

New Medium-term Management Plan

Creating Future

April 2012 – March 2015

May 11, 2012
Leopalace21 Corporation

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*The forecasts contained in this document are based on certain preconditions, and are not intended as a guarantee of future performance. Accordingly, actual revenue and earnings may differ substantially from these forecasts.

1. Outline of New Medium-Term Management Plan “Creating Future”

Reason of the plan’s formulation

A three-year Medium-Term Management Plan, starting in fiscal 2011, was announced in May 2010. Although there is no change in the direction of the basic policy, a new Medium-Term Management Plan has been formulated, taking into account the current business environment and the Group’s potential for growth.

Basic policy

“Establish a stable profit structure with balance between Leasing Business and Construction Business”

- (1) Establish a solid profit structure with a stock-based business (Leasing Business) as a central axis
- (2) Maximize group profit with our core businesses as a main shaft
- (3) Establish an earnings management structure of non-core businesses
- (4) Maintain a low-cost structure, with selection and concentration of strategic costs
- (5) Execution of business measures creating a new social value, and pursue growth by new businesses

From April 2012 to March 2015

Creating Future

Leopalace21 will create the future by “creating new value” with our customers.

2. Review of the Previous Medium-Term Management Plan

Achievements

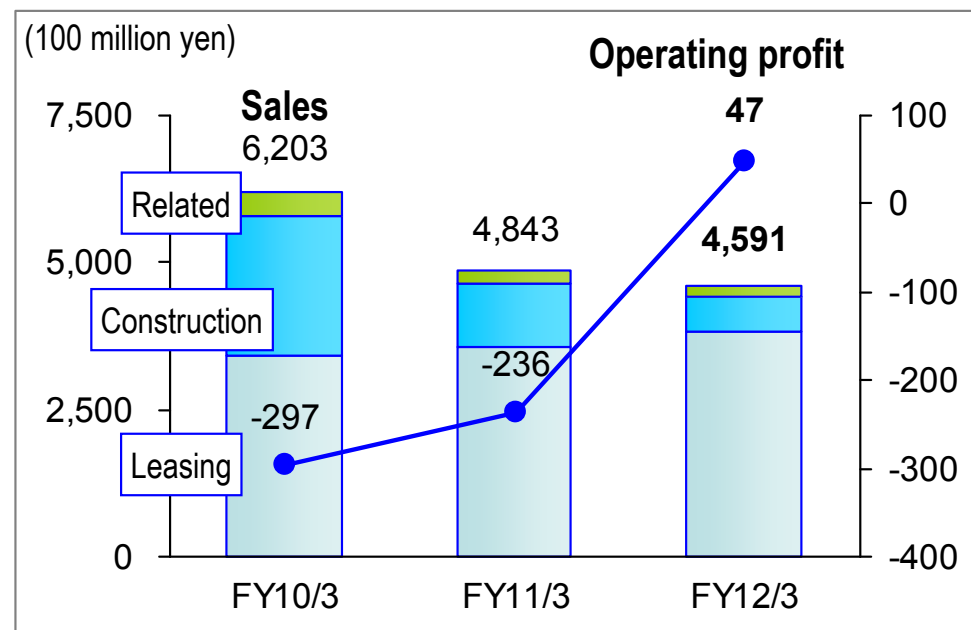
- A return to profitability in FY 2012/3 (for the first time in three fiscal years)
- The leasing business moved into the black.
- Establishment of a low-cost structure.

New initiatives

- Introduction of FC (Franchise) system (Leopalace Partners)
- Reduction of leasing costs
- Measures to increase the value of properties (Installation of solar power systems or photovoltaic power generation systems, and apartment security systems)
- Orders and construction of apartments other than master lease system apartments (built-for-sale products, elderly care facilities, stores)

Issues to be addressed

- How to attract individual tenants and promote long-term tenancy
- Profitability of leasing business excluding a reversal of the provision for apartment vacancy loss (reserve fund balance: ¥19.2 billion)
- Diversification of properties offered (expansion of orders other than master lease system apartments)



3-1. Action Plan

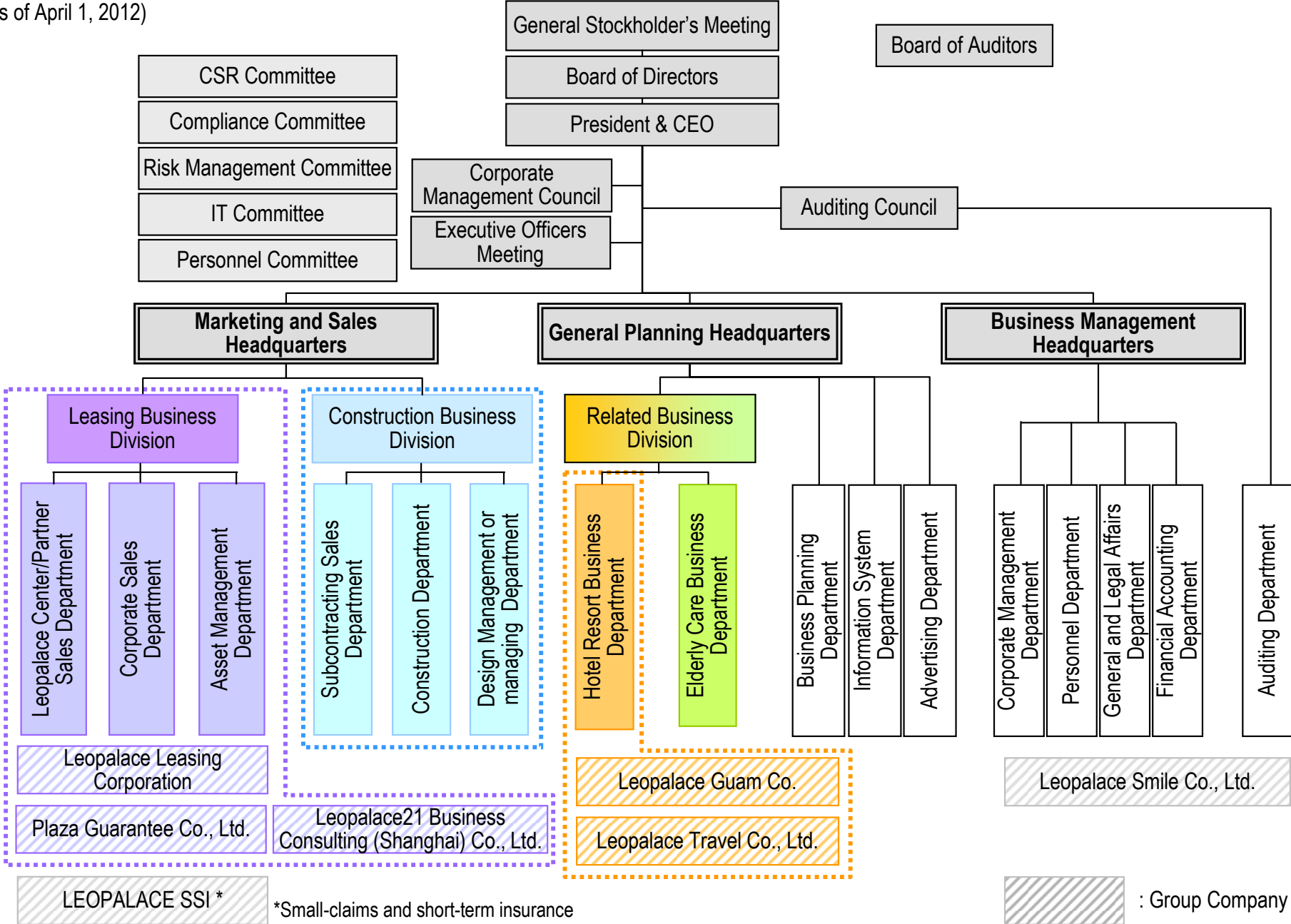
	Theme	Action
FY 2011/3 FY 2012/3	Return to profitability	<ul style="list-style-type: none">➤ Implement various measures to improve earnings➤ Reduce initial costs and SG&A expenses
FY 2013/3	Create a foundation for growth	<ul style="list-style-type: none">➤ Enhance the competitiveness of core businesses➤ Implement initiatives in new areas by existing businesses
FY 2014/3 FY 2015/3	New growth stage	<ul style="list-style-type: none">➤ Support the continuing growth of core businesses➤ Implement initiatives for new business

3-2. Action Plan (for each business)

	FY 2013/3	FY 2014/3	FY 2015/3
Leasing Business (p. 12-)	Establishment of earnings structure <ul style="list-style-type: none"> ➤ Enhance channels ➤ Establish a framework for operating profitability excluding the reversal of reserve for apartment vacancy loss 	Further development as a high earning business <ul style="list-style-type: none"> ➤ Maximum of 570,000 managed apartment units, increased competitiveness of owner-managed properties or buildings ➤ Enhanced service for tenants ➤ 35% installation of security systems (10% as of March 31, 2012) (p. 27) ➤ System of 400 offices (357 offices at March 31, 2012) 	
Construction Business (P. 19-)	Initiatives in new areas <ul style="list-style-type: none"> ➤ Expand orders other than master lease system apartments (elderly care facilities, stores) ➤ Expand orders in areas where high occupancy rate is predicted 	Establishment and development of products and business areas that will form new earnings base <ul style="list-style-type: none"> ➤ A larger variety of buildings (energy-saving features, geared to the elderly, stores, etc.) ➤ 30% installation of solar power systems or photovoltaic power generation systems (18% at the end March 2012) (p. 26) 	
Related Businesses (p. 28-)	Client retention <ul style="list-style-type: none"> ➤ Client retention (Promote utilization, collaboration among business divisions) 	Maximize earnings <ul style="list-style-type: none"> ➤ Maximize earnings by streamlining operations and management framework, and strengthening collaboration 	
Overall Business	Cost options and centralization/Growth strategy initiatives <ul style="list-style-type: none"> ➤ Making strategic cost investments while maintaining low cost structure (personnel costs, advertising costs, sales promotion costs) ➤ Initiatives for new businesses ("Future Project") 		

4. Organization Chart

(as of April 1, 2012)



Numerical Targets


- Consolidated total
- By segments

5-1. Numerical Targets (Consolidated total)


(100 million yen)

	FY 2012/3 Actual	FY 2013/3 Plan	FY 2014/3 Plan	FY 2015/3 Plan
Sales	4,594	4,639	4,674	4,765
Operating profit	45	80	141	169
Recurring profit	23	61	122	151
Net income	15	55	110	135
Equity	338	428	580	765
Shareholders' equity ratio	12.8%	17.0%	23.1%	29.5%
ROE	4.7%	14.3%	21.8%	20.0%
EPS (yen)	9.0	29.2	54.2	62.4
ROA	0.6%	2.2%	4.4%	5.2%


5-2. Numerical Targets (by segments)

		FY 2012/3	FY 2013/3	FY 2014/3	FY 2015/3
(100 million yen)		Actual	Plan	Plan	Plan
 Leasing	Sales	3,803	3,866	3,890	3,915
	Operating profit	52	95	150	161
	Av. occupancy rate	81.2%	83.0%	85.0%	85.8%


(Leasing details on p12)

 Construction	Sales	629	602	611	674
	Operating profit	43	30	35	51
	Gross orders	500	768	801	789

