interests	9,608	9,144	**8,408**
Total net assets	11,034	18,439	**20,972**
Total liabilities and total net assets	145,430	146,336	**148,282**

* Interest-bearing debt = borrowings + lease obligations

Factors contributing to changes

■ Cash and deposits
Q3 saw positive QoQ JPY 1.5 bil which increased by JPY 2.6 bil for Q3 cumulatively.

■ Provision for losses related to repairs
(current: JPY 4.9 bil; non-current: JPY 11.5 bil)
Decrease of JPY 1.5 bil reflecting the progress of repairs for Q3 cumulatively. Insourcing repair works and sourcing based on quotation from multiple suppliers made the balance of JPY 16.4 bil from JPY 56.2 bil recorded at the end of FY2019.

■ Provision for apartment vacancy loss
(current: JPY 1.5 bil; non-current JPY 1.4 bil)
Reversal of JPY 2.6 bil for Q3 cumulatively as a result of reduced number of fixed rent period for master-lease contract. Q1: JPY 0.5 bil, Q2: JPY 0.9 bil, Q3:JPY 1.1 bil

■ Accumulated other comprehensive income
Recorded foreign currency translation adjustments of JPY 5.5 bil for Q3 cumulatively due to weaker JPY.

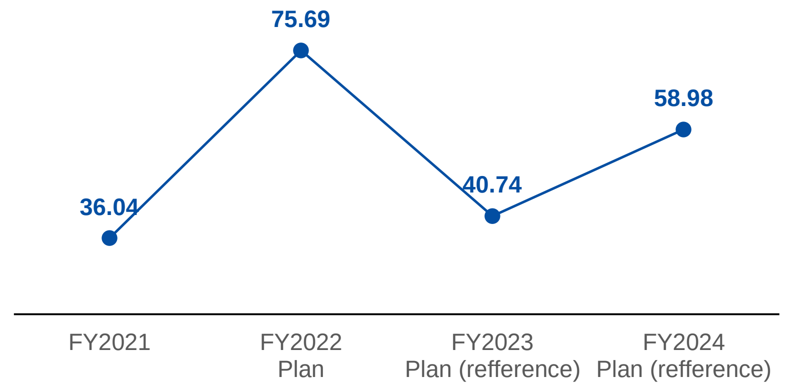
■ Ownership equity
Ownership equity augmented by JPY 11.2 bil for Q3 cumulatively due to increase in retained earnings and in accumulated comprehensive income.

■ Non-controlling interests
Decrease by JPY 1.2 bil for Q3 cumulatively due to Leopalace Power Corporation's acquisition of own shares and dividends payment.

8: Forecast of Main Indicators

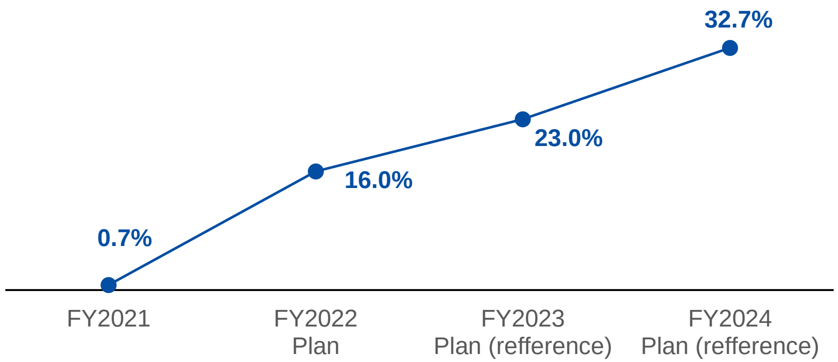
Due to continued structural reforms and improved balance sheet, indicators such as EPS, ROE, ROIC and Equity ratio reached favorable levels.
Cash conversion cycle, a strength of the Company, remains to be negative days, showing high efficiency of funds operations.

Net income per share (EPS*)



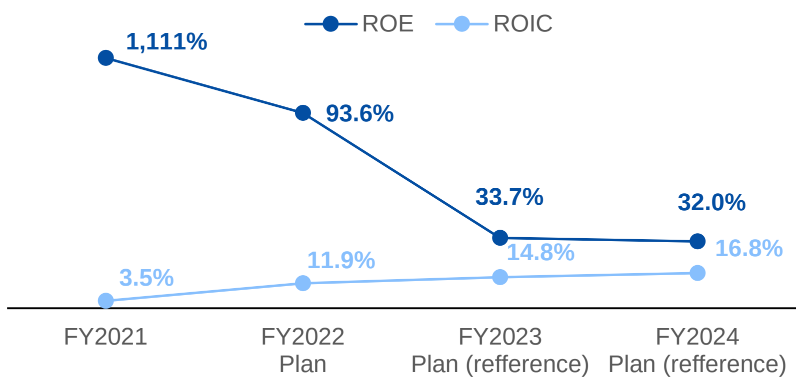
*EPS＝Net income / Number of shares outstanding

Equity ratio*



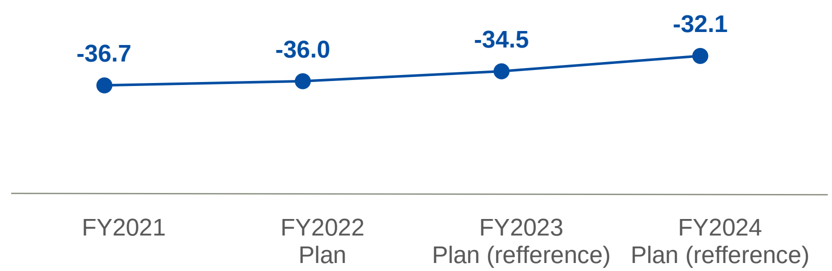
*Equity ratio＝Ownership equity / Total capital (Liability and Net assets)*100

ROE*・ROIC**



* ROE＝Net income / Ownership equity
**ROIC＝NOPAT / Investment capital (Interest-bearing debt + shareholders' equity)

Cash conversion cycle (CCC*)

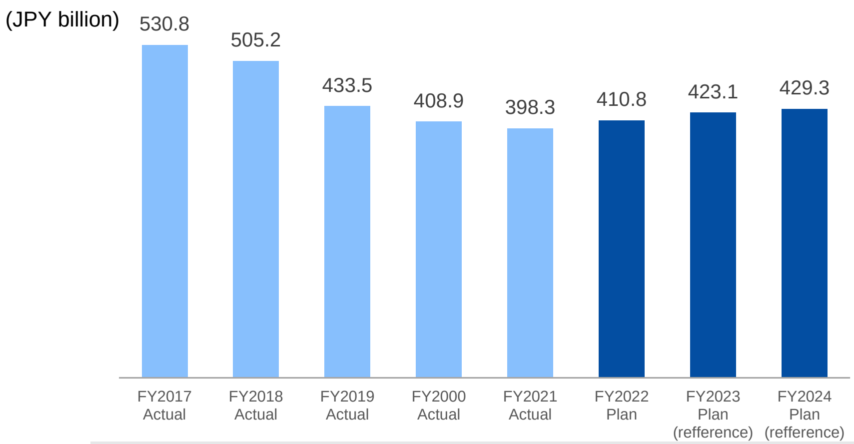


*CCC: The cash conversion cycle (CCC) is a metric that expresses the length of time (in days) that it takes for a company to convert its investments in inventory and other resources into cash flows from sales.
CCC = Receivables turnover period + Inventory turnover period – Payables turnover period

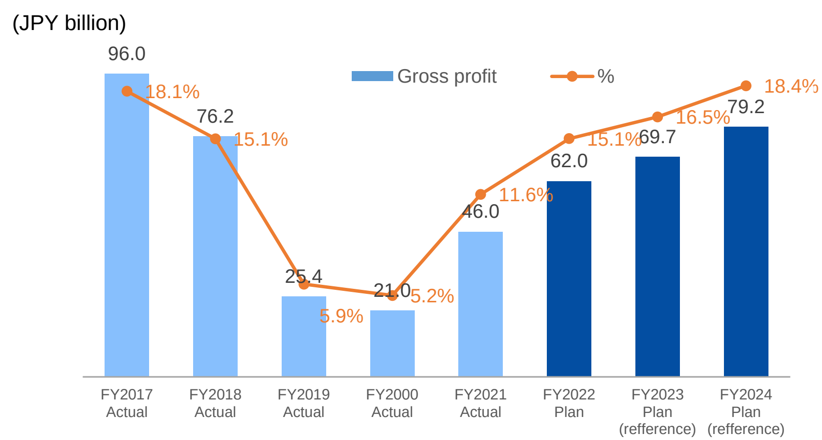
9: PL Yearly Development

Operating profit has been increasing since FY2019 reflecting the profit structure improvement.
Continued structural reforms increased net income to sales ratio and that of FY2024 outperforms FY2017.

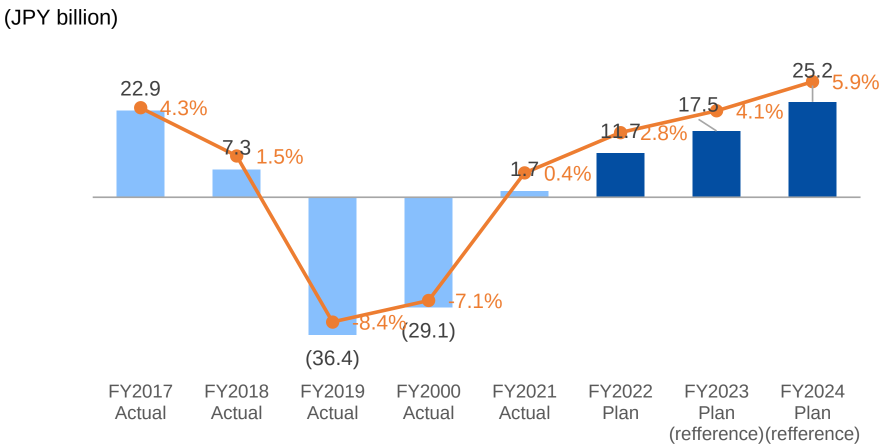
Sales



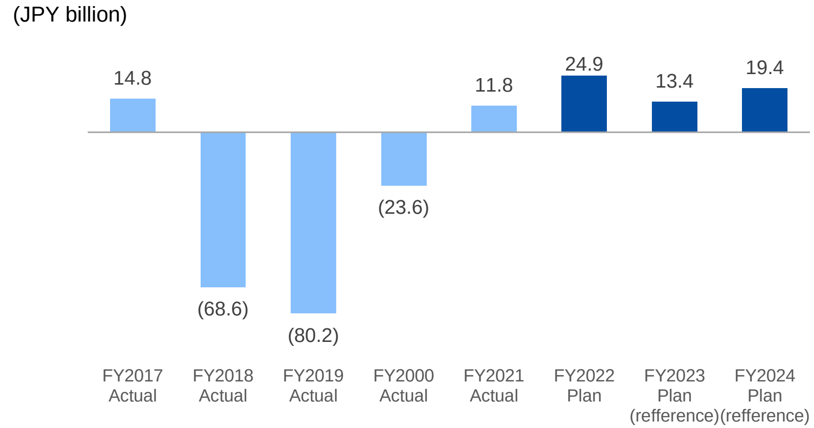
Gross profit



Operating profit



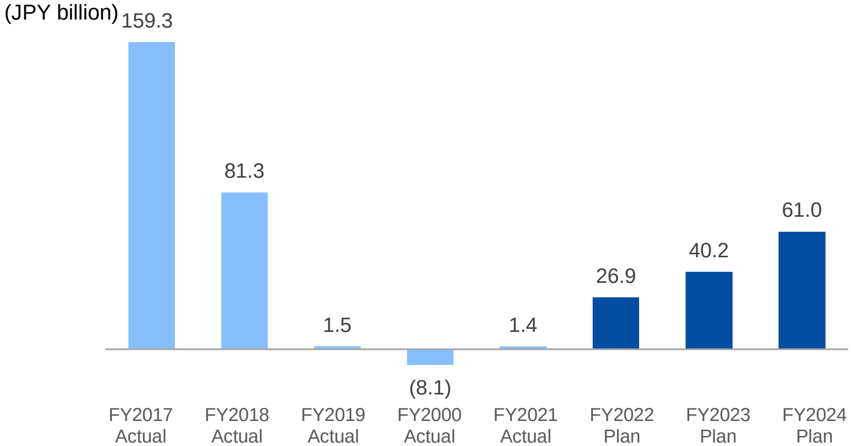
Net income*



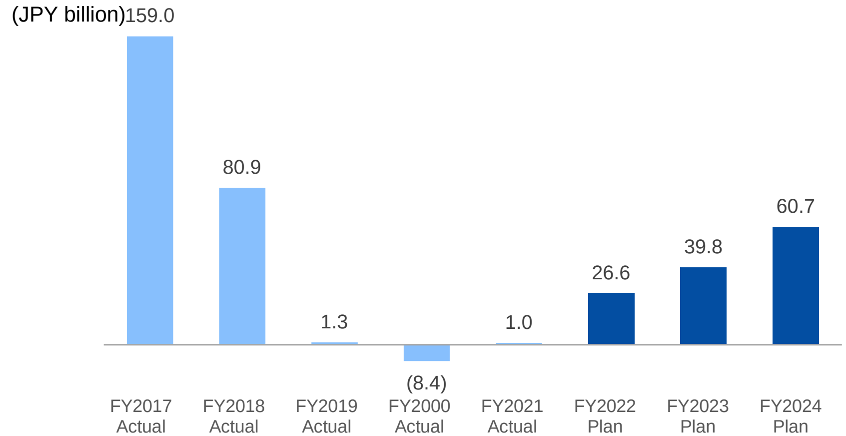
10: BS Yearly Development

The Company eliminated excessive liabilities per Tokyo Stock Exchange's definition at the end of March 2022.
In addition to strengthening capital by recording net income, the Company starts to consider from FY2022 to FY2024 implementing shareholders return such as payment of dividends and share buybacks.

