

May 30, 2019

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**Notice Concerning Causes and Measures to Prevent Recurrence of  
Defects Related to Parting Walls etc. in Properties Constructed by the Company**

Leopalace21 Corporation (Headquarters: Nakano-ku, Tokyo; President and CEO: Bunya Miyao; “Leopalace21”) announced in a news release dated April 27, May 29, 2018, and February 7, 2019 that construction defects were confirmed in certain properties constructed by Leopalace21. Defects include parting wall defects, discrepancies of insulation materials in parting walls, exterior wall structures not meeting qualifications certified by the Minister of Land, Infrastructure and Transport, and ceiling construction defects (these defects will hereinafter referred to as “defects related to parting walls etc.”). On February 27, 2019, we established an external investigation committee (the “Committee”) chaired by Mr. Tetsuo Ito, attorney at law (of Nishimura & Asahi) to investigate the causes of defects related to parting walls etc.

As a result of the investigation, the Company received reports titled “Progress of the Outside Committee’s Investigation” (the “Investigation Report”) on March 18, 2019 and “Investigation Report on Problem Concerning Construction Defects” (the “Final Report”) on May 29, 2019 from the Committee.

As announced earlier in our press release issued on February 7, 2019 titled “Progress Report of All-building Investigations and Notice Concerning Newly Confirmed Construction Defects,” the Company decided to have the cause of the defects related to parting walls etc., the future courses of action, and the responsibilities of the internal directors objectively examined solely by outside directors. The Company announces the following decisions made based on the examinations of the above matters in accordance with the content of the Investigation Report and the Final Report.

The Company apologizes sincerely to the parties concerned, including the owners and tenants of the properties constructed by the Company and all our stakeholders, for the trouble we have caused due to the defects related to parting walls etc.

We are fully aware that the defects related to parting walls etc. is a problem that should not have been caused by a construction company that deals in apartment buildings. We will continue to conduct investigations and repairs of apartments on a company-wide basis and make every effort to prevent recurrence of such problems.

We will also conduct investigations of properties constructed by other companies, examine the causes, and develop recurrence prevention measures.

## 1. Details and causes of the defects related to parting walls etc.

### (1) Details of the defects related to parting walls etc. that have been verified

#### (A) Outline of defects related to parting walls etc.

As announced in our press releases on April 27, May 29, 2018 and February 7, 2019, the following construction defects were found in certain properties constructed by the Company.

#### (i) Construction defects of parting walls

It has been verified that parting walls were not constructed or were insufficiently constructed in the small-scale attics or spaces above the ceilings of certain properties constructed by the Company. This violates Article 30 of the Building Standards Act and Article 114 para.1 of the Enforcement Order of the said law.

#### (ii) Discrepancies of insulation materials in parting walls, exterior wall structures not meeting qualifications certified by the Minister of Land, Infrastructure and Transport

It was verified that foamed urethane (rigid polyurethane foam) was used as an insulation material in the parting walls of certain properties constructed by the Company, although the construction drawings specify that glass wool should be used as the heat insulation material. The buildings do not meet specifications certified by the Ministry of Construction Notice described in construction drawings. In addition, it was also verified that the exterior walls do not meet the specifications certified by the Minister of Land, Infrastructure and Transport as described in the construction drawings.

#### (iii) Construction defects of ceilings

Concerning construction of ceilings, it was verified that the finish did not meet specifications certified by the Ministry of Construction Notice, which specified rock wool sound absorbing boards to be placed on top on reinforced drywall (12.5 mm).

#### (B) Correction of the number of buildings with foamed urethane in parting walls and exterior walls announced in the press release dated February 7, 2019

In the press release dated February 7, 2019, we announced that there were 925 buildings in which foamed urethane had been used as insulation material in the parting walls, exterior walls or both, in the Gold Residence (GR), New Gold Residence (NGR), and Villa Alta (AGR) series. However, it was found in the course of the investigation into the defects related to parting walls etc. that foamed urethane was used in GR buildings that were not included in the abovementioned 925 buildings. Accordingly, we thoroughly examined the method for identifying the problematic buildings internally and conducted the calculation again. As a result, it was revealed that there are 941 buildings in which foamed urethane were used as insulation material in the parting walls and the exterior walls.

(2) Causes of defects related to parting walls etc.

