

## PRESS RELEASE

August 22, 2019

Company Name: **Leopalace21 Corporation**  
Representative: Bunya Miyao, President and CEO  
Code Number: 8848 (Tokyo Stock Exchange, First Section)  
Contact: Kiyoshi Arai, Executive Officer  
Tel: +81-3-5350-0216  
E-mail: ir@leopalace21.com

### **Notice Concerning Causes and Measures to Prevent the Recurrence of Construction Defects**

Leopalace21 Corporation (Headquartered in Nakano-ku, Tokyo; President and CEO: Bunya Miyao; the “Company”) requested on June 10, 2019, that the outside committee established on February 27, 2019, and chaired by Mr. Tetsuo Ito, attorney at law (of Nishimura Asahi) (the “Investigation Committee”) investigate the causes of the non-conformity to parting wall specifications approved based on the Building Standards Act and construction defects of apartments designed, etc. by the Company and constructed by other companies (“Properties Constructed by Other Companies”) (collectively the “Construction Defects”) and has been proceeding with the investigation.

As a result of the investigation, the Company has received the report titled “Status of the Progress of the Investigation by the Outside Committee” (the “Investigation Report”) on June 21, 2019, and the report titled “Investigation Report Concerning Problems of Construction Defects” (the “Final Report”) on July 31, 2019, from the Investigation Committee.

The Company announces the following decisions made based on the examination of the causes of and measures for the Construction Defects in accordance with the Investigation Report and the Final Report.

The Company apologizes sincerely to the parties concerned, including the owners and tenants of the properties, and all our stakeholders, for the trouble we have caused due to the series of problems stemming from the Construction Defects.

We will continue the investigation of properties constructed by the Company and repair the defects immediately, and we will do our very best to implement the recurrence prevention measures announced on May 29, 2019, and those described below with united efforts throughout the company.

## Description

### 1. Concerning the details of the Construction Defects and the causes

#### (1) Concerning the details of the Construction Defects that have been verified

##### a. Outline of the non-conformity to parting wall specifications of fireproof steel-frame buildings

As announced in our press releases issued on May 29, 2019, non-conformity of the parting walls of certain fireproof steel-frame buildings constructed by the Company to the fire resistant structures required by Article 27 and Article 61 of the Building Standards Act and the sound insulation specifications certified by the Minister of Construction required by Article 30-2 (currently Article 30) of the revised Building Standards Act of June 26, 1992 (“non-conformity to Parting Wall Specifications of Fireproof Steel-frame Buildings”).

##### b. Outline of the non-conformity of Properties Constructed by Other Companies

The current Building Standards Act (last revised on June 25, 2019) requires that the parting walls of each unit in a row house or apartment reach the attic or ceiling space of the unit (Article 30 of the Building Standards Act and Item 1, Article 114 of the Enforcement Order of the Building Standards Act). Although the construction of parting walls of attics and ceiling spaces was also required when the Company started the sale of Properties Constructed by Other Companies in 1984, failure to construct parting walls and inadequacy in the parting walls constructed were found in the attics or ceiling spaces of certain Properties Constructed by Other Companies.

#### (2) Causes of construction defects

The Final Report certifies the facts concerning the non-conformity of fireproof steel-frame buildings to the parting wall specifications and the inadequacy of Properties Constructed by Other Companies, the direct causes of the inadequacy, etc. In response, the Company considers the following as the reasons for the failure to discover the causes of the Construction Defects and the inadequacy at an early stage.

