

FOR IMMEDIATE RELEASE

May 29, 2019

Company Name: **Leopalace21 Corporation**
Representative: Eisei Miyama, President and CEO
Code Number: 8848 (Tokyo Stock Exchange, First Section)
Contact: Bunya Miyao, Director
Tel: +81-50-2016-2907
E-mail: ir@leopalace21.com

**Notice Concerning the Final Report on the Status of Investigation
by the External Investigation Committee**

Leopalace21 Corporation (Headquarters: Nakano-ku, Tokyo; President and CEO: Eisei Miyama; "Leopalace21") announced in a news release dated April 27, 2018, 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 (hereinafter referred to as "construction defects related to parting walls, etc."). On February 27, 2019, we established an external investigation committee (hereinafter referred to as the "Investigation Committee") chaired by Attorney Tetsuo Ito (Nishimura & Asahi) to clarify the causes of such problems.

As a result of this investigation, we received the "Investigation Report on Problems Concerning Construction Defects" (hereinafter referred to as the "Final Report") from the Investigation Committee on May 29, 2019.

The summary version of the final report is as shown in the attached document.

We sincerely apologize to our tenants, apartment owners, and all our stakeholders for the trouble caused by construction defects related to parting walls, etc.

We acknowledge that construction defects related to parting walls, etc. are a serious problem as a construction company dealing with apartment buildings, and we will continue to conduct investigations and repairs on a company-wide basis and make every effort to prevent recurrence of such problems.

To Leoplace21 Corporation

**Investigation Report on Problem
Concerning Construction Defects
(Summary)**

May 29, 2019

External Investigation Committee

Chairman **Tetsuo Ito, Attorney**

Member **Hiroshi Kimeda, Attorney**

Member **Norimitsu Yamamoto, Attorney**

Table of contents

Part 1	Outline of the Investigation	- 4 -
1.	Background of the Investigation	- 4 -
2.	Structure of the committee	- 4 -
3.	Purpose and scope of the Investigation	- 5 -
4.	Methods of the Investigation	- 6 -
Part 2	Facts found as a result of this Investigation	- 7 -
1.	Leopalace21 at the time of the defects	- 7 -
1-1.	History of Leopalace21 Business	- 7 -
1-2.	Evolution of the business model	- 7 -
1-3.	Resignation of Yusuke Miyama	- 8 -
1-4.	Characteristics of each product (series) and number of sales, etc.	- 9 -
2.	General process from development of the series to construction and settlement	- 10 -
2-1.	Planning and development of new products	- 10 -
2-2.	Preparation of accumulated drawings, general drawings, and construction manual	- 11 -
2-3.	Business activities towards landowners and contract conclusion	- 11 -
2-4.	Application for construction certification, drawing of construction drawing, setting of construction period	- 12 -
2-5.	Production and ordering of materials	- 13 -
2-6.	Flow of construction	- 13 -
2-7.	Presence of a temporary framer group	- 14 -
2-8.	Checking the construction status	- 14 -
2-9.	Completion inspection and settlement	- 14 -
3.	Facts concerning the Attic Parting Wall Problem	- 15 -
3-1.	Outline of Attic Parting Wall Problem in Nail Series and 6 Series	- 15 -
3-2.	Development of Gold Nail	- 16 -
3-3.	About Gold Nail (truss)	- 17 -
3-4.	From Gold Nail (swing old) to New Gold Nail (triton)	- 19 -
3-5.	6 Series	- 22 -

4.	Leopalace21's response after conclusion of sales	- 24 -
4-1.	Concerning the Himeji Case	- 24 -
4-2.	Requests for approval of repairing parting walls in attics	- 25 -
4-3.	Reasons for not being able to respond appropriately after conclusion of the sales	- 25 -
5.	Facts regarding the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem	- 26 -
5-1.	Outline of the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem	- 26 -
5-2.	Development of Foam Panels	- 26 -
5-3.	Fireproof and sound insulation performance test	- 27 -
5-4.	Application for construction certification	- 28 -
6.	Facts related to the Ceiling Problem	- 29 -
6-1.	Overview of the Ceiling Problem	- 29 -
6-2.	Cause and background of Ceiling Problem	- 29 -
Part 3	Overall and essential causes and backgrounds	- 30 -
1.	Amid the harsh business environment at that time, the overcoming of the business crisis and the expansion of the contract construction business were given priority under the condition of "thinking while running"	- 30 -
2.	The company had fallen into a "one-man" system, which was strongly promoted by top management's intentions	- 31 -
3.	There was a low level of legal compliance and risk sensitivity to construction-related laws and regulations, and a lack of awareness of responsibility for quality issues-	- 32 -
Part 4	Responsibility of related parties	- 34 -
1.	Yusuke Miyama and the management team at the time	- 34 -
2.	Officers and employees of the department in charge of product development	- 35 -
3.	Failure to detect early	- 36 -
Part 5	Recommendations for recurrence prevention	- 37 -
1.	Review of recurrence prevention measures in Leopalace21	- 37 -
2.	Recommendations by the Committee to prevent recurrence	- 37 -

2-1.	First and foremost, management should demonstrate a strong stance of "compliance- first" both internally and externally.	- 38 -
2-2.	Fully explain to officers and employees the purpose and significance of recurrence prevention measures so that it will not end as temporary measures-	38 -
2-3.	Raise awareness of the importance of providing value that is appreciated from the customers' perspective, such as owners and tenants, and raise awareness of responsibility for quality issues among officers and employees	- 39 -
Part 6	Conclusion	- 41 -

Part 1 Outline of the Investigation

1. Background of the Investigation

On February 21, 2019, Leopalace21 Corporation (hereinafter referred to as "**Leopalace21**") requested law firm Nishimura & Asahi, which has no interests with Leopalace21, to investigate the causes of defects discovered in apartments built by Leopalace21. Subsequently, on February 27, the Board of Directors of Leopalace21 formally resolved to establish an external investigation committee (hereinafter referred to as the "**Committee**," and the investigation conducted by the Committee shall hereinafter be referred to as the "**Investigation**"). On the same day, the Committee was established.

2. Structure of the committee

The Committee consists of the following three members.

Chairman	Tetsuo Ito	(Attorney at Nishimura & Asahi)
Member	Hiroshi Kimeda	(Attorney at Nishimura & Asahi)
Member	Norimitsu Yamamoto	(Attorney at Nishimura & Asahi)

None of the committee members have been entrusted by Leopalace21 with legal business before this investigation, and there are no interests with the company. Furthermore, there are no interests between Leopalace21 and law firm Nishimura & Asahi, to which the committee members belong, at the time of acceptance of this Investigation.

In conducting this study, the Committee appointed 20 lawyers belonging to Nishimura & Asahi with no interests with Leopalace21 as assistants for the investigation.

In addition, the Committee received advice from the Japan Constructive Inspect Association (JCIA) and Hiroya Sato, first-class architect, who has no interests with Leopalace21 and has expertise in the construction field.

In order to ensure independence and objectivity, the investigations was conducted in accordance with the Japan Federation of Bar Association's "Guidelines for Third-party Committees Relating to Corporate Scandals" and Japan Exchange Regulation's "Principles for Response to Corporate Scandals by Listed Companies: 2. Ensuring Independence, Neutrality and Expertise in the Case of Establishing a Third-Party Committee."

3. Purpose and scope of the Investigation

The purpose of the Investigation by the Committee was to confirm the facts and investigate the causes of the following defects announced on April 27, May 29, 2018, and February 7, 2019: (1) defects related to parting walls not being constructed in attics or spaces above ceiling (hereinafter referred to as "**Attic Parting Wall Problem**") in Gold Nail and New Gold Nail (hereinafter referred to as "**Nail Series**") and Gold Residence, New Silver Residence, New Gold Residence, Special Steel Residence, Steel Residence and Con Grazia (hereinafter referred to as "**6 Series**"); (2) defects related to foamed urethane used as insulation material in parting walls although construction certification documents specify the use of glass wool or rock wool (hereinafter referred to as "**Parting Wall Foamed Urethane Problem**") in Gold Residence and New Gold Residence; (3) defect related to exterior wall structures not meeting qualifications certified by the Minister of Construction (hereinafter referred to as the "**Minister Certification**") specified in design documents in Gold Residence, New Gold Residence and Villa Alta (hereinafter referred to as the "**Exterior Wall Specification Problem**"); and (4) defects related to ceilings not meeting specifications certified by the Minister of Land, Infrastructure and Transport Notice specified in design documents (hereinafter referred to as the "**Ceiling Problem**") in Gold Residence. The Committee will also examine the responsibilities of the persons concerned¹ and propose measures to prevent recurrence.

After announcements of the above-mentioned defects (1) to (4), Leopalace21 is still conducting investigations of all constructed properties (hereinafter referred to as the "**All-building Investigation**"). The Investigation assumes that the results of the All-building Investigation are accurate. On the other hand, in the course of this process, there is a possibility that defects other than those mentioned in (1) to (4) may be discovered, and it is not impossible that the number of defects will increase or new defects will be discovered in the future. In addition, there are a number of cases in which owners have individually identified defects other than those disclosed by Leopalace21, but this Investigation does not directly target them. In order to clarify the overall problems related to the construction of Leopalace21, their causes, the responsibilities of the persons concerned, and measures to prevent recurrence within limited time and under limited conditions, it is considered sufficient to make the above-mentioned (1) to (4) the scope of the subject of this Investigation.

¹ This report will not evaluate the legal responsibilities of the person concerned.

4. Methods of the Investigation

The Committee conducted (1) collection and scrutiny of various drawings existing in Leopalace21 (general drawings, construction certification documents, working drawings, construction manuals, etc.), minutes of meetings of the Board of Directors, various meeting materials, requests for approvals, and development-related materials of each apartment series, (2) digital forensic investigations of the officers and employees of Leopalace21, (3) interviews with related parties (169 times with 110 persons), (4) employee questionnaires (3,519 out of 6,173 officers and employees, including retirees), and (5) construction contractor questionnaires (81 out of 236 contractors who built 10 or more properties sold by Leopalace21).

