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**Notice Concerning Partial Revision of Basic Policy  
for Establishing Internal Control System**

Pursuant to a resolution at the meeting of the Board of Directors held on May 28, 2020, Leopalace21 Corporation (Headquarters: Nakano, Tokyo; President and CEO: Bunya Miyao; the “Company”) announces that the Company has decided on partially revising the basic policy for establishing the internal control system due to the changes in the name of organization. The major changes are underlined.

**Basic Policy for Establishing the Internal Control System**

**1. System to ensure that the execution of duties by the directors and employees of the Company and its subsidiaries comply with laws, regulations, and the Articles of Incorporation**

- (1) A corporate group consisting of the Company and its subsidiaries (hereinafter “the Group”) does business based on its corporate philosophy to “create new value.” As part of that process, we set out a Corporate Ethics Charter. We are determined to establish legal and social compliance be most important policy of “compliance-first” in the business execution and as the cornerstone of all of our corporate activities. This is exemplified by our President and CEO and CLO, Chief Legal Officer, concurrently the Chief of the Compliance Promotion Headquarters, whose role is to continuously share the spirit of this charter with all officers and employees of the Group.
- (2) The Company’s Board of Directors, of which outside directors should consist of at least one third, secures the supervisory control including compliance by strengthening the function for overseeing the decision-making and the execution of business of the Board of Directors to secure management transparency and fairness.
- (3) The Company established the Compliance Committee as an advisory body to the Board of Directors. The Committee is headed by one of the outside directors and will be staffed by the external experts such as lawyers and the like. The Compliance Committee as a part of the Group’s efforts of strengthening governance, plans and implements the measures regarding Group’s compliance

framework including reinforcing the training and information management system, and monitors the corporate activities in accordance with the compliance regulations to identify the issues for improvement. In cases of suspected violations of laws and regulations, the Compliance Committee will have the authority to suspend operations.

- (4) The Company established the Compliance Promotion Headquarters headed by CLO, Chief Legal Officer, who manages all the matters related to the legal compliance. The Compliance Promotion Headquarters is responsible for planning and implementing measures to promote the Group's compliance as well as improving issues to develop the autonomous corporate culture.
- (5) The Company created, under the Compliance Promotion Headquarters, the Compliance Promotion Department which promotes planning related to compliance activities and is responsible for checking the legal compliance, in particular, verifying the products such as buildings to comply with related laws and regulations. The Department supports the business departments' compliance-related operations including the progress management and monitoring the business operations as well as contract verification and dealing with the lawsuits.
- (6) The Group deploys the compliance coordinators across the Group so that all the officers and employees are adequately informed on the compliance-related measures and the coordinators can immediately report any anomalies. In addition, the internal hotlines are available with the focal points both inside and outside the Group for immediate consultation and reporting. The Group organizes periodic survey on the employees' awareness with a view to grasp risks at an early stage and to gauge the degree of compliance awareness. The Group ensures the whistle blower protection in the whistle blower regulations to make all the officers and employees aware of the Company's intention of preventing any retaliation or other disadvantage to the whistle blowers who consults or reports on somebody's questionable actions against the laws, regulations and the Articles of Incorporation.
- (7) The Company established the Auditing Department which controls the internal control function and the internal audit function directly under the President and CEO. The Department considers items and methods for business operations audits and maintains monitoring and risk management of the operations. The Department promotes efficient business activities by reinforcing the governance and preparing appropriate financial statements, complying with the legal system, and protecting the Group's assets. The Company holds Auditing Council to increase the effectiveness of the auditing system.
- (8) The Company works continuously to develop the compliance regulations and related individual regulations, guidelines and manuals, etc. and to periodically organize the compliance-centered training programs in light of hierarchical positions and jobs so that the Company can enhance the compliance awareness by all the officers and employees in the Group. The performance appraisal system

may include the measurement in terms of proactively demonstrating compliance behavior and multi-directional personnel rating method.