##### a. Causes of the Construction Defects

i. Adequate human resources were not assigned due to factors such as a lack of personnel having legal knowledge and qualifications, and failure to prepare a workforce capable of handling an increasing amount of work resulting from the development of a string of new properties.

ii. Inadequate construction management carried out by departments responsible for construction at branches due to labor shortages

iii. While a small number of specific architects acted as construction supervisors, a large number of properties were assigned to them, which resulted in inadequate

supervision of construction.

iv. There was a lack of knowledge and experience among contractors, and the Company failed to take measures to compensate for their inadequacy by, for instance, providing them with information and holding briefings to explain matters requiring attention in construction.

v. The department in charge of product development neglected its duties to sufficiently verify and examine the certification of the Minister and prepare a general diagram that would allow construction personnel and contractors at branches to acknowledge the specifications required by the certification of the Minister.

b. Reasons for failure to discover defects at an early stage

Inadequacy in the risk detection system for the horizontal communication of risk information on quality issues among relevant departments, etc., a lack of risk sensitivity among executives, including the management, and the play-it-safe attitude that would try to reduce the problems to the issue of construction defects at the individual property level.

2. Measures to prevent recurrence

The Company received an investigation report on the issue of construct defects from the outside investigation committee (the "Previous Investigation Report") in connection with the failure to construct parting walls in the attics and ceiling spaces of properties constructed by the Company (the "Attic Parting Walls Defects, etc.") on May 29, 2019, and on the same day, established measures to prevent the recurrence of such problems (the release "Notice Concerning Causes and Measures to Prevent Recurrence of Construction Defects of Parting Walls, etc. of Properties Constructed by the Company" issued on May 29, 2019) (the "Previous Recurrence Prevention Measures").

The Company established the Compliance Management Headquarters on February 7, 2019, to solve the inadequacy of human resources described in the above paragraph 1-(2)-a-i, in which it placed a Construction Law Department in order to allow first-class registered architects and other construction experts to examine legal conformity. In addition, the Company has developed a certain system of personnel for construction supervision and management as described in the following paragraph.

The inadequacy in construction management and supervision caused by a lack of personnel described in the above paragraphs 1-(2)-a-ii and iii were also pointed out in the Previous Investigation Report. The Company is currently developing a manual for architects to supervise construction, and building a system in which architects prepare reports on construction supervision to ensure thorough supervision. As for construction management, the Company is adding personnel in the construction departments of branches, and qualified chief engineers, and, since around 2009, has been building a system that will allow the chief engineers themselves to directly engage in process inspections. In addition, the Previous Recurrence Prevention Measures require that the

Company revise the construction business system (see section (3), 2. Measures to prevent recurrence, on page 11 of the Previous Recurrence Prevention Measures), in which the Company places appropriate chief engineers, inspects construction supervision, etc. The Construction Legal Department is to conduct training on the design intent of products and the importance of construction quality and construction supervision, targeting the design sections, supervision engineering sections, inspection sections, and construction vendors while receiving the advice of third parties, such as companies conducting construction quality audits, in order to ensure the quality of construction performed by contractors.

The Previous Investigation Report makes the same remarks concerning the causes of the failure to detect defects at an early stage described in the above paragraph 1-(2)-b. In response, the Company is to conduct a drastic reform of the corporate climate (see section (1) of 2. Measures to prevent recurrence, on page 4 of the Previous Recurrence Prevention Measures), restructure the compliance risk management system (see section (2) of 2. Measures to prevent recurrence, on page 8 of the Previous Recurrence Prevention Measures), establish a compliance first policy, develop a system for reporting violations of laws, improve the risk management method, etc. The Company is to raise its employees' risk sensitivity and strive to develop a corporate culture that prevents detected issues from being postponed.

The Company, therefore, considers that the Previous Recurrence Prevention Measures functions also as measures to prevent the causes of defects described in the Final Report, except the above paragraph 1-(2)-a-v. In this regard, the Final Report points out that the measures to prevent the Construction Defects and Attic Parting Walls Defects, etc. are basically the same.

In the Final Report, the Company has received suggestions for measures to prevent defects, early detection, and responses from the Committee, in addition to remarks made in the previous report. Taking into account the causes of the Construction Defects and specific suggestions of the Committee for recurrence prevention measures, the Company will establish and implement the following recurrence prevention measures in addition to the Previous Recurrence Prevention Measures.