Part 2 Facts found as a result of this Investigation

1. Leopalace21 at the time of the defects

1-1. History of Leopalace21 Business

Leopalace21 was founded in August 1973 by Yusuke Miyama (capital 3 million yen) and was engaged in real estate brokerage. Subsequently, the company began selling detached houses in 1981, and in 1985 began selling the city-style apartment "Leopalace21" in earnest. On the other hand, in 1986, the company began a real estate leasing business targeting properties sold by the company. Around 1988, the company started a contract construction business and constructed apartments after receiving orders from landowners.

In the fiscal year ended March 1990, Leopalace21 recorded sales of approximately 191.8 billion yen and operating income of 31.2 billion yen and net income of 64.9 billion yen on a non-consolidated basis. However, after the collapse of the bubble economy, consolidated net sales amounted to around 70 billion yen, operating loss was between a few hundred million yen to 2.2 billion yen between the fiscal year ended March 1993 to March 1995. Leopalace21 recorded a net loss between a few billion to 20 billion yen for seven consecutive fiscal years from March 1992 to March 1998. As a result, Leopalace21 faced an extremely serious business situation, with its interest-bearing debt of over 300 billion yen, and even unable to pay interest.

Subsequently, however, sales and profits increased due to hit products such as Gold Nail, Gold Residence, and Con Grazia. In March 2004, the company listed its shares on the First Section of the Tokyo Stock Exchange (capital at the time of listing was about 37.5 billion yen). After listing, net sales was 476.3 billion yen, operating income was 54.7 billion yen, and net income was 33.3 billion yen for the fiscal year ended March 2005. Although the company temporarily recorded a deficit due to the effects of the Lehman crisis in September 2008, earnings stabilized after 2015, with net sales around 500 billion yen, operating income between 21 to 23 billion yen, and net income between 15 to 20 billion yen.

1-2. Evolution of the business model

Sales composition of Leopalace21 in the fiscal year ended March 1990 was 85.1% for real estate sales business, 2.3% for contract construction business, and 9.4% for real estate leasing business, totaling 191.8 billion yen. The composition was almost the same in the following fiscal year. Traditionally, Leopalace21 sold products that were constructed using "conventional wooden construction methods." In 1989, our apartment series "Cubicle" and other products were constructed using the "standardized steel frame unit construction method," in which the majority of the

apartment room was completed at a factory and assembled on-site. However, sales drastically decreased due to the collapse of the bubble economy, and in order to recover from the deterioration of the above-mentioned business conditions, Leopalace21 decided to strongly promote a shift from the sales of apartments to the contracted construction (receiving orders) of apartments and leasing utilizing master lease agreements. The contract construction business's concept was to cut costs thoroughly and shorten the construction period. To this end, it was necessary to construct a "plastic model-like building" that could be assembled relatively easily at the site by workers who do not possess advanced technical skills, while manufacturing panels using standard materials at factories. At that time, it was difficult to procure materials in Japan due to financial difficulties. Therefore, the company developed a new product, Gold Nail, constructed by the wooden two-by-four method using large panels which was manufactured in the U.S. and transported by ship to Japan, and started sales in 1994. Subsequently, new products were developed and sold almost every year, such as New Gold Nail, Gold Residence, and Con Grazia. As a result, for FY March 1994 onwards, the real estate sales business accounted for only a few percent of net sales. On contrast, the contract construction business accounted for 22% of net sales in FY March 1994, 32% in FY March 1995, and 52.1% in FY March 1995, surpassing the real estate leasing business, which had previously exceeded 50%.

Subsequently, the contracting construction business and the real estate leasing business have contributed to the improvement of the company's business performance. However, from FY March 2010 following the Lehman crisis, the contract construction business suffered a significant slump in business performance. From FY March 2016 onwards, the above ratio fell to only about 15%, and the real estate leasing business has become the company's core business in recent years.

1-3. Resignation of Yusuke Miyama

Yusuke Miyama, the company's Representative Director and President since the founding of Leopalace21, was held responsible for "considering the establishment of the Tenant Mutual Aid Association for tenants of our apartments, and reserved a portion of the fees collected from tenants prior to the founding of the association. Of the funds, 1.7 billion yen was lent to himself and over 2.9 billion yen was lent to an acquaintance, whom had business relations with Leopalace21 (all funds were returned after the announcement)" (according to the improvement report submitted by the company to the Tokyo Stock Exchange). In June 2006, he resigned as President and director.

With regard to the cause of the incident, the improvement report stated: "the problem was that the inauguration of the Tenant Mutual Aid Association was carried out by Yusuke Miyama's own discretion, and there was no supervisory function of the board of directors, which is expected to examine and determine whether or not to establish the association, and as a result, funds that could not be controlled by the company were created. Although we are listed on the First Section of the Tokyo Stock Exchange, as a result of being an 'owner company,' we cannot deny that things

proceeded as a result of arbitrary actions by the former president and no one could condemn them."

After Yusuke Miyama's resignation, Vice President Tomio Oba assumed the post of Representative Director and President. However, he soon resigned for health reasons, and in December 2006, Yoshiteru Kitagawa, Senior Managing Director, assumed the post of Representative Director and President. However, in February 2010, Mr. Kitagawa resigned to take responsibility of the deterioration following the Lehman crisis (net loss of over 79 billion yen in FY March 2010, the highest ever), and Vice President Eisei Miyama, the nephew of Yusuke Miyama, assumed the post of Representative Director and President.

1-4. Characteristics of each product (series) and number of sales, etc.

Characteristics and the number of sales of each series closely related to this Investigation are as follows.

(1) Nail Series

Nail Series were sold from 1994 to 1997 and a total of 913 buildings still exist.

Gold Nail is the first product in which Leopalace21 adopted the two-by-four method (framework wall method), and unlike the conventional method (wooden shaft method), in which buildings are assembled by axial assembly of columns and beams, buildings are assembled by panels. In addition, panels were manufactured at factories using standard materials and there was progress in the systematization of construction, so the quality did not depend on the skills of workers and it was possible to construct buildings in a short period of time. Gold Nail is divided into four versions depending on the structure of the roof; truss, swing old, swing new and triton. Of these, the roof structure of the truss is a wooden truss frame, and ceiling panels are not installed on the top floor. The swing old, swing new and triton use ceiling panels that are unique to the two-by-four method and have a six-sided panel structure.

New Gold Nail is the successor to Gold Nail. New Gold Nail is divided into three versions depending on the structure of the roof: swing old, swing new and triton.

(2) Gold Residence

Gold Residence was sold from 1996 to 2001, with 1,660 existing buildings. It is the first product in which panels were switched to domestic production, and beams are constructed with heavy steel frames and the pillars and walls are constructed with brace panels.

(3) New Silver Residence

New Silver Residence was sold from 1997 to 2001, with 1,747 existing buildings.

This was a series with improvements to the Silver Residence, which had been sold from 1996, and

was equipped with a loft and emphasized in design. The original Silver Residence was developed as a wooden version of the Gold Residence.

(4) New Gold Residence

New Gold Residence was sold from 1998 to 2002, with 679 existing buildings. This is a steel-frame version of the loft-equipped New Silver Residence.

(5) Special Steel Residence

Special Steel Residence was sold from 1999 to 2001, with 208 existing buildings. This product was developed for the purpose of shortening the construction period and enhancing functionality.

(6) Better Steel Residence

Better Steel Residence was sold from 2000 to 2001, with 65 existing buildings. This product was based on the Special Steel Residence, aiming to further reduce the construction period by downsizing construction materials

(7) Con Grazia

Con Grazia is divided into four versions: steel frames, wooden structures, Hokkaido specifications, and Okinawa specifications. It was sold from around 2000 to 2012, and there are 10,011 existing buildings. Con Grazia was a product developed for fully-furnished "Monthly Leopalace21" rooms, which Leopalace21 began selling in October 1999.

(8) Villa Alta

Villa Alta was sold from 1999 to 2001, with 153 existing buildings. This series with the brace panel method using lightweight steel frames was developed as a three-story version of New Gold Residence.

2. General process from development of the series to construction and settlement

2-1. Planning and development of new products

At Leopalace21, when the Nail Series was launched in 1993, there was a department dedicated to product planning and development. This department in charge of product development (although its name varies depending on the timing, it was mainly the "Product Development Section") was under the control of the Senior Managing Director, who was the director in charge of the Construction Business Division, and the Director, who was the General Manager of the Construction Business Division. However, it was effectively positioned as the organization under the direct control of

Yusuke Miyama. The person in charge of supervising was Mr. A, who was the Manager of the Product Development Section in May 1994 and was then promoted to Assistant General Manager of the Construction Business Division in May 1995.

Yusuke Miyama is an ideologist with excellent creativity, and made suggestions to Mr. A and his colleagues, such as "can we make these kinds of products?" and "can we construct using these methods?" Mr. A and other members of the department in charge of product development worked hard to commercialize the ideas based on their own technical and professional knowledge. For example, series including Cubicle, Gold Nail, and Gold Residence, began with Yusuke Miyama's idea of "can we build a building like a plastic model?"

When new product development starts, the department in charge of product development considers the implementation of the new product development by consulting with the department in charge of sales, the department in charge of construction, and the department in charge of materials. Material depended largely on external material manufacturers, and it was rare to conduct performance tests independently. Although several first-class architects were registered in the department in charge of product development, there was no department in charge of examining compliance with laws and regulations when developing new products.