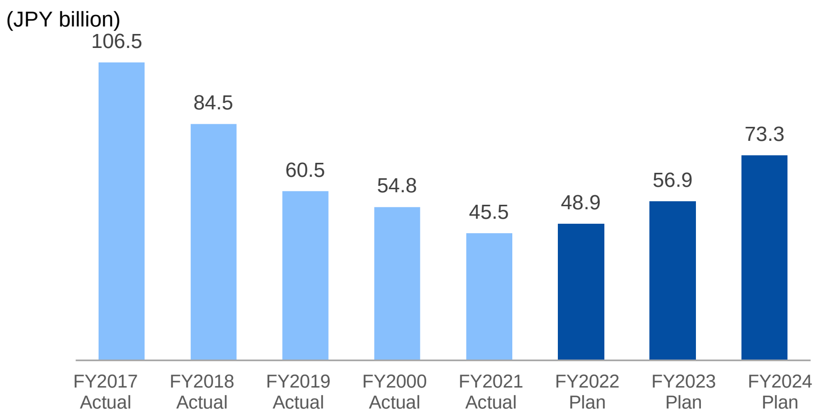
Ownership equity + Share subscription rights*



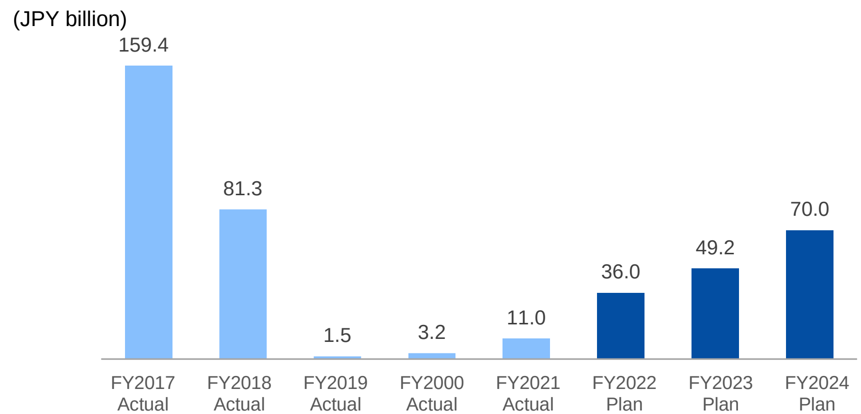
Ownership equity



Cash and deposits



Total net assets



* Net assets under the listing-related rules of the Tokyo Stock Exchange.

Chapter 2

Optimization of Cost Structure

1: Optimization of Cost Structure for FY2022 (Cost of sales)

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Preventive maintenance was not performed in line with the plan. The difference against plan is expected smaller over FY2022 total. Leasing operation cost is lower than the plan as a result of reversal of provision for apartment vacancy loss of JPY 2.6 billion.

Quarterly Trends of Cost of Sales

FY2017-FY2021
Q4 saw a large number of move-in/out, with an upward trend compared to Q1-Q3.

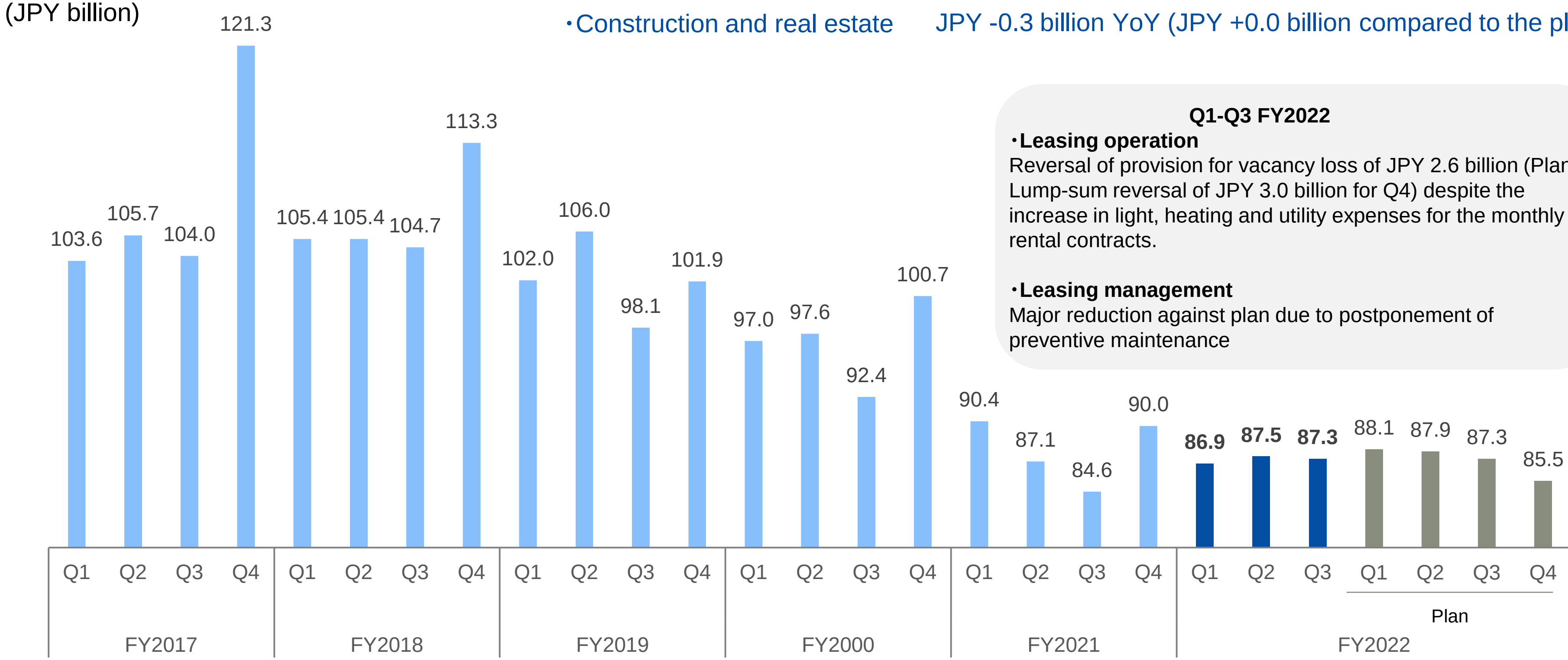
◆ **Deviation of main items from plan (Q3 FY2022 Cumulative Actual)**

- ・Leasing operation: JPY -7.2 billion YoY (JPY -1.8 billion compared to the plan)
- ・Leasing management: JPY+5.8 billion YoY (JPY -0.5 billion compared to the plan)
- ・Construction and real estate JPY -0.3 billion YoY (JPY +0.0 billion compared to the plan)

Q1-Q3 FY2022

・Leasing operation
Reversal of provision for vacancy loss of JPY 2.6 billion (Plan: Lump-sum reversal of JPY 3.0 billion for Q4) despite the increase in light, heating and utility expenses for the monthly rental contracts.

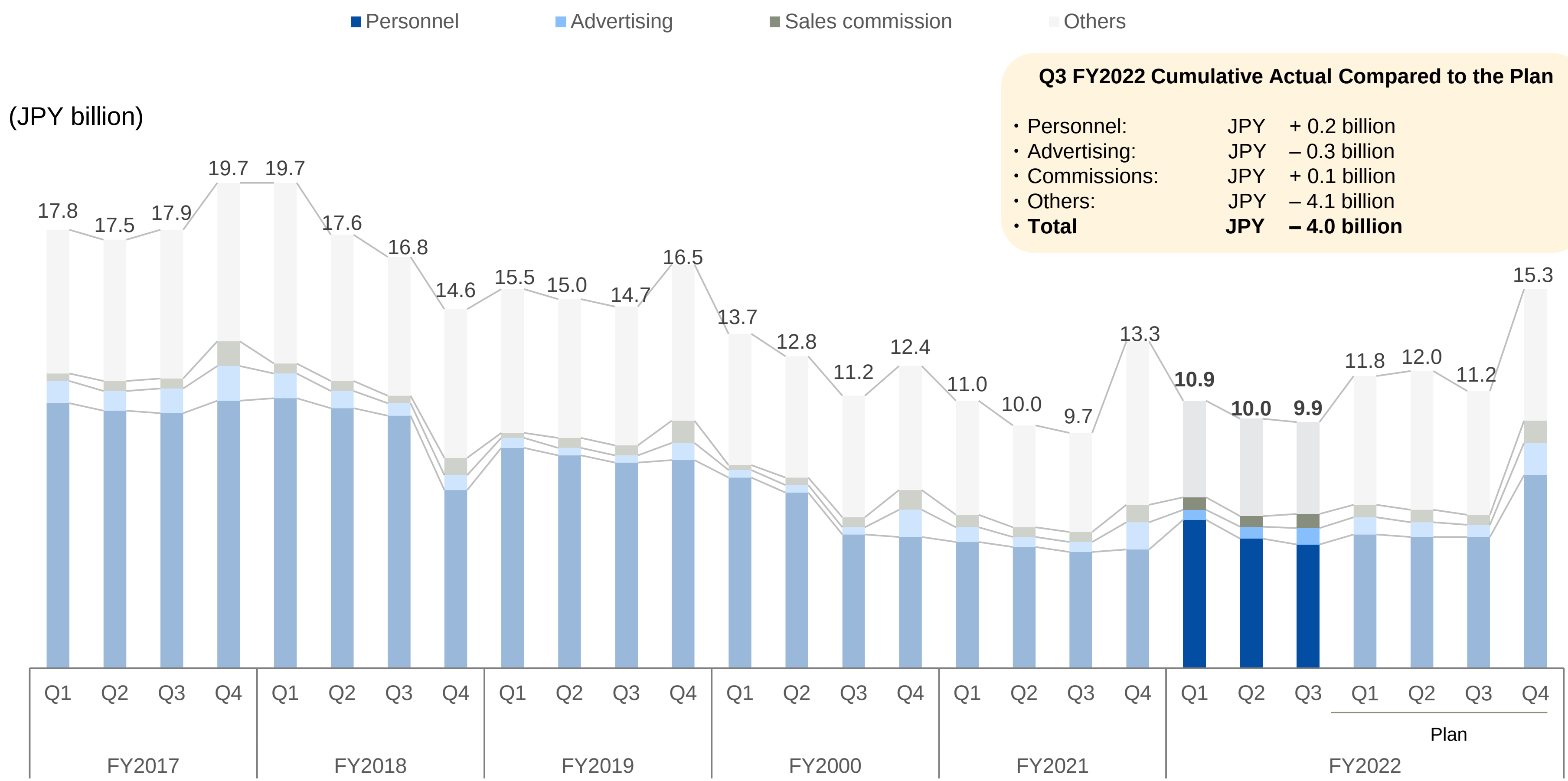
・Leasing management
Major reduction against plan due to postponement of preventive maintenance



2: Optimization of Cost Structure for FY2022 (SG&A expenses)

Despite delayed execution of hiring plan, personnel expenses exceeded the plan for Q3 cumulative due to special bonus payment. Significant reduction in the other SG&A expenses and delayed IT system investment resulted in much smaller expenses compared with the total SG&A expenses plan.