- (9) The Company promotes the active dialogues between the management team and all the stakeholders so that it lead to develop the customer-oriented corporate culture by increasing the transparency and fostering the mutual understanding.
- (10) The Group put as basis development of sense of compliance firmly in the organization and having in combination the organizational structure spearheaded by the Compliance Promotion Headquarters and reinforced compliance mindset assisted by the Auditing Department's audits and whistle blowing system so that the Group can pursue the concept of compliance-first.

## **2. System to store and manage information on the execution of duties by directors**

The President and CEO of the Company appoints the Chief of Management Headquarters to be responsible for the storage and management of information on the execution of duties by directors. The information on the execution of duties by directors is organized, stored and managed by recording it in documents or electromagnetic recording media in accordance with the document handling regulations and the information management regulations. The Company organizes the training to strengthen the information management system.

## **3. Regulations and other systems to manage the risk of loss in the Company and its subsidiaries**

- (1) To comprehensively identify and manage risks in the Group, the Company established the Risk Management Committee consisting of lawyers and other outside experts, with the President and CEO of the Company serving as chair, as an advisory body to the Board of Directors of the Company.
- (2) The Risk Management Committee develops the risk management regulations and related individual regulations, guidelines and manuals, etc. for the risk management of the Group, checks the operation status against these regulations, etc. and implements training for the officers and employees of the Group. The Chief of Compliance Promotion Headquarters quarterly reports the Group's risk management situation to the Board of Directors.
- (3) The Auditing Department audits the status of business execution by each department of the Group and, if it identifies any business risk that could cause a loss, immediately reports the details and the significance of loss to the President and CEO and the responsible departments.

## **4. System to ensure efficient execution of the directors' duties**

- (1) The Company works to improve its business performance through appropriate and prompt decision-making by establishing the Board of Directors and responding to changes in business and the business environment in a proactive manner. The Board of Directors, which consists of an adequate number of members with diverse background, determines important management matters

and checks the status of business execution by holding a regular monthly meeting and other meetings as required.

- (2) The Company also regularly holds meetings of the Corporate Management Council as a prior deliberative body to discuss business execution policies, implementation of policies and the measures.
- (3) The Company formulates a medium-term management plan for the Group and sets key yearly targets and budget allocations, etc. for the entire Group to materialize the plan.
- (4) The Company reviews the results of income and expenditure plan of each department and subsidiary and progress in other important business plans at a monthly Board meeting or when appropriate at other meetings to highlight issues for the corrective actions.

**5. System to report matters on the execution of duties by the directors of subsidiaries to the Company and other systems to secure the proper operations in the Group**

- (1) By applying the management rules of the affiliated companies to the subsidiaries, the Company has the subsidiaries obtain a prior approval of its Board of Directors, or of the director in charge of the subsidiaries for their important management matters in accordance with the decision rules of the Company.
- (2) The director in charge of the Corporate Planning Headquarters controls the management of subsidiaries. The director in charge receives the necessary reports from subsidiaries to promote efficient information exchange and align all group activities by holding regular affiliates companies meetings with the subsidiaries.
- (3) The respective directors are responsible for overseeing each subsidiary's business while respecting its autonomy, ensuring its business activities aligned with the corporate business plans, and implementing the Group's compliance system and risk management system to support the efficient operations. Such directors collect relevant information through regular and ad-hoc meetings with the respective subsidiaries and report the state of managing subsidiaries to the Board of Directors and the Corporate Management Council.
- (4) The Auditing Department and the Audit & Supervisory Board members conduct a regular audit or special audit of the subsidiaries, and make a report to the President and CEO and the Auditing Council.