The Company places the highest priority on the Recurrence Prevention Measures and will promptly implement them.

The Company will periodically report the progress of each recurrence prevention measure on its website.

(1) Measures to prevent defects

a. Securing personnel appropriate for the workload and building an operation system

In the Final Report, the Company received the suggestion that it was important to accurately estimate the workload required in business operations (particularly the launch of new businesses and development of new products) and ensure the

appropriate quality and number of the personnel for the performance of operations to establish an adequate operation system.

For launching an important new business or developing a new product, the Company will examine the personnel, the process required, and the appropriateness of costs and other aspects in advance, and implement such operation based on a reasonable plan. The Compliance Management Headquarters will support the start of new businesses and the development of new products in business departments by verifying the legal conformity of the Group's new businesses, services, products, etc.

b. Providing contractors with information, etc.

In the Final Report, the Company received the suggestion that it was important not only to share information on matters requiring attention in construction and educate personnel within the Company, but to provide appropriate information also to contractors and educate them during briefings and other occasions.

As announced in the Previous Recurrence Prevention Measures, the Company will have a third party inspection vendor evaluate the construction work (by checking for construction defects in each part, quantifying the defect rate, and other matters) of each contractor, and give feedback at the cooperation meetings described in the next paragraph to improve the construction quality of the contractors. Moreover, the Company is to enter evaluations on the evaluation sheets previously described and educate contractors according to the evaluation.

To provide contractors with information, members of the design department and construction department in the Company hold construction discussion meetings with contractors to exchange information on establishing construction plans, confirming building specifications, collating the details of construction with design documents, etc. The Company's construction department and contractors have been exchanging information on matters requiring attention, such as the revision of manuals and changes in product specifications at cooperation meetings held between them since around 2000. The cooperation meetings are currently held once every month or two in 11 areas across Japan.

The Company will revise construction manuals and design drawings to make them more comprehensible to contractors and improve the education of contractors and prevent construction defects by providing them with information on deficiencies that actually occurred at cooperation meetings and construction discussion meetings.

c. Efforts to ensure proper construction management

In the Final Report, the Company received such suggestions such as performing detailed process simulation in advance of new product development, major changes in specifications, examining which parts require attention, and establishing appropriate checklists to carry out more effective construction management, rather than a mere formality.

As announced in the previous recurrence prevention measures, the Company is to 1, secure a construction management system by assigning chief engineers appropriately, 2, have a third party inspect processes, and 3, include voluntary inspection dates in construction management schedules.

In addition, when a new product is developed or a major change is made to specifications, the Company will establish a construction management method appropriate for the product at the stage of new product development. The Company will establish a voluntary inspection standard corresponding to the new product development or major specification change in order to perform effective construction management based on such a method. Furthermore, the Company will inform contractors of matters requiring attention during construction at construction discussion meetings and add such matters to the voluntary inspection items. By conducting the above, the Company will improve the design processes and construction periods to secure an appropriate numbers of days, change the current method of construction management, and develop a system of more effective and appropriate inspection.

d. The department in charge of product development will adequately check and examine the specifications certified by the Minister and build a system allowing contractors to fully understand the specifications.

As announced in the Previous Recurrence Prevention Measures, the Company will verify the compliance of specifications, etc. with applicable laws and regulations in the Product Development Department, and examine whether legal compliance has been properly taken into consideration in the Construction Legal Department in the Compliance Management Division, which is independent from the Construction Business Division.

In addition, as noted in the above paragraph b, the Company will revise construction manuals and other documents providing the details of the certification of the Minister to make them more comprehensible to contractors and explain the specifications, etc. required by the Minister Certification at construction discussion meetings and cooperation meetings to help contractors fully understand the specifications required by the Minister Certification, etc..