Quarterly Trends of SG&A Expenses



Q3 FY2022 Cumulative Actual Compared to the Plan

・Personnel:	JPY	+ 0.2 billion
・Advertising:	JPY	– 0.3 billion
・Commissions:	JPY	+ 0.1 billion
・Others:	JPY	– 4.1 billion
・**Total**	**JPY**	**– 4.0 billion**

* Other SG&A expenses: Taxes and public charges, commission expense, rent expense, repair and maintenance expenses, and depreciation and amortization

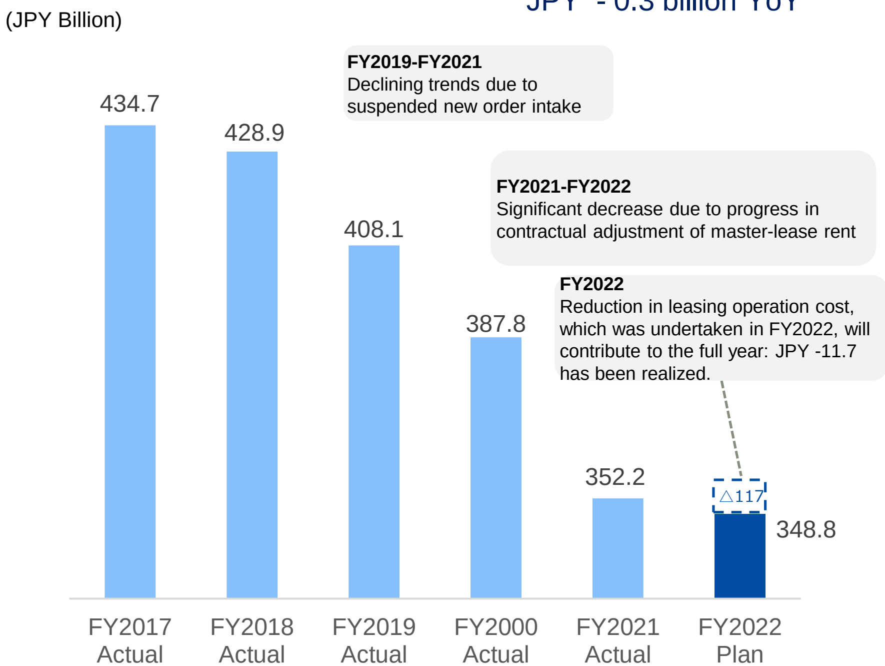
3: Optimization of Cost Structure for FY2022 (Yearly Trends)

Leasing management cost will increase for FY2022 due to spending for preventive maintenance. Progress in contractual adjustment for master-lease rent will offset the increase and cost of sales continues to decrease YoY.

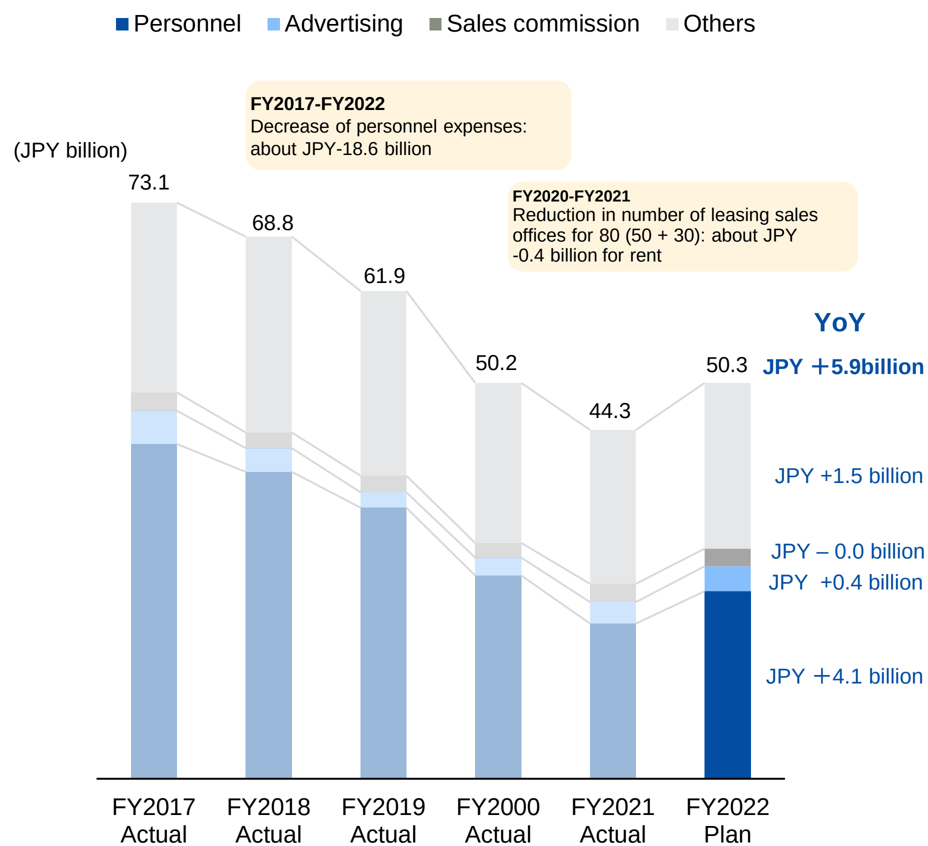
Cost of Sales

◆ **Increase/decrease in major items of cost of sales (FY2022 plan)**

- Leasing sales cost: JPY - 8.3 billion YoY
- Leasing management cost: JPY + 6.3 billion YoY
- Construction and real estate: JPY - 0.3 billion YoY



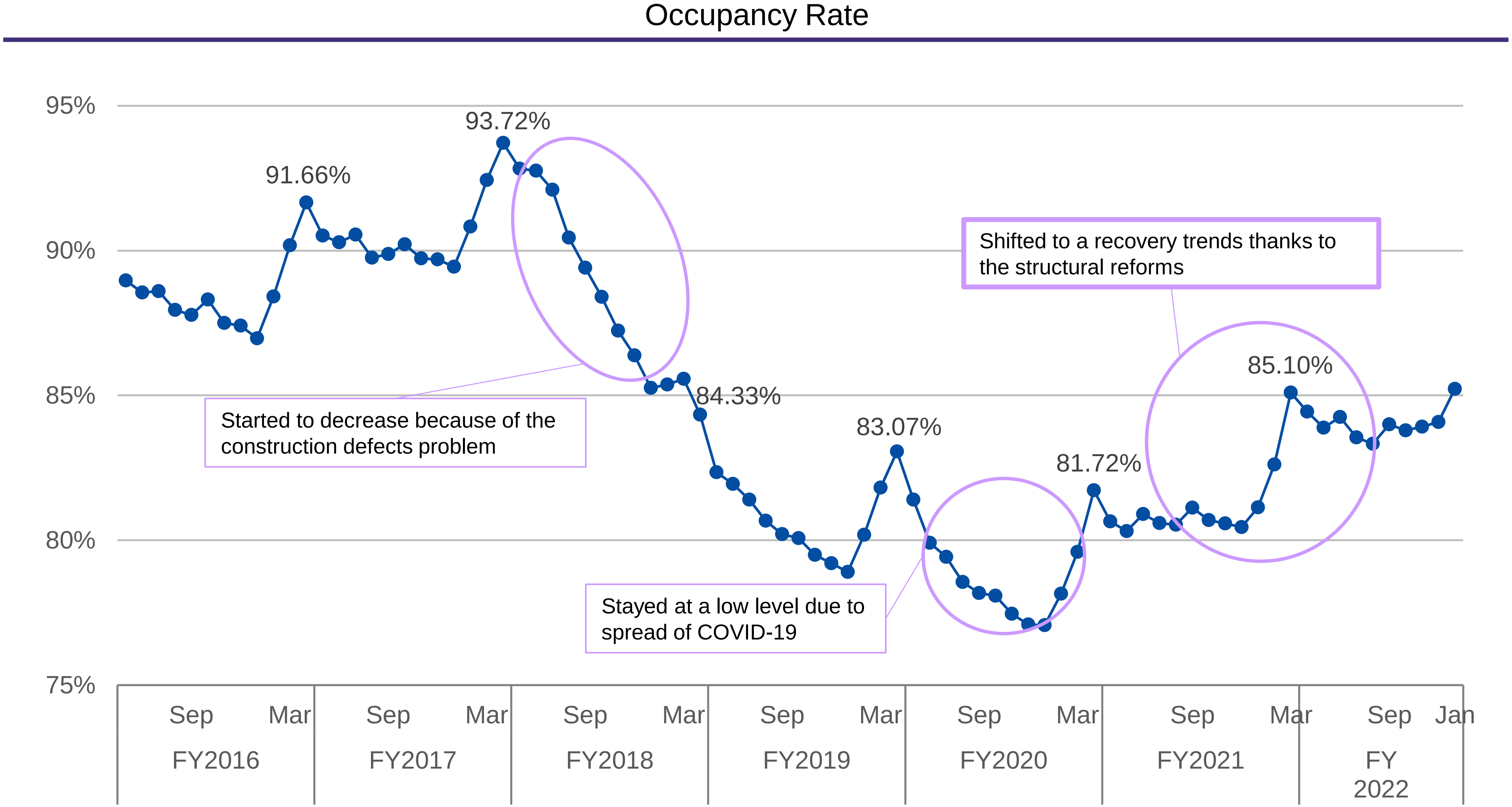
SG&A Expenses



Chapter 3 Occupancy Improvement Measures

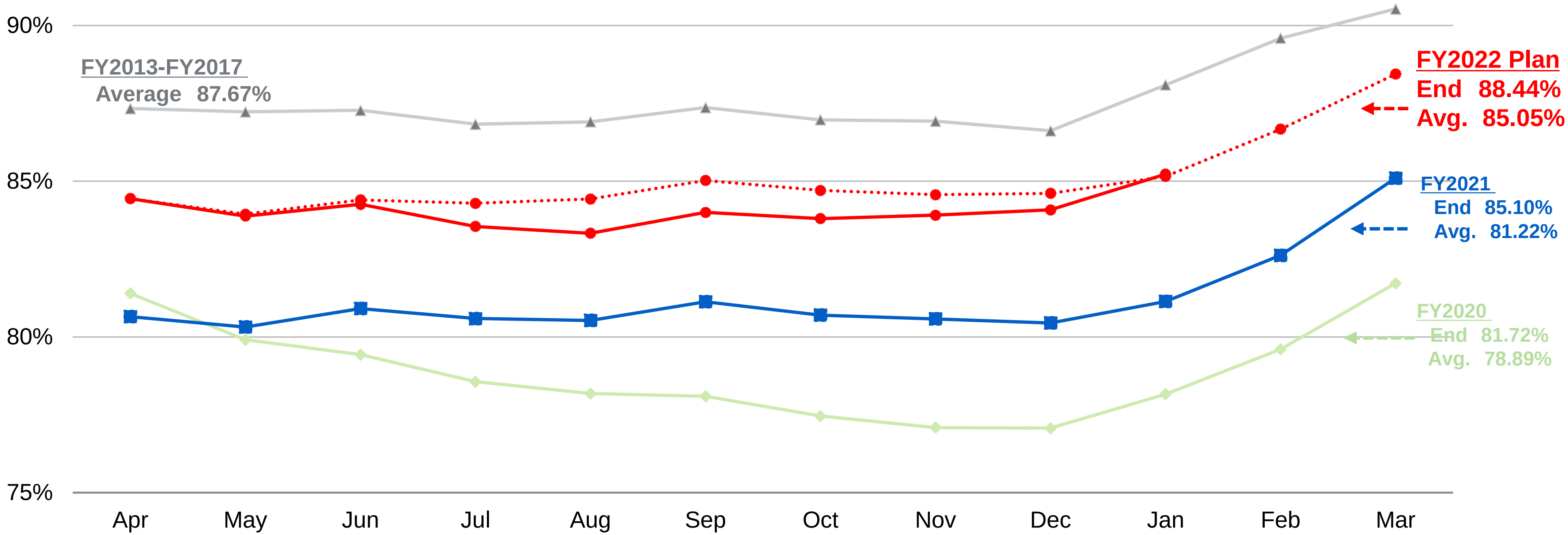
1: Occupancy Rate Trends

Occupancy rate had been increasing until FY 2017 after the financial crises, it started to decrease from FY2018 due to the construction defects problem and COVID-19. By implementing measures to improve occupancy rate, it bottomed out in December FY2020 and turned to a recovery trends.



