

47th Ordinary General Shareholders' Meeting

Reasons for Proposals to elect Directors and Audit & Supervisory Board Members

This material summarizes the reasons for the Leopalace21's proposals and other related information.

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We recorded large deficits for 47th fiscal year ended March 2020 as a second consecutive year due mainly to the measures taken to respond to the construction defects and the resultant depressed occupancy rates.

The Board of Directors examined the drastic business strategies reconstruction and decided to implement structural reforms centered on transferring or withdrawing from non-core unprofitable businesses and offering a voluntary retirement program.

We will concentrate on for the year to come implementing the structural reforms and enhance profitability of the core Leasing Business to recover the business performance and restore the trust by shareholders and other stakeholders.

We will submit following three proposals for approval at the 47th Ordinary General Shareholders' Meeting.

Proposal No.1

Election of Nine (9) Directors

Proposal No.2

Election of Two (2) Audit & Supervisory Board Members

Proposal No.3

Election of One (1) Substitute Audit & Supervisory Board Member

2-1. Proposal No.1 Candidates for Directors

We propose to elect following nine (9) candidates for Directors because we believe they are best suited to restore trust by shareholders and other stakeholders through implementing structural reforms and recovering business performance.

Candidates for Executive Directors

Bunya Miyao

To be re-elected

President and CEO
Chief of Business Operation
Headquarters

Shigeru Ashida

To be re-elected

Chief of Emergency Headquarters for
Construction Defects

Mayumi Hayashima

To be re-elected

Chief of Compliance Promotion
Headquarters

Candidates for Outside Directors

Tadashi Kodama

To be re-elected

Expertise in company
management
(Ex-Director, Aioi Nissay Dowa
Insurance Co., Ltd.)
Chairman of Nomination and Compensation
Committee

Outside

Independent

Tetsuji Taya

To be re-elected

Expertise in company
management and business
restructuring
(Board Member & Managing Director, CFO,
Industrial Growth Platform, Inc.)
Chairman of Compliance Committee

Outside

Independent

Hisafumi Koga

To be re-elected

Expertise in company
management and
crisis response
(Chairman, Kyodo Public Relations Co., Ltd.)

Outside

Tadayasu Fujita

To be re-elected

Expertise in corporate
reconstruction and business
restructuring
(Ex-Director of Toyo Shutter Co., Ltd.)

Outside

Independent

Yutaka Nakamura

To be re-elected

Expertise in construction
management and
environmental management
(Ex-Executive of Panasonic Homes Co., Ltd.)

Outside

Independent

Akira Watanabe

To be newly elected

Expertise in corporate
legal matters
(Partner, Comm & Path Law
Office)

Outside

Independent

2-2. Board member candidates and skill set matrix when approved

The Board of Directors aims to strengthen the corporate governance structure and promptly address the management issues.

Board of Directors, Skill set matrix

Critical skill especially for the 48th fiscal year

		Attribute					Expertise, Experience and Knowledge									
	Name	Executive Position	Independency	Nomination and Compensation Committee	Age	Gender	Corporate management	Corporate rehabilitation, business restructuring	Sales and Marketing	Quality management	Legal	Accounting and tax affairs	Finance	IR	Global	Audit
1	Bunya Miyao	President and CEO Chairman of the Board of Directors		Member	60	Male	○							○	○	
2	Shigeru Ashida	Director Managing Executive Officer			56	Male	○		○			○				
3	Mayumi Hayashima	Director Executive Officer			47	Female	○		○		○					
4	Tadashi Kodama	Director	Lead independent Outside	Chairman	72	Male	○		○					○		
5	Tetsuji Taya	Director	Independent Outside	Member	56	Male	○	○			○	○	○		○	
6	Hisafumi Koga	Director	Outside	Member	72	Male	○							○		
7	Tadayasu Fujita	Director	Independent Outside	Member	74	Male	○	○	○	○				○		
8	Yutaka Nakamura	Director	Independent Outside	Member	61	Male				○						
9	Akira Watanabe (to be newly elected)	Director	Independent Outside	Member	73	Male	○	○			○					○

Considering business circumstances, we propose to reduce the membership from 12 to 9 after reviewing the required skill set for the BOD.