2-2. Preparation of accumulated drawings, general drawings, and construction manual

The department in charge of product development decides the rough specifications of new products, prepares an accumulated drawing to serve as the basis for the computation, and prepares general drawings (rectangular meter drawing, deployment drawing, structure list, specification finish table, etc.) in parallel.

After completion of the general drawings or in parallel with the preparation of the general drawings, the department in charge of product development prepares a construction manual to be referred to by the contractor when actually proceeding with the construction, including an instruction manual that summarizes the work procedures, such as how to install the components, detailed drawings with enlarged details, and the list of necessary components, etc. The construction manuals are distributed to each branch office and contractor (who are charged a fee). Furthermore, each time a new product is released, the department in charge of product development holds product briefing sessions for construction departments at branch offices on the outline of the product and the points to consider when constructing the product, using the construction manual.

2-3. Business activities towards landowners and contract conclusion

The sales department at branch offices shall engage in business activities towards landowners using pamphlets prepared by the department in charge of product development and plan drawings

prepared by the design department at branch offices, while requesting the department in charge of CAD design at the head office to prepare drawings and plain views for the conclusion of contracts.

Subsequently, the sales department at branch offices negotiates with the landowner the specifications, prices, etc. of the building and the exterior properties, and if a final agreement is reached, a building construction contract shall be prepared and concluded.

2-4. Application for construction certification, drawing of construction drawing, setting of construction period

After concluding a contract with the landowner, the section in charge of design at the branch office shall request the section in charge of CAD design at the head office to prepare a CAD diagram that matches the estimated number of households based on the registered general drawing, in preparation for the application for construction certification. Upon receipt of the CAD diagram, the department in charge of design at the branch office shall request that the department itself or an external design office modify the CAD diagram based on the intentions of the landowner regarding the specifications of the building and the exterior structure, the contents of the local construction regulations, and the results of prior consultation with the construction official.

Preparation of the construction certification documents and application for construction certification to construction officials are the roles of the department in charge of design at the branch office. However, due to the increase in the number of construction properties, some branch offices were unable to respond by the branch office alone, and therefore, there was an increase in the number of outsourcing of preparation of documents and applications for construction certification to external design offices. Initially, the name of a registered architect at the head office was used for all properties when applying for construction certification, but from around 1996, the name of a registered architect at the branch office was used.²

In parallel with the preparation of the application for confirmation of construction, the department in charge of design at the branch office needs to prepare construction drawings. CAD drawings prepared by the section in charge of CAD design at the head office are modified in light of the circumstances of the individual property, similar to the preparation of the construction certification document, and combined with the floor plan, elevation drawing, cross-sectional drawing, etc. which are submitted as construction certification documents. On the other hand, for the rectangular meter diagrams included in the construction drawings, the design department of the branch normally obtains the data of the general diagrams registered in the CAD system and used them as part of the

² Leopalace21 is registered as a first-class architect's office under the name "Leopalace21 First-Class Architect's Office". The office has branches in Japan, and each branch has a first-class architect who manages the branch. Since Leopalace21 and the architect's office effectively operate as a single entity, this report does not distinguish between the two.

construction drawings. At that time, there was no department in charge of checking whether there was any discrepancy between the construction certification document and the construction drawing.

Normally within a week after concluding a contract with the landowner, persons in charge of construction, design, sales, etc. of the branch office convenes a scheduling meeting, and the schedule from the conclusion of the contract to completion of the apartment is established.

2-5. Production and ordering of materials

The materials used for the Leopalace21 products are broadly divided into three categories: (1) free supplies, (2) paid supplies, and (3) locally procured materials. (1) are materials which are bulk-ordered from Leopalace21 to a material manufacturer, and is provided by Leopalace21 to the contractor free of charge. (2) are materials supplied to the contractor from Leopalace21, but the contractor must pay the material cost to Leopalace21. (3) are materials that the contractor independently orders to related parties at his/her own discretion.

The department in charge of ordering management at the head office shall re-estimate the actual construction costs, material costs, equipment costs, etc., based on the completed construction drawings, proceed to establish the budget for construction, list the construction and materials required for each property, and compile them into a purchase order review form. The department in charge of materials at the head office arranges for free supplies through material manufacturers, trading companies, etc., and has them delivered to the construction site. A list of procurement materials shall also be prepared and provided to the contractor. Based on this list, the contractor will proceed with the procurement of paid supplies and locally procured materials.

2-6. Flow of construction

When an application for construction certification is approved, a certificate of confirmation is issued by the construction official. In response, the department in charge of sales at the branch office will explain to the landowner the schedule for completion and the details of the construction drawings, and if the landowner approves the commencement of construction, construction will commence.

Leopalace21 does not have employees for construction work, and is outsourced to an outside contractor (a building contractor), and the construction department of the branch office chooses the contractor. The construction department of the branch office shall submit construction certification documents, construction drawing, and other necessary documents to the contractor when the contractor has been determined. The construction manual was not submitted to the contractor on a case-by-case basis, but was provided at the time of the first order of the product series, and was charged a fee. In the early stages of the series, construction drawings could not be obtained from the

construction department of the branch office even immediately before the start of construction and it seems that many construction starts were based on the contract drawings.

2-7. Presence of a temporary framer group

In the Nail Series, unlike the above-mentioned 2-6, the external contractor first carried out the foundation work. The assembly of panels on the foundation and installments of roofing material was carried out by a framer team hired by Leoplace21. The framer team consisted of two to three members at each of the Omiya, Kanagawa, Nagoya, and Osaka bases. Each group consisted of one Japanese group leader and one deputy group leader, and five to six Chinese group members. The framer team was a group of people who were not skilled in architecture, and the work was confined exclusively to the erection of frames, and they could not be expected to construct parting walls in attics.

Subsequently, the framer team was responsible for the construction of certain Silver Residence and New Silver Residence in the 6 Series. However, as the number of construction increased, the framer team was dissolved.

2-8. Checking the construction status

The checking of construction status can be broadly divided into (1) process control conducted from the viewpoint of schedule control, (2) construction control conducted from the viewpoint of quality control, and (3) construction supervision conducted from the viewpoint of checking deficiencies between design documents and construction. At Leoplace21, the person in charge of construction at the branch office was to be in charge of (1) and (2) as the chief engineer. However, at that time, there was a shortage in the number of construction staff at the branch office compared to the number of construction properties, and one person was forced to take charge of several dozen projects, so the system did not function properly. As for (3), it is the duty and authority of a registered architect under the Architect Law. However, at Leoplace21, the number of first-class architects was extremely small compared to the number of properties handled, and this construction supervision was concentrated to a small number of architects. It was operated only in a formal manner and did not function properly.

2-9. Completion inspection and settlement

Under the Building Standards Act, when the construction of a building for which construction certification had been issued was completed, a completion inspection is applied towards construction official to receive an inspection certificate. However, according to data published by the Ministry of

Land, Infrastructure, and Transport (MLIT), there were many real estate business operators conducting real estate transactions from around 1994 to around 2009 without having obtained an inspection certificate. In particular, the completion inspection rate remained in the range of 30% between 1994 and 1998, and at Leopalace21, there were a number of properties that did not apply for completion inspection and did not receive an inspection certificate.

Later, around 2003, when MLIT requested financial institutions to refrain from lending housing loans to buildings without an inspection certificate, Leopalace21 began to apply for a completion inspection and obtain an inspection certificate when the construction of the building was completed. Furthermore, since 2006, the rate of the acquisition of an inspection certificate in Leopalace21 has remained at 100%.

3. Facts concerning the Attic Parting Wall Problem

3-1. Outline of Attic Parting Wall Problem in Nail Series and 6 Series

(1) Outline of the Attic Parting Wall Problem

The Attic Parting Wall Problem is the problem concerning construction defects of parting walls in attics of Nail Series and 6 Series.

As a result of the All-building Investigation conducted by Leopalace21, it was found that the attic parting wall problem consisted of no parting walls (Type A) and parting walls were constructed but had defects (Type B). In this Investigation, the Committee considered it appropriate to give priority to Type A in order to understand the tendency of the Attic Parting wall Problem within a limited time and to analyze the cause and background of the problem.

The table below shows the results of the All-building Investigation conducted by Leopalace21 as of April 30, 2019.

Table No. of buildings confirmed to have no parting walls in each series

	Total no. of buildings	A-1	A-2	A-3	Total	% with no parting wall
Gold Nail (truss)	48	13	0	0	13	27.1%
Gold Nail (excluding truss)	281	255	0	0	255	90.7%
New Gold Nail	584	554	0	0	554	94.9%
Gold Residence	1,660	128	40	274	442	26.6%
Special Steel Residence	208	47	1	22	70	33.7%
Better Steel Residence	65	4	0	7	11	16.9%
Con Grazia	10,011	170	371	96	637	6.4%

A-1: Properties with no parting walls installed throughout the attic

A-2: Properties with no parting wall above the balcony or hallway

A-3: Properties with no parting walls in space above the ceiling in intermediate floors

Some properties fall under more than one category of A-1, A-2, and A-3. However, with regard to such properties, the importance of the properties is judged to be high in the order of A-1, A-3, and A-2, and they are classified as the most important of the relevant types.

(2) Applicable laws

With regard to the parting wall, as of 1994, when the construction of the oldest series Gold Nail began, it was specified that the parting wall of each dwelling in the apartment shall reach the roof attic or the ceiling attic, almost in the same way as the existing law (Article 30 of the Building Standards Act and Article 114 para.1 of the Enforcement Order of the said law). The term "reaching" as defined by law is understood to mean that the parting walls shall not be interrupted by the beams or ceilings, and shall be partitioned through the attic without gaps.

Consequently, the fact that the parting wall of the attic has not been constructed violates Article 30 of the Building Standards Act and Article 114 para.1 of the Enforcement Order of the said law. In this respect, Leopalace21 negotiated with construction officials after the defect was discovered, and all officials pointed out that it was illegal.