2: Occupancy Rate in FY2022

The increase at the end of Q3 from the end of Q2 is for the first time in 16 fiscal years since FY 2006.
The occupancy rate as of end of January 2023 was 85.23% and overachieved the plan.



① Apr – Jun	② Jul - Sep	③ Oct - Dec	③ Jan - Mar
Average occupancy rate: 84.19%. (- 0.07 points against the plan) Occupancy rates remained almost in line with the plan due to the strengthened corporate sales structure and easing of entry restrictions in Japan.	Average occupancy rate: 83.91% (- 0.51 points against the plan) Jul to Aug landed at a lower-than-planned levels due to the impact of COVID-19 and a policy of maintaining the rent levels. Substantial increase of +0.67 points in Sep, a largest hike in the past 10 fiscal years.	Average occupancy rate: 83.92% (- 0.57 points against the plan) Respective increases against the previous months in Nov was for the first time since FY 2013 and that in Dec was since FY2010,	Jan saw 1.15 points increase from Dec, which was higher than the plan. Plan to increase the occupancy rate by about 3.8 points during Q4.

*Monthly Data: https://eg.leopalace21.co.jp/ir/finance/getsuji.html

3: Occupancy Improvement Measures in FY2022

The Company implements measures of boosting occupancy rate for segmented customers to achieve the plan. Efforts are made to attract increasing number of foreign national customers of specified skilled workers for designated activities and international students reflecting the relaxation of immigration restrictions in FY2022.

Acquire larger share at each corporate customer

Obtain customer's buy-in for realizing corporate housing strategy as an expert

- Top-level sales activities
  Involve senior management team in customer interaction for resolving issues.
- Strengthen sales organizational structure
  Reorganized the sales departments from five to eight in Tokyo metropolitan area aiming for increased customer interaction time.
- Individual customer strategy
  Promote customers' use of rooms by responding to specific customer requirement.

Selected five industries for increased market share: staffing & outsourcing, construction, transport, food service, and distribution

Attract specified skilled workers for increased use of rooms

Increase the use of rooms by specified skilled workers by collaborating with staffing agencies for foreign nationals and establishing stronger relationship with the support agencies.

No. of foreign national tenants under corporate contract at Q3 end: approx. 19,000

Attract increased number of individual customers through real estate agents and use of web-based services

Collaboration with real estate agents

- Strengthen sales to real estate agents by working with major real estate agents and Village House in Fortress group.
- Achievement in Q3 FY2022
  - Number of rental contracts through real estate agents: 22,770 (up 4.0% YoY)
  - Ratio of contracts with individual customers through agents: 42.7% (up 5.1 points YoY)

Strengthen web-based customer attraction

Reinforced digital marketing
⇒ Grow responses by drawing traffic to the Company website

Attract international students for increased use of rooms

Acquire the increasing demand by international students coming to Japan as a result of relaxation of immigration restrictions.
Utilize seven IFCs, and strengthen relationship with real estate agents and service providers which cater for students' needs.

No. of foreign national tenants under individual.contract at Q3 end: approx. 20,000

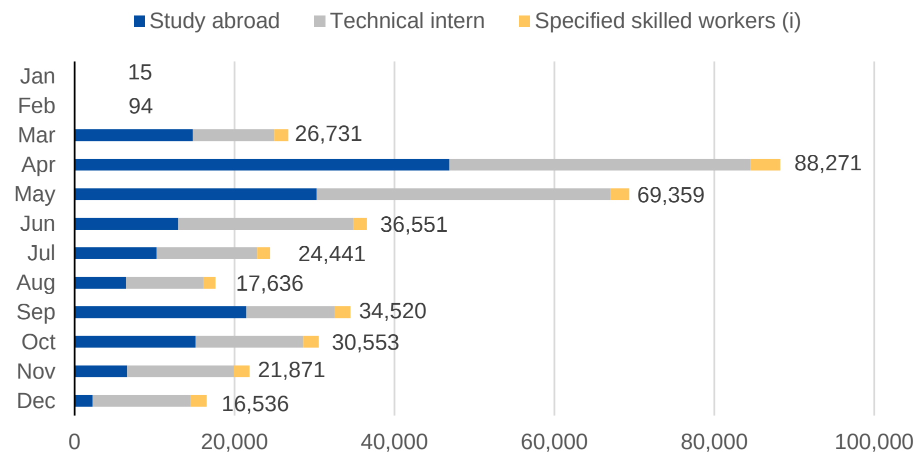
4: Acquiring Demand from Foreign Nationals

The number of foreign nationals is expected to gradually increase due to the relaxed immigration restrictions. Targets are set by immigrant category, aiming to acquire tenants at the level of FY2019, prior to COVID-19 spread.

Contracts with foreign national customers (individual contract)

- **Number of contracts Q3 (Actual)**
  7,504 (+ 1,314 against the plan, + 2,370 YoY)
- **Number of contracts for full year (Plan)**
  About 13,000 contracts (+65% YoY)

▼ Trends of foreign nationals entering Japan

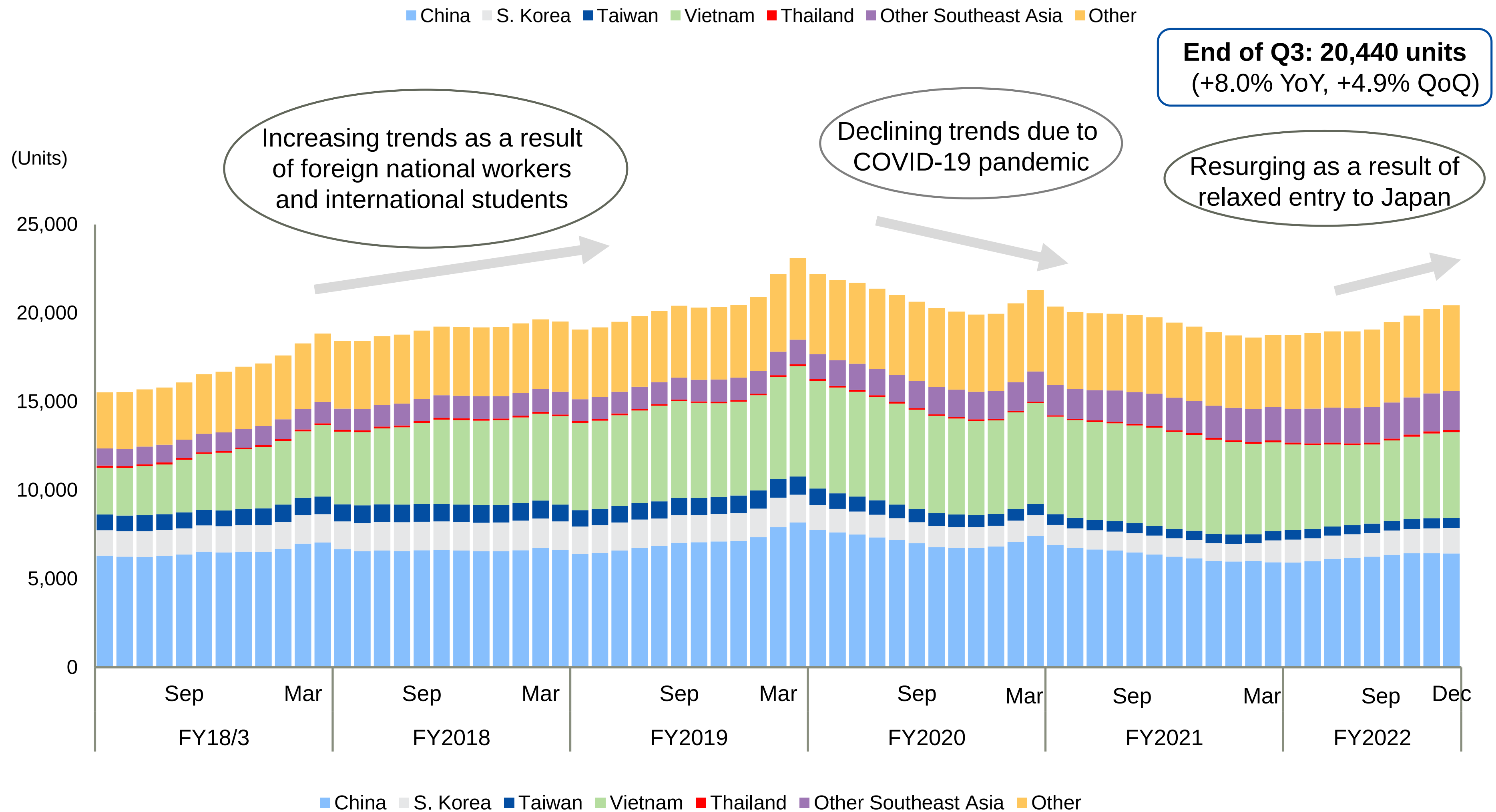


Source: Statistics on number of foreign nationals entering Japan and the number of Japanese nationals returning to Japan (Immigration Services Agency)

Target segment	Main measures to get response
International students	• Universities, business colleges, Japanese language schools • **Real estate agents** • Service providers catering for students' needs
Workers	• **Real estate agents** • Employment Agencies
Specified skilled workers	• **Specified skilled workers support organizations** • **Real estate agents** • **Companies accepting foreign workers**
Technical intern trainees	• Supervising organizations • Companies accepting foreign workers

5: Occupied Units by Foreign Nationals

Number of units used by foreign national tenants is about 40 thousand, comprising about 20 thousand individual customers and 19 thousand under corporate contracts, 8.4% of total occupation.
(Q3 FY2022 result:+1.4 p YoY, +0.4 p QoQ)



Chapter 4 Promotion of DX Solutions

1: Strengthen DX promotion structure

The Company was qualified as a DX Certified Company under the DX Certification System established by the Ministry of Economy, Trade and Industry on November 1, 2022.