3. Proposal No.2 & No.3 Audit & Supervisory Board Member candidates and a substitute Member candidate

Audit & Supervisory Board Members monitor the implementation of structural reforms and recovery of business performance by the Directors to verify and ensure adequacy.

Proposal No.2 Election of Two (2) Audit & Supervisory Board Members

Kenichiro Samejima

To be newly elected

Experience in Leasing Business
(acquainted with the core business)

Yoshitaka Murakami

To be newly elected

Expertise in taxation matters; Experience as an Audit & Supervisory Board member with a financial institutions
(Ex-Deputy Commissioner, Ministry of Finance)
(Ex-Director, East Nippon Expressway Company Limited, Ex-Member of Audit & Supervisory Board, Credit Saison)

[Reference: in office]

Outside

Jiro Yoshino

Independent

Experience as an Audit & Supervisory Board Member with an insurance company
(Ex-Member of Audit & Supervisory Board, MS&AD Insurance Group Holding, Inc.)

[Reference: in office]

Outside

Takao Yuhara

Independent

Experience as an Audit & Supervisory Board Member; Experience as CFO at an electronics company
(Audit & Supervisory Board Member, KAMEDA SEIKA CO.,LTD.(current))
(Ex-Director, Sony Corporation and Zensho Co., Ltd., etc.)

Proposal No.3: Election of One (1) Substitute Audit & Supervisory Board Member

Nobuo Kawasaki

To be newly elected

Experience and Expertise in taxation matters
(Ex-Director, National Tax Agency, a certified tax accountant)

Outside

Independent

Candidate for substitute Audit & Supervisory Board Member

- It is intended to prepare for a contingency in which the Company does not have the prescribed number of members.
- It is in line with strengthening the corporate governance.

▶ 4-1. Business plan with medium- to long-term strategies

We formulated a business plan with three major elements of “Reconstruct business foundation – selective concentration,” “Implement structural reforms,” and “Restore social trust” considering the conclusion of drastic business strategies reconstruction.

▶ **Reconstruct business foundation – selective concentration**

- ▶ Shift from a business diversification strategy to a profitability focus strategy centered on Leasing Business.

▶ **Implement structural reforms**

- ▶ Promote transferring or withdrawing from non-core unprofitable businesses.
- ▶ Offer a voluntary retirement program to achieve workforce rightsizing and cost reduction.
- ▶ Fulfill management responsibility and corporate governance reforms
Reduce the number of directors and executive officers; curtail their compensation; and make redundant the positions of counselor and advisor.

▶ **Restore social trust**

- ▶ Recover business performance by implementing structural reforms and strengthening profitability of Leasing Business.
- ▶ Execute measures for resolving the construction defects problem.

4-2. Structural reforms from drastic business strategies reconstruction

We will categorize Leasing Business and Elderly Care Business as the core strategic businesses, whereas transfer and withdraw from the other non-core businesses. In parallel, we will offer a companywide voluntary retirement program for workforce rightsizing and reconstruct highly efficient and lean business foundation.

Core Business	Leasing Business	Strengthen <ul style="list-style-type: none"> ◆ Increase workforce for corporate sales to raise the occupancy rates ◆ Make operations more efficient by use of IT (Web/AI,IoT and others)
	Development Business (Leasing Segment)	Shrink <ul style="list-style-type: none"> ◆ Stop taking new orders in order to concentrate on resolving the construction defects
Strategic Business	Elderly Care Business	Maintain and continue (strengthen synergy effect) <ul style="list-style-type: none"> ◆ Create synergy effect with Leasing Business to attract further senior tenants and develop needs for the target customers
Non-core Businesses	Hotels and Resort Business, International Business (Other Segment)	Withdraw or transfer <ul style="list-style-type: none"> ◆ Withdraw from hotels business in Japan by transferring Leoplace Nagoya ◆ Withdraw from the resort business in Guam ◆ Withdraw from the international business ◆ Transfer subsidiaries which have low synergy possibility with Leasing Business
		Rightsizing and corporate governance reforms <ul style="list-style-type: none"> ◆ Offer a voluntary retirement program for about 1,000 expected applicants ◆ Reduce the number of directors and executive officers; curtail their compensation; and make redundant the positions of counselor and advisor
Company Total		

Development Business has been integrated in Leasing Business to support existing apartment owners with comprehensive solution offering for their real estate.