As described in the Final Report, as a result of the investigation by the Committee on the problems of defects related to parting walls etc., the details and direct causes of each defect were discovered. In response to the investigation by the Committee and the results of the investigation, the Company considers the following three major points to be the fundamental causes of the defects related to parting walls etc.

(i) Corporate culture in which employees focus on the intentions of the top management and neglect compliance of laws and regulations

At that time, the corporate culture of the Company was such that the members of the Design Department, the Quality Department, etc. were unable to provide their opinions to the top management, and employees focused on the intentions of the top management. In addition, it was thought that compliance was less important than the rapid commercialization of products. The corporate culture was such that the employees were expected to prioritize the management policy of the top management ahead of compliance and construction quality.

(ii) Lack of compliance with laws and regulations including the Building Standards Act

The following are considered to be the causes: (a) For parting walls in attics of Nail series, an incorrect interpretation was made that the construction of the parting wall was unnecessary; construction certification documents were created that differed from actual construction; and stipulations of specific administrative agencies concerning compliance were ignored, and (b) For the discrepancies of insulation materials in parting walls and exterior wall structures not meeting qualifications certified by the Minister of Land, Infrastructure and Transport, foam panels were used even though it could have been acknowledged that they did not meet the certification of the Minister.

As described above, the Company's officers and employees failed to comply with the laws and regulations, including the Building Standards Act, as is evident from the fact that they did not verify compliance when developing new products, that they did not take the indications regarding compliance that were provided by the specific administrative agency after the introduction of the new products seriously, and other aspects.

(iii) Deficiency of the construction management system and the construction supervising system

It is considered that the defects related to parting walls etc. were caused due to the fact that construction management depended on self-inspections and that architects were not substantially involved in supervising the construction work. In addition, the defects related to parting walls etc. were caused due to deficiencies in the construction management system, including insufficient process inspections, etc. caused by the shortage of chief engineers; and were also caused due to deficiencies in the construction supervision system, in which the architects who prepared the construction certification documents did not undertake on-site construction supervision.

Moreover, the following points are pointed out in the Final Report by the Committee in detail as the "Overall, essential causes and background" in addition to the causes of

the construction defects, and the Company takes them seriously as the fundamental causes of the problem of the defects related to parting walls etc.

- ① In the tough management environment at that time, in which the Company was “thinking while running,” overcoming the management crisis and expanding the Construction Subcontracting Business was prioritized.
- ② The Company’s system was a so-called “one-man system” in which the intentions of the top management were solely implemented.
- ③ The officers and employees of the Company focused less on compliance with laws and regulations related to construction and had low sensitivity to legal risks, and they lacked the understanding that they were responsibility for quality assurance.

## **2. Measures to prevent recurrence**

The Company has previously looked into measures to prevent a recurrence and has also taken the suggested measures from the Committee in earnest. We considered how to make such measures effective, and developed measures to prevent recurrence as follows.

We regard these measures as top management priorities and plan to implement them as soon as possible. Updates about the progress of each measure will be made available on the Company website as necessary.

### **(1) Drastic reform of the corporate culture**

The Final Report points out a lack of awareness of legal compliance, a weak sense of responsibility and risk sensitivity with regard to quality matters, and a tendency to delay measures even if issues are detected in accordance with a policy of “thinking while running” that had been established as a corporate culture at that time.

Taking these points into consideration, we will implement radical reforms to the corporate culture as described below, with the aim of encouraging officers and employees to see things from the perspective of owners, tenants, and other customers and to have an awareness that the Company’s social significance lies in providing value that our customers appreciate, as well as of restoring our customers’ trust, which was lost due to the defects related to parting walls etc.

#### **(A) Fostering a customer-first corporate culture**

We will rid ourselves of a corporate culture that has a weak sense of responsibility over quality matters and that delays measures even when issues are detected, and transform it into a corporate culture that puts the customer first.

To achieve this, it is necessary to not simply treat the fundamental causes and recurrence prevention measures of these construction defects as matters that belong in the past, but to engage in this with a sense of crisis. Moreover, it is not possible to restore our customers’ trust in the Company unless officers and employees understand the importance of providing value that our customers appreciate.

The Company formulated its mission statement in December 2016, making activities “for all of society” our basic policy. We will repeatedly use all available opportunities, such as notifications, meetings, and training, to make officers and employees well aware of the importance of providing value that our customers appreciate (including apartment quality

and safety).

