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Notice Concerning Construction Deficiencies of Apartment Parting Walls

As announced on April 27, 2018, Leopalace21 Corporation (Headquarters: Nakano, Tokyo; President and CEO: Eisei Miyama, “the Company”) has started investigations on all apartments, and has discovered that there is a possibility of some apartments, constructed by the Company during 1996 to 2009, being in violation with the Building Standard Law. We will continue investigating all apartments, and carry out repair works.

We sincerely apologize for the distress and trouble we have caused to our tenants, apartment owners, specific administrative agencies, and regulatory agencies.

A. Report on constructed properties possibly in violation with the Building Standard Law

1. Investigated properties

Investigated properties were constructed by steel braced frame structures and wooden frame structures, and despite the fact that construction of parting walls^{*1} in the small-scale attic is necessary, parting walls were not constructed or construction was insufficient in these properties. We believe these properties have the possibility of being in violation with the Building Standard Law^{*2}.

*1 Parting wall is the wall that separates dwelling units (rooms). To prevent the spreading of fire, these walls must be fireproof or semi-fireproof as well as incorporate sound insulation structure, and should reach the small-scale attic or roof.

*2 Building Standard Law Article 30 and Building Standard Law Enforcement Order Article 114 Paragraph 1

Results of investigations, number of buildings and apartment series (standard products)

As of May 26, 2018

Series	Investigation completed	Parting wall existent	Parting wall non-existent	Construction deficiencies on parting wall
Gold Residence	184	169	11	4
New Silver Residence	7	5	1	1
New Gold Residence	55	48	1	6
Special Steel Residence	2	1	1	0
Better Steel Residence	1	0	0	1
Con Grazia	41	29	3	9
Total	290	252	17	21

*Total 13,791 buildings constructed among the above six series

2. Cause of deficiencies

- Discrepancies between floor plans and construction manuals

In the past, there were frequent upgrades of apartment products, and it was confirmed that the specification of the building was difficult to understand and there were discrepancies between floor plans given to contractors and the construction manuals.

- Inadequate inspection system

Although we had been conducting inspections, collation of floor plans and the construction on-site was inadequate, due to the fact that properties were standard products (not custom-ordered). Also, only self-inspections were implemented, and we recognize that the inspection system was inadequate.

We will continue with the investigation, and make efforts to discover the cause of the deficiencies.

3. Current inspection system and measures to prevent further recurrence

We have reviewed the organization and on-site personnel structure, and acquired ISO 9001 certification in 2008. Since then, we have continued to strengthen the organizational structure, and established a check system by the headquarters. Currently, we conduct nine internal inspections and four inspections by third parties, and strive for quality control.

After sufficiently investigating the cause of the deficiencies, we will take further measures to prevent recurrence.

B. Policy on future course of actions

1. Future course of action and schedule

Investigations will be done on all 37,853 properties (apartments) constructed by Leoplace21. We aim for completion of all properties by June 2019, with cooperation from external parties. Also, for properties with construction deficiencies, we will carry out repair works, and aim for completion by October 2019.

2. Notice concerning investigations and repair works

We will notify tenants and apartment owners the contents and schedule before conducting investigations and repair works. For tenants, we will post notices on apartment bulletin boards and place notices in mailboxes, and we will individually contact our apartment owners.

C. Progress of matters released on April 27, 2018

Leopalace21 has completed reporting the contents of the notice released on April 27, 2018 to 165 specified administrative agencies nationwide where Gold Nail and New Gold Nail are located, and we are continuing discussions. We have completed inspections of 184 buildings out of the 915 subject properties, in which the existence of the parting wall shown in the construction certificate documents was confirmed in 16 buildings, and no existence of the parting wall or other discrepancies in 168 buildings. We expect to complete inspections by July 2018, as previously planned.

Progress report of inspections

As of May 26, 2018

Series	Investigation completed	Parting wall existent	Parting wall non-existent	Construction deficiencies on parting wall
Gold Nail, New Gold Nail	184	16	168	0

D. Impact on business results arising from this case

We believe that the impact on business results from this case is minor.