(Construction details on p19)

 Hotels & Resort	Sales	62	66	67	68
	Operating profit	(16)	(10)	(7)	(6)

(Hotels & Resort details on p28)

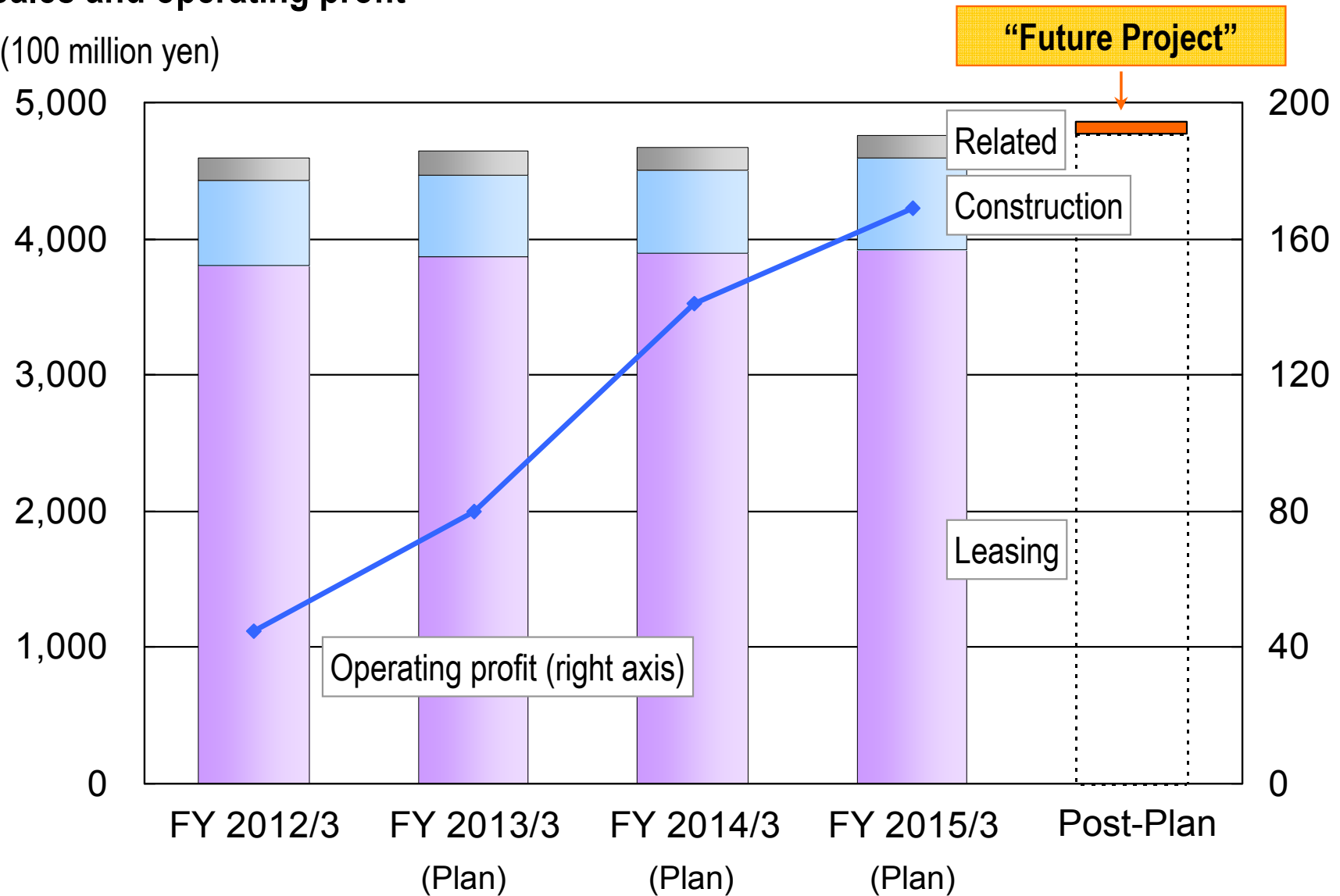
 Elderly Care & Others	Sales	99	103	105	107
	Operating profit	(8)	(7)	(6)	(5)

(Elderly Care details on p29)

5-3. Numerical Targets

Sales and operating profit

(100 million yen)



Business Strategies

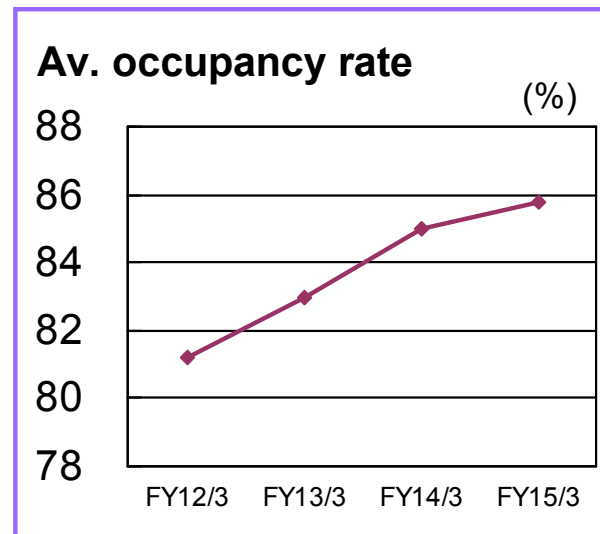
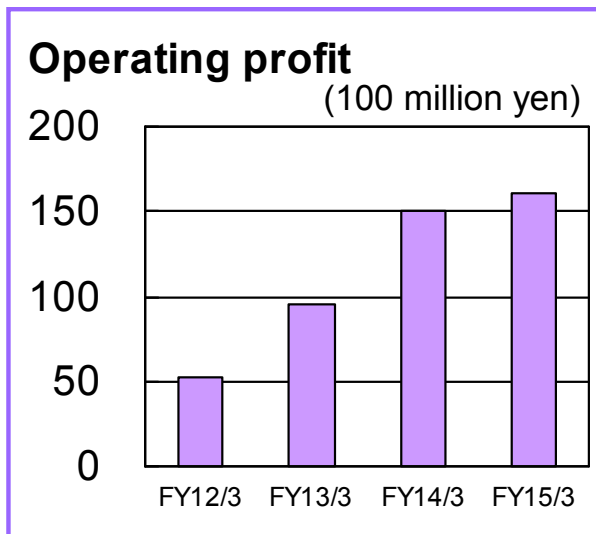
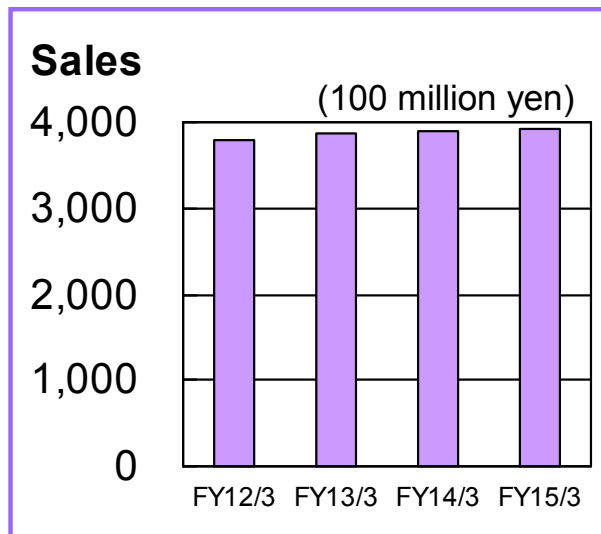
- Leasing
- Construction
- Property enhancement (solar power and security)
- Related businesses
- Subsidiaries
- New businesses

6-1. Leasing Numerical Targets



(100 million yen)	FY 2012/3 Actual	FY 2013/3 Plan	FY 2014/3 Plan	FY 2015/3 Plan
Sales	3,803	3,866	3,890	3,915
Gross profit	386	452	516	533
Operating profit	52	95	150	161
Av. occupancy rate	81.2%	83.0%	85.0%	85.8%

*Expected annual decrease of ¥2.5 billion in the reserve for apartment vacancy loss is incorporated. (p18)



1. Development of direct offices and Leoplace Partners (p. 14)

Open 13 new direct offices and 30 Leoplace Partners offices to form a 400-office system

2. Corporate Sales (p.15)

Approximately 77% of listed companies across Japan use our apartments, and we will continue to strengthen sales to the listed companies

3. Initiatives to address tenant needs (p. 16)

- 1) Customized apartments (“*Room Customize*”)
- 2) Installation of apartment security systems

4. Initiatives for international students (p. 17)

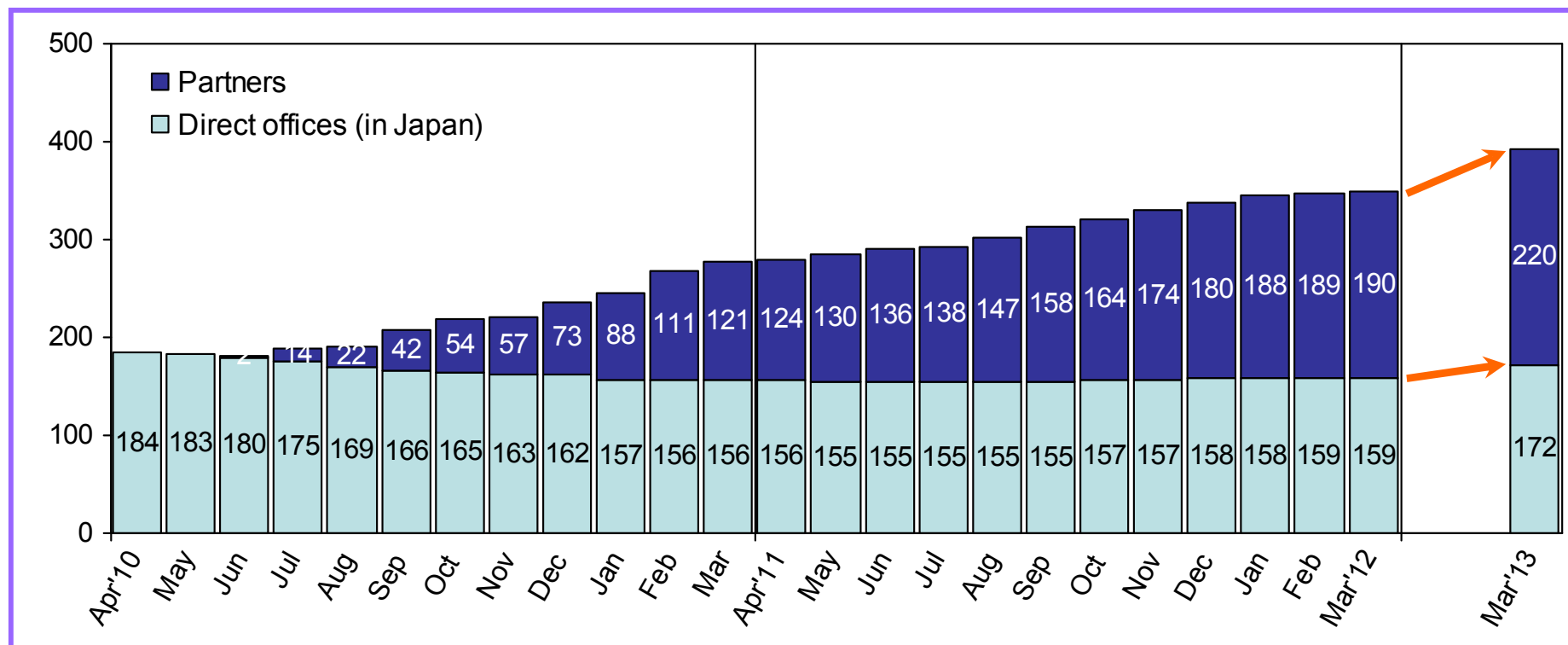
79.5% of the 138,000 students from foreign countries use private dormitories/ apartments. Demand is still steady, and there is significant possibility for growth to the Company.