(B) Establishing a policy of compliance-first

The cause of the defects related to parting walls etc. was a lack of awareness of legal compliance, which included taking construction-related laws lightly, in the context of “thinking while running” and a policy that prioritized business and performance. We will change this corporate culture of prioritizing business and performance, and adopt a policy that makes legal compliance the highest priority in our business operations (compliance-first). To do this, we will continuously implement the following measures.

(i) Regularly communicating the message of compliance-first

On January 21, 2019, in an effort to prevent the recurrence of defects related to parting walls etc., the President and CEO and Compliance Management Headquarters issued a message stating that each officer and employee absolutely must increase their compliance awareness for the Company to secure social trust, which is a goal in the Company’s Corporate Ethics Charter, and announced to all officers and employees a management policy of compliance-first.

Senior management will continue to use all available opportunities to communicate a strong message of compliance-first to all corners of the organization.

(ii) Considering the introduction of personnel evaluation of compliance readiness

We are considering introducing a personnel evaluation system for compliance readiness in order to make sure compliance-first takes root.

(a) Active evaluation of compliance-first readiness

We are considering introducing a personnel evaluation arrangement that reflects whether employees are taking the initiative and acting in accordance with our compliance-first policy, which we hope will also have the effect of raising awareness about compliance promotion as something laudable that increases corporate value, rather than something negative that is bothersome or meaningless.

(b) Introducing a versatile evaluation system

To evaluate compliance readiness objectively, we are considering introducing an evaluation system that can achieve versatile evaluation, such as subordinates and other department members evaluating the legal compliance awareness of officers and employees.

(C) Realizing corporate culture reform through dialogue with stakeholders

We promote the following measures with the aim of realizing corporate culture reform in unity with stakeholders by prompting active dialogue with all stakeholders, starting with our employees.

(i) Promoting active dialogue between management and employees

We have renewed our understanding that mutual understanding between management and employees is important in order to establish our compliance-first

policy and otherwise realize corporate culture reform, so we will revitalize the ongoing dialogue between management and employees as well as expand the frequency and duration of such opportunities. This will allow the intentions of management to be conveyed to employees and the suggestions of employees to be incorporated into the business management.

(ii) Conducting employee attitude surveys

We will regularly conduct employee attitude surveys to measure the fostering of compliance awareness and employee satisfaction. The contents of compliance training will be revised based on the survey results.

(iii) Promoting and visualizing dialogue with all stakeholders (stakeholder engagement)

The Company has points of contact, such as meetings and toll-free calls, and has dialogues with apartment owners, tenants, suppliers, shareholders, employees, and other stakeholders, but we have publicized concrete information about such initiatives only to a limited degree.

Going forward, we will not only promote and expand dialogue with all stakeholders, but also reflect the information and points of improvement obtained from that dialogue in our business operations as well as publicize the contents of such initiatives, thereby visualizing how things are improving.

(D) Developing a reporting system for legal violations

Considering that the defects related to parting walls etc. were caused by delayed measures even when issues were detected, motivated by a policy of “thinking while running,” we developed the following reporting system to create a system where appropriate reports can be filed in case of legal violations or suspicion of such violations.

(i) Making the reporting rules well-known

Compliance officers responsible for informing compliance measures and making reports in case of the detection of legal violations will be appointed at each location with the aim of detecting compliance violations at an early stage. Our compliance regulations specify that officers and employees must report to or consult with compliance officers in cases of compliance violations or suspicion thereof. Moreover, we made it so that anyone who failed to report compliance violations etc. may be penalized according to employee rules and regulations.

In the future, we plan to make this an effective tool by making the reporting rules well-known and implementing strict reprimands and penalties in cases of rule violations.

(ii) Making the internal reporting system well-known

We will implement and promote the following measures to increase the reliability and secure the effectiveness of our group’s existing internal reporting system.

- (a) Making clear how it can be used by employees, give examples of what counts as legal violations, and informing employees about the leniency system.
- (b) Training staff in charge of receiving internal reports

(c) Introducing an authentication system for the internal reporting system

(E) Education and training for corporate culture reform

We will conduct the following education and training to foster a customer-first corporate culture and establish a compliance-first policy.

(i) Training on the fundamental causes and recurrence prevention measures of the defects related to parting walls etc.