3-2. Development of Gold Nail

As mentioned earlier, Leopalace21, under the leadership of Yusuke Miyama, launched Gold Nail as a new product that plays a key role in transforming its business model from a traditional real estate sales business to a contract construction business. At a meeting of the Board of Directors held in March 1994, Yusuke Miyama explained that a construction manual was prepared to shorten the construction period for the Gold Nail, and that this would further reduce costs. In addition, in the "Instructions from President Miyama - Points of Gold Nail" handed out at the National Branch

Managers' Meeting in August of the same year, it was written that "tenants always wish for lower rent. In order to lower the rent, I thought of 'reducing the cost of construction.' By procuring materials from overseas, the cost of materials was lowered to 30-40% of the normal level. Furthermore, the construction period could be shortened drastically from the original construction method, and the labor cost for the construction was drastically reduced."

Yusuke Miyama is not a specialist in architectural rules and regulations, but he is an idea man with excellent creativity. He suggested ideas to the Product Development Section such as "is there any way to create products like this," "is it possible to use this construction method?" Former President Miyama, when thinking about ideas for new products, often gathered managers of the Product Development Section, including Mr. A, who was Manager and in charge of product development at the time, and Mr. Masashi Nishino, who acted as Acting Manager, in the meeting room to discuss ideas. The employees of the Product Development Section were working to incorporate the ideas presented by former President Miyama into realistic and feasible content based on their own technical and professional knowledge. Also, former President Miyama visited the room of Mr. A, the Manager of the Product Development Section, or summoned Mr. A to examine new ideas. Despite the fact that there were General Managers and Deputy General Managers who were directly subordinates to the President, Yusuke Miyama gave instructions directly to Managers without going through them.

One of the ideas of Yusuke Miyama was the framer team, which was used in the construction of the Gold Nail. At construction sites of the two-by-four method in the United States, a person skilled in constructing and assembling panels and roof truss frames were known and worked as a framer. Yusuke Miyama got the idea from these construction sites, and the framer team was introduced in Leoplace21. However, cost reduction was emphasized, and foreign workers, many of them with little skill in architecture, were mainly hired.

3-3. About Gold Nail (truss)

(1) Development history

In the apartment series Cubicle, launched around 1989, triangular and trapezoidal decorations were installed on flat roofs. This was based on survey results stating that gable roofs were preferred over flat roofs.

With regard to buildings with fire-resistant structures, since there was an interpretation that "roofs, etc., which are installed on roofs with fire-resistant structures for the purpose of landscape, etc., that are made of non-combustible materials, have no combustible materials inside the roof, and will not be used as an indoor structure, will not be affected by external or internal fires, and therefore, roofs and slabs are considered integral, and fire-resistant covering of the roofs is not necessary,"

Leopalace21 did not construct parting walls in attics inside the decorative roofs of Cubicle, a fire-resistant building constructed of heavy steel frames.

In the Gold Nail (truss), following the two-by-four method in the United States, the ceiling panel was not installed on the top floor, but a gable-shaped truss frame was constructed and placed on a wall panel to form a roof structure. Therefore, the roof was not decorative, but the main structural part of the building, as in the case of the shaft construction method. The department in charge of product development understood this and recognized the need for construction of the parting wall at Gold Nail (truss).

With regard to Gold Nail (truss), the department in charge of product development instructed branch offices through the construction manual and product explanatory meetings that construction of the parting wall was necessary.

(2) Reason why the parting wall was not constructed in attics

Although it was recognized inside Leopalace21 that parting walls should be constructed in Gold Nail (truss), parting walls were not constructed in 27.1% of the properties.

This may be due in part to the fact that the construction of the Nail Series were carried out by the framer team, which was comprised by Leopalace21 employers. Construction included building wall panels, floor panels, ceiling panels, and roof frames, but did not include the construction of the parting walls in attics, and the framer team did not recognize that constructing parting walls were within their scope of work. On the other hand, the construction of interior decorations after the construction work had been conducted by the contractors, but the roof had already been built at the stage when the construction of interior decorations, etc. began. It is considered probable that the contractor easily recognized that the construction of the roof was the work of the Framer Team, and that the construction of the parting walls had become overlooked. In addition, some contractors received orders from Leopalace21 when it was mainly engaged in the sale of single-family houses. Such contractors were not fully aware of the parting walls required for apartment houses in the first place, and it is probable that this also resulted in the failure of the parting wall to be constructed. It should be noted, however, that Leopalace21 recognized the necessity of the construction of parting walls in Gold Nail (truss). However, the construction of the property was carried out by a large number of construction workers who communicated with the construction departments of Leopalace21 branch offices, and the percentage of construction that was not carried out was relatively low compared to that of the Nail Series constructed afterwards.

3-4. From Gold Nail (swing old) to New Gold Nail (triton)

(1) Development history

The department in charge of product development at Leopalace21 reviewed the roof construction method for Gold Nails (truss) from the viewpoint of improving construction efficiency. As a result, it was decided that a ceiling panel was to be used on the top floor. In this case, the construction of the building was completed with the installation of the ceiling panel, and the ceiling panel was to form the flat roof. After this was decided, a method to make the roof a gable-type roof was considered. At that time, Yusuke Miyama proposed the use of placing gable-shaped roofs on top of the existing roof. A similar method was used in Cubicle, but Cubicle was a fire-resistant building constructed with heavy steel frames, whereas Gold Nail was a wooden fire-proof building. The question was whether the idea of placing a roof on a fire-resistant building could be brought into Gold Nail.

With regard to this problem, the department in charge of product development at Leopalace21 considered the Gold Nail to be equivalent to a fire-resistant building, and adopted the interpretation that there was no need for fireproof covering of the laid roof and no need to construct a parting wall inside the laid roof because the roof was made of incombustible material, there was no combustible material inside the roof frame, and it was not used as an indoor structure. However, Leopalace21's idea of bringing the theory of the roof of a fire-resistant building into the wooden building Gold Nail (truss) was a misinterpretation.

No evidence was found in Leopalace21 that measures were taken to confirm with construction officials that the interpretation that the parting wall of the attic was not required was in compliance with the Building Standards Act. In this regard, Mr. A and his colleagues stated that they consulted an external design firm and design consultant when they developed the product, but they did not obtain any supporting materials. Furthermore, in light that the purpose of the law to require construction of parting walls was to ensure the life and physical safety of residents, in terms of fireproofing, officers and employees of a construction company, particularly those qualified as architects, should have carefully considered the legitimacy and appropriateness of adopting the interpretation of not constructing parting walls. In the end, Leopalace21's development department had interpreted the law for its own convenience without sufficient evidence and failed to verify the legitimacy of its interpretation, including referral to construction officials.

The foregoing also applies to products sold after Gold Nail (swing old) up to New Gold Nail (triton) (hereinafter referred to as the "Nail Series (other than truss)").

There is no person who says that there were instructions from or consultations with Yusuke Miyama with regard to the adoption of the interpretation that there is no need to construct parting walls in attics of Nail Series (other than truss). However, in light of the actual circumstances of Yusuke Miyama's involvement in product development, etc., it is natural to assume that Mr. A, who

was only the Manager, reported or consulted Yusuke Miyama. However, there are no documents remaining with regard to the development of the Nail Series, and Yusuke Miyama has denied this, so although there remains a doubt, it cannot be admitted that Yusuke Miyama has instructed and approved to not construct parting walls in attics.

With regard to the Nail Series (other than truss), the department in charge of product development explained through construction manuals and product explanatory meetings that the ceiling panel would act as a fire-stop. Therefore, it would be sufficient if the parting wall had reached the horizontal compartment, and that it was not necessary to construct the parting wall in attics.

(2) Reason why the parting wall in attics was not constructed

In the Nail Series (other than truss), the percentage of buildings with no parting walls in attics reached 90.7% for Gold Nail (other than truss), 94.9% for New Gold Nail, and 93.5% for the entire Nail Series. As mentioned in (1) above, it was interpreted that the department in charge of product development did not need to construct parting walls in attics, hence the large percentage.

On the other hand, 6.5% of the buildings were constructed with parting walls. This is probably because the construction official gave strict instructions to construct parting walls at the time of the construction certification and the branch and contractor complied with the instruction. The instructions given in construction manuals and product explanatory meeting was not thoroughly followed, and some of the branch offices recognized the necessity of constructing parting walls in attics of Nail Series (other than truss).

(3) Application drawing for construction certification

In the Nail Series (other than truss), Leopalace21 believed that there was no need to construct parting walls in attics. Nevertheless, within the scope of the verifying drawings, the X-X cross-sectional view³ included in the construction certification documents for all the properties stated that the hatching (oblique line) representing the parting wall in attics reached the roof surface. These X-X cross-sectional drawings were prepared by the CAD design department and used by the design department of the branch as part of construction certification documents. In Leopalace21, in order to make it easier to obtain construction certification from construction officials, it is probable that in many cases, an application was made using an X-X cross-sectional view with such a description of the parting wall. There are some people who say that these measures are "convenient measures." However, it can be said that the intent of these measures was to obtain construction certification

³ This is a cross-sectional view of the building in a direction perpendicular to the parting wall.

from officials by describing parting walls that the company did not intend to construct, and Leoplace21 was so-called deceiving construction officials company-wide.

There is no evidence that it can be admitted that the instructions to take such measures were given by a specific person. Mr. A and other persons involved in the development of the products explained that there was no need to construct parting walls in attics at product briefing sessions, but denied the fact that instructions were given to include the construction of the parting walls in attics in construction certification documents. Yusuke Miyama also stated that although he does know about the details, he believed that there was no fraud or misconduct. However, considering that the New Gold Nail construction manual includes not only a cross-sectional view showing the construction of parting walls in attics, but also a roof assembly drawing indicating the construction on parting walls in attics with a note stating "two boards as regional specifications," at least at one stage when the Nail Series was being developed, the department in charge of product development should have recognized the construction certification documents submitted to construction officials included parting walls in attics, although parting walls were not being constructed. Considering that the construction certification documents for all the properties in the Nail Series (other than truss) included parting walls in attics, even though parting walls were not actually constructed, such an act is considered to have been carried out on a company-wide and systematic basis.