4-3. Roadmap for short term and medium to long term

Our major focus for FY21/3 and FY22/3 will be “Implement structural reforms and recover business performance”; whereas our next phase focus will be “Strengthen profitability of Leasing Business and strive for further success” for FY23/3 onward.

	Short Term (FY21/3 and FY22/3)	Mid to Long Term (FY23/3 onward)
Corporate Policy	Structural Reforms <ul style="list-style-type: none"> ◆ Transfer or withdraw from non-core businesses ◆ Offer a voluntary retirement for about 1,000 expected applicants 	Strengthen profitability and strive for further success <ul style="list-style-type: none"> ◆ Improve operational efficiency by IT and strengthen measures based on area or new target customers such as foreign national tenants and senior tenants ◆ Reinforce synergies between Leasing Business and Development Business for apartment rebuilding and Elderly Care Business
Leasing Business <Strengthen>	<ul style="list-style-type: none"> ◆ Increase workforce for corporate sales ◆ Make use of IT for efficiency improvement 	<ul style="list-style-type: none"> ◆ Attract further foreign national tenants and senior tenants ◆ Make leasing operation more efficient by measures such as smart lock and web-based rental agreement system ◆ Increase the number of managed apartments in Tokyo, Nagoya and Osaka where there are high tenancy demands
Development Business <Shrink> (Leasing Segment)	<ul style="list-style-type: none"> ◆ Focus on landlords support and on resolving construction defects 	<ul style="list-style-type: none"> ◆ Ensure to satisfy apartment rebuilding demand by existing landlords centered in three major metropolitan areas.
Elderly Care Business <Maintain and continue>	<ul style="list-style-type: none"> ◆ Increase profitability by continuous operational improvement ◆ Develop and expand Leasing Business catered for the needs of senior tenants ◆ Provide advises and prepare support services such as meal delivery, room cleaning, safety confirmation and watching-over to materialize the above 	
Hotels, Resort and Other Businesses <Transfer or withdraw>	<ul style="list-style-type: none"> ◆ Transfer properties or withdraw from business 	

Development Business has been integrated in Leasing Business to support existing apartment owners with comprehensive solution offering for their real estate.

4-4. Consolidated Statements of Operations up to FY23/3

We will recover the business performance by implementing the structural reforms and by concentrating corporate resources in the core Leasing Business.

FY21/3 will see operating loss of 9.8 billion yen and net loss of 8.0 billion yen, due mainly to COVID-19 effect. Operating profit and net income for the FY22/3 will increase to 11.3 billion yen and 9.9 billion yen respectively by reinforcing corporate sales and making efficient use of IT (AI and IoT) to raise occupancy rates.

Profits for FY23/3 will be recovered to the same level as those recorded before construction defects problem with operating profit of 23.5 billion yen and net income of 19.1 billion yen.

Plans

(Million yen)	FY18/3 Actual	FY19/3 Actual	FY20/3 Actual	FY21/3 Plan	FY22/3 Plan (ref.)	FY23/3 Plan (ref.)
Sales	530,840	505,223	433,553	431,100	451,700	475,200
Gross Profit	96,077	76,235	25,441	43,000	63,100	76,300
%	18.1%	15.1%	5.9%	10.0%	14.0%	16.1%
SGAE	73,147	68,844	61,915	52,800	51,900	52,800
Operating profit	22,930	7,390	-36,473	-9,800	11,300	23,500
%	4.3%	1.5%	-8.4%	-2.3%	2.5%	5.0%
Recurring profit	22,354	7,063	-36,341	-10,200	10,700	23,000
%	4.2%	1.4%	-8.4%	-2.4%	2.4%	4.8%
Net income*	14,819	-68,662	-80,224	-8,000	9,900	19,100

*“Net income” refers to “net income attributable to shareholders of the parent”.