5. Cost of leasing (p. 18)

- 1) Reserve for apartment vacancy loss
- 2) Reduction of administrative costs

6-1-1. Development of direct offices and Leopalace Partners

Leasing



- Ongoing expansion of direct offices (metropolitan area) and Leopalace Partners franchise sales offices (regional and suburban areas)
- Plan for opening or expansion of new sales offices in FY 2013/3:

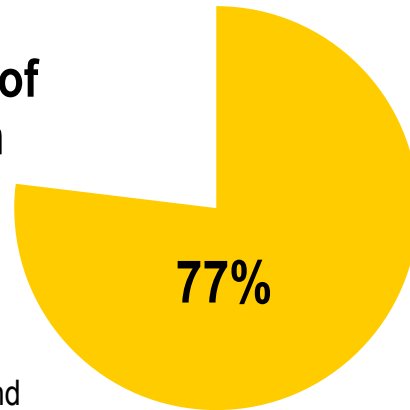
159 direct offices in Japan + 13 new offices	172 offices	
190 Leopalace Partners offices + 30 new offices	220 offices	Total 392 offices
		(+ 8 offices overseas = 400 offices)
- Enhancing training at Leopalace Partners → Upgrading the capabilities of the sales force

6-1-2. Corporate Sales

Leasing

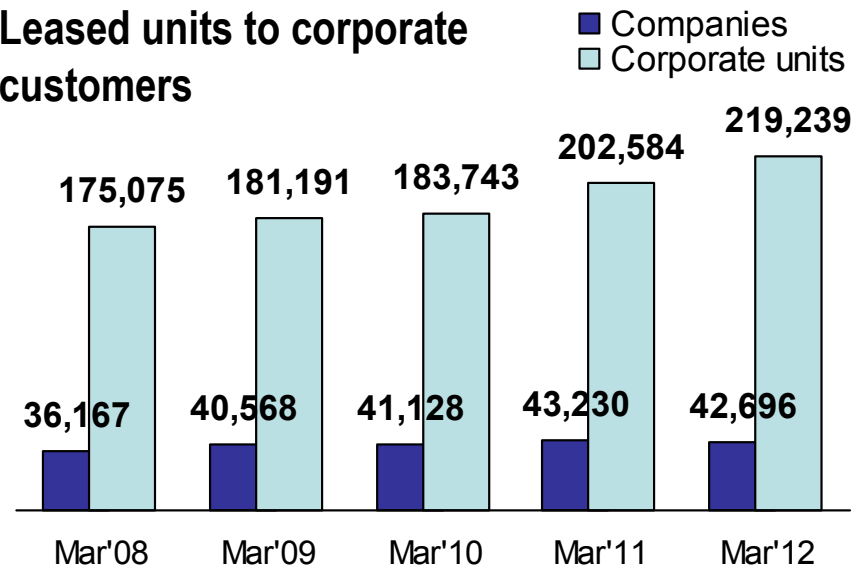
Utilization of Leoplace21 by listed companies (as of end March 2012)

Approximately 77% of listed companies* in Japan utilize Leoplace21



* Companies listed on the first and second sections of the Tokyo Stock Exchange, regional stock exchanges, JASDAQ, Mothers, and Hercules

Leased units to corporate customers



- Building a sales system dedicated to corporate sales (a unified service outlet for corporate clients)
- Strengthening sales targeting the Group headquarters function of each company
- Operating the “LAM System” site exclusively for corporate partners
- Continuing to cultivate broad and deep relationships with existing customers
- Targeting new customers (established a specialized section)

“LAM System” site exclusively for corporate partners

A dedicated site where employees of each company can request the kind of apartment they would like, using an exclusive apartment-search form that includes information about that company's regulations concerning employee housing.



“New leasing ideas always come from Leoplace” (Expansion of tenant-oriented services)

- 1) Promote long-term tenancy
- 2) Increase the occupancy rate through differentiation

Customized apartments (“Room Customize”)

1) “Designer’s Plan”

Apartments are customized following a basic design overseen by interior designer Makiko Yamaguchi



2) “My Collection Plan”

Customized at no extra charge with the customer’s choice of wallpaper

Apartment Security System

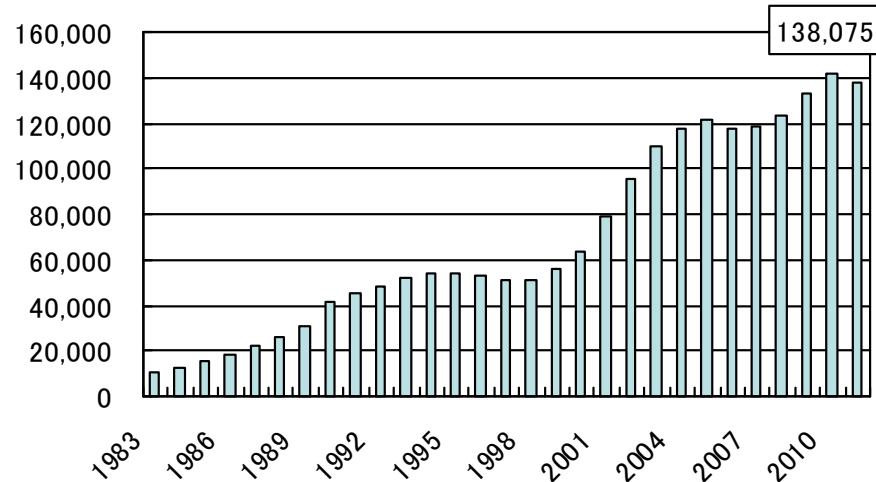
- Standard equipment in new buildings
- Aimed at attracting female tenants
- Security is a priority for many corporate clients



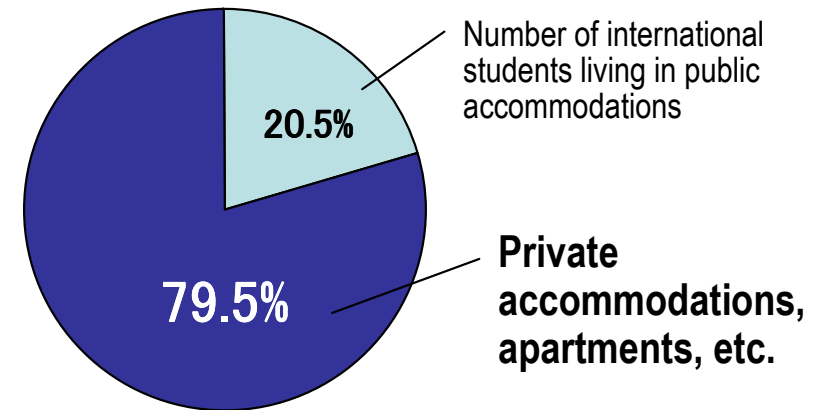
6-1-4. Measures aimed at international students

Leasing

International students in Japan



Situation regarding accommodation for international students (as of May 1, 2012)



Source: "International Students in Japan 2011"

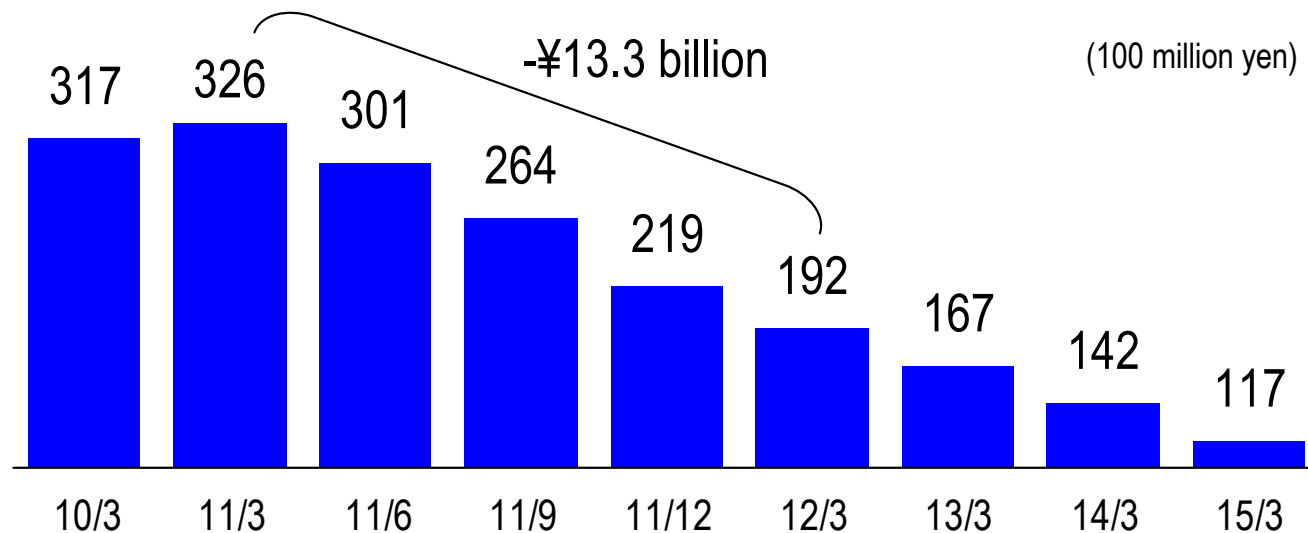
- Stepped up efforts to attract a growing number of international students through overseas branches, call centers, and LAM school
- Support of MEXT "STUDY in JAPAN" plan to attract 300,000 international students
- "LAM School" site for exclusive use of partner schools
- Leoplace21 overseas offices (as of May 2012)
 - China 4 offices
 - Korea 3 offices
 - Taiwan 1 office
 - Overseas sections in Japan 9 sections

"LAM School" site for exclusive use of partner schools

Apartment search system for students offered through private educational institutions. Allows international students to lease an apartment in Japan before arriving in the country.



1. Reserve for apartment vacancy loss



- (1) Improve the earnings of target properties, and (2) reduce the balance of the reserve for apartment vacancy loss due to the elapse of time remaining in fixed rent period (reversal of cost)
- Incorporate a reversal of ¥2.5 billion per year during the term of the plan as the amount for elapse of remaining time, based on the average time remaining in the lease for subject buildings at end of March 2012.