DX VISION

Create new value by offering advanced solutions for meeting people needs and expectations through DX

Aug 5, 2022
Disclosed formulating **DX Strategy**

Leopalace21 DX strategy

Nov 1, 2022
Qualified as a **DX Certified Company**

Digital Transformation Certification

By 2025 Continue DX promotion to be selected for a **DX Stock**

DX銘柄
Digital Transformation

DX Strategy themes

- Strengthen customer viewpoint
- Advance offered value
- Advanced decision-making
- Create new revenue models

DX foundation

Process ⟷ Data ⟷ People

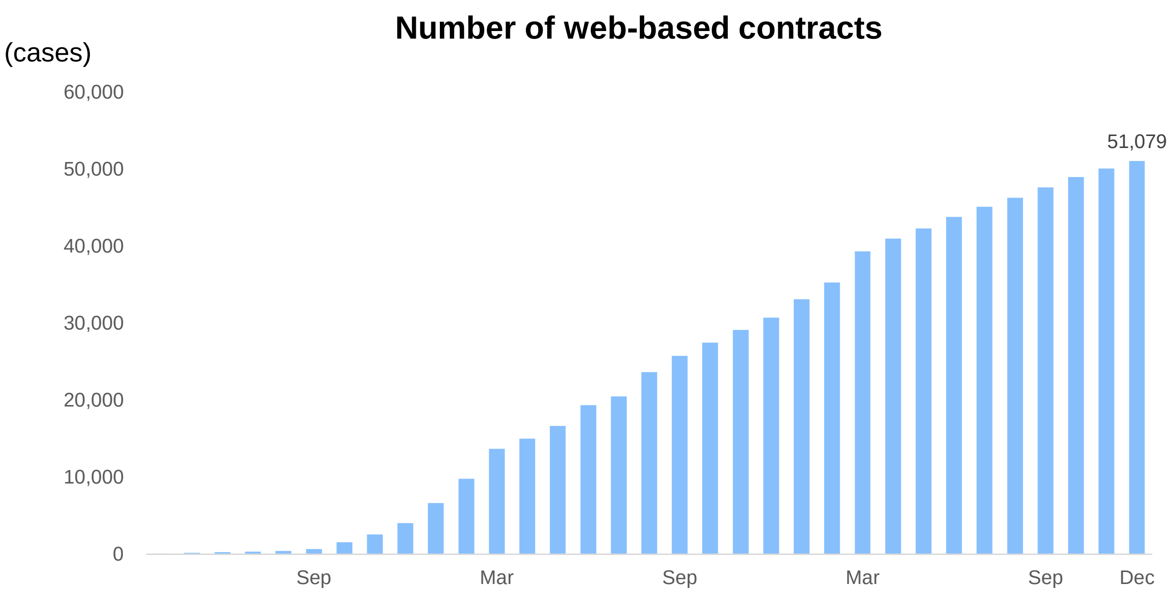
- Digitalized processes
- Centralized data managemnt and visualization
- Develop human resources for DX

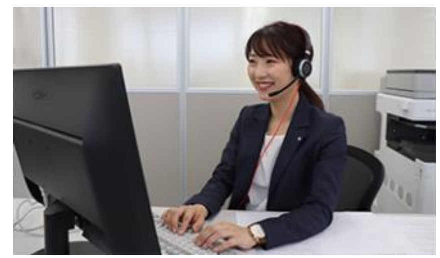
Establish security governance that supports safe and secure data utilization

2: Promote Web-based Rental Contracts

The revised law has made it possible to electronically handle fixed-term rental contracts, which used to require the delivery of a written contract. With the exception of some contracts*, the customers can complete all steps from searching an apartment to signing a rental contract without the need of face-to-face interaction.

Development of Web-based Contracts





◆ **2015- *Leo-sign* (Electronic contract)**

Launched in 2015.
Fit for increasing trends of skipping seals on paper.
Employed by corporates for total 41,040 cases (36.7%) up to Q3 FY2022.

◆ **2019- Web-based contract**

Launched in Jun 2019.
Enabled non-face-to-face contract signing.
Q3 FY2022 cumulative results: 11,741

◆ **2020- Web-based customer service/room viewing**

Launched in Oct 2020. Enabled to use online customer service and room viewing. All procedures are possible without visiting the leasing sales offices combined with WEB-based contract signing and *LeoLock*.

◆ **2021- eKYC (Know Your Customer)**

Launched in Jan 2021.
Replaces submission of identity verification document and interview in person with a digitized ID document and a web-based interview.

* Electronic support for contracts with guarantors are excluded and will begin in due course.

Started to install smart locks in FY2022 in addition to the on-going services.
Upgraded *LEONET,* internet connection service, for stable data transmission that is less likely to cause line delay.

Smart Lock

- Leopalace21 is installing the smart locks to **440 thousand apartment units**, or approx. 80% of its apartment units under management, since June 2022.
- The smart lock enables tenants to view rooms or move in the room **without visiting leasing sales office** for receiving the key. It **prevents face-to-face procedure** as a protective measure against infectious diseases.
- Tenants can **avoid the lost key** because the entrance door can be unlocked by multiple authentication methods using a smart phone, a smart card, or a PIN entry to a keypad.
- No. of units installed **exceeded 50,000, the largest scale in the industry.**

LEONET

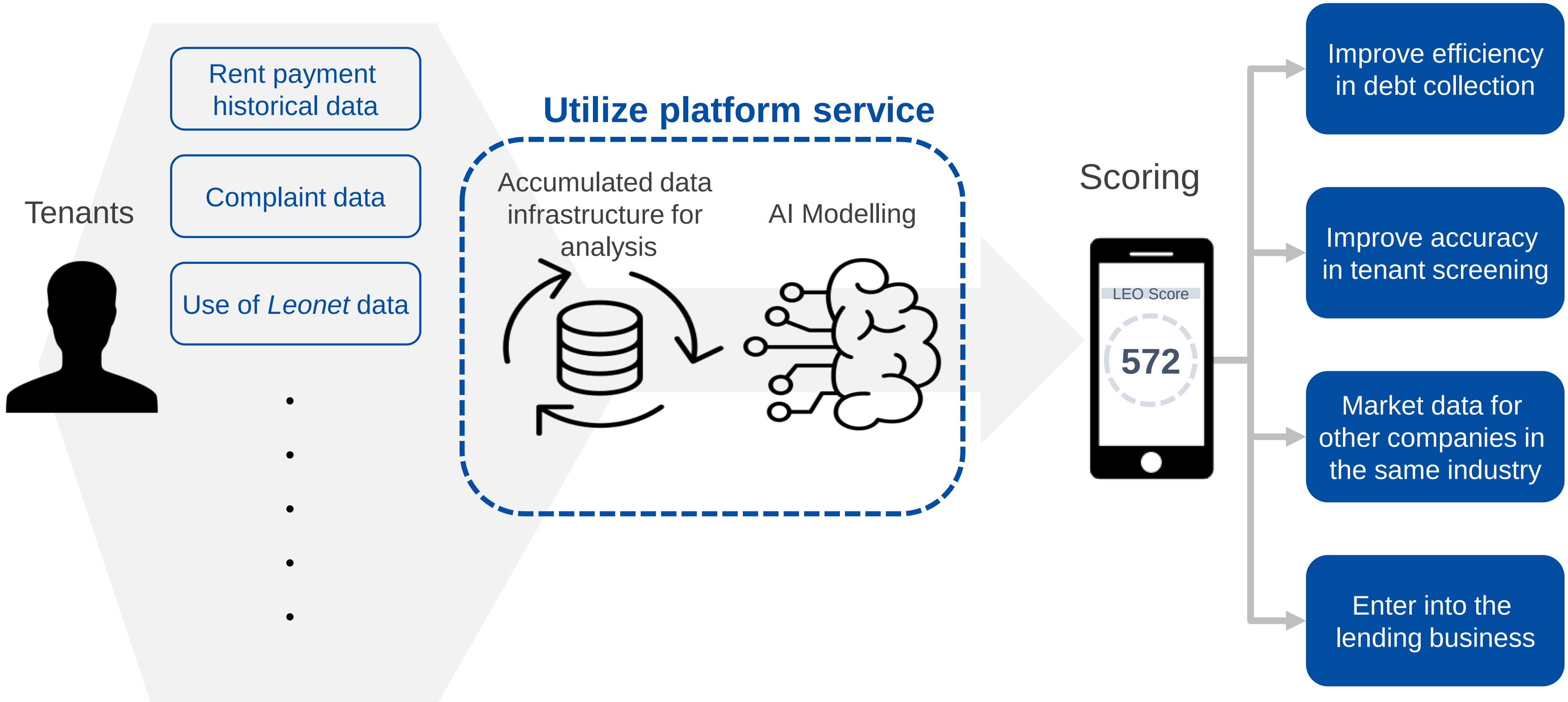
- Leopalace21's own internet connection service comes standard with all apartment rooms by which Leopalace21 also offers various content such as video streaming and shopping.
- Increased the tenants' convenience in FY2022 for rebranding
  - Replaced the PPPoE protocol with IPoE for **stable data transmission to avoid delay in transmission speed**.
  - Extended the toll-free number hours from 10:00 to19:00 **to 24 hours a day, 7 days a week** since August 2022.

Leopalace21

Apply AI technology to the huge accumulated data through Leasing Business operation.
Investigate a business possibility of selling outside AI-powered creditworthiness scoring service and further develop to a platform business.

Possibility to Develop to a Platform Business

Prepare a scheme by use of AI-powered creditworthiness scoring service

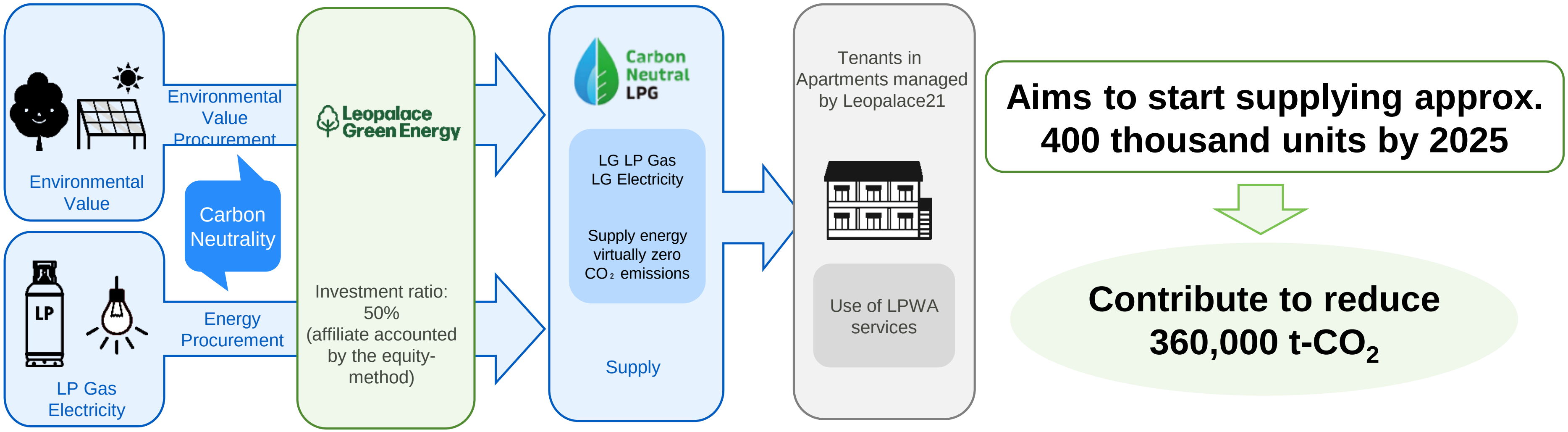


Chapter 5 Promotion of Carbon Neutrality

1: Aims to Achieve Carbon Neutral Society

Leopalace21 plans to offer Green LP Gas and LPWA services with virtually zero CO_2 emissions to the apartments under management starting in 2023, in response to the government's declaration of Carbon Neutrality by 2050.

Leopalace Green Energy Project



Leopalace Green LP Gas

LP Gas with virtually zero CO_2 emissions

The LP gas offsets the greenhouse gases generated in the entire value chain of LP gas, including transportation from production to consumption, by carbon credits obtained from environmental conservation projects, thereby making **virtually zero CO_2 emissions from LP gas**

LPWA Services*1

Remote operation of gas valve opening and automatic detection of gas leaks

LGLP gas supplier will strive for **a fair and transparent LGLP gas rate structure** through operational efficiency **for improving convenience and safety** through web-based acceptance of openings, web-based billing, and 24-hour gas usage monitoring.

Leopalace Green Electricity*2

Virtually zero CO_2 emissions during power generation

It is renewable energy power with **virtually zero CO_2 emissions** with non-fossil certificate (certifying the value of no carbon dioxide emissions during power generation).

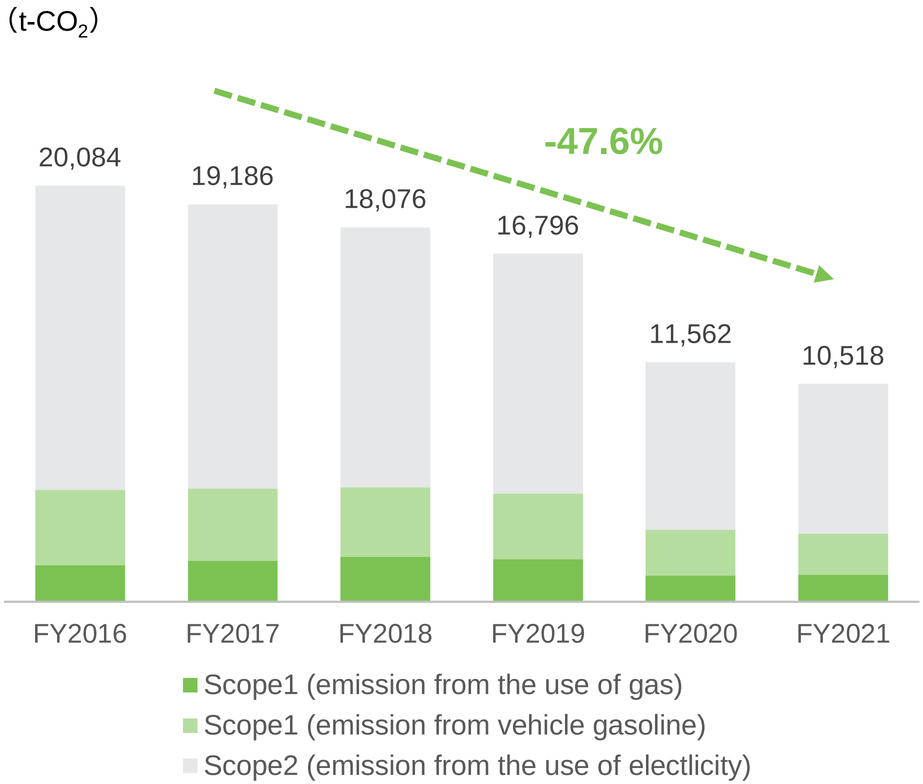
*1 LPWA: Low Power Wide Area
*2 Leopalace Green Electricity is scheduled for service start as soon as it is ready.