*Recorded deferred tax assets following conservative one year rule for FY21/3 (Plan), FY22/3 (Reference), and FY23/3 (Reference)

4-5-1. Medium- to long-term strategy for Leasing Business

Medium- to long-term strategy for Leasing Business

- ▶ Offer comfortable living solution to society as a leader of real estate leasing business.
- ▶ Provide housing in the required standard of quality and quantity considering the social changes such as increasing number of foreign national workers, single households and senior citizens.

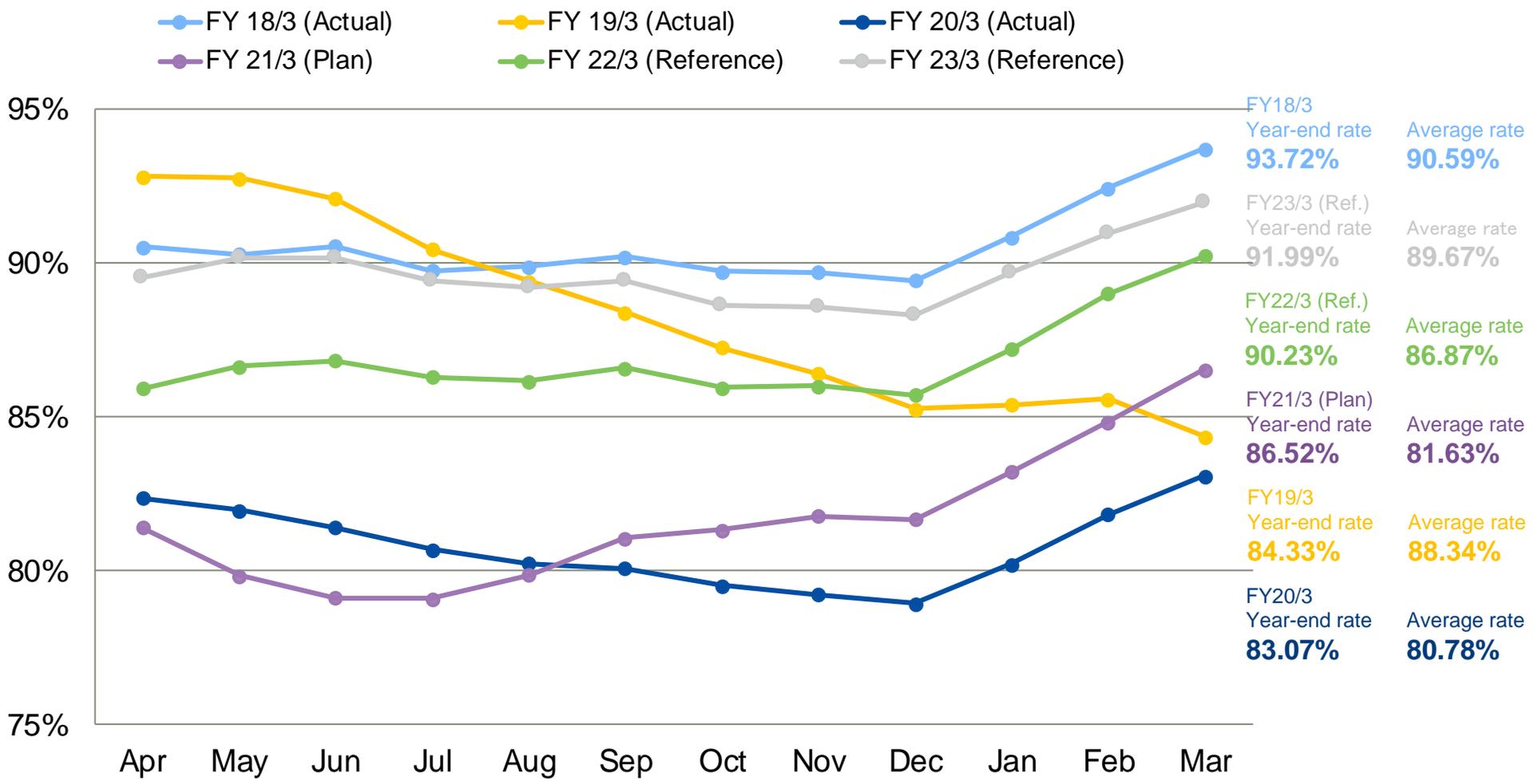
Leasing Business	Current state	Short term (FY21/3 – 22/3)	Medium to long term (FY23/3 onward)
Target Customers	<ul style="list-style-type: none"> Mainly students and corporate customers 	<ul style="list-style-type: none"> Attract further foreign national tenants 	<ul style="list-style-type: none"> Attract further senior tenants (create synergy effect with Elderly Care Business)
Properties and Services	<ul style="list-style-type: none"> Studio apartments for single households (equipped with furniture and home appliances) 	<ul style="list-style-type: none"> Introduce products and services for foreign national tenants Increase accessibility by use of IoT devices 	<ul style="list-style-type: none"> Develop new products /services for senior tenants such as watching-over service Increase the number of managed units in Tokyo, Nagoya and Osaka
Organization and Operation	<ul style="list-style-type: none"> Face-to-face customer service is mainstream at Leoplace sales offices 	<ul style="list-style-type: none"> Increase workforce for corporate sales Enhance operational efficiency by IT (AI/IoT) 	<ul style="list-style-type: none"> Employ dynamic pricing model for managing rent standard
Development Business (New Leasing Business)	<ul style="list-style-type: none"> Insufficient manpower resources due to focusing on constructive defects Tightened financing by financial institutions 	<ul style="list-style-type: none"> Focus on landlords support and on resolving constructive defects 	<ul style="list-style-type: none"> May upgrade operation observing the progress in resolving constructive defects and change in financial institutions' policy