We will swiftly carry out training on the fundamental causes and recurrence prevention measures of the defects related to parting walls etc., based on the Final Report and our measures to prevent recurrence, so that all officers and employees can gain an understanding of the essentials. Moreover, we will repeatedly carry out training and establish the recurrence prevention measures so that the memory of these construction defects does not fade.

(ii) Carrying out education and training

We have decided to create an education and training program with the aim of fostering a customer-centered corporate culture and establishing our compliance-first policy. In the future, we will carry out the following education and training on the basis of that program.

(a) Stratified education

We will conduct stratified education for senior managers and other managers, non-managers, and new employees to provide them with cross-sectional information and legal knowledge about the Company's services as well as our customer-first corporate culture and compliance-first policy, based on what is needed at their level. For example, we will educate new employees about laws relevant to their department, non-managers about laws relevant to their department and other departments they interact with, managers about laws generally relevant to all company operations, and top managers about not only the contents for managers but also all knowledge needed for management, starting with corporate law.

(b) Education by business activity

We will conduct education by business activity so that employees can see what laws are relevant to current business activities as well as to promote understanding of and ensure compliance with the relevant laws. For example, employees will be educated about what laws are required where and how in the operation flow of the relevant business activities as well as what laws and clauses are at issues, so that they can have compliance awareness constantly in their work.

(F) Reviewing the personnel system (enhancing job rotations)

Senior management used to have a way of thinking that identified the sales departments as "us" and development departments as "them." Other officers and employees also had a weak sense of responsibility with regard to quality matters, so that

they were wholly unable to keep each other in check.

We believe that the reason for the weak sense of responsibility with regard to quality matters has been the nearly complete lack of personnel transfers between departments, except in the case of internal job offerings and recruitment, with the effect that people become fixed in their departments and yield to sectionalism.

As such, we will more actively transfer personnel between departments and consider revising the personnel system so that employees gain a deeper understanding of what work is done at other departments and the organization shares information internally.

(2) Restructuring the compliance risk management system

One cause of the construction defects was the absence of system that tests legal conformity in the development of new products. As discussed above, the Company has consolidated a compliance-first policy, and we have decided to restructure our compliance risk management system as follows, so as to systematically secure compliance-first.

(A) Creating a Compliance Management Department

As announced in a press release dated February 7, 2019, the Company has created a Compliance Management Department to drastically revise our compliance system and rebuild a solid system. The Compliance Management Department consists of a Compliance Planning Department, a Construction Law Department, and a Legal Affairs Department. It is responsible for radically revising the group's compliance risk management system as well as planning and proposing the making of a new system. It will also create and operate an information management system as well as test the legal conformity of new projects, new services, and new products in the Company Group. Moreover, on April 1, 2019, we reorganized the headquarters organization to strengthen the compliance risk management system, whereby the director of the Compliance Management Headquarters was made CLO (Chief Legal Officer).

(B) Establishing a Construction Law Department in the Compliance Management Department and conducting tests and inspections of the legal conformity of new products from outside the Business Division (implemented February 7, 2019)

In the past, legal compliance departments included not only the Legal Affairs Department, but also the Construction Law Section in the Construction Management Department of the Construction Subcontracting Business Division. This section posted technicians in accordance with the Construction Business Act and managed the construction supervision records in accordance with the Architect Act, but verification of whether business activities in the construction departments were properly compliant was insufficient. Moreover, the section was part of the Construction Subcontracting Business Division and so its independence could not be secured.

Moreover, although the Inspection Section of the Construction Management Department tried to inspect the adequacy of construction management, its independence could likewise not be secured as it belonged to the Construction Subcontracting Business Division.

As such, we established a Construction Law Department in the Compliance Management Headquarters to facilitate tests of legal conformity by first-class registered architects and others with architectural expertise as well as to conduct inspections of

legal conformity and construction independent of the Construction Subcontracting Business Division.

(C) Revising how the Compliance Committee is operated

On April 22, 2019, we explicitly stated that the Company's Compliance Committee is the highest authority in the entire Company Group's compliance system, and identified it as a system that makes expert suggestions with regard to cases of compliance violations and promotes lively discussions, following revisions of matters deliberated on and the make-up of the committee.

In the future, we will appoint outside directors to chair the Compliance Committee and strengthen its function of keeping the executive organs in check. Building on this, we will strengthen the Compliance Committee's authority so that they can order departments to suspend the carrying out (advancement) of activities in case they are clearly in violation of laws.

