

May 29, 2019

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Notice of Partial Revisions to the of Basic Policy on Establishment of the Internal Control System

At the Board of Directors meeting held on May 29, 2019, Leopalace21 Corporation resolved to partially revise its basic policy for the construction of an internal control system. Changes reflect “Causes and recurrence prevention measures regarding construction defects of parting walls etc. in properties constructed by Leopalace21” announced today. The details of the revision are as follows. (Changes are underlined.)

Basic Policy on the Establishment of the Internal Control System

1. System for the execution of duties by directors and employees to ensure compliance with laws, regulations, and the Articles of Incorporation

- (1) Leopalace21 and its subsidiaries (“the Group”) will conduct business based on our corporate philosophy of “creating new value,” and as part of that process, have created a Corporate Ethics Charter. This is exemplified by our President and CEO and CLO (Chief Legal Officer), whose role it is to continuously share the spirit of this charter with our directors and all group company employees. The Group is determined to establish legal and social compliance as the most important cornerstone of all of our corporate activities (compliance-first).
- (2) At least one-third of our Board of Directors will be composed of independent outside directors. We will improve our control environment, including our compliance system, while strengthening the functions of the Board of Directors to oversee the legality of decision-making and business execution to ensure management transparency and fairness.
- (3) The Group will secure a compliance system through the establishment of the Compliance Committee as an advisory body of the Board of Directors. The Compliance Committee will choose a chairman from one the outside directors, and will be composed of outside experts such as lawyers. It plans and implements various measures concerning compliance such as education and training and the improvement and reinforcement of the information control system as part of measures to strengthen corporate governance. The Compliance Committee will also strengthen a monitoring system based on compliance regulations and strive to identify, understand and improve problems. It also has the power to stop businesses if there is doubt of legal compliance.
- (4) As part of our compliance system, we have established the Compliance Management Headquarters, and the Chief Legal Officer (CLO) of the Compliance Management Headquarters oversees matters related to legal compliance. The Compliance Management Headquarters oversees the planning, operation, and further improvement of the Group's compliance system and endeavors to foster an autonomous corporate culture.
- (5) The Compliance Management Department was established within the Compliance Management Division, which is responsible for the planning and drafting functions related to compliance promotion within the Group, as well as for verifying legal compliance that is separated from the business divisions, and in particular for verifying compliance with laws and regulations related

to buildings and other products. In addition, it is responsible for the functions of supporting, management, and monitoring compliance operations conducted by business divisions, as well as legal functions such as confirming contracts and responding to lawsuits.

- (6) As a system that does not overlook compliance concerns, the Group assigns compliance officers to business sites to publicize compliance measures and report any violations of laws and regulations. A whistle-blowing system has also been established, and a whistle-blowing hotline has been set up both inside and outside the company to instruct Group officers and employees to consult or report any compliance violations immediately. In addition, we conduct periodic awareness surveys to identify all risks at an early stage and to measure the degree to which compliance awareness among the Group's officers and employees is fostered. The Group shall prohibit any officer or employee of the Group from engaging in any act that is doubtful under laws and regulations or the Articles of Incorporation, or from engaging in any disadvantageous treatment of such employee by reason of consultation or notification of such act, and shall thoroughly enforce such fact, etc. by stipulating in the Internal Reporting Rules of the Whistleblower Protection Rules.
- (7) The Auditing Department, which unifies the internal control function and the internal audit function, will be established as a department under the direct supervision of the President and CEO. The Auditing Department will examine the business audit items and practice of operational audits and will revise the audit method in the Auditing Department if necessary. In addition, in order to maintain healthy internal control, an audit meeting has been established to perform monitoring and risk management of business activities, as well as to implement governance strengthening and promote creation of the appropriate financial statements and compliance with regulations, enabling the company to conserve assets and efficiently carry out its business activities.
- (8) In order to raise awareness of compliance among the Group's officers and employees, we will continuously develop compliance regulations, related individual regulations, guidelines and manuals, and conduct compliance education and training programs on a regular basis according to the characteristics of each position and role. In addition, in order to instill the concept that promoting compliance enhances corporate value, we will consider introducing a system to evaluate compliance promotion initiatives and actions and a multi-faceted evaluation system in the personnel evaluation system.
- (9) The Group will build a customer-oriented corporate culture by promoting active dialogue between management and all stakeholders and deepening management transparency and mutual understanding.
- (10) Through the establishment of these systems, the Group will put the cultivation of a corporate culture that values the spirit of legal compliance at the foundation of the Group, and will put into practice "compliance-first," which we aim to pursue by mutually promoting a system that ensures legal compliance in an organizational manner, including the Compliance Management Headquarters, and a system that does not overlook the illegality of the auditing and whistle-blowing systems of the Auditing Department.

2. System for the retention and management of information on the execution of duties by directors

The President and CEO will appoint the Director in charge of Management Headquarters as the person generally responsible for the retention and management of information on the execution of the duties of directors. As to the retention and management of information on the execution of duties of directors, the information, which is recorded in documents or electromagnetic record media, will be organized and retained based on document handling regulations and information management regulations. In addition, education and training will be conducted for the purpose of strengthening the information management system.

3. Regulations and systems concerning the management of the risk of losses

- (1) The Group will establish a Risk Management Committee as an advisory organ of the Board of Directors to comprehensively identify and manage the Group's various risks. The Risk Management Committee is composed of the President and CEO as the chairman and members including outside experts, such as lawyers.
- (2) The Risk Management Committee will confirm the condition of the establishment and the application of risk management regulations, related individual regulations, guidelines and

manuals, etc., and make plans to train employees. The General Manager of the Compliance Management Headquarters and CLO will submit quarterly reports on risk management to the Board of Directors.