Development Business has been integrated in Leasing Business to support existing apartment owners with comprehensive solution offering for their real estate.

4-5-2. Plan for occupancy rates

Occupancy rates for April to June, 2020 are expected to get lower due to COVID-19 effect. We aim to gradually improve the occupancy rates to 86.52% at the end of March 2021 and try to achieve average 86.87% for FY22/3 and 89.67% for FY23/3 by increasing the number of sales staff in Leasing Business and by executing the repair works to resume tenant recruitment.

Plan for Occupancy Rates



5-1. New policy for repair works on properties constructed by Leoplace21

We started the repair works for 83.4% against obviously defective buildings and completed 13.1%. The delay was caused by the failure to maintain adequate organization and resources. The business recovery is prerequisite for surely executing repair works for construction defects. We decided to reallocate manpower and physical resources along with a voluntary retirement program, and determined to temporarily reduce the scale of repair works and organizational setup from July 2020. We will review the repair plans for obvious defects together with timeline information for minor defects, and report them when we have prospects to realize business recovery.

(as of May 31, 2020)		Buildings subject to priority investigations			Others	Total
		Nail Series	6 Series	Subtotal	Others (42 series)	
Total	Number of constructed buildings	913	14,370	15,283	23,802	39,085
Investigation & Judgement	Number of buildings to be investigated (excl. dismantled buildings)	897	14,268	15,165	23,540	38,705
	Number of Investigated buildings	896	14,243	15,139	23,167	38,306
	<i>Investigation ratio (vs number of buildings to be investigated)</i>	99.9%	99.8%	99.8%	98.4%	99.0%
	Number of obviously defective buildings (Note 1, Note 2)	850	6,788	7,638	5,977	13,615
	<i>Defect ratio (vs number of investigated buildings)</i>	94.9%	47.7%	50.5%	25.8%	35.5%
Repair	Number of buildings commenced repairs	847	5,520	6,367	704	7,071
	<i>Repair ratio (vs number of obviously defective buildings)</i>	99.6%	81.3%	83.4%	11.8%	51.9%
	Number of buildings completed repairs (Note 3)	846	153	999	9	1,008
	<i>Completion ratio (vs number of obviously defective buildings)</i>	99.5%	2.3%	13.1%	0.2%	7.4%