Moreover, we will communicate information about the activities of the Compliance Committee inside and outside the Company to ensure their transparency.

(D) Revising how risk is managed

We have identified the Risk Management Committee as an agency that cross-sectionally manages and supervises risk in the entire Company. It should not only respond to issues that have already manifested, but also detect potential risks as well as debate and look into the efficacy of countermeasures and response levels.

Also, careful examination of inquiries to the Compliance Management Headquarters and regular meetings with each business division should be used to actively detect potential risks in the business divisions as well as to conduct effective risk management and crisis response in line with risk severity.

(E) Verify legal conformity at the start of new projects or in cases of changes to their contents (implemented January 16, 2019)

In the past, internal procedures did not necessitate checks on legal conformity by the Legal Affairs Department in cases of new projects (including the launch of new products and services), changes to the contents of projects, and other important decisions (matters to be decided by the Board of Directors or by requesting approval from the President and CEO). To ensure the legal conformity of new projects etc., the Corporate Management Department will verify the legal conformity.

(F) Revising the compliance officer system

In July 2006, the Company decided to place compliance officers in each department. Compliance officers have played the role of reporting cases of compliance violations and increasing compliance awareness in each department.

In the future, we will revise the compliance officer system and consider clarifying their position in the personnel system, after strengthening their authority and responsibilities. Moreover, we will carry out education for compliance officers and employees with the primary purpose of deepening their understanding of the importance of compliance and their own role, based on cases of legal violations in the Company and in other companies. We will also hold compliance officer meetings in each area, creating a system where

compliance officers and employees lead the creation of compliance systems in each department through reports and training.

(H) Revising how suspicions of legal violations are handled

To prevent personnel from failing to make appropriate reports about legal violations, as described above, we will revise the reporting route and penalize personnel who do not make appropriate reports.

In cases of suspected legal violations with regard to existing products, services, and projects, the Compliance Committee will have the authority to suspend projects.

(3) Reviewing the Construction Subcontracting Business System

With regard to the problem of the defects related to parting walls etc., as described above, the conceivable causes are a lack of consideration of legal compliance when developing new products, as well as construction management that depends on voluntary inspections and construction supervision, with architects barely involved. In addition, the causes may include an improper construction management system such as insufficient process inspections due to a shortage of chief engineers, and an improper system of construction supervision such as negligence of on-site construction supervision by the architect who created the building certification application documents. Because of these aspects, we will review the system of the Construction Subcontracting Business as follows.

As noted in (2) above, the Construction Law Section and Inspection Section, which were formerly in the Construction Business Division, was moved into the Compliance Management Headquarters. Through this change, a system where inspection, training, and education concerning technology to the entire construction organization, including subcontractors, could be done from outside the division

(A) Improvement of development process of new products (implemented as of April 1, 2019)

The causes of the construction defect problem of the parting walls include undocumented responsibility and rules concerning legal compliance consideration for new product development as well as discrepancies between drawings.

In the future, when developing new products (including version changes and material changes), we will subdivide the new product development processes as follows and consider the details within each process, including legal compliance.

(i) Consideration of legal compliance in the product planning phase

The Product Development Department will create a basic plan comprising the specifications and check compliance with the applicable laws and regulations, and then the Construction Legal Department in the Compliance Management Division, which is independent from the Construction Subcontracting Business Division, will examine whether legal compliance has been properly taken into consideration.

After the examination, at a product development meeting and an executive officers and employees' meeting, the attendees will examine whether the necessary matters have been properly considered, including legal compliance, and will then approve the product's commercialization.

(ii) Reconsideration of legal compliance during the detailed design phase and creation of general drawings

(a) Reconsideration of legal compliance during the detailed design phase

Previously, the details of all parts (safety, durability, functionality, workability) were considered based on the basic plan for a new product (concept, design, specifications, equipment, structure, facilities, etc.) created by the Product Development Department. Legal compliance was verified based on these details again.

In the future, the Construction Legal Department in the Compliance Management Division examines whether legal compliance has been properly taken into consideration.

(b) Creation of general drawings

Previously, in the creation of general drawings (structure lists, finish schedules, detailed floor plans, expansion plans, and fittings lists), there was a possibility of discrepancies arising during this process because creation and revisions were done for individual two-dimensional drawings.