2. Reduction of management costs

- Review management and business expenses (Conduct a review of established business practices)
- Optimize rents (Make adjustments in line with market rental rates)

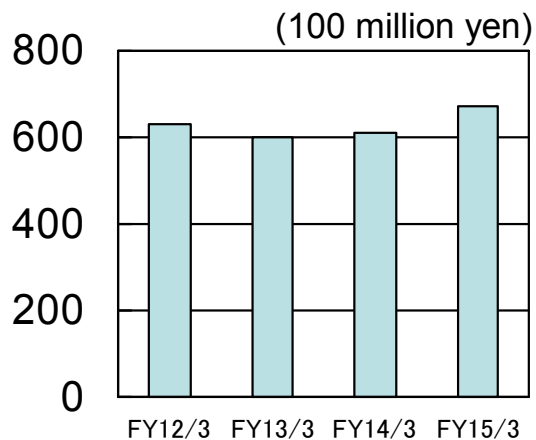
6-2. Construction Plan

Construction

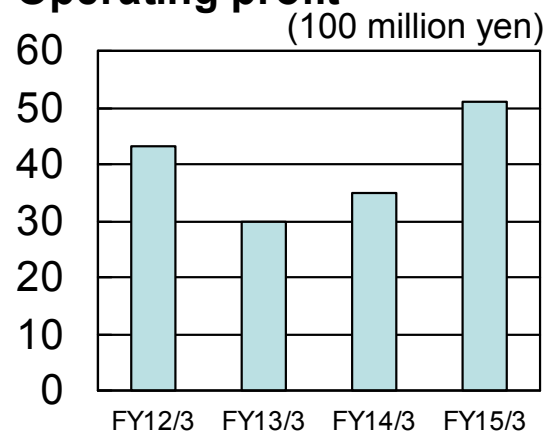


(100 million yen)	FY 2012/3 Actual	FY 2013/3 Plan	FY 2014/3 Plan	FY 2015/3 Plan
Sales	629	602	611	674
1. Apartments	438	499	538	602
2. Non-residential	6	28	51	61
3. Solar, etc.	183	74	21	9
Gross profit	167	144	157	178
Operating profit	43	30	35	51
Gross orders	500	768	801	789

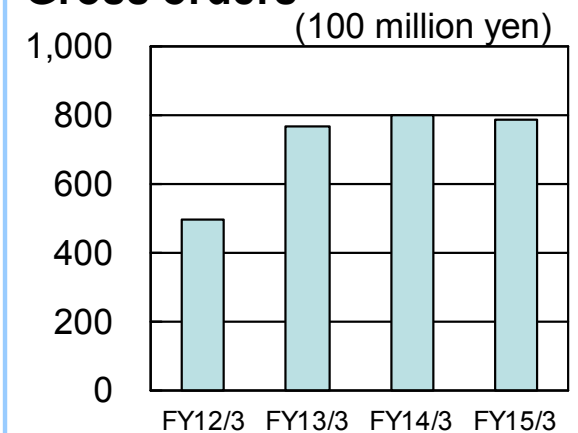
Sales



Operating profit



Gross orders



1. Supply of apartments based on area strategy (p. 21)

Continue to supply apartments in metropolitan areas because of high utilization of relatively new buildings

2. Develop products that are ahead of their time (p. 22)

- 1) "LEFFECT J-Style" for narrow lots
- 2) Environmentally friendly "Leco Model"
- 3) "DUAL-L" with two lofts

3. Building high quality apartments (p. 23)

Earthquake resistance, sound insulation, self-cleaning siding

4. Rebuilding (p. 24)

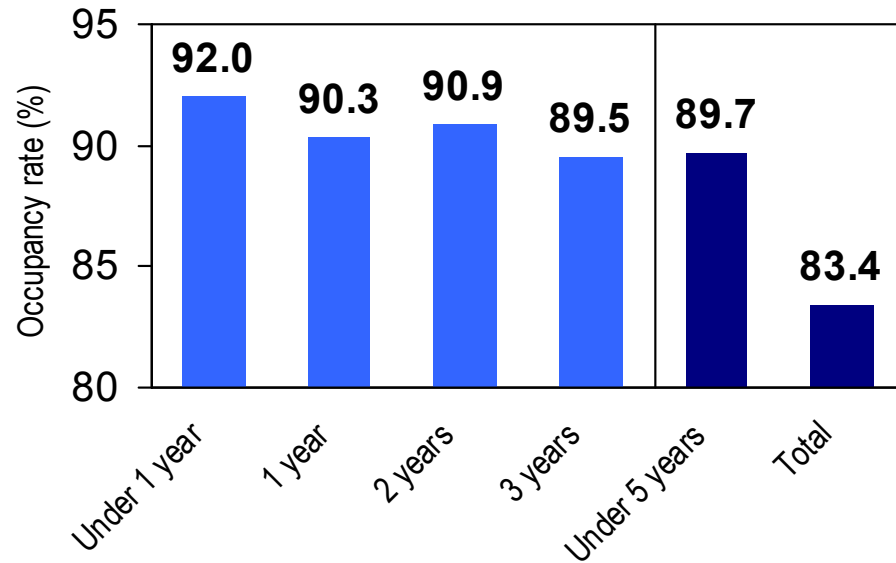
Demand for rebuilding will continue to grow

5. Subcontracting buildings for businesses other than apartments (p. 25)

Expansion of subcontracting for construction of elderly care facilities which are expected to be in growing demand, as well as offices and commercial facilities

Occupancy rate by age of building

(as of end March 2012)



Buildings under 5 years (by prefecture)

	Occupancy rate	Managed units
Kanagawa	95.5%	12 thousand
Osaka	94.3	10
Tokyo	94.2	14
Saitama	93.7	15
Hyogo	93.1	7
National	89.7	196

- National occupancy rate for buildings less than 5 years old is approximately 90% (196,000 units)
- Subcontracting and supplying apartments in areas where a high occupancy rate (ie. metropolitan segment) is expected to continue.

“LEFFECT J-Style” for narrow lots

Envisioning architecture for metropolitan areas where high occupancy rates are expected. Can be adapted to narrow lots with depth barely greater than the length of a car.



Layout features side-by-side dwellings, with floor plans that are the reverse of each other. The structure is in the shape of a square divided into equal sections by the balconies of the four units on the upper and lower floors.

Environmentally friendly “Leco model”

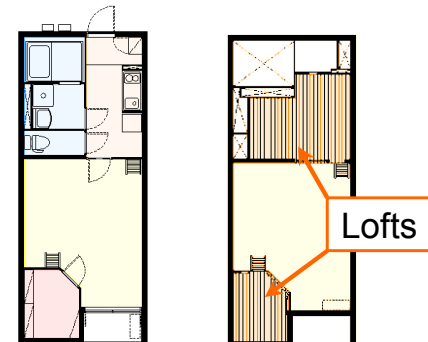
Launch of the environmentally friendly “Leco model”, compatible with clean energy needs and equipped with solar power system and storage batteries. Leased housing “Li-stage”, “Sky-stage” and detached residence “Wi-stage” are now on the market .



“Sky-stage” leased housing features an inner garden to achieve a passive environmental effect by bringing in light and allowing for cross ventilation.

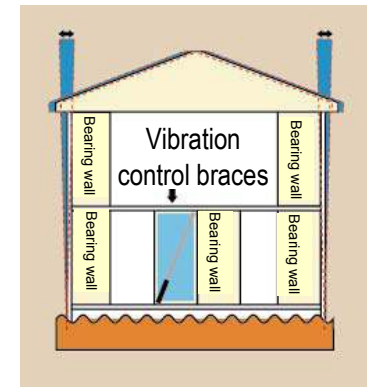
“DUAL-L” Two lofts

With two lofts and closet space, the “Dual Loft” offers an amount of storage space equivalent to the living space.



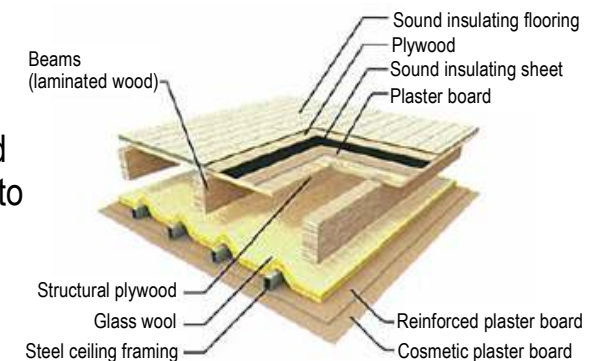
Earthquake Resistance

- None of Leoplace21's apartments collapsed in the Great East Japan Earthquake
Leoplace21 apartments are designed with the equivalent of Level 2 Earthquake Resistance (1.25 times the strength required under the Building Standards Act), and not one building collapsed during the Great East Japan Earthquake.
- Vibration control braces
By utilizing vibration control braces, buildings are reinforced to the equivalent of Earthquake Resistance Level 3



Sound insulation

- Sound insulating wall structure
Installation of sound insulating walls to increase sound transmission loss difference (TLD). (New DUAL-L products)
- Sound insulating flooring
Sound insulating flooring employed in buildings of two-stories or more to reduce the reverberation of noise from footsteps.



Self-cleaning siding

By utilizing siding with a self-cleaning function, dirt on the walls is washed away naturally by drops of rain, etc.



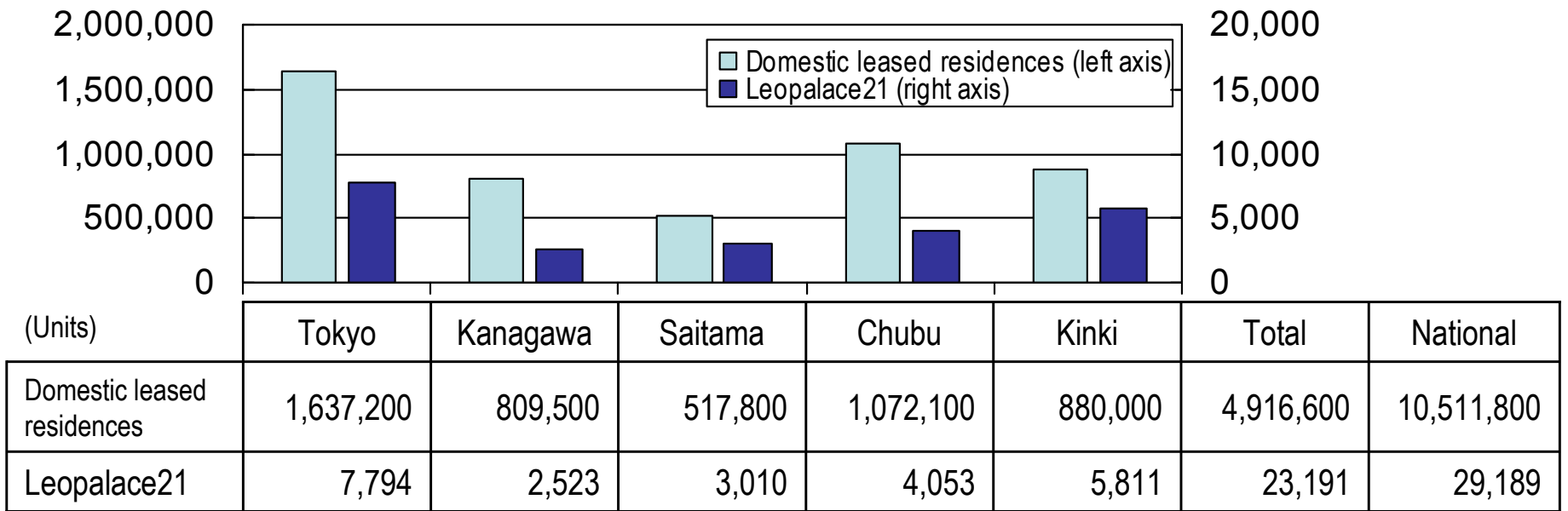
Housing model performance accreditation Acquired “Level 2 for Measures Against Deterioration”

The “level of measures against deterioration” looks at the materials used in a building’s structural framework, such as pillars, beams, and walls, to evaluate measures taken to reduce deterioration. Level 2 indicates measures have been taken to extend the life of a building to about 50-60 years.