Number of rooms for which tenant recruitment resumed : 85,248 rooms (+18,206 rooms compared to end of January 2020)

(Note) 1 Obvious defects include obvious parting wall defects in attics, deficiencies of insulation materials/ exterior wall structures/ceilings, and noncompliant parting walls in fire-proof structure.

2 Apart from the above, 16,455 out of 38,306 buildings contain minor defects.

3 Completion is recognized and calculated on a building basis and time of completion appears delayed compared to calculation on a room basis.

5-2-1. Recurrence preventive measures for construction defects problem and progress

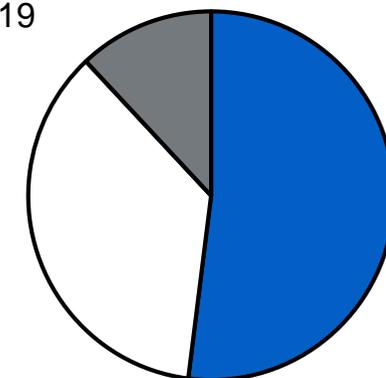
We decided on the recurrence preventive measures for the construction defects problem based on the findings and recommendations compiled in the External Investigation Committee’s report in May 2019. We treated the implementation as top-priority issue and have worked on the three focus areas, “1. Fundamental Reform of the Corporate Culture,” “2. Restructuring of the System for Managing Compliance and Risk,” and “3. Revision of the Construction Business Framework.” Out of 50 action plans made public in August 2019, 44 are either complete or in practice.



Progress status of recurrence preventive measures in the three focus areas (as of end of April 2020)

	Complete	In practice	Started	Total
1. Fundamental Reform of the Corporate Culture	9	6	1	16
2. Restructuring of the System for Managing Compliance and Risks	4	6	2	12
3. Revision of the Construction Business Framework	14	5	3	22
Total	27	17	6	50

88% achievement for 50 specific action plans announced in August 2019



■ Complete □ In Practice
■ Started

Announced the progress on the approach to prevent recurrence
<https://www.leopalace21.co.jp/info/en/approach.html>

* In June 2020 Compliance Management Headquarters was renamed Compliance Promotion Headquarters and Compliance Management Department was renamed Compliance Promotion Department.

1. Fundamental Reform of the Corporate Culture

We implemented various measures such as “Suggestion box for management,” “Regional small meetings,” “Continuous training on compliance,” “Delivery of President and CEO’s message emphasizing compliance,” and “Revision of performance appraisal system” to help reform the corporate culture. We will continue to carry out the existing measures coupled with another set of measures to further develop customer-oriented corporate culture.

We determined to establish May 29* as the “Change Day 5.29” to be reminded of the construction defects problem and to confirm to be resolute for the recurrence prevention.

* May 29, 2018: We released the “Notice Concerning Construction Deficiencies of Apartment Parting Walls (6 series).” May 29, 2019: We announced the “Notice Concerning Causes and Measures to Prevent Recurrence of Construction Defects” based on the External Investigation Committee’s report.

Complete Periodic dissemination of messages concerning the compliance-first policy (July 2019 -)

In July, 2019, a video message from the President and CEO was distributed to all group employees, notifying them of our new compliance-first management policy. President and CEO has sent since then various messages related to compliance first.

Complete Set up a suggestion box for management (July 2019 -)

It is a system that directly collects officers’ and employee’s proposals. The number of posts reached 286 for FY20/3.

Complete Hold the regional small meetings (July 2019 -)

Used the regional small meeting as a vehicle to promote active dialogue between management and employees and held 37 meetings between July and December. An accumulation of 2,310 employees participated.