In the future, we will introduce Building Information Modeling (BIM). By creating virtual three-dimensional models (digital models) using a computer from the initial design phase, and by automatically creating floor plans, expansion plans, elevation plans, and finish schedules at the same time, we can ensure consistent drawings at all times. Unified sharing and management also ensure consistency.

(iii) Construction check and quality check phase

In the past, with regard to safety, durability, functionality, and workability, in order to check whether the standards required by the Building Standards Act are met, we have checked the quality of the materials (material strength, sound insulation performance, etc.) using public testing methods or by public testing institutes. We do not have approval or other records for the results, however, and we have operated in an imprecise manner.

From now on, the Construction Legal Department in the Compliance Management Division will check and approve whether the appropriate procedures have been undertaken and whether the results of the quality check have met the necessary standards.

(iv) Construction manual creation phase (prevention of discrepancies arising between general drawings and construction manuals)

Previously, construction manuals have been created based on the above-mentioned general drawings. However, the specifications often change, and there was a possibility of inconsistencies arising between general drawings and construction manuals.

In the future, we will introduce BIM, and will use the same BIM data to create and improve the construction manuals in order to avoid inconsistency between the general drawings and the construction manuals.

With regard to the construction manuals that are created, the Construction Legal Department in the Compliance Management Division will check the decision and approval records of the Product Development Department and examine the drawings for any discrepancies (materials used, part shapes, etc.).

(v) Product release

Previously, decisions on product releases were made before construction manuals were created. Also, approvals for product releases were made by the General Manager of the relevant business division.

In the future, approval resolutions will be made at the Board of Directors meeting after it is confirmed that the procedures described above have been undertaken and that there are no compliance problems.

In terms of changing the design, use materials, and certified and announced specifications after the product release, we have added a rule stipulating that this is not permitted without approval during each phase described above.

(B) Review of check system in construction certification document creation phase

Previously, concerning construction certification documents and construction drawings, it was required that each drawing was checked for consistency and legal compliance. However, the time for checking had not been secured.

In the future, time for checking will be scheduled beforehand, in order to ensure complete verification.

(C) Proper construction supervision by reviewing the construction supervision system

One of the causes for defects related to parting walls etc. was that architects were not involved in construction management. In order to properly conduct construction supervision in accordance with the Act on Architects and Building Engineers, we will make the construction supervision system stricter as follows.

(i) Construction supervision by on-site observer for important processes (implemented as of April 1, 2019)

Previously, construction supervision by architects was done mainly based on documents, and on-site verification was not fully implemented.

Currently, construction supervision is conducted by an on-site observer for framework-raising, completion work (from 2016), foundation work (reinforcement, anchoring) (from 2017), foundation work (concrete), and transition of wood work (from 2018).

For the future, rules were created that construction supervision is conducted by an on-site observer (visual construction supervision) for the entire eight processes including ground improvement work, foundation work (layout), and fireproof coating construction work.

(ii) Inclusion of construction supervision dates in the construction management schedule

In the past, construction management schedules created by the Supervision Engineering Department did not include the dates of construction supervision and voluntary inspection. This may have resulted in advancement to the next process

without construction supervision being conducted by on-site observation.

Accordingly, we will specifically include construction supervision dates in the construction management schedule to properly conduct construction supervision.

(D) Securing construction quality with proper construction management

In order to secure the construction quality of apartment buildings, we will create the following system:

(i) Securing a construction management system by assigning chief engineers appropriately

Because the number of chief engineers was chronically insufficient compared to the number of buildings, the chief engineers of buildings could rarely go to the sites and conduct process inspections themselves. In addition, the chief engineers could not necessarily ensure process inspections through the persons in charge at the branches.

We have now assigned a sufficient number of engineers (chief engineers, managing engineers) to ensure proper construction, and we have a scheme that secures the appropriate allocation of buildings using an IT system.

(ii) Process inspection by a third party

In order to conduct objective construction inspections, we have previously had process inspections conducted by a third party for reinforcement inspection (since 2016), framework-raising inspection (since 2016), waterproof inspection (since November 2017), and parting wall inspection (since July 2018).

In the future, in addition to these, we will also have inspections conducted by a third party for fireproof coating construction work.