(2) Measures for early detection and early response

i. Building a system of obtaining and verifying risk information

In the Final Report, the Company received the suggestion that it should build an organizational system and internal rules for systematically investigating and analyzing each specific request for repair, complaint, etc. and acquiring risk information to respond appropriately and promptly.

As announced in the Previous Recurrence Prevention Measures, the Company will position the Risk Management Committee as an agency that cross-organizationally manages and supervises risks in the entire Company and detects potential risks, in

addition to responding to issues that have already manifested, and discussing and examining the effectiveness of countermeasures and response levels.

Careful examination of inquiries to the Compliance Management Headquarters and regular meetings with each business division should be used to actively detect potential risks in the business divisions and to conduct effective risk management and crisis response in line with risk severity. The Compliance Management Headquarters carefully examines inquiries to gain direct knowledge of potential risks that are likely to have broad impact. For building repairs, the Compliance Management Headquarters is added to the approval path for performing repair work in an effort to actively discover potential risks by classifying and organizing the details of repairs.

In addition to these, the Company will consider implanting the following measures for early detection and response.

1. Preparation of a complaint handling manual

While the Company registers complaints in systems allocated to each type of stakeholder and records responses to such complaints, it does not have a reporting rule for horizontally communicating complaints that may become potential risks to relevant departments, and each business unit handles complaints in each case.

From now on, the Company will establish unified complaint reporting rules, require each business unit to report certain conditions considered a risk, such as specific types of complaints that are frequently received, to the Compliance Management Headquarters (Compliance Committee and Risk Management Committee), and consider building a system for the Compliance Management Headquarters to directly access the systems in which complaints are recorded and obtain information on complaints that may become potential risks.

2. Considering the placement of a “Compliance Post” (tentative name)

The Company plans to place a Compliance Post (tentative name) to receive reports on potential risks from executives in order to build a system for obtaining as much information on risks as possible, including risks familiar to executives, and encourage the voluntary reporting of risks familiar to executives.

The Compliance Management Headquarters will comprehensively examine each event reported as being considered a potential risk at the workplace, investigate and analyze whether the event is unrelated or connected to other events, distribute the information on the event to relevant departments if it is considered a significant risk, and respond to it at an early stage.

- ii. Persons to prepare important documents such as drawings and clarifying approval procedures

In the Final Report, the Company received the suggestion that it should ensure that

persons who prepared drawings affixed their seals to such drawings and keep the names of the persons easily visible.

Currently, only the name of the last person who prepares a drawing, such as general drawings (including any person who has modified the drawing) is indicted.

The Company will consider using a manual or other documents to require not only the last person, but all those who have been involved in the preparation of a general drawing, etc., including the person giving approval, to leave evidence clearly indicating their names when preparing a general drawing or other drawings.

### iii. Clarifying storage and management rules for important documents

The Company considers that important documents and electronic data held at the Company are important information assets essential to its business management and has established basic policies for information security to strictly maintain and use such assets. The Company has also established information management rules and other internal rules related to information assets and prepared an operation manual in line with the internal rules.

In the process of this investigation, however, the Company has discovered the absence of some information materials related to the properties constructed and round-robins of the Company's decision-making. In the Final Report, the Company received the suggestion that it should keep records of the disposal of important documents and clarify the rules for storing and maintaining round-robins.

The Company, therefore, will revise the rules for storing and maintaining important documents as described below and will thoroughly communicate the rules to its employees through educational training and other occasions.

#### 1. Revision of rules for storing and maintaining important documents

Currently, information management rules have been established for all information assets, document handling rules are in place for important documents, and round-robin rules are used for round robins, and operation manuals in line with each set of rules have been prepared.

The Company will revise these rules and operation manuals and require employees to keep records of the disposal of important documents and permanently store round-robins approved by the President and other important round-robins.

#### 2. Thorough communication of rules for storing and maintaining important documents

The Company will raise the employees' awareness of information management by thoroughly communicating the above rules for storing and maintaining important documents through educational training, etc. to ensure the effectiveness of such rules.