6-2-4. Rebuilding

Candidates for rebuilding: Structures at least 15 years old

(Ministry of Internal Affairs and Communications Statistics: FY2008 Housing and Land Survey)



BEFORE



Sample rebuilding plan

Provide separate locations for toilet, sink, and indoor washing machine; increase the size of the kitchen; security system specifications; inter-balcony sound insulating flooring specifications

AFTER



Elderly care facilities



- Subcontracting of construction from landowner, introduction of nursing care business operator
- Leveraging the know-how of the “Azumi-en” elderly care business, which operates 58 facilities
- Construction completed in February 2012 of the first facility, located in Setagaya Ward, Tokyo (a nursing home which charges users for its services)

Offices and commercial facilities

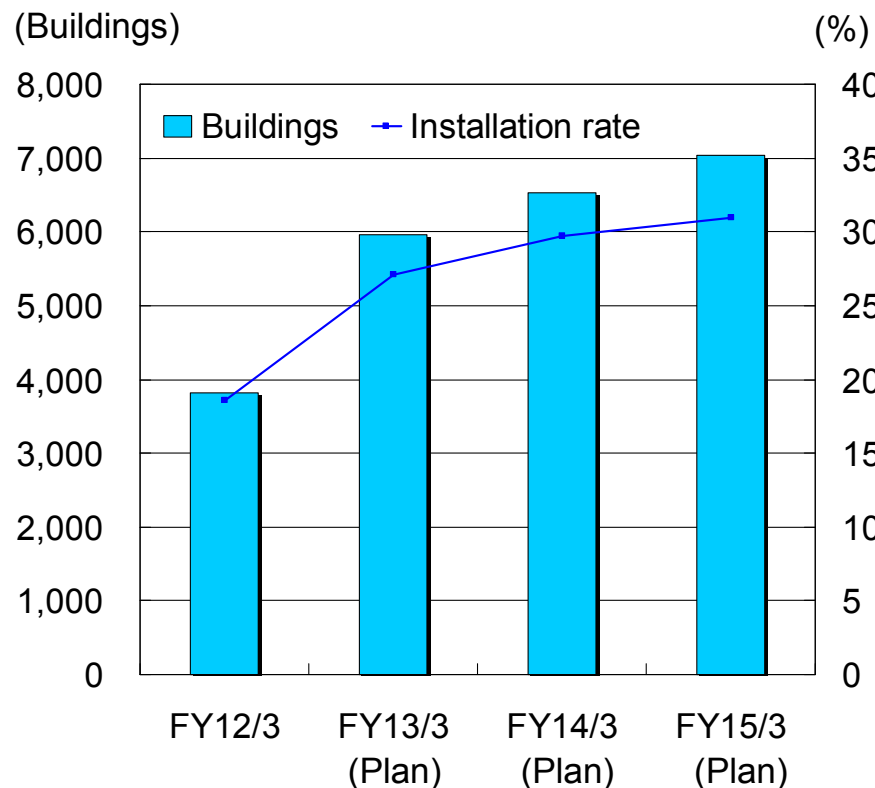


- Introduction of landowners to business operators seeking locations for chain restaurants, convenience stores, pharmacies, etc.
- Leverage the network of 47,000 corporate customers who have transactions with our Leasing Business
- Propose combined commercial/leased apartment complexes where stores/offices occupy the first and second stories, while the upper floors are leased apartments.

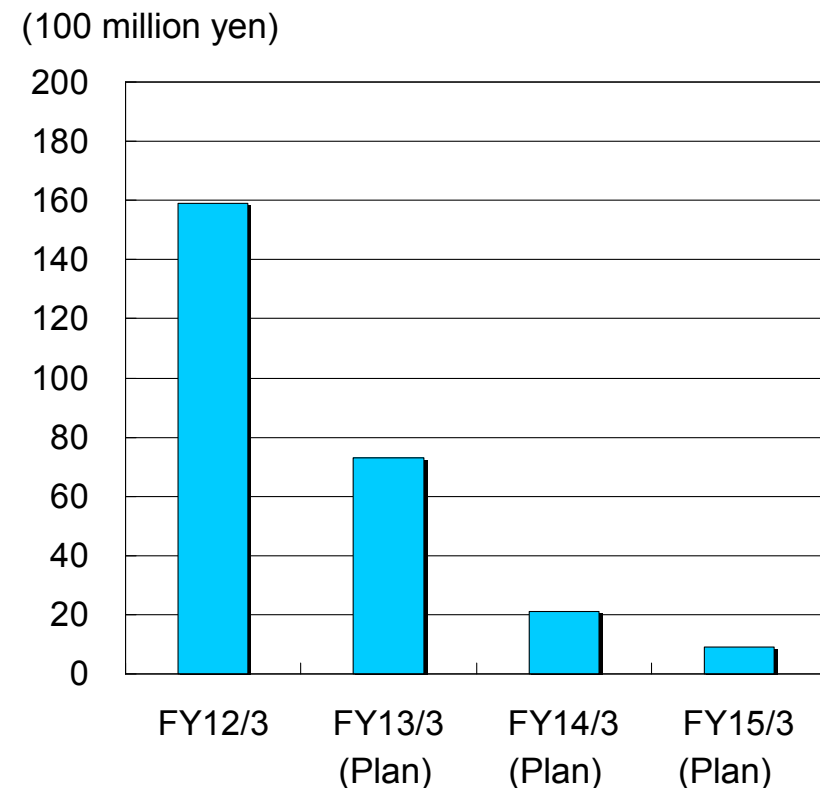
6-3-1. Measures to enhance property value (Solar power systems)

Solar power systems

Cumulative number of buildings where installed and the installation rate



Net sales (Installation in existing properties only)

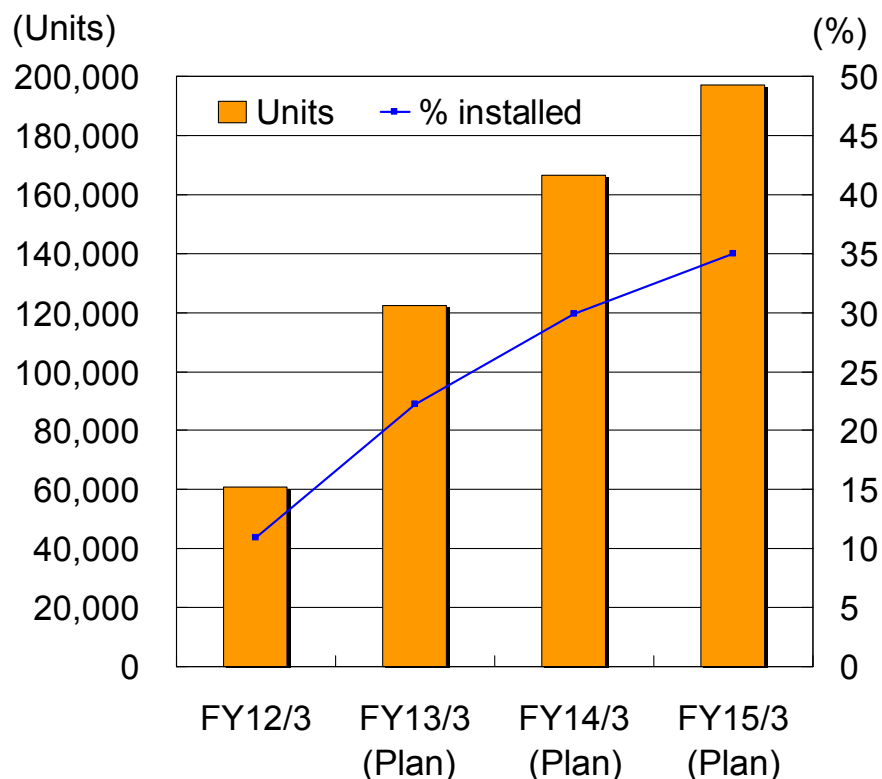


- Full-scale implementation as of FY 2012, installed in 3,814 buildings during the year.
- Plan for installation in a cumulative total of 7,000 buildings (installation rate of 30%) by FY 2015/3

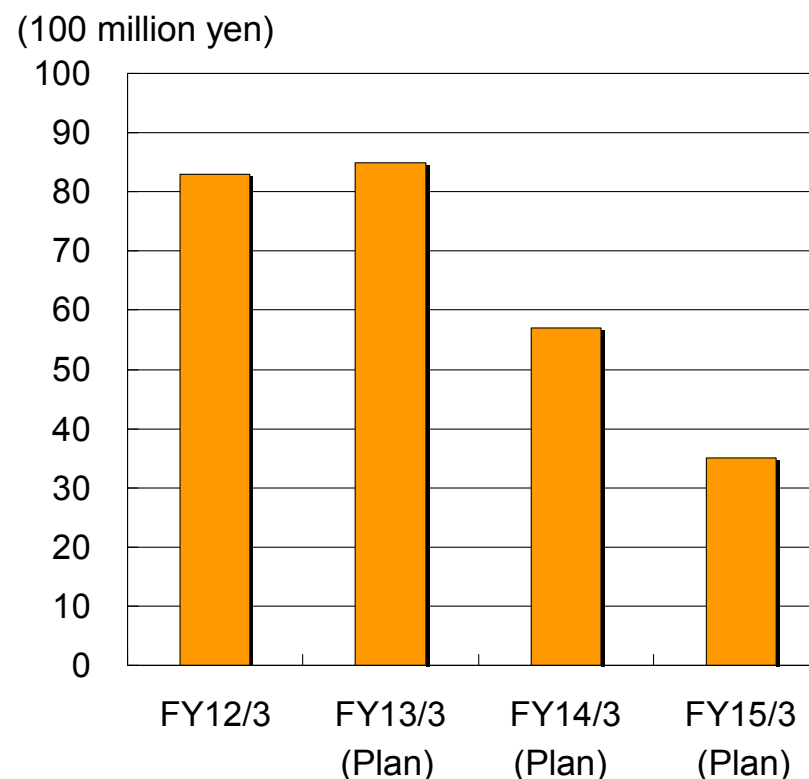
6-3-2. Measures to enhance property value (Security systems)

Security systems

Cumulative number of units where installed and the installation rate



Net sales (Installation in existing properties only)



- Implementation began in FY 2012/3, and despite delayed launch due to the effects of the Great East Japan Earthquake, achieved installation in 60,000 units (installation rate of 10.9%).
- Plan for cumulative total of 190,000 units (installation rate 35%) by FY 2015/3
- Aim to make security systems standard equipment for all properties in the future.