Behind this was the fact that Leoplace21 undervalued the construction certification. The officers and employees of Leoplace21 responded to the Committee, "The operation of the construction certification at that time was not as strict as it is now. In Leoplace21, prompt start of construction was emphasized, so it was desirable to prepare construction certification documents and submit it to construction officials, and then change the design details at any time after obtaining construction certification. For this reason, in order to start construction at an early stage, the department in charge of design at the branch office thought that it would be acceptable to revise the drawing later, even if it did not match the actual construction details, and then submitted it to officials and left it unchanged without modifying it." Moreover, when the Nail Series were sold, the industry as a whole did not necessarily have a practical operation of applying for a completion inspection and receiving a certificate of confirmation. The Building Standards Act was amended in June 2007 to strictly confirm the construction of buildings, etc. after the so-called Aneha incident in November 2005 became a social problem. According to Leoplace21 officers and employees, "in the initial period of the sales of Gold Nail, before the amendment of the Building Standards Act, the content and regulations of the Act was not as severe as it is now." Regardless of the appropriateness of such explanations, the fact that construction certification was neglected in Leoplace21 is evident.

(4) Description in construction manuals

In the pages of the roof assembly drawing included in the construction manual for New Gold Nail,

there is a note stating "*Two boards on the truss as a regional specification" in the steel panel that composes the roof. According to the results of the hearing, it was not clear who was in charge of this description. The judgment of whether the roof of New Gold Nail was considered a laid roof and parting walls were necessary depends on the construction official. However, there were reports from branch offices that some of the construction officials gave instructions to construct parting walls in attics, which is probably the reason why this description was added to the construction manual in order to indicate that parting walls in attics should be constructed in areas that were given these instructions.

It is considered probable that these reports from branch offices gave the department in charge of product development an opportunity to reexamine the appropriateness of the company's view that it was not necessary to construct parting walls in attics of Nail Series (other than truss). However, such reviews were not carried out.

3-5 6 Series

(1) Development history

The two-by-four method was adopted only in the Nail Series because Yusuke Miyama believed that there was a problem with sound insulation, and it was not adopted in the subsequent series. Of the 6 Series, the brace panel method was adopted for the steel-frame Gold Residence, New Gold Nail, Special Steel Residence, and Better Steel Residence, and the wood-based New Silver Residence adopted the wooden shaft assembly panel method. There are several versions of Con Grazia, but no two-by-four method has been adopted.

In the 6 Series, the department in charge of product development recognized that construction of the parting walls in attics was necessary in all series, and instructed branch offices through the construction manual and product explanatory meetings that construction of the parting walls was necessary. Concerning the construction certification, an application was made for the 6 Series using the X-X cross-sectional drawing with a description of parting wall in attics.

(2) Reason why the parting wall in attics was not constructed

In the 6 Series, although Leoplace21 believed parting walls in attics were necessary, some properties no parting walls. There are three series where the ratio of no parting wall constructed exceeded 10%; Special Steel Residence (33.7%), Gold Residence (26.6%) and Better Steel Residence (16.9%). The remaining three series are in the range of 6%.

There are several reasons why the parting walls in attics have not been constructed in these 6 Series.

First, there was a lot of work in the department in charge of product development at that time, and so-called "service overtime work" (overtime work with no compensation) was frequently carried out. In response to Yusuke Miyama's ideas, new series of products were developed and specifications of existing series were changed frequently, and sales of products began before the department in charge of product development prepared the construction manual. For this reason, while the department in charge of product development believed it was necessary to construct parting walls in attics, there were cases in which the design and construction at the branch office were conducted even when the necessity of constructing parting walls in attics was not clarified in the CAD diagram sent from the head office to the branch office, or the construction manual with the description of parting walls in attics was not distributed to the branch office or the contractor. For this reason, in the 6 Series, even though the construction of parting walls in attics was required, the necessity of parting walls was unclear in the individual construction drawings and construction certification documents, and the parting walls in attics were not constructed on-site. The drawings sent by the department in charge of CAD design at the head office to the department in charge of design at the branch tended to be only about 70% complete. The department in charge of design at the branch finished these drawings by adding in individual factors of each site as well as the handling of each specific administrative agency (regional factors). In the 6 Series, as mentioned above, the department in charge of product development was overloaded with work, and it seems many branch offices sent inquiries, such as "don't we need to construct parting walls?" due to the fact that the construction manual was completed after the sale of the product and the CAD drawing was inadequate. In such cases, the head office may modify the CAD diagram and retransmit it to the department in charge of the design of the branch. The head office may also instruct the department in charge of the design of the branch office to "modify it by hand at the branch office and create a construction drawing and confirmation diagram." Given this situation, branch offices were not thoroughly instructed that it was necessary to construct parting walls in attics.

In addition, the reason why the percentage of parting wall construction not carried out in Gold Residence was high is considered to be that it was easy for the contractor to overlook the construction of the parting wall in attics because the launch of Gold Residence immediately followed the Nail Series (other than truss), which was thought that construction of parting walls was unnecessary.

Furthermore, the reason why the percentage of parting wall construction not carried out in Special Steel Residence and Better Steel Residence is high is that the structure of the beams in these two series was characteristic and it was difficult to construct the parting walls compared to other series. This led to the negligence of construction by contractors, which may have led to parting walls in attics not being constructed. The possibility of negligence of construction by such contractors is also common to the remaining New Silver Residence, New Gold Residence and Con Grazia. It is somewhat likely that this was because, against the background of Leopalace21's strong policy of

shortening the construction period and reducing costs, the contractors were unable to secure enough skilled workers, and the contractors and craftsmen were forced to complete the construction in a short time frame, and the construction of the parting walls, which were too cumbersome and obscured by the ceiling, was not carried out. In any case, even if the construction was neglected by contractors, the essence of the problem is inadequate construction management by the construction department of Leopalace21's branch offices, and the fact that the extremely inadequate construction management had not been changed.

At that time, the department in charge of construction at the branch office was not only responsible for the management of the property after the start of construction, but also engaged in the preparation of estimates and materials on the properties before the start of construction and on the business matters before the conclusion of the contract. As a result, the number of personnel was small, and not only the chief engineer but also his subordinates were not able to visit construction sites. In fact, one person was responsible for several dozen sites, and it was not possible to check the status of construction.

At the time of the construction of Nail Series and 6 Series, a construction supervisor was appointed, specified by law. However, instead of actually checking the construction status, architects who were appointed as the construction supervisor tried to supervise the construction by receiving reports on the construction status orally or in the form of a written report from the section in charge of the construction of the subject property, or by checking the photographs of the construction status. Since the construction department of branch offices was also busy, the construction supervision was inadequate. In addition, the number of architects who were appointed as construction supervisors was unevenly divided among a small number of specified persons, and the number of properties that construction supervisors were responsible for was so large that construction supervisors were not even able to receive reports from the construction departments of the branch offices satisfactorily. As a result, the construction supervision work was extremely inadequate.

4. Leopalace21's response after conclusion of sales

4-1. Concerning the Himeji Case

The Himeji lawsuit was filed in October 2011 by the plaintiff, the owner of Gold Nail, which the lease contract had been terminated by Leopalace21. The plaintiff claimed nullity of the termination, seeking continuation of the building lease contract. In November 2012, the plaintiff asserted in the Himeji litigation that the Gold Nail owned by the plaintiff was defective, including parting walls not being constructed, which the plaintiff claimed was in violation of the Building Standards Act. In July 2013, the Himeji Litigation was concluded between Leopalace21 and the plaintiff, after a settlement was reached that included the termination of the building lease contract and payment of settlement

money.

In response to the plaintiff's assertion that parting walls had not been constructed, Leopalace21 investigated Gold Nail properties built during a certain time and examined whether or not to carry out repairs. However, as mentioned above, Leopalace21 recognized that construction of the parting walls in the Nail Series (other than trusses) was not necessary under the Building Standards Act, and therefore did not take any special measures.

4-2. Requests for approval of repairing parting walls in attics

At Leopalace21, repairs have been carried out on parting walls of Nail Series and 6 Series at least since 2006. All of these repairs were carried out as part of the maintenance and management of properties constructed by Leopalace21. Some repairs were due to age-related deterioration and construction defects, but some were related to the construction of parting walls in attics in buildings with no parting walls.

Some of these requests for approval concerning the construction of the parting walls pointed out that parting walls not being constructed was in violation of the Building Standards Act, and others pointed out that the inadequacy of construction drawings led to the inadequacy of construction. However, many of the officers and employees involved in the approval request stated that they recognized that the construction of parting walls was necessary in individual properties with no parting walls, but that they did not think that there was a similar defect in the entire series.

4-3. Reasons for not being able to respond appropriately after conclusion of the sales

Leopalace21 missed such opportunities even though there were several situations in which it was possible to recognize the Attic Parting Wall Problem, such as the Himeji Litigation and the request for approval of repairs of parting walls, due to the inadequacy of the risk sensing system in which risk information on quality issues, which should be important for the contract construction business and spread horizontally to related departments, and the lack of risk sensitivity of officers and employees. In addition, if this problem was viewed as a violation of laws and regulations and design defects throughout the series, the impact on the contract construction business would have been too large, and it seemed that consideration of the construction defects being isolated incidents would not have been trivial.