**6. System related to an employee in cases where a member(s) of the Audit & Supervisory Board requests the Company to assign a certain employee to assist his/her (their) duties, matters related to the independence of the employee from the directors and matters related to securing the effectiveness of the instruction of the member(s) of the Audit & Supervisory Board**

- (1) If a member(s) of the Audit & Supervisory Board requests (request) the Company to assign a certain employee to assist his/her (their) duties, the Board of Directors nominates such an employee(s) from the members of the Auditing Department after consulting the Audit & Supervisory Board member(s).
- (2) For the work to assist the Audit & Supervisory Board member(s), the employee's independence from the Board of Directors is secured by assuming that the command authority over the nominated employee has been transferred to the Audit & Supervisory Board member(s). The nominated employee follow the command and orders of the Audit & Supervisory Board member(s) in his/her assisting work. The Audit & Supervisory Board will undertake the performance assessment of the employee in his/her assisting work, and the Audit & Supervisory Board member(s) and the department manager of the Human Resources Department discuss the personnel transfer and treatment of the employee.

**7. System for the directors and employees of the Company and the directors, Audit & Supervisory Board members and employees of the subsidiaries to make a report to the Audit & Supervisory Board members of the Company, a system for them to make other reports to the members of the Audit & Supervisory Board of the Company, and a system to ensure the effective audits of the Audit & Supervisory Board members of the Company**

- (1) The officers and employees of the Group shall report any matters and misconduct that could cause significant damage to the Group and other necessary important matters to the Audit & Supervisory Board members as required based on laws, regulations and internal regulations of the Company such as the Audit & Supervisory Board regulations and the standards on audits by the Audit & Supervisory Board members. In addition, the Audit & Supervisory Board members may ask the officers and employees to make a report whenever necessary.
- (2) The Audit & Supervisory Board members may attend important meetings such as the Board of Directors' meetings, the Corporate Management Council, the Compliance Committee, the Risk Management Committee, and the affiliated companies meetings, to understand important decision-making processes and the status of business execution by the directors of the Group, and inspect important documents related to business execution, such as approval documents. The Audit & Supervisory Board members shall also conduct monitoring and verification by regularly exchanging information with the President and CEO, having regular

interviews with departments of the Group, the Audit & Supervisory Board members of the subsidiaries through audits.

- (3) The Audit & Supervisory Board members shall secure the effectiveness of audits, taking advantage of their independence and authority under the Audit & Supervisory Board regulations and the standards on audits by the Audit & Supervisory Board members, and work to achieve their audit results while maintaining close cooperation with the accounting auditor and the Auditing Department by receiving their audit reports on the departments of the Group.
- (4) The Company intends to prevent any retaliation or other disadvantage to the officers and employees of the Group who made a report to members of the Audit & Supervisory Board on that ground, and fully enforces this prohibition.
- (5) If members of the Audit & Supervisory Board ask the Company to prepay or redeem expenses for the execution of his/her duties, the Company shall promptly compensate for the expenses or obligations in the request unless it is proved that the expenses or obligations in the request are unnecessary for the execution of duties by the Audit & Supervisory Board members.

#### **8. System to secure the reliability of financial reporting**

To secure the reliability of the Company's financial reporting and the effective and appropriate submission of the internal control report prescribed in the Financial Instruments and Exchange Act, the Group built a system to develop and operate an appropriate internal control under the direction of the President and CEO and to continuously evaluate the system functionality for necessary corrections, as well as to secure the compliance with the Financial Instruments and Exchange Act and other related laws and regulations.

#### **9. Establishment of a system to eliminate anti-social forces**

- (1) The Group stipulated the elimination of relationships with anti-social forces in its Corporate Ethics Charter and will have no relationships with anti-social forces and groups and will resolutely respond to them, which threaten the order and safety of civil society.
- (2) The Group developed a system under which it will not submit to anti-social forces' undue claims by preparing detailed rules to eliminate anti-social forces and by appointing a person to deal with such undue claims at all branches and sales offices. The Group made the General Affairs Department and the Compliance Promotion Headquarters as the controlling points to deal with the undue claims and consult the related departments including the Compliance Committee and the Risk Management Committee as well as the external specialized agencies, depending on the nature of the case.

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