6-4-1. Hotels & Resort

Related



Operation of 8 domestic hotels
(Asahikawa, Sapporo, Sendai, Niigata,
Nagoya, Yokkaichi, Okayama, Hakata)

Operation of resort
facilities in Guam



		FY 2012/3	FY 2013/3	FY 2014/3	FY 2015/3
		Actual	Plan	Plan	Plan
(100 million yen)					
Hotels & Resort	Sales	62	66	67	68
	Operating profit	(16)	(10)	(7)	(6)
Domestic Hotels	Sales	22	23	23	23
	Operating profit	(0.3)	(0.4)	(0.1)	0.2
	Depreciation and amortization	5.2	4.3	3.7	3.3
	Occupancy rate	72.5%	73.8%	74.1%	74.6%
(Million dollars)					
Leopalace Guam	Sales	57	63	66	66
	Operating profit	(8)	(1)	2	3
	Depreciation and amortization	15	15	13	12
	Occupancy rate (Leopalace Resort)	52.8%	70.1%	73.7%	73.7%
	Occupancy rate (Westin Resort Guam)	74.2%	74.0%	74.5%	74.8%

6-4-2. Elderly Care

Related



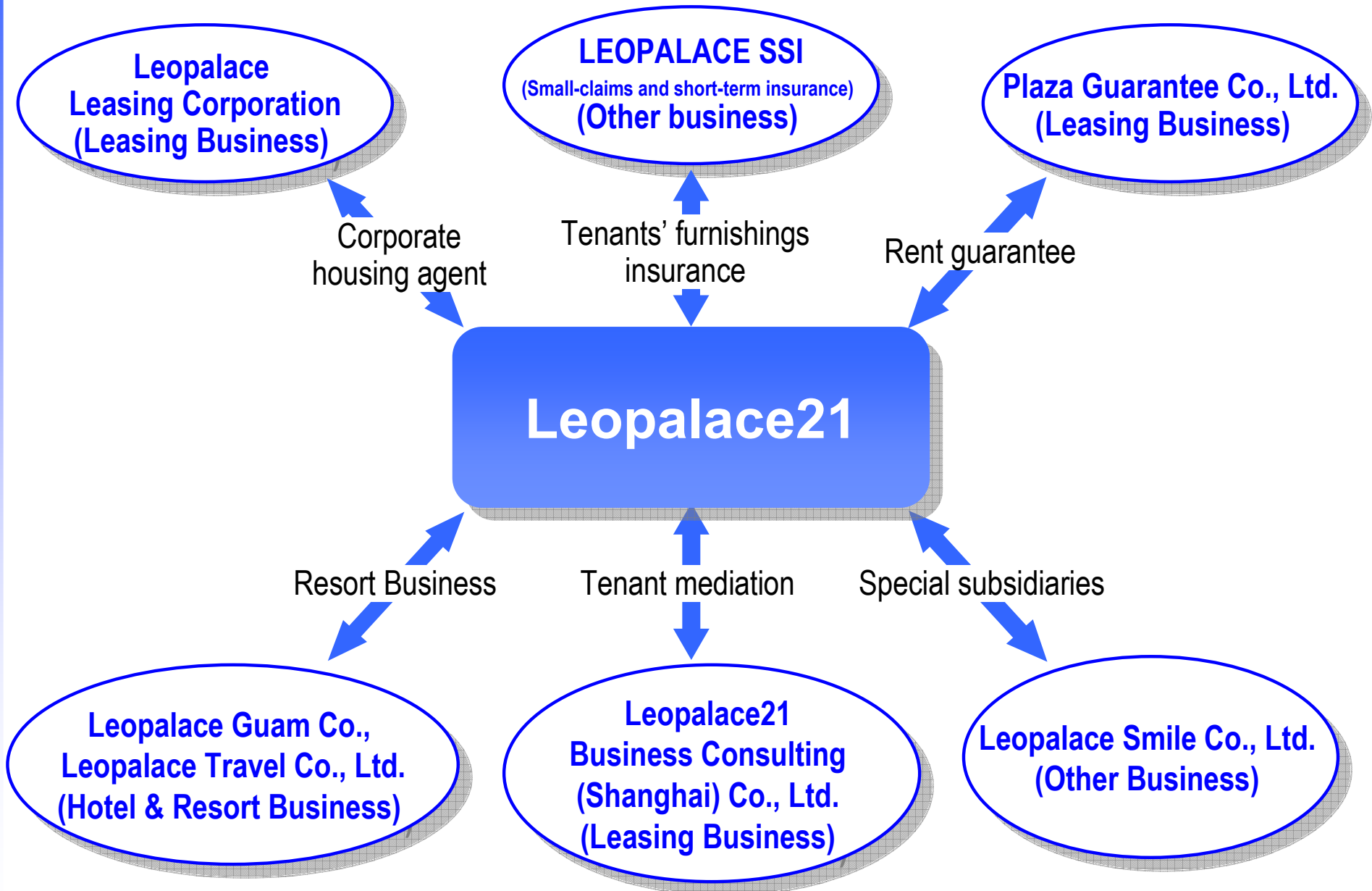
Operation of 58 “Azumi-en” facilities in Tokyo and 6 prefectures



(100 million yen)	FY 2012/3 Actual	FY 2013/3 Plan	FY 2014/3 Plan	FY 2015/3 Plan
Sales	88	91	94	96
Operating profit	(8)	(8)	(7)	(6)
Occupancy rate (day-service)	62.7%	66.2%	68.4%	70.2%
Occupancy rate (short-stay)	96.6%	96.7%	96.7%	96.7%
Occupancy rate (private residential homes, etc.)	76.4%	84.7%	89.1%	91.9%

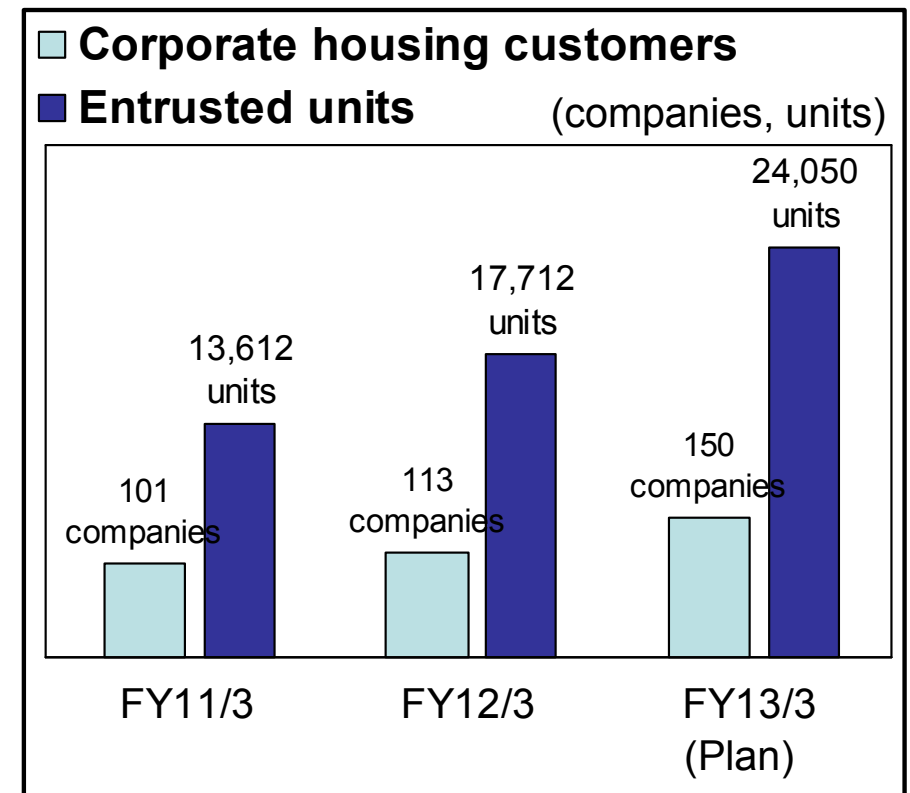
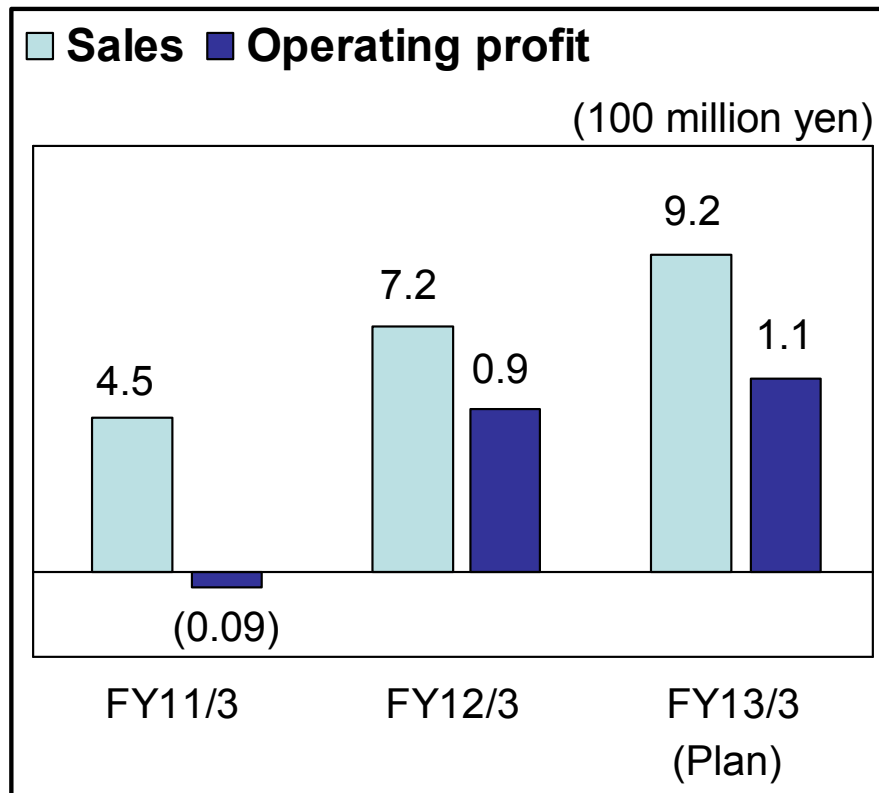
6-5. Group companies