5. Facts regarding the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem

5-1. Outline of the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem

The Parting Wall Foamed Urethane Problem consists of defects of parting walls related to the use of wall panels with foamed urethane as insulation (hereinafter referred to as "**Foam Panels**") rather than the glass wool or rock wool described in the design drawings, which were confirmed in Gold Residence and New Gold Residence. The use of Foam Panels as parting walls is a violation of the Building Standards Act because the insulation materials of walls were designated as glass wool or rock wool by the Ministry of Construction Notice.

The Exterior Wall Specification Problem consists of defects related to using Foam Panels in exterior walls, which does not conform to the specifications approved by the Minister of Land, Infrastructure and Transport described in the design drawings, which were confirmed in Gold Residence, New Gold Residence and Villa Alta. The use of Foam Panels in the exterior walls is a violation of the Building Standards Act because the length between wall backings and binding method of boards is different to the qualifications specified by the Minister of Land, Infrastructure and Transport.

According to the investigation results of Leopalace21, 563 out of 1,660 buildings of Gold Residence and 225 out of 679 buildings of New Gold Residence were found to be defective with regard to the Parting Wall Foamed Urethane Problem. As for the Exterior Wall Specification Problem, 563 out of 1,660 buildings of Gold Residence, 326 out of 679 buildings of New Gold Residence, and 52 out of 153 buildings of Villa Alta were found to be defective.

5-2. Development of Foam Panels

Around June 1995, Yusuke Miyama visited a sample of the wall panels of other companies molded with polyurethane foam, and came up with the idea that a wall with high thermal insulation could be manufactured by integrating the surface materials with polyurethane foam. He instructed the officers and employees of the department in charge of product development to develop products using polyurethane foam.

In response to this instruction, the department in charge of product development decided to use Foam Panels in parting walls and exterior walls of Gold Residence, and began selling properties using Foam Panels in 1996.

The department in charge of product development was aware that the Foam Panels did not conform to the Minister Certification and Minister Notice. Nevertheless, it was considered that the

performance of Foam Panels, which are generally considered to be higher-level materials than glass wool, would be virtually no problem. Therefore, the Foam Panels were used without confirming sound insulation and fire resistance performance through performance tests.

Concerning the use of Foam Panels while recognizing that they do not conform to the Minister Certification and Minister Notice, Yusuke Miyama says that he did not give such instructions. Mr. A says he did not report this to Yusuke Miyama. However, considering that the development of Foam Panels was based on Yusuke Miyama's instructions, it is difficult to believe that Mr. A, who was only the Deputy General Manager at the time although he was in charge of product development, did not report to or consult with Yusuke Miyama, who was a strong and autocratic president at that time. However, as stated above, both Yusuke Miyama and Mr. A denied, and no objective evidence was obtained. Therefore, although there remains a doubt, it cannot be admitted that Yusuke Miyama had instructed the use of Foam Panels while recognizing that the Foam Panels did not conform to the Minister Certification and Minister of Construction Notice.

5-3. Fireproof and sound insulation performance test

In December 1998, after the market of the property using the Foam Panels was started, the department in charge of product development conducted a preliminary test on the Foam Panels in accordance with the one-hour fire resistance performance test of the load-bearing exterior wall of the semi-fire-resistant structure, and obtained the test result that the fire penetration to the non-heated side was not confirmed even after 60 minutes of heating. However, the test piece used in this test was different from the Foam Panels used for the exterior wall of Leopalace21 properties because the surface material was screwed onto the steel frame body. In addition, this study was not conducted to obtain Minister Certification.

In May 1999, the department in charge of product development conducted a sound insulation performance test on Foam Panels, which resulted in a failure of performance because a specific frequency was significantly below the standard. In June 1999, the department in charge of product development planned a fire resistance test for the exterior wall panels and parting wall panels. However, based on the results of the sound insulation performance test, no fire resistance test was conducted.

In September 1999, the department in charge of product development conducted a one-hour fire resistance performance test on the Foam Panel of the load-bearing exterior wall of the semi-fire-resistant structure. Since the temperature of the back surface exceeded the specified figure, the test was stopped in 51 minutes.

Thus, no test results were obtained that the Foam Panels satisfies the required fireproof performance of the parting wall and the exterior wall. In May 1999, a sound insulation performance test revealed that the Foam Panels were highly unlikely to have the soundproof performance required

for the parting walls. With regard to these tests, officers and employees of the department in charge of product development stated that they had been conducted to test Foam Panels with specifications different from those used for Foam Panels as parting walls and exterior walls. However, in any case, there was no change in the situation in which the test results for Foam Panels had not been obtained because they satisfied the performance required by the Building Standards Act. Nevertheless, it goes without saying that these repeated performance tests on Foam Panel should have been conducted before Gold Residence's launch.

As described above, Leopalace21 continued to use Foam Panels despite the lack of evidence that they had the performance level required under the Building Standards Act.

Leopalace21 stopped using Foam Panels in parting walls around June 1999. There are some people who explain that the main reason for this is cost. However, based on the results of the interviews with the parties concerned, it is highly likely that the use of Foam Panels for parting walls was discontinued in view of the heightened doubt about sound insulation and fire resistance. In addition, at Leopalace21, the use of Foam Panels for exterior walls was discontinued around 2001 as sales of Gold Residence, New Gold Residence and Villa Alta were terminated. The same reason could be said for this matter as well.

When discontinuing the use of Foam Panels on the parting walls and exterior walls, Mr. A stated that he did not report to Yusuke Miyama any doubts about the sound insulation performance, fire resistance, and compliance of Foam Panels, and Yusuke Miyama also states that he did not receive any such reports. It is difficult to believe that Mr. A decided to discontinue the use of the Foam Panels on his own initiative without reporting or consulting with Yusuke Miyama. However, Yusuke Miyama and Mr. A also denied this and there is no objective evidence. Therefore, although there remains a doubt, it cannot be admitted that Yusuke Miyama recognized this doubt and ordered the discontinuation of the use of the Foam Panels.

5-4. Application for construction certification

The structure lists of the construction certification documents of Gold Residence, New Gold Residence and Villa Alta show that out of the total 941 buildings in which Foam Panels were used, drawings showed wall panels using legally compliant glass wool as heat insulation on 930 buildings constructed from 2000 to 2001, even though Foam Panels were actually used. As a result, Leopalace21, on a company-wide and systematic basis, described heat insulation materials that were not actually used in the structure list of construction certification documents to defraud the construction certification.

That is, in preparation of the structure list included in the general drawing (hereinafter referred to as the "general drawing" in this chapter), the department in charge of product development stated that glass wool was used as the insulation material for the parting walls and the exterior walls, even

though there were cases where Foam Panels were used.

Mr. A stated that when Gold Residence was developed, the first specifications did not use Foam Panels, and failed to change the description of the general drawing after Foam Panels were decided to be used. He states that this was not intentional. However, leaving Gold Residence aside, New Gold Residence and Villa Alta were originally developed on the assumption that Foam Panels could be used, this statement is questionable. This occurred at almost the same time as the above-mentioned Attic Parting Wall Problem, and it is natural to assume that the awareness of the need to make the correct entry in construction certification documents was blurred and that it was the result of prioritizing the prompt receipt of construction certifications.

6. Facts related to the Ceiling Problem

6-1. Overview of the Ceiling Problem

The Ceiling Problem is related to defects in the construction of the ceiling of Gold Residence, which does not conform to the specifications of the Ministry of Land, Infrastructure, and Transport Notice, even though design drawings conform to the specifications, with rock wool sound absorbing plates (9 mm) on top of reinforced gypsum boards (12.5 mm).⁴

According to investigations by Leopalace21, the Ceiling Problem occurred only in three-story, semi-fireproof Gold Residence properties. The actual number of Ceiling Problems is still being investigated at Leopalace21, but it is expected that the number will be up to 641 (out of 1,660 Gold Residence).

6-2. Cause and background of Ceiling Problem

In the interior finish table included in the construction manual for the three-story Gold Residence, several finishing materials that could be selected were noted, such as "rock wool sound absorbing boards or plaster boards 9.5 mm," , and it led to a misunderstanding that any of the materials could be used. This is the cause of the Ceiling Problem.

The reason why the construction manuals, etc. that led to such misunderstandings were prepared by the department in charge of product development was that Gold Residence had more plans than other series, and checks were neglected in the process of preparing construction manuals, etc. At branch offices, drawings sent from the CAD design department of the head office were considered correct, and drawings were not checked and reviewed from the perspective of legal compliance.

⁴ The Ceiling Problem was caused by deficiencies between Gold Residence Construction Manuals and construction drawings. According to the results of Leopalace21's investigation of drawings of all series, no defects of the same description were found in other series.

Part 3 Overall and essential causes and backgrounds

The direct causes of the Attic Parting Wall Problem, Parting Wall Foamed Urethane Problem, Exterior Wall Specification Problem, and Ceiling Problem are inadequacies in the product development system, the construction system, the quality management system, and the construction supervision system that should be required for the rapid growth of the contract construction business, as well as the neglect of construction certifications, etc. Such defects and neglects occurred for more than 10 years from around 1994 to around 2009, when the series covered by this Investigation was being constructed. Below, we examine the essential causes and backgrounds applicable to this case as a whole with regard to the long-term inadequacy and negligence.