2: Reduction of CO_2 Emissions

Achieved CO_2 emissions reduction targets for Scope 1 and 2 (from electricity, gas, and gasoline).
The Company updated a goal of reducing the Scope 1 and 2 CO_2 emissions by 46% in FY 2030 compared to FY 2016.

CO_2 Emissions for Scope 1 and 2

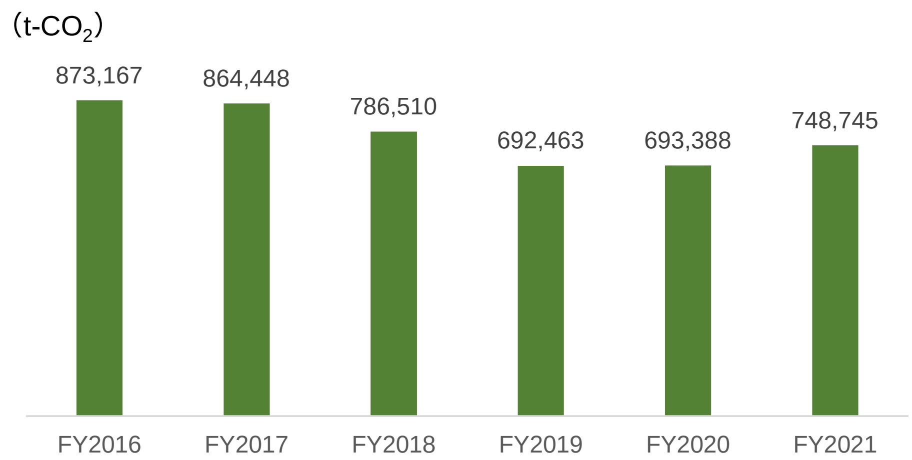
Goal:
Reduce the emissions by 46% in FY2030 compared to FY2016



Disclosure Based on TCFD Framework

- The Company expressed to support the recommendations by TCFD and participated in the consortium during FY2021.
- Launched a project for disclosure based on TCFD framework.
- The Company disclosed its activities in its Integrated Report published in October 2022 on the governance, strategy, risk management, and metrics and targets.

CO_2 Emissions for Scope 3



Chapter 6 Strengthening Corporate Governance

1: Strengthening Corporate Governance

The functions of risk management coordinators and compliance coordinators in each department are to be strengthened to further increase the risk sensitivity and compliance attitude of all employees and to reform the company to a self-driven corporate culture of ensuring compliance in FY2022.

Q3 Actual

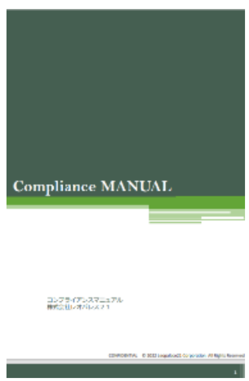
◆ Revision of compliance manual

In addition to legal compliance and standards of conduct, the new guide includes information on corporate ethics and social norms, which have attracted much attention in recent years. The content has been revised to make compliance more accessible and useful in social life.

《Main content》

- About compliance
- Roles of compliance manager/ coordinator
- Whistleblowing system
- Harassment tips
- Related laws
- Information management

(First edition in 2006)

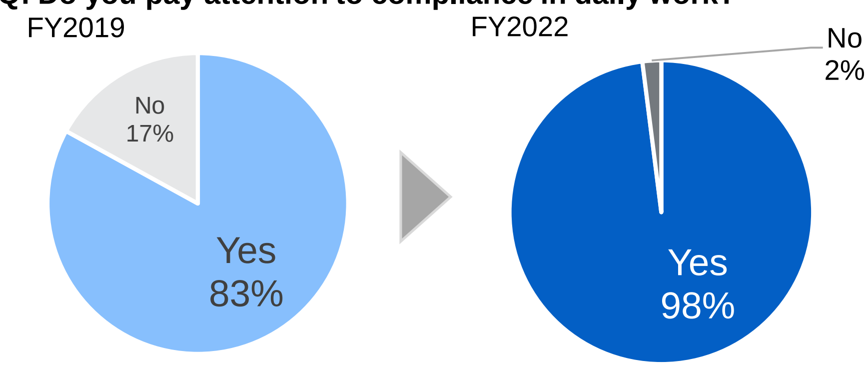


(Revised edition in 2022)

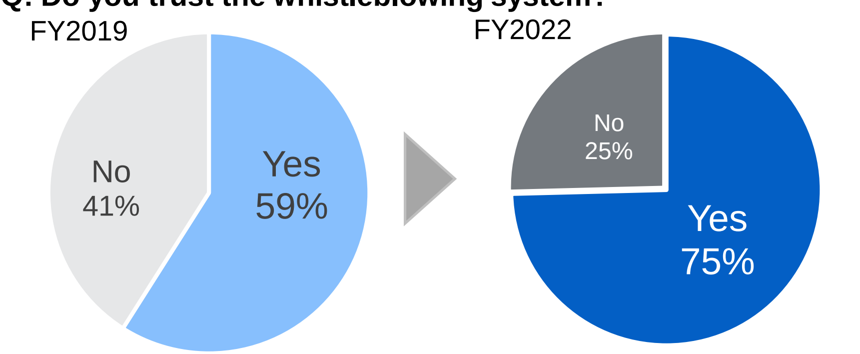
◆ Result of compliance attitude survey

Conducted compliance attitude survey in August 2022. The results were disclosed internally to further promote compliance awareness.

Q: Do you pay attention to compliance in daily work?



Q: Do you trust the whistleblowing system?



Chapter 7

Construction Defects Management

1: Repair Works on Properties Constructed by Leopalace21

Expected number of repaired units in the future: About 31,700 rooms

Of the 77,735 rooms that have been deducted “repairs completed” from "requiring repairs" in the below table, 20,228 rooms have been found defective as a result of the investigation. It is estimated that about 31,700 rooms need repairs, by adding 20,228 rooms to about 11,500 uninvestigated rooms that are estimated to be defective based on the past investigation results.

(As of January 31, 2023)

Apartment series	No. of buildings	No. of buildings containing obvious defects	No. of all rooms which corresponds to No of buildings containing obvious defects	No. of rooms requiring repairs	No. of rooms with repairs completed
Nail Series / Six Series Total	15,283	7,731	121,473	85,257	47,475
Other Series Total	23,802	4562	70,964	48,184	8,231
Grand Total	39,085	12,293	192,437	133,441	55,706

Expected No. of to-be-repaired rooms
18,700
13,000
31,700

- Status up to June 2022
  Priority has been given to repairing rooms for which tenant recruitment was suspended because of obvious defects.
  Completed about 51,000 rooms by the end of June 2022.
- Plan for July 2022 – March 2023
  Complete repairs for approximately 6,000 rooms by the end of March 2023.
  Actual result for July 2022 – January 2023: 4,420 rooms

Steadily repair construction defects while continuing to rebuild the financial base.
Aims to eliminate the rest of rooms with obvious defects **by the end of 2024**.

Progress of repair works: https://www.leopalace21.co.jp/info/en/news/progress.html

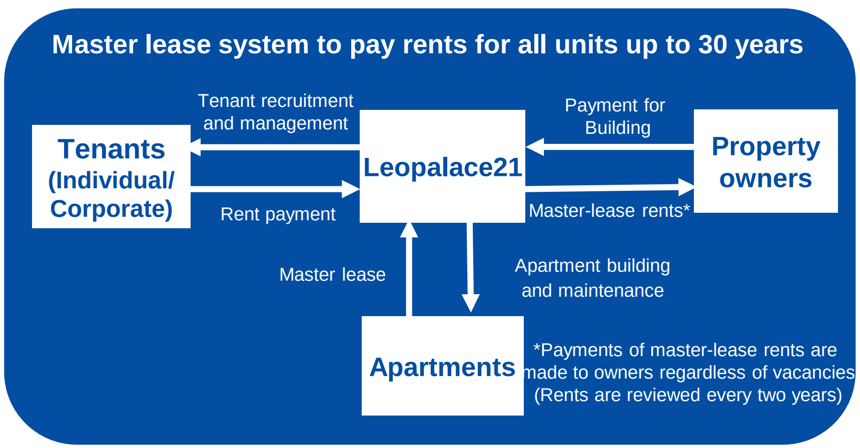
Appendix

Corporate Data (as of December 31, 2022)

Established	August 17, 1973
Paid-in Capital	JPY 100 million
Representative Director	Bunya Miyao, President and CEO
Employees	4,092 (consolidated), 2,852 (non-consolidated)
Authorized Shares	750,000,000
Outstanding Shares	329,389,515 shares (not including 159,748,700 dilutive shares)
Shareholders	49,809 (as of September 30, 2022)

Business Model

Offer 560,000 studio-type units equipped with furniture and home appliances
approx. 80% of listed companies use Leopalace21's services



Group Companies (as of December 31, 2022)

Leasing
- **Leopalace Leasing** – Corporate housing agent
- **Plaza Guarantee** – Rent guarantee
- **ASUKA SSI** – Tenant contents insurance
- **Leopalace Power** – Power generation
- **Leopalace21 Business Consulting (Shanghai)** – Tenant recruitment
- **Leopalace Green Energy** – Environment