(iii) Securing and improving construction quality of construction vendors

In placing an order with construction vendors, in order to secure the schedule and building quality, we have previously evaluated vendors' construction capabilities using evaluation sheets for each vendor (building firms and facility vendors) and decided on the next orders based on these evaluations.

In the future, we will have a third party inspection vendor evaluate the construction work (inspecting construction defects based on the parts and quantifying the defect rate and others) for each vendor, enter the evaluation on the previously described evaluation sheets, and then feed the results back to improve the construction quality of the construction vendors.

For construction vendors, we have had the opportunity to share our notices and drawing changes periodically (approximately once every two months). We will include a third party when undertaking this in the future.

(iv) Inclusion of voluntary inspection dates in construction management schedules

As well as (C) (ii) described above, we will include voluntary inspection dates in construction management schedules.

(E) Inspection by the Construction Legal Department in the Compliance Management Division

Because flaws were found in the construction management and construction supervision system, in order to secure proper construction management and construction supervision, we will enhance the inspection system of the Construction Legal Department in the Compliance Management Division as follows.

The Construction Legal Department in the Compliance Management Division will allocate inspectors in each region to conduct inspections for each process to verify whether construction is conducted in accordance with the construction manuals and design documents.

(i) Inspection regarding construction supervision

To check whether construction supervision as described above is properly conducted, with regard to management architects or design managers at the architect's office, we will conduct periodical inspections of construction supervision operation and the document storage situation concerning buildings whose construction is underway or completed.

(ii) Ensuring inspection with triple check system

To check whether the construction management described above is properly conducted, voluntary inspections were conducted by construction companies and people in charge of construction (recorded by photographs).

In the future, the Construction Legal Department in the Compliance Management Division will inspect whether construction is conducted in accordance with the construction manuals and design documents, as well as record inspections by photographs.

(iii) Securing an appropriate schedule to secure quality

As of April 15, 2019, managers who administer design, construction supervision, and construction management, including the Construction Supervisory Executive Officer, issued a notice to employees advising that they will be ensuring construction supervision and voluntary inspection, and that the progress of processes is to be halted until construction supervision and voluntary inspection are complete.

In addition, if the Construction Legal Department in the Compliance Management Division find that construction supervision and construction management have not been conducted or are insufficient, we will instruct that a voluntary inspection be conducted again and change the construction schedule.

(F) Training by the Construction Legal Department

The Construction Legal Department will conduct training on the design intentions of products and the importance of construction quality and construction supervision, targeting the design sections, supervision engineering sections, inspection sections, and construction vendors.

### 3. Responsibilities of the Company's management and disciplinary action

#### (1) Decrease in Director remunerations

As announced in the release titled "Notice Concerning Revision of Earnings" on May 9, 2019, we will decrease remunerations as follows.

|          |  |
|----------|--|
| Period:  | May 2019 to March 2020   |
| Subject: | Directors, Audit & Supervisory Board members, and Executive Officers |
| Content: | President and CEO 60% decrease                                       |
|          | Other internal Directors 45% to 55% decrease                         |
|          | Standing Audit & Supervisory Board members 35% decrease              |
|          | Executive Officers 35% to 45% decrease                               |

#### (2) Retirement of Directors

The Company has decided on the following change of Directors, in order to quickly recover the credibility and business results that have been damaged by defects related to parting walls etc. and reform its management structure.

##### (A) Retirement of the President and CEO

As announced in the release titled "Notice Concerning Change to the Representative Director (President and CEO)" on May 10, 2019, President and CEO Eisei Miyama will retire. Also, Eisei Miyama will retire as a Director, due to the expiration of his term, at the conclusion of the 46th Annual General Meeting of Shareholders (scheduled June 27, 2019).

##### (B) Retirement of other Directors

As announced in the release titled "Notice Concerning Appointment of Directors" on May 29, 2019, the following Directors will retire, due to the expiration of their terms, at the conclusion of the 46th Annual General Meeting of Shareholders (scheduled June 27, 2019).

|                 |   |
|-----------------|---|
| Tadahiro Miyama | Director and Senior Vice President      |
| Yuzuru Sekiya   | Director and Senior Executive Officer   |
| Hiroshi Takeda  | Director and Senior Executive Officer   |
| Kazuto Tajiri   | Director and Senior Executive Officer   |
| Hiroyuki Harada | Director and Managing Executive Officer |
| Hiromi Ito      | Director and Managing Executive Officer |