1. Amid the harsh business environment at that time, the overcoming of the business crisis and the expansion of the contract construction business were given priority under the condition of "thinking while running"

As mentioned earlier, Leopalace21 fell into a business crisis due to the real estate recession following the collapse of the bubble economy, and in order to overcome this business crisis, it began to make a major shift to the contract construction business from the early 1990s, and developed and launched Gold Nail into the market. In Gold Nail, costs were reduced and construction periods were shortened by standardizing parts and assembling them at the construction site, similar to a plastic model. Leopalace21 succeeded in a rapid recovery in business performance by shifting its business model to a contract construction business and a leasing business with master leases of constructed apartments. Starting with Gold Nail, Leopalace21 quickly developed and launched similar standardized models and introduced them to the market. In this way, Leopalace21 was quick to successively develop and deploy new models to recover and expand its business performance, and neglected to verify the compliance and quality of laws and regulations, such as the Building Standards Act. One employee of Leopalace21 stated, "At that time, the goal was to increase the number of construction properties, and every department in the company was 'thinking while running'." This simply meant to start implementing businesses and products etc. before considering any problems that may arise, and leaving the problem blinded when they noticed it on the way. Leopalace21 was forced to think while running and the overcoming of the business crisis and the expansion of its contract construction business were given priority. For example, with regard to the Nail Series (other than truss), despite the fact that a matter inconsistent with Leopalace21's view was pointed out by construction officials at the time, there was insufficient time and human resources to consider the conformity of the statute. Therefore, false descriptions of constructing parting walls were included in construction certification documents to receive construction certifications. In the case of the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem, it was

not possible to allocate sufficient time and human resources to verify compliance with laws and regulations and to conduct performance tests before the development and sale of new products.

Leopalace21's "30-year Master Lease System" is also one of the backgrounds for giving top priority to the recovery and expansion of business performance under the condition of "thinking while running." Several Leopalace21 officers and employees stated that "Since Leopalace21 adopted the '30-year Master Lease System' in its business model, it is inevitable that direct interactions and relationships with apartment owners will be for the long term. We believed that if any defects should arise in properties that Leopalace21 constructed, it would be sufficient to repair and take care of the property case-by-case. Therefore, (rather than to ensure the quality of individual properties), it was important to increase the number of properties as quickly as possible." From a different perspective, it could be considered a justification that "The company has not abandoned its responsibility as a contractor. It's just postponing it. This is merely a temporary measure to get out of the business crisis." This justification led to a stance of prioritizing the early expansion of the number of properties, even though the quality problem of properties was somewhat contemplated.

2. The company had fallen into a "one-man" system, which was strongly promoted by top management's intentions

The development of products such as the Nail Series and the use of Foam Panels are based on the strong leadership of Yusuke Miyama, but it does not seem that Yusuke Miyama was familiar with construction-related laws and regulations or had expertise in architectural technology. On the other hand, many of Leopalace21's officers and employees say that Yusuke Miyama was a "man with ideas" with excellent creativity and high implementation skills. The department in charge of product development translated ideas presented by Yusuke Miyama into feasible content using the department's expertise. Some Leopalace21 officers and employees say that although Yusuke Miyama did not qualify as an architect, he personally called himself a "special class architect" because he came up with a series of new ideas.

It is true that it is not an immediate problem if an individual not having expertise in construction manages a company engaged in a contract construction business. However, if the top management had no expertise in construction, the organization should have established a system to reduce the risk caused by the management not being a specialist in construction, but there was no such system. The officers and employees of the department in charge of product development, who are qualified as architects, were also devoted to developing products that embodied the idea of Yusuke Miyama, and the checking function was completely neglected.

Through this Investigation, no objective materials were found which indicates that Yusuke Miyama gave illegal instructions while recognizing illegality. However, in interviews and in-house questionnaires, many officers and employees stated that "the atmosphere was difficult for officers

and employees to give advice to Yusuke Miyama." Some officers and employees explained that "Leopalace21 at the time only had two types of people, Yusuke Miyama and others." This provides a glimpse of Leopalace21's "one-man" (autocratic) corporate culture at that time. There were many comments stating that "In Leopalace21, only the officers and employees of the sales division who were favored by Yusuke Miyama were promoted. As a result, it was also difficult to express any opinions to 'yes-men' of Yusuke Miyama in the sales division." It seems that Leopalace21 at that time had fallen into a corporate culture in which everyone was concerned about Yusuke Miyama's intentions. Even though Yusuke Miyama had hoped that compliance with laws and regulations would be ensured in product development, because the people around him were deeply concerned about Yusuke Miyama's intentions, it may have led to the thinking that "it is unavoidable that compliance with laws and regulations is neglected in order to commercialize products at an early stage."

3. There was a low level of legal compliance and risk sensitivity to construction-related laws and regulations, and a lack of awareness of responsibility for quality issues

Although Leopalace21 believed that it was not necessary to construct parting walls for the Nail Series (other than truss), construction of parting walls were described in X-X cross-sectional drawings of construction certification documents "as a formality." However, this is an act by the company to deceive construction officials for construction certification. Regarding the Nail Series (other than truss), Leopalace21 was instructed by several construction officials to construct parting walls. Rather, it only took measures to state in construction manuals that "*Two boards on the truss as a regional specification," that could be thought of as an excuse saying "the head office did not instruct that parting walls should not be constructed." These are simply indications of the company's low level of legal compliance with construction-related laws and regulations. In addition, many of Leopalace21 officers and employees pointed out that Yusuke Miyama had a low level of legal compliance with construction-related laws and regulations. For example, some officers and employees stated that "Even though the Industrial Safety and Health Law requires workers to form scaffolds at the construction site, Yusuke Miyama instructed to start work without setting up scaffolds because it would interfere with the delivery of panels." As a result of this investigation, no objective materials were found to support Yusuke Miyama's illegal instruction, and Yusuke Miyama and an employee who was injured denies the existence of such illegal instruction. Therefore, it is not possible to determine the existence of such illegal instruction. However, even if not true, the fact that these episodes were still being spoken by several officers and employees indicates that the image of Yusuke Miyama as a person who disrespected legal compliance had been firmly formed within the company, and it is believed that this could have justified the neglect of laws and regulations, such as construction-related laws and regulations, by officers and employees.

In a hearing with the Committee, Yusuke Miyama repeatedly explained that "'We' were amateurs in architecture and development was left to 'them'." According to Yusuke Miyama, the term "we" refers to the "sales division" and the term "them" refers to the "development, design, and construction division." Yusuke Miyama's remarks are an example, but it seems that the officers and employees lacked a sense of responsibility for quality issues as a member of an organization conducting a contract construction business. Such lack of awareness of responsibility is one of the factors that led to the neglect of compliance with laws and regulations, such as the Building Standards Act, as well as quality verification.

Furthermore, since 2006 at the least, there have been a number of cases in which repairs were carried out to construct parting walls in properties where it was originally considered that parting walls were unnecessary, in response to claims from apartment owners. In the process of deciding on the repair work, the company responded to the immediate claim in an ad hoc manner, while not being aware of the essential problem of the necessity of parting walls in attics. As for the litigation with the apartment owner, several violations of the Building Standards Act was pointed out, one of which was that there were no parting walls. Despite the fact that there was a considerable amount of information pointing out "violations of laws and regulations" reported to the President and the director in charge, they have not taken any measures based on an understanding that the defects were isolated incidents. This indicates that the ability of Leopalace21 officers and employees to sense business risks in the execution of the contract construction business is blunt.

Part 4 Responsibility of related parties

1. Yusuke Miyama and the management team at the time

In regards to the Attic Parting Wall Problem, there were no materials which indicate that Yusuke Miyama had instructed or ordered to violate laws and regulations and not construct parting walls in attics. However, Yusuke Miyama was the key person in building a new business model in the form of the contract construction business, and promoted a shift from the real estate sales business to the contract construction business and real estate leasing business. When starting such a new business model, the human resources, knowledge, and internal systems should naturally be inadequate. Therefore, he should have secured sufficient human resources and developed a system to objectively grasp the current status of the company to conduct a legal and appropriate business. Nevertheless, he failed to develop a sufficient product development system and a construction management system, with an emphasis on securing profits in order to overcome the severe business environment and focusing on the early expansion of the number of properties. The above points also apply to the Ceiling Problem.

In addition, regarding the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem, although there remain suspicions against Yusuke Miyama, it cannot be admitted that he instructed and ordered the use of Foam Panels while recognizing the doubt of conformity with the Building Standards Act. However, the development of products using Foam Panels was based on his proposal and instructions, and as mentioned in the Attic Parting Wall Problem, the development of products should have been conducted with sufficient verification of legal compliance and performance. Since using polyurethane foam was an important idea of Yusuke Miyama, it was naturally anticipated that other officers and employees would not be able to point out any problems, and Yusuke Miyama should have considered making it easier for other officers and employees to express their opinions.

Yusuke Miyama told the Committee that he "was not aware" that the parting wall had not been constructed in regards to the Attic Parting Wall Problem, and with regards to the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem, he "believed there was no problem" because the personnel in charge of the product development department said there was no problem. He then told the Committee that he "did not know at all about the defect" with regard to the Ceiling Problem. However, the department in charge of product development was under his direct control, and he was the one who proposed the project to develop two-by-four products and Foam Panels. If Yusuke Miyama "was not aware" or "believed there was no problem," then that itself is a problem as management, and his attitude of not knowing the compatibility of laws and regulations or quality even though he ordered product development is one of the fundamental causes of the problems.

As mentioned above, it cannot be admitted that the management team at that time, excluding Yusuke Miyama, instructed or ordered illegal actions regarding these problems. However, they should have supported Yusuke Miyama, advised him on the necessary verifications and considerations, and encouraged him to take appropriate action.

2. Officers and employees of the department in charge of product development

Concerning the Attic Parting Wall Problem, the officers and employees of the department in charge of product development in Leopalace21, including qualified architects, neglected to sufficiently confirm the legal compliance of the interpretation that parting walls in attics was unnecessary with the Building Standards Act. In addition, with regard to the Nail Series (other than truss), the officers and employees of the department in charge of product development believed that there was no need to construct parting walls in attics, and even though parting walls were not constructed in more than 90% of the properties, the entire company made applications for construction certifications that was contrary to the fact, and it can be said that Leopalace21 received construction certifications by deceit. On the other hand, with regard to Gold Nail (truss) and the 6 Series, the officers and employees of the department in charge of product development took the view that construction of the parting walls in attics was necessary, but as can be seen from the delay in the preparation of the construction manual, they cannot be deemed to have given appropriate instructions to branch offices.