Group



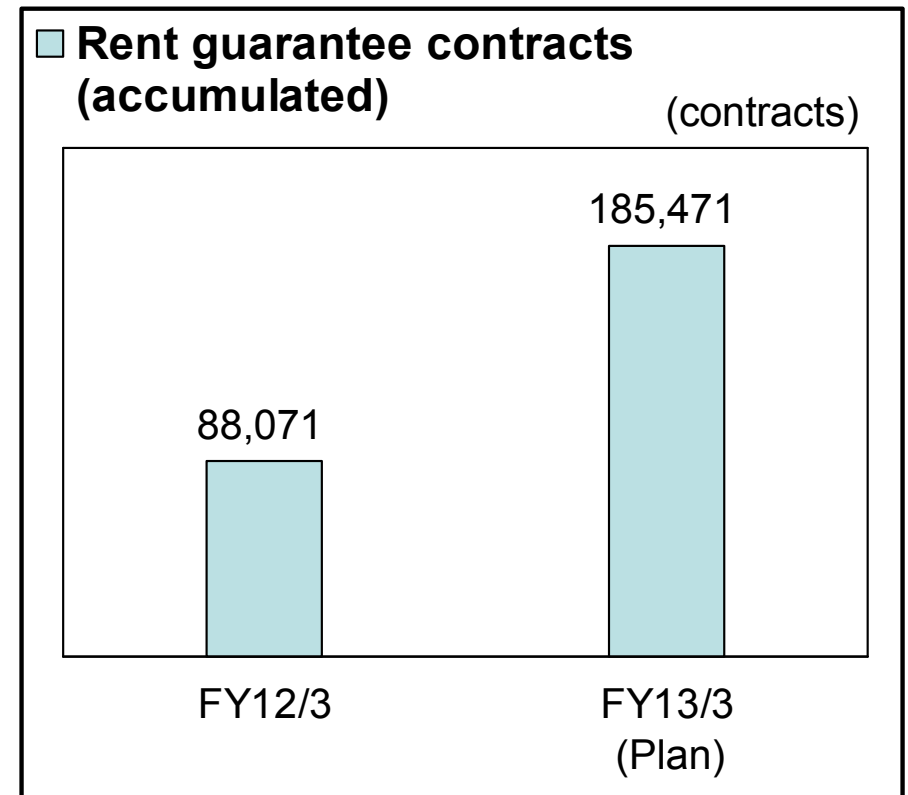
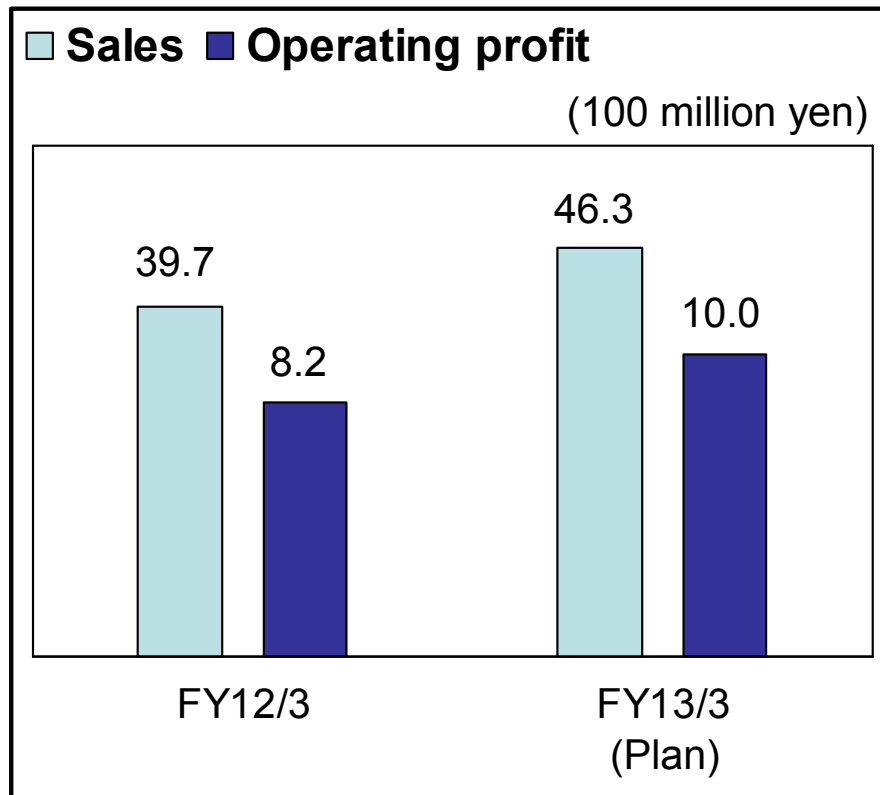
Leoplace Leasing

- Operations : Corporate housing agent (included in Leasing segment)



PLAZA Guarantee

- Operations : Rent guarantee (included in Leasing segment)

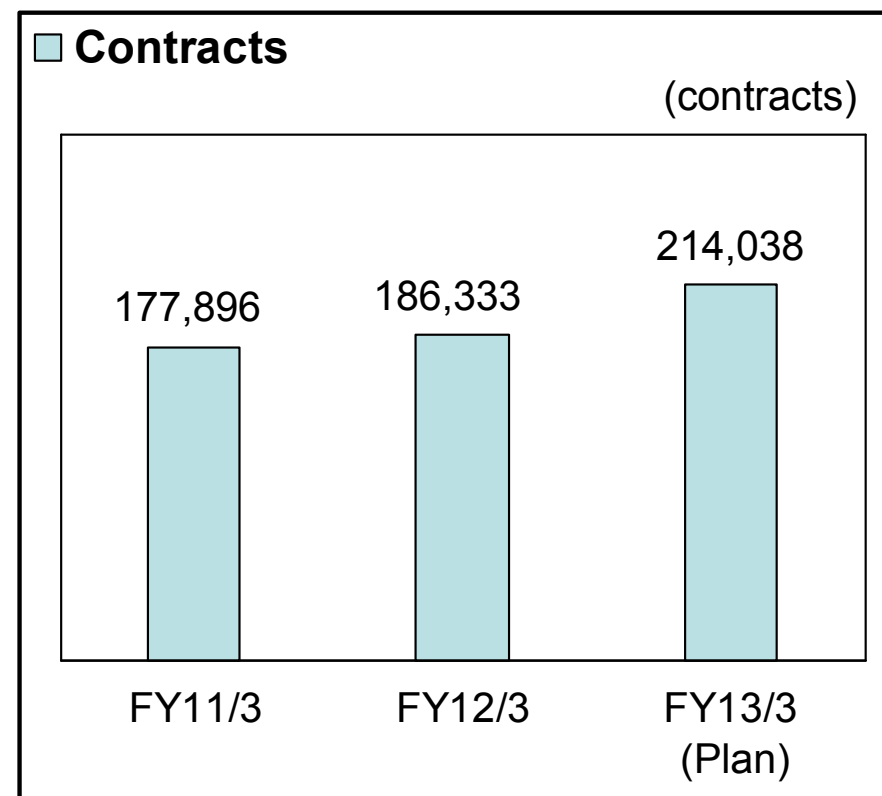
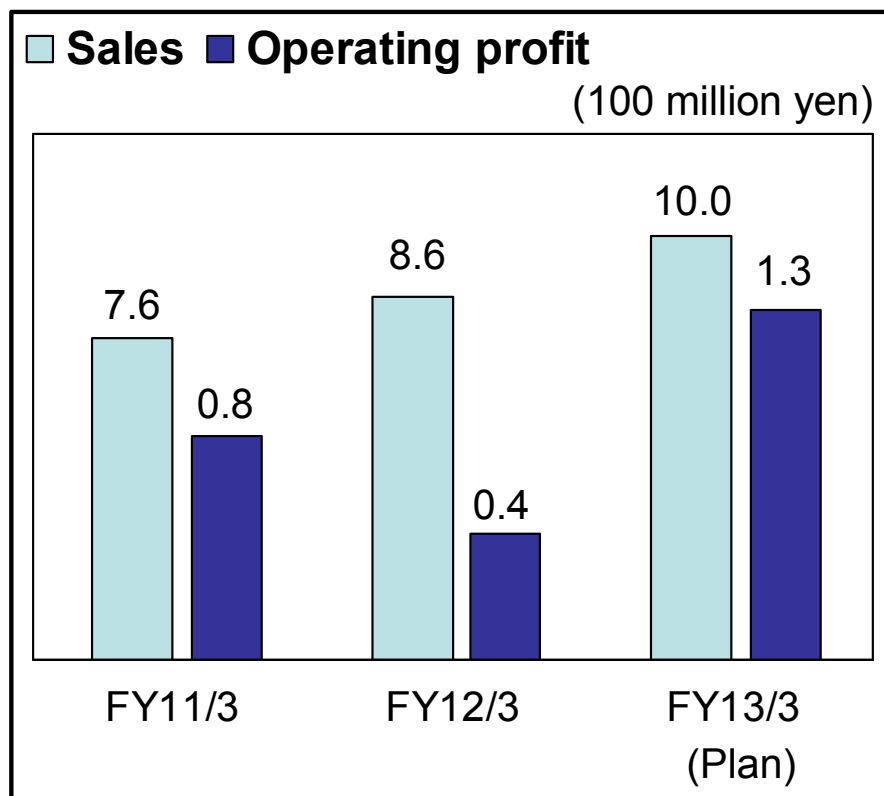


*Rent guarantee operations started in FY12/3

*Guarantees on leasing contracts of individuals

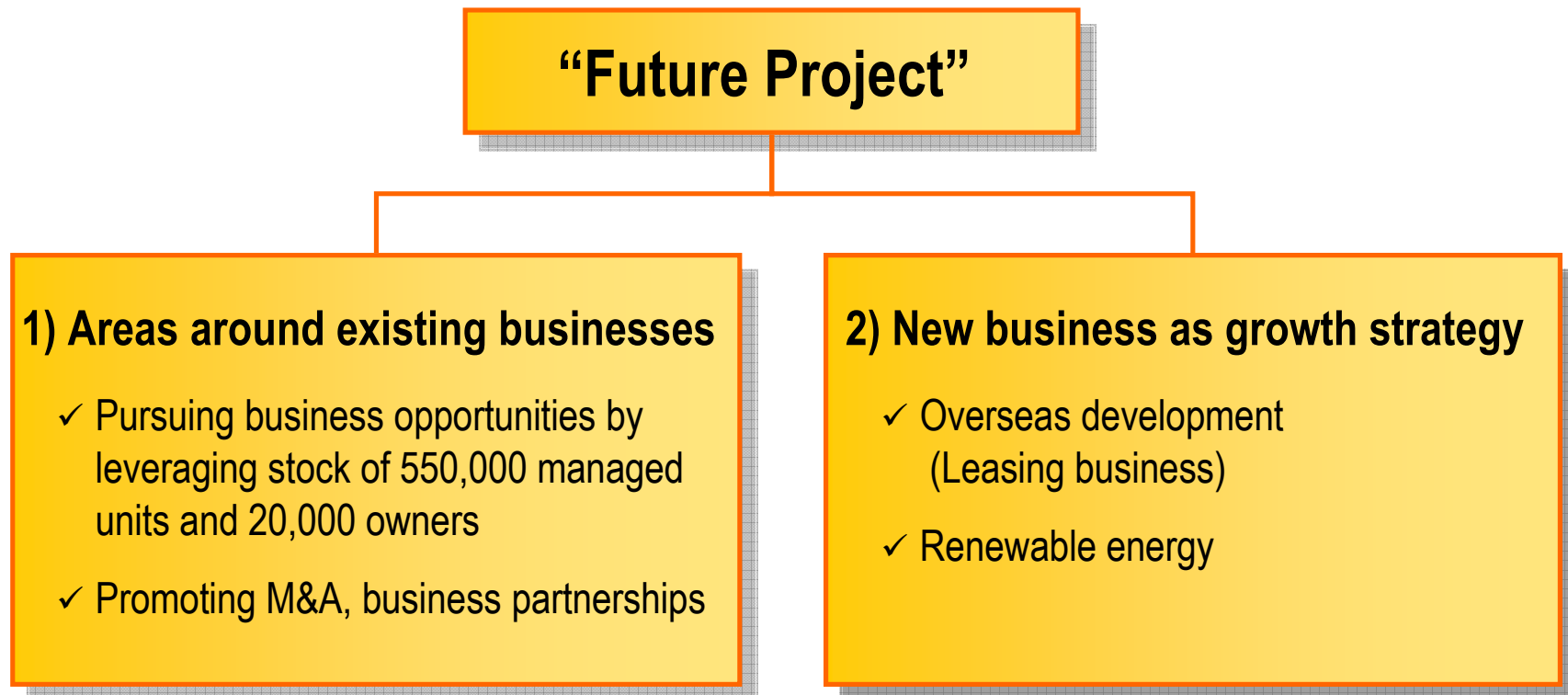
レオパレス 少額短期保険株式会社

- Operations: Tenants' furnishing insurance (included in Others segment)



6-6. New businesses “Future Project”

In April 2012, the General Planning Headquarters was newly established to enhance the planning function, and the business planning department was launched as the new business proposals section.