- (3) The Auditing Department will audit the conditions for the execution of business for each department. If a risk of loss was found in business operations, the Auditing Department should immediately notify the President and CEO, as well as the department in charge of its details and the degree of loss to be thereby incurred.

4. System to ensure the efficient fulfillment of the duties by directors

- (1) The Group has set up the Board of Directors, aiming to improve business results through effective decision making in a timely manner, adapting to business and economic changes. The Board of Directors will include an appropriate number of personnel with diversity with the purpose of strengthening its monitoring function, and will meet periodically once a month and otherwise whenever necessary. Decisions on important matters regarding business management will be made, and business results and progress will be monitored.
- (2) Prior to the meeting of the Board of Directors, the Corporate Management Council is held periodically to discuss important matters concerning business policies and operations.
- (3) The Group has created a group-wide medium-term management plan, and has established annual key targets and budget allocations for the entire group in order to achieve the plan.
- (4) The Board of Directors, etc., will review the progress of important business plans such as budget plans of each division and subsidiary, identify issues and execute necessary measures.

5. System to ensure appropriate business operations in the Group

- (1) Management regulations concerning affiliated companies will be applied to subsidiaries, and decisions on important matters related to the business management of each subsidiary shall be approved by or reported to the Board of Directors, the Corporate Management Council, or the Director in charge of the subject subsidiary.
- (2) The Director in charge of the Management Planning Headquarters will control the management of subsidiaries. The Director in charge of the Management Planning Headquarters should periodically hold meetings with the Affiliated Companies Liaison Committee to smoothly exchange information and promote group activities.
- (3) The Director in charge of the responsible department will generally control and manage business conducted by affiliated companies to establish a compliance system to carry out measures based on a management plan and conduct business efficiently, and a risk management system while respecting the independency of affiliated companies. The Director in charge of the responsible department will make periodic reports on the progress of the management of affiliated companies to the Board of Directors and the Corporate Management Council.
- (4) The Auditing Department and Audit & Supervisory Board Members will conduct a regular or special audit of affiliated companies, in coordination with auditors of subsidiaries, and report to the President and CEO and the Auditing Council.

6. System to ensure independence of an employee from the Board of Directors when an Audit & Supervisory Board Member requests to assign an employee to assist the duties of the subject Member

- (1) When an Audit & Supervisory Board Member requests to assign an employee to assist with the duties of the Audit & Supervisory Board Member, the Board of Directors may nominate the employee to assist the Audit & Supervisory Board Member from the members of the Auditing Department after consultation with the Audit & Supervisory Board Member.
- (2) The right of command over the nominated employee will be transferred to the Audit & Supervisory Board Member during the period of assistance designated by the Audit & Supervisory Board Member to ensure independence from the Board of Directors. Evaluation of the subject employee will be done by the Audit & Supervisory Board, and personnel transfers and treatments will be discussed by the Audit & Supervisory Board Member and the Director in charge of the Human Resources Department.

7. System for Directors and employees to report to Audit & Supervisory Board Members, other systems of reporting to Audit & Supervisory Board Members, and other systems to secure the effective conduct of audits by Audit & Supervisory Board Members

- (1) Directors and employees should make reports on matters possibly causing serious damage and losses to the Group, illegal acts, and other necessary important matters to the Audit & Supervisory Board Members based on laws, ordinances, and internal regulations such as the Audit & Supervisory Board Regulations and the Audit & Supervisory Board Members Audit Regulation. In order to ensure thorough reporting to the Audit & Supervisory Board Members, the relevant system shall be regularly communicated to officers and employees. The Audit & Supervisory Board Members may request Directors and employees to report as necessary.
- (2) The Audit & Supervisory Board Members should attend the meetings of important committees such as the Board of Directors, the Corporate Management Council, the Compliance Committee, the Risk Management Committee, and the Affiliated Companies Liaison Committee to understand the process of important decision-making and the conditions of the execution of the duties by Directors, and may peruse important documents about the fulfillment of such duties, such as circular memos for approval. The Audit & Supervisory Board Members should periodically exchange opinions with the President and CEO, and monitor and inspect each department and auditors of subsidiaries through periodic hearings and on-the-spot audits.
- (3) Auditors, by the independence and authority based on the Supervisory Board Regulations and auditors auditing standards, as well as to ensure the effectiveness of the audit, should maintain close cooperation with the Audit Department and the Accounting Auditors to promote the achievement of outcomes.
- (4) If a Director or employee of the Group reports to an Audit & Supervisory Board Member, the employee shall not be treated unfavorably due to that act.
- (5) When an Audit & Supervisory Board Member requests advance payment or redemption of expenses towards the Group, the necessary procedures to fulfill the request shall be promptly taken, unless it can be proven that the expenses are not related to the duties of the Audit & Supervisory Board Member.

8. System in the interests of reliable financial reporting

In the interests of reliable financial reporting and effective and proper submission of internal control reports as provided in the Financial Instruments and Exchange Act, the Group will set up a structure to establish and apply a proper internal control system under the command of the President and CEO, continue to evaluate whether or not the structure will function properly, make necessary corrections, and ensure conformity with the Financial Instruments and Exchange Act and other applicable laws and ordinances.

9. System development to oppose all antisocial forces

- (1) Our Corporate Ethics Charter clearly sets out our determination to "oppose all antisocial forces." The Group is committed to eliminating all ties, and dealing resolutely, with any antisocial forces or organizations posing a threat to public order or safety.
- (2) The Group will enact detailed regulations for opposing antisocial forces and establish a system that will not yield to unlawful demands from antisocial forces by appointing a person responsible for preventing unlawful demands in all offices and places of business. The General Affairs Department will be responsible for establishing the system, and the system will be established by consulting with the Compliance Committee, the Risk Management Committee, related departments and external professional organizations.