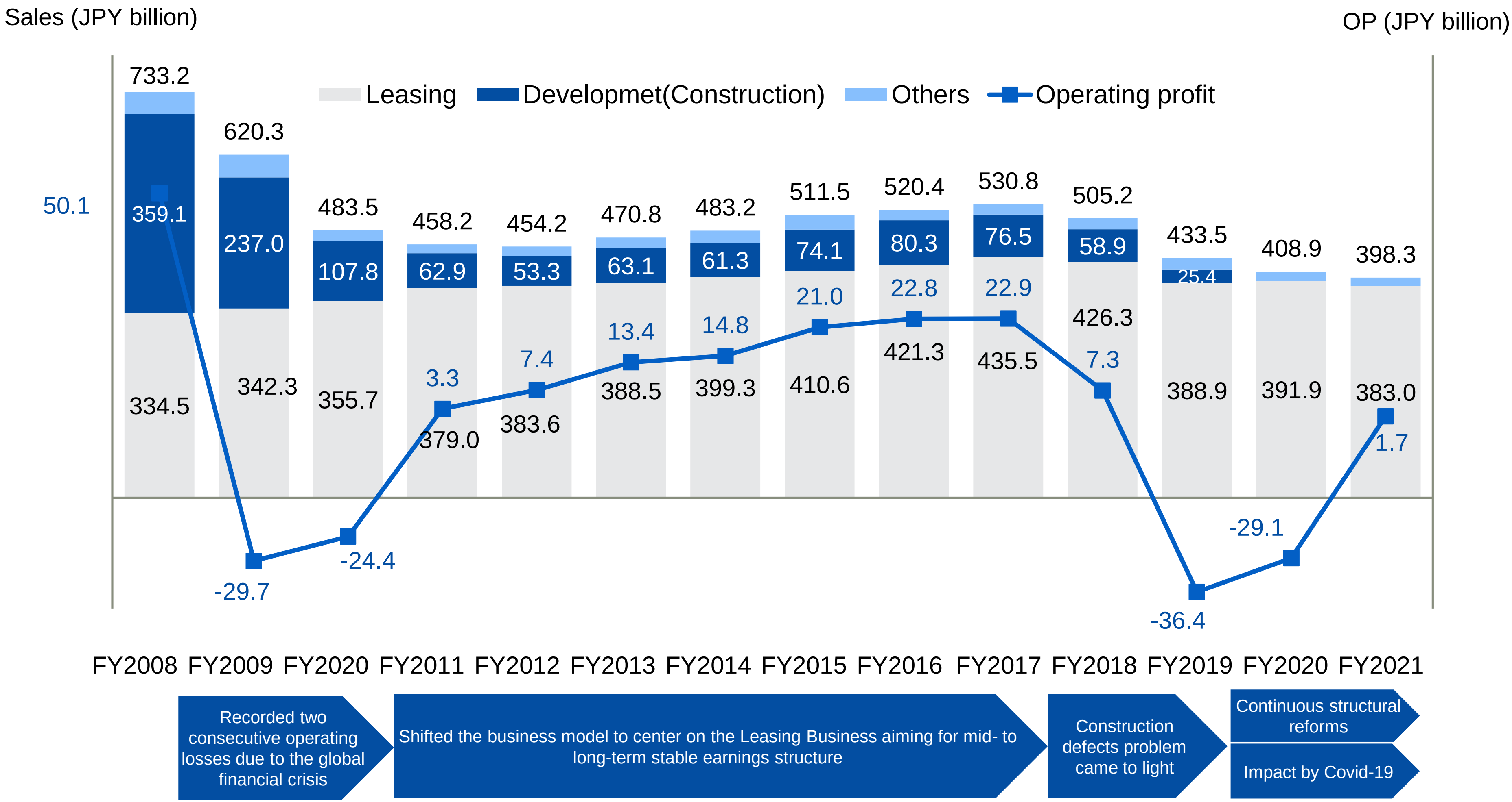
International*
- **Leopalace21 Singapore Pte. Ltd.** – Investment management
- **LEOPALACE21 PHILIPPINES INC.** – Serviced Office in the Philippines

Elderly Care
- **Azu Life Care** – Elderly care service

Others
- **Leopalace Guam** – Resort Business
- **Leopalace Smile** – Special subsidiary

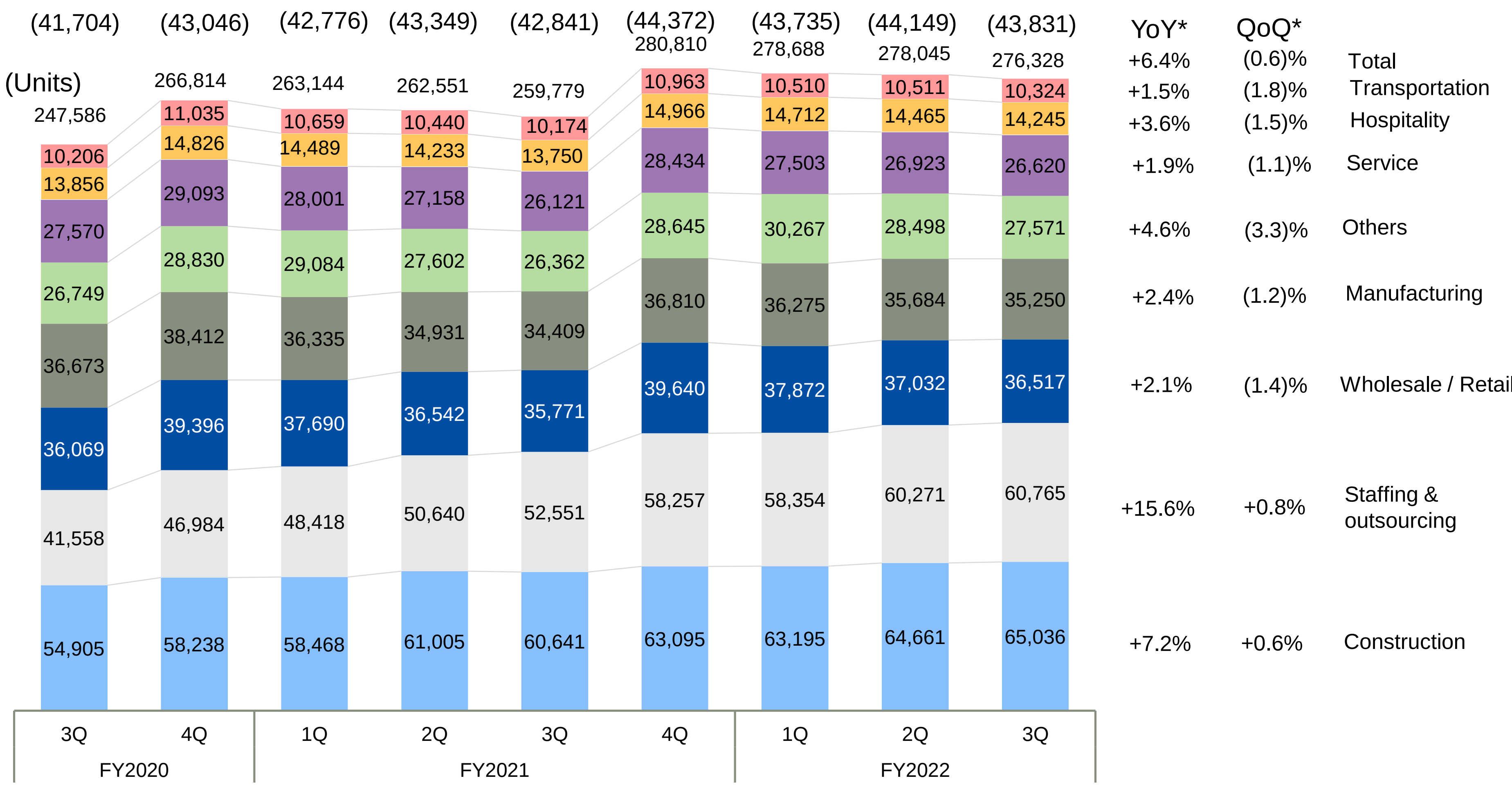
* Results of the International Business and the Development Business are reported under the Leasing Business segment.

Leopalace21 shifted its business model to center on the Leasing Business after the global financial crisis.
With construction defects problem revealed in FY2018 and another blow by COVID-19 impact starting from FY2020, implementing continuous structural reforms turned operating profit in FY2021.

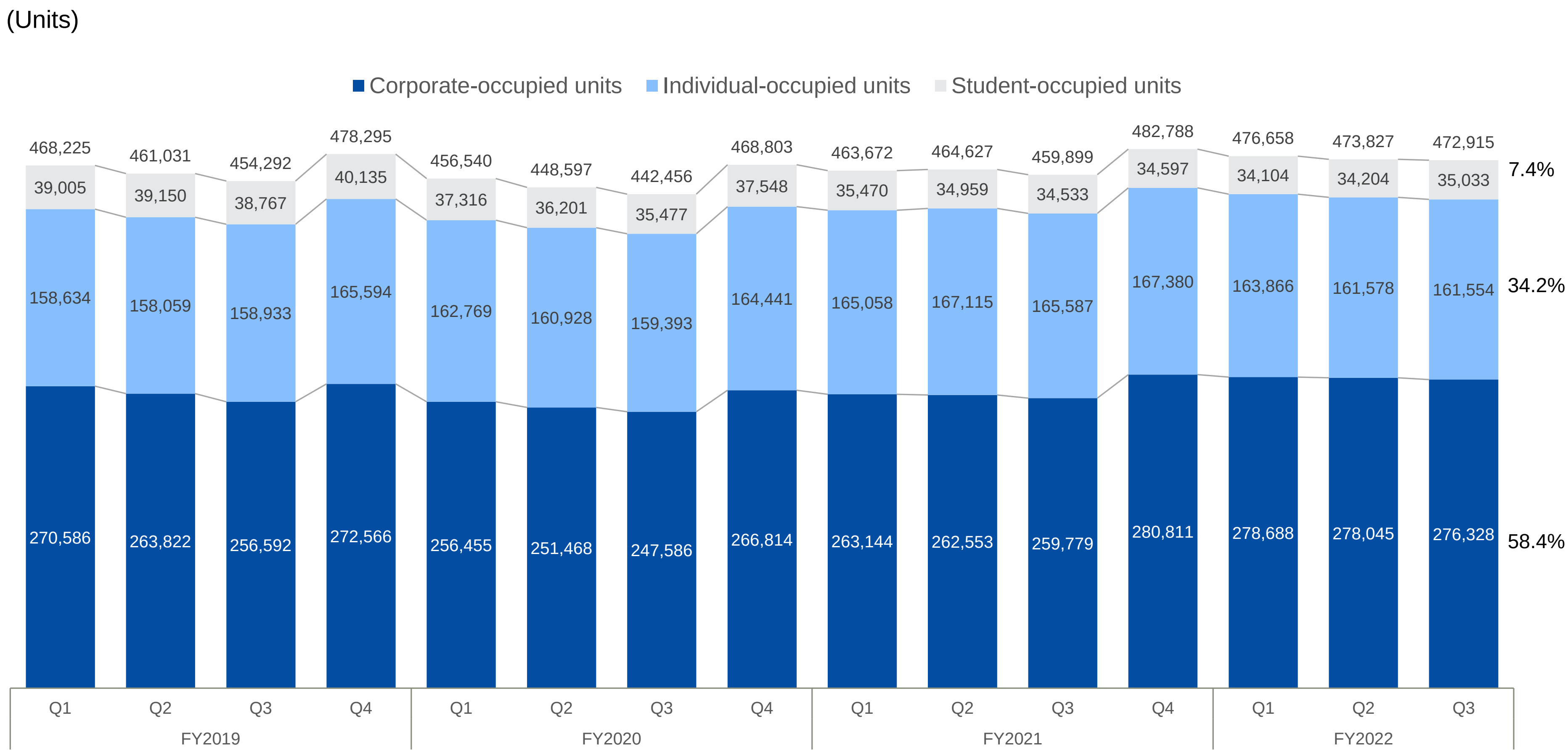


3: Occupancy by Industry

Approximately 80% of listed companies in Japan use Leopalace21 services.
The strong demand remained in staffing & outsourcing and construction despite a slight reduction in education during Q3 FY2022.



The number of occupied units grew by students especially by international students as a result of Japanese government's lifting immigration control.



Leopalace21

Winter season reduced demand temporarily in Hokkaido, Aomori and Akita, which showed negative QoQ.

New factories construction and operation starts helped increased demand from construction and staffing & outsourcing in multiple of prefectures including Shiga and Kumamoto, which showed positive YoY.