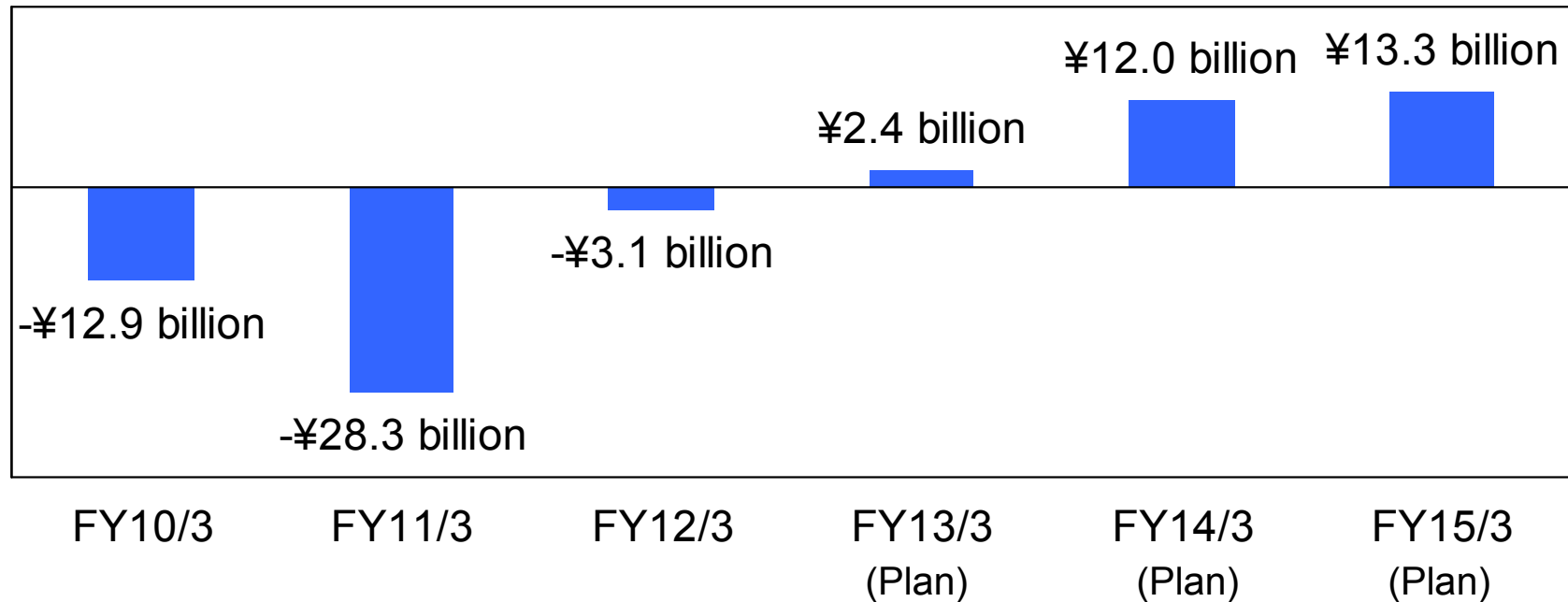


Financial Strategies

- Cash flow
- Capital strategy
- Capital investment, etc.
- Dividend policy

7-1. Cash flow

Cash flow from operating activities



- Aiming for “a return to ‘motazaru-keiei’ (non-ownership management),” promoting management with an emphasis on cash flow
- Goal is to return to profitability in operating cash flow by FY 2013/3

7-2. Capital strategy

Issuance of 1st to 3rd series of stock acquisition rights through third party allotment

On February 27, 2012, issuance of 1st to 3rd series of stock acquisition rights (with option to reset strike price) through third-party allotment was completed (Target Issue Program “TIP”* subject to Issuer’s approval for exercise).

Outline of stock acquisition rights (SAR)

	1 st	2 nd	3 rd	Total
SARs issued	14 million	14 million	14 million	42 million
Total issue price	¥3.09 million	¥2.99 million	¥2.89 million	¥8.98 million
Strike price	¥250	¥300	¥350	—
Funds to be raised	¥3.5 billion	¥4.2 billion	¥4.9 billion	¥12.6 billion
Exercise period	3 years	3 years	3 years	3 years
Dilution rate	7.98%	7.98%	7.98%	23.94%

- * Target Issue Program “TIP” subject to Issuer’s approval for exercise. The Company can set three different strike prices, and issue new shares by stages in accordance with the increase of the Company’s share price. The share acquisition rights may not be exercised without the approval of the Company.
- * Option to reset strike price: The strike price may be reset by resolution of the Board of Directors of the Company. (The price is reset to 92% of the closing price of the previous business day, with a minimum strike price of JPY 150.)
- * Allottee: Deutsch Bank AG, London Branch

7-3. Capital investment, etc.

- Continuation of the basic policy of “Non-ownership management”
- Funds (¥12.6 billion) procured through the issuance of stock acquisition rights through a third party allotment will be invested for the following purposes:
 - (1) **Expenses for the development of IT system:** ¥5.0 billion
 - (2) **Measures to improve earnings in the Leasing Business:** ¥5.0 billion
 - Office development, advertising, sales promotion investments, etc.
 - M&As to enhance ability to attract customers, product planning, and construction
 - (3) **Investment in leasing properties owned by the Company:** ¥2.6 billion
 - Measures to increase the value of aging buildings owned by the Company
 - Rebuilding, renovation, installation of solar power systems and apartment security systems, etc.

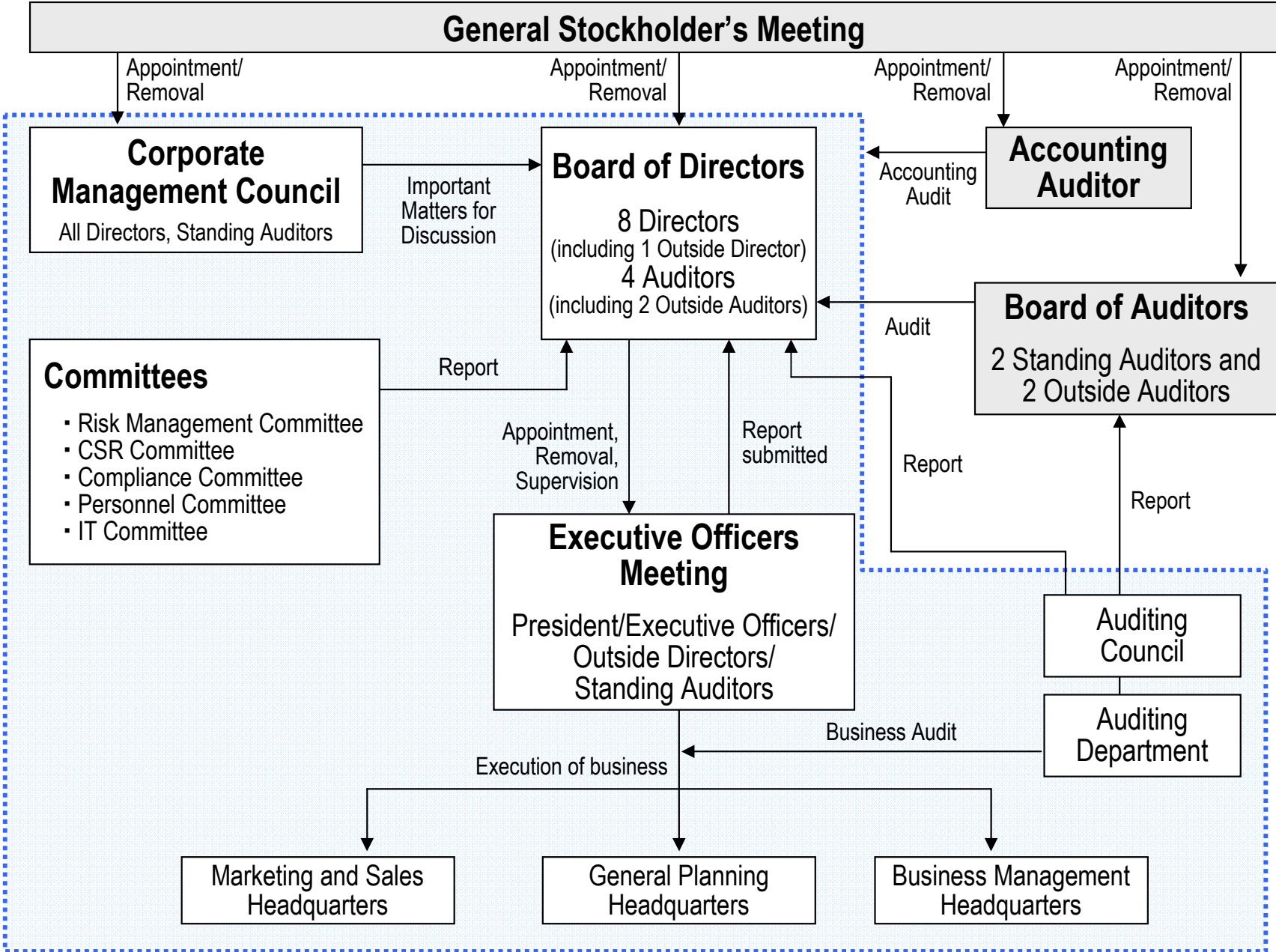
7-4. Dividend Policy

- We recognize that returning profit to shareholders is a vital management task.
- At the same time, we position as a priority task the establishment of a stable earnings framework as necessary to restore the currently negative retained earnings.

Governance, CSR

- Governance
- CSR

8-1. Governance system



8-2. CSR

CSR activities through “housing”

As a corporate citizen, Leopalace21 is determined to contribute to the realization of a sustainable society, and have established four basic policies.

Offering of quality services and a lifestyle of affluence

Installments of security systems.
Measures to prevent falling of furniture and appliances
24-hour apartment management support.
Construction and operation of elderly care facilities.

Contribution to the local community, creation of a good work environment

Children emergency call 110.
Internship at hotels.
Fund-raising, blood donations.



Sound and highly transparent business activities

Efficient compliance system.
Employee training.
Active IR activities.

Realization of a society friendly to the global environment

Installments of solar power systems.
Eco-friendly housing.
Shifting to LED light bulbs.