Similarly, with regard to Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem, the officers and employees in charge of product development started using the Foam Panels without sufficiently verifying the conformity of the Foam Panels with construction-related laws and regulations, and continued to use the Foam Panels while it was highly likely that the Foam Panels would not meet the required sound insulation and fire-resistant performance. In addition, the officers and employees of the department in charge of product development forced applications for construction certifications that were contrary to the facts throughout the company through the preparation and distribution of general diagrams, and it can be said that Leopalace21 received construction certifications by deceit.

Concerning the Ceiling Problem, the officers and employees of the department in charge of product development were at fault, such as creating interior finishing tables contained in the construction manual that led to misunderstandings.

It should be added that although the fault of Yusuke Miyama, management, and officers and employees of the department in charge of product development at the time were the main factors, among the officers and employees of the department in charge of design and the department in charge of construction at the branch offices, there were those who applied for construction certification with false documents, as well as those who neglected the discrepancy between

construction certification documents and construction drawings, and those who failed to carry out the process inspection sufficiently and neglected construction defects made by contractors.

3. Failure to detect early

With regard to the Attic Parting Wall Problem, although it was possible to detect and respond to the problem at an early stage through the Himeji Litigation and the request for approval of construction of parting walls in attics, management and the officers and employees of the department in charge of design and product development fell short of their risk sensing abilities due to a "tendency to avoid conflicts and troubles." This resulted in minimizing the problem which led to a failure to detect and respond at an early stage. This was also true of the Parting Wall Foamed Urethane Problem and Exterior Wall Specification Problem.

As for the Ceiling Problem, it was difficult to notice the construction defect after the construction, and there were no circumstances to show that the problem could have been discovered by the time of the All-building Investigation. Therefore, it was unavoidable that the problem could not be discovered or dealt with at an early stage.

Part 5 Recommendations for recurrence prevention

1. Review of recurrence prevention measures in Leopalace21

In the course of this Investigation, the Committee received a report from Leopalace21 on the status of the company's review of measures to prevent recurrence. The outline of the recurrence prevention measures currently being reviewed by the company is as follows.

- 1 Drastic reform of legal compliance awareness (thorough "compliance-first")
 - (1) Firmly establishing a "compliance-first" philosophy
 - (2) Realizing corporate culture reform through "dialogue" with employees
 - (3) Dissemination and thorough implementation of the internal reporting system
- 2 Restructuring the compliance and risk management system
 - (1) Establishment of the Compliance Management Headquarters
 - (2) Establishment of the Construction Legal Department within the Compliance Management Department
 - (3) Review of the operation method of the Compliance Committee
 - (4) Review of the operation method of the Risk Management Committee
 - (5) Review of risk management methods
 - (6) Confirmation of compliance with laws and regulations concerning new businesses, etc.
- 3 Reviewing the contract construction business system
 - (1) Improve the process of developing new products
 - (2) Implementation of appropriate work supervision by reviewing the construction supervision system
 - (3) Ensuring construction quality by implementing appropriate construction management
 - (4) Ensuring construction quality by strengthening the inspection system (conducting inspections by the Construction Legal Department)
 - (5) Training by the Construction Legal Department for the department in charge of design, work, inspection, etc. and contractors

2. Recommendations by the Committee to prevent recurrence

Leopalace21 has positioned the following measures as a cornerstone to prevent reoccurrence: (1) drastic reform of legal compliance awareness (thorough compliance first); (2) restructuring the compliance and risk management system; and (3) reviewing the contract construction business

system. The Committee also believes that these measures should be placed at the center of preventive measures. Below, we propose measures to prevent reoccurrence based on the characteristics of Leopalace21, from the perspective of taking measures to prevent reoccurrence with greater effectiveness and impression.

2-1. First and foremost, management should demonstrate a strong stance of "compliance-first" both internally and externally.

The main reason causing these problems is that, amid the severe business environment at that time, top priority was given to overcoming the business crisis and expanding the contract construction business under the condition of "thinking while running." Considering that this "thinking while running" has led to delays in the early detection and early response of risk information over a long period of time, and has slowed the legal compliance and risk sensing capabilities regarding conformities with construction-related laws, it will take major effort to reform this corporate culture.

In order to change the corporate culture of the past and to establish a corporate culture of "compliance-first" in Leopalace21, it is important for management to demonstrate a strong stance of "compliance-first" both internally and externally. The awareness of compliance in the organization is similar to water dripping down, from top management to the surrounding directors, from directors to executives, and from executives to employees on the job site. The awareness of compliance among subordinates depends largely on the daily behavior of superiors. If management thinks that compliance is a hindrance, it will be clear to the subordinates from the management's daily actions, even if words say so differently.

New management should take every opportunity to communicate clear messages to stakeholders, including employees and business partners, which emphasize compliance and quality rather than sales and profits. In addition, in-house education is extremely important for the reform of corporate culture. These in-house training programs are often carried out according to ranks. However, measures such as joint training for management and other employees and having management attend and give comments at training for on-site employees should be considered to demonstrate management's strong commitment to "compliance-first."

2-2. Fully explain to officers and employees the purpose and significance of recurrence prevention measures so that it will not end as temporary measures

The Committee has observed a number of cases in which Leopalace21 has continuously addressed various problems in the past with a temporary solution, and strongly urges the company to ensure that recurrence prevention measures will not end with a temporary measure, in order to defeat public

criticism and to recover business performance. Not just in the case of Leopalace21, but in the event that a corporate scandal occurs, a number of measures are usually taken to strengthen compliance. As a result, at least temporarily, the company's awareness of compliance is raised. At the same time, the newly established rules and systems as part of recurrence prevention measures often lead to an increase in the day-to-day workload of employees. Therefore, if officers and employees do not fully understand the purpose and significance of the recurrence prevention measures, they have only negative evaluations of such measures, such as "the number of troublesome rules has increased." As a result, while the rules and systems newly established and changed are abided for a while, as time passes and the scandal becomes more prevalent, complying with rules and systems may become a mere element.

Therefore, Leopalace21 should not only inform and thoroughly implement measures to prevent recurrence, but also explain to its officers and employees the purpose and significance of such measures. For example, in order to gain the understanding of on-site employees regarding the "review of the contract construction business system," which is one of the pillars of measures to prevent recurrence, it is possible to develop a deeper understanding through specific case studies and compliance training using this report as a teaching material that defects in the product development system, construction system, quality control system, and construction supervision system that should have been required for the rapid growth of the contract construction business have led to the problem. In addition, it is also useful to create a mechanism for regularly checking whether the rules and systems established as measures to prevent recurrence are being abided. The essence of compliance lies in "continuing to do what is a matter of course," and it is important to create a system that ensures continuity.

2-3. Raise awareness of the importance of providing value that is appreciated from the customers' perspective, such as owners and tenants, and raise awareness of responsibility for quality issues among officers and employees

In order to raise awareness of quality issues among the officers and employees of Leopalace21, it is effective to raise awareness about the importance of creating value appreciated from the customers' perspective, such as owners and tenants, through the provision of products and services, and to make them aware of the social significance of the contract construction business and to give them a sense of responsibility. Due to the fact that apartments supplied by Leopalace21 are scattered throughout the country, many companies are able to conduct business activities in various parts of the country by providing residences that form the basis of their lives, particularly for single workers. In this sense, Leopalace21 serves as a public entity that supports corporate activities by providing solutions to workers' needs for temporary residences.

Since Leopalace21's construction business has already become part of the social infrastructure,

after this problem was announced, the business activities of companies that used Leopalace21 apartments and the daily life of the people and students who had just started new lives were seriously affected, which became a serious social problem. Leopalace21's officers and employees must have realized through these experiences the magnitude of the problems created by the company's disdain of quality and safety in the apartment. Leopalace21 officers and employees should be aware of the importance of providing values that are appreciated by customers, including owners and tenants, by asking themselves "is the quality ensured enough that I would want to live in the apartment" or "would I want my family or friends to live in the apartment."

Underpinning the awareness among officers and employees that they are working to provide value that is grateful to customers will increase awareness of quality issues and eliminate burden and the sense that they "have to" follow the recurrence prevention measures. The measures are not "something that has become necessary due to scandals," but a mechanism to conduct work that is appreciated by customers.

Part 6 Conclusion

The construction defects of Leopalace21 were a major shock to all stakeholders. In particular, it is not difficult to imagine how serious the property damage, psychological distress, or anxiety of the owners of the existing 39,000 apartments constructed by Leopalace21, and the residents in approximately 470,000 rooms of the approximately 570,000 rooms managed by Leopalace21 are, and it is not an exaggeration to say that this is a serious social problem. Firstly, the Committee urges Leopalace21 to carry out All-building Investigations and repairs of defective properties, as promised, as well as compensation for relocation. Furthermore, there are various other declarations concerning construction, etc. and this may increase further in the future. We expect that appropriate measures will be taken, such as negotiations in good faith and attempting legal solutions in some cases.

From the viewpoint of protecting the legitimate interests of all stakeholders, the Committee conducted a calm and objective investigation of the construction defects, investigated the causes of the defects, and presented measures to prevent recurrence. We expect Leopalace21 will take this seriously and apply it to future reforms. As stated in its Corporate Mission Statement, we wish that Leopalace21 will transform into a company that "increases value for society as a whole."

In this Investigation, the Committee conducted an Employee Questionnaire for 6,173 officers and employees, including some former officers and employees. Nearly 60%, or 3,519 employees, provided serious answers and constructive opinions. This suggests that many employees have high expectations and strong commitment to the company's reorganization. The Committee hopes that under a new system, the company will work together with all executives and employees, including these 3,519 employees, to carry out reforms and become a company trusted by all concerned parties, including the owners and tenants of apartments, as well as society as a whole.