Managed unit: in thousands, Occupancy:%	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Hokkaido	**13**	**77%**	+5 p	-5 p
Aomori	**4**	**81%**	-2 p	-6 p
Iwate	**3**	**91%**	±0 p	-3 p
Miyagi	**10**	**85%**	+6 p	+2 p
Akita	**2**	**84%**	-2 p	-10 p
Yamagata	**4**	**83%**	+3 P	-2 p
Fukushima	**10**	**83%**	+5 P	-1 p
Ibaraki	**15**	**84%**	+5 p	+2 p
Tochigi	**11**	**84%**	+3 p	-1 p
Gunma	**12**	**80%**	+4 p	+2 p
Saitama	**46**	**84%**	+4 p	+1 p
Chiba	**33**	**81%**	+6 p	+2 p
Tokyo	**44**	**87%**	+7 p	+2 p
Kanagawa	**40**	**87%**	+5 p	+1 p
Toyama	**5**	**75%**	±0 p	-4 p
Ishikawa	**5**	**74%**	+3 p	-4 p

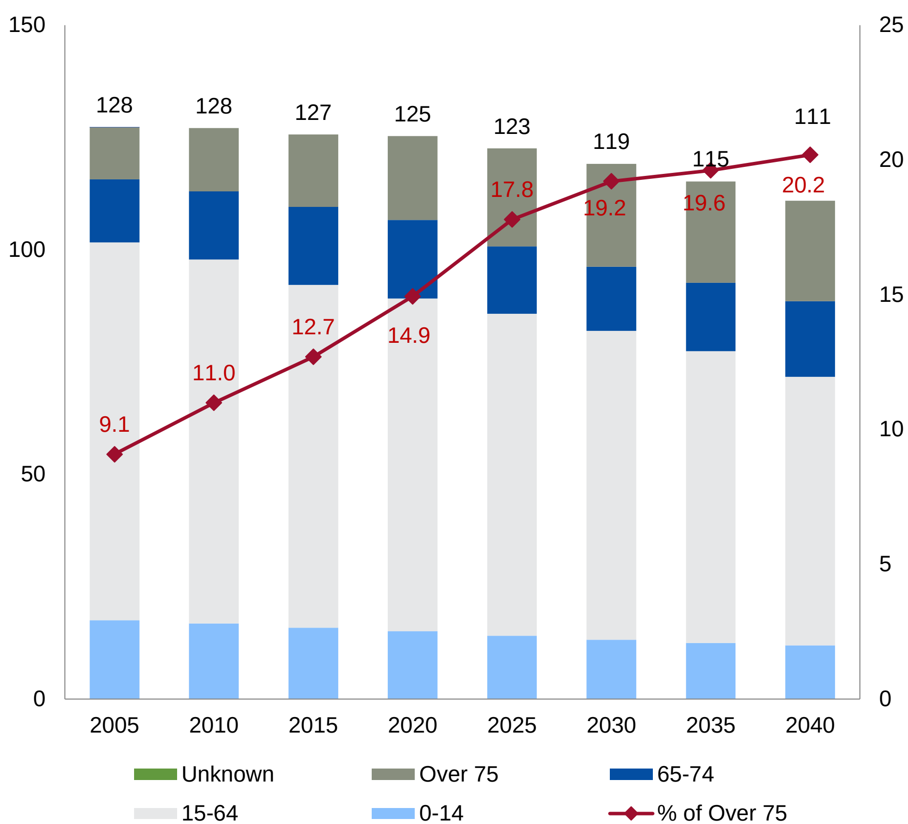
Managed unit: in thousands, Occupancy:%	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Fukui	**4**	**85%**	-5 p	-7 p
Yamanashi	**4**	**88%**	+5 p	-1 p
Nagano	**11**	**89%**	+6 p	±0 p
Niigata	**9**	**81%**	+4 p	±0 p
Gifu	**7**	**84%**	+2 p	±0 p
Shizuoka	**24**	**79%**	+6 p	+2 p
Aichi	**41**	**86%**	+1 p	-1 p
Mie	**11**	**77%**	-2 p	-4 p
Shiga	**8**	**94%**	+6 p	±0 p
Kyoto	**9**	**87%**	+3 p	-1 p
Osaka	**31**	**81%**	+4 p	±0 p
Hyogo	**22**	**86%**	+5 p	+1 p
Nara	**3**	**85%**	+3 p	+1 p
Wakayama	**3**	**78%**	+5 p	+3 p
Tottori	**2**	**86%**	-2 p	±0 p
Shimane	**2**	**96%**	+3 p	±0 p

Managed unit: in thousands, Occupancy:%	Q3 FY2022			
	Managed units	Occupancy rate	YoY	QoQ
Okayama	**12**	**79%**	-2 p	-4 p
Hiroshima	**13**	**87%**	+4 p	±0 p
Yamaguchi	**7**	**85%**	+3 p	-5 p
Tokushima	**2**	**77%**	-13 p	±0 p
Kagawa	**5**	**77%**	+2 p	-1 p
Ehime	**4**	**79%**	-4 p	-4 p
Kochi	**2**	**84%**	+2 p	+1 p
Fukuoka	**20**	**85%**	+3 p	±0 p
Saga	**3**	**88%**	+4 p	±0 p
Nagasaki	**2**	**92%**	+3 p	+3 p
Kumamoto	**7**	**93%**	+8 p	+1 p
Oita	**4**	**81%**	+1 p	-1 p
Miyazaki	**2**	**84%**	+4 p	+1 p
Kagoshima	**3**	**87%**	+4 p	+1 p
Okinawa	**5**	**93%**	+1 p	+1 p
Total	**562**	**84%**	+4 p	±0 p

Total population will decrease to 110.92 million in 2040, accelerating the aging society in Japan.
On the other hand, single-person households, which is the Company's main target, will continue to increase.

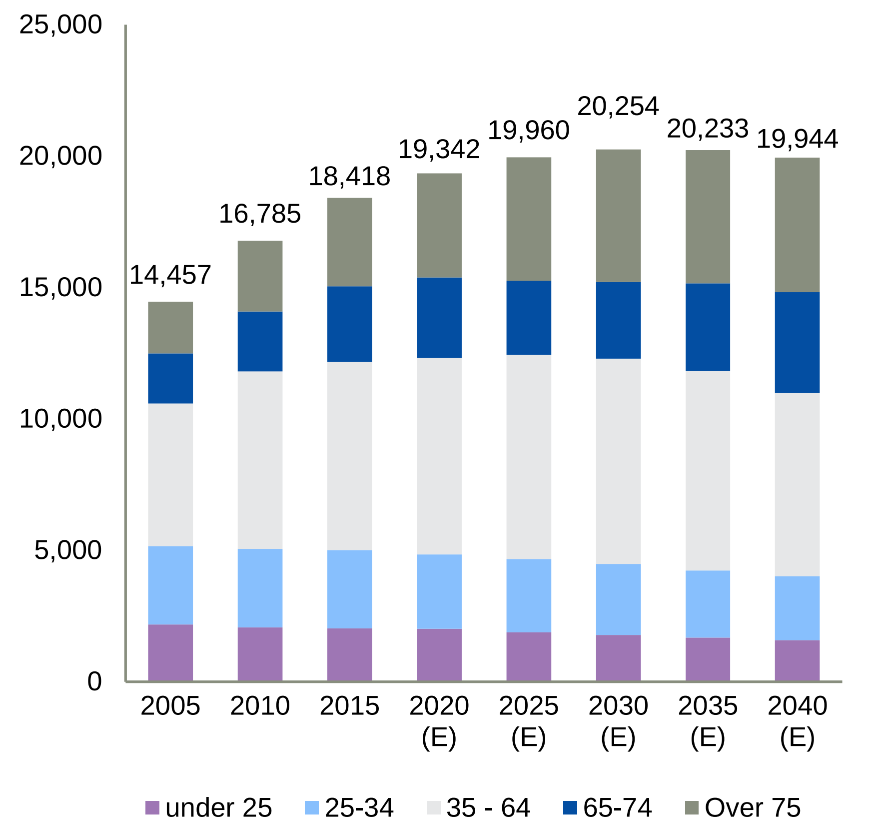
Number of General Households by Category

(Millions of people)



Number of Single-person Households by Age

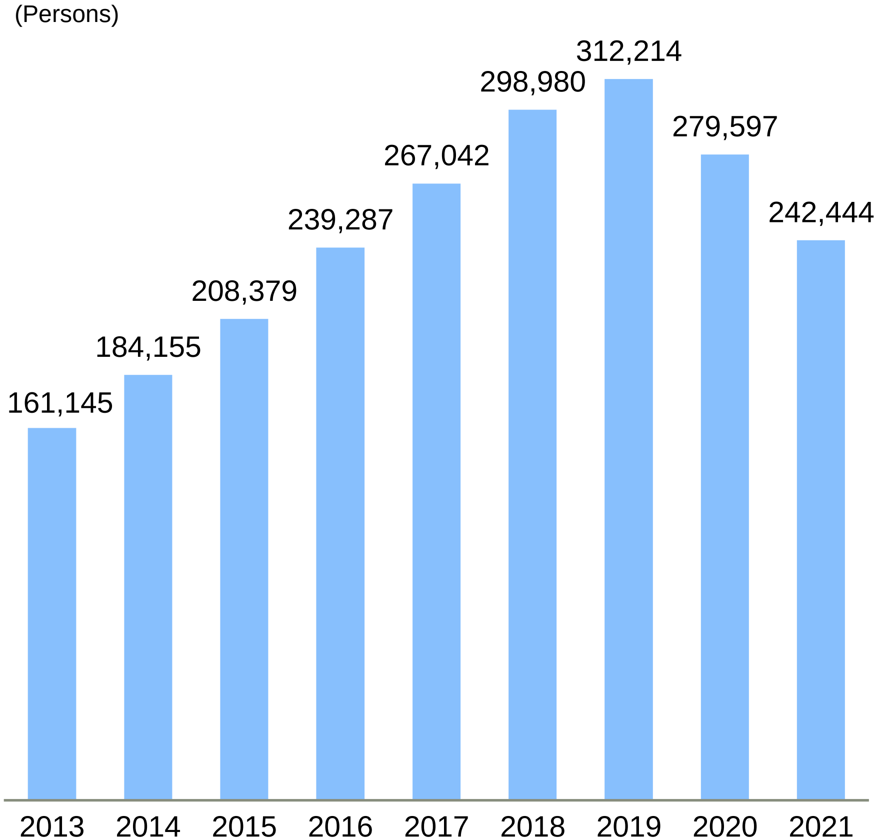
(Thousands of households)



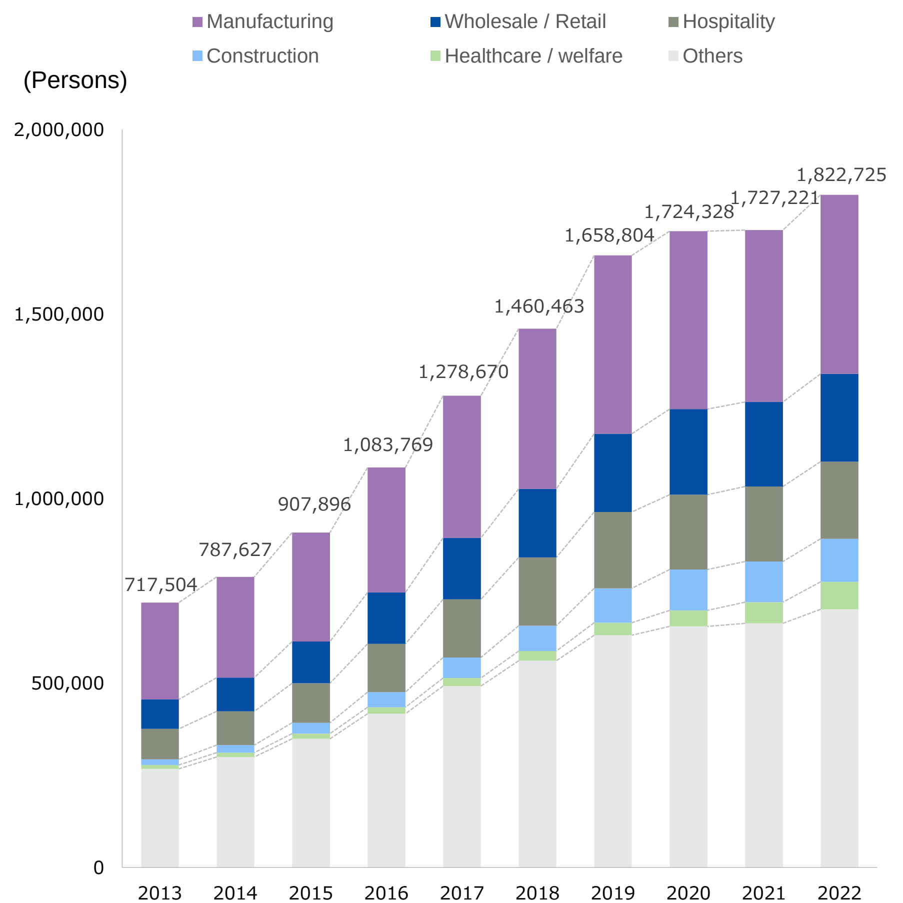
Source: White Paper on the Ageing Society prepared by Cabinet Office in 2022
Excerpted from "Future Estimates of Households in Japan" (2018, National Institute of Population and Social Security Research)

The number of international students and foreign workers had been steadily increasing, but the number of international students has declined significantly due to COVID-19 impact.

International Students in Japan*1



Foreign Workers in Japan*2



*1 Source: Excerpt from "Result of an Annual survey of International Students in Japan 2021" (Japan Student Services Organization)
*2 Source: Excerpt from "Employment status of foreign workers in Japan" as of end of Oct 2022 (Ministry of Health, Labor, and Welfare)

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*Business hour: 9:00-18:00（except Saturdays, Sundays and Company holidays)