Complete Report the progress of each action plan of recurrence preventive measures (August 2019 -)

Made formal announcement on the state of action plans to the public.

Complete Invitation for essays to consider customer-oriented corporate culture (October 2019 -)

Invite all officers and employees for writing essays on fostering customer-oriented corporate culture. We saw 62 applications made.

Complete Introduce a performance appraisal system including adherence to compliance-first policy (October 2019 -)

The personnel appraisal criteria was revised to evaluate whether employees’ behaviors are in line with the compliance-first policy.

Complete Make all officers and employees understand and follow the reporting rules (November 2019 -)

Revised the rules of reporting line to be in agreement with the changes in compliance regulations. Dual reporting may be required, one to the superiors in own business divisions and the other to the Compliance Management Department* in parallel.

In June 2020 Compliance Management Headquarters was renamed Compliance Promotion Headquarters and Compliance Management Department was renamed Compliance Promotion Department.

2. Restructuring of the System for Managing Compliance and Risks

In April 2019 we established the Compliance Management Headquarters. We employed external instructors in October 2019 and January 2020 to train employees for identifying potential risks. We created a mechanism of collecting potential risk information by the “Compliance Mailbox” operated by the Compliance Management Department. We plan to revise the system of compliance coordinators in FY21/3. We will continue existing measures and revise them if necessary.

In Practice **Improve the operation of the Compliance Committee (June 2019 -)**

The Committee should be chaired by one of the outside directors who is elected between such directors so that the operation should be looked at from the objective angles of outside the company.

In Practice **Improve the risk management method (October 2019 -)**

External instructors conducted second training session in January 2020 after the one in October 2019, to identify potential risks. Specified critical risks among potential ones in each department and reported the results and countermeasures to the Risk Management Committee.

Complete **Place a “Compliance Mailbox” (December 2019 -)**

A “Compliance Mailbox” was put into operation under the responsibilities of the Compliance Management Department, thereby building a system to collect effectively increased number of potential risks.

3. Revision of the Construction Business Framework

We reviewed the process in product planning and strengthened controlling system by implementing “reconstruction of legal compliance examination at the stage of product planning” and “addition of an on-site inspection as a step of construction supervision.” We will continue to work on the measures centered on reinforcing the system for FY21/3.

Complete **Reconstruct legal compliance examination at the stage of product planning (August 2019 -)**

We decided that the development process for new products should be divided into five major steps and established a rule so that each step requires approval by the Compliance Management Department, an independent organization.

In Practice **Strengthen inspection mechanism by triple check and review document storage rules (August 2019 -)**

We started triple checking by the three parties involving construction contractors, field engineers, and Inspection Section in the Construction Legal Department or outside inspection agencies. We reviewed a check list and storage rules for inspection records.

Complete **Add a process of on-site inspection as a step of construction supervision (October 2019 -)**

We changed construction supervision using on-site inspection in the 8 important steps. We revised the existing guidelines and checklists, provided training for construction supervision using outside consultants and organized on-the-job training in the field.

In June 2020 Compliance Management Headquarters was renamed Compliance Promotion Headquarters and Compliance Management Department was renamed Compliance Promotion Department.

6. Summary

Proposal No.1	Election of Nine (9) Directors	Most adequate choice of membership to implement structural reforms and business recovery
Proposal No.2	Election of Two (2) Audit & Supervisory Board Members	Monitor the Directors' performance in structural reforms and business recovery in order to verify and ensure adequacy of respective activities
Proposal No.3	Election of One (1) Substitute Audit & Supervisory Board Member	

We believe that it is our meaning of existence, or corporate mission to maintain and grow 570 thousand units under our management as social infrastructure which we thus far developed in cooperation with 28,000 landlords.

It is critical for us to recover business performance through surely implementing structural reforms and strengthening profitability in the core Leasing Business; and consequently to restore the trust by shareholders and other stakeholders for the fiscal year ending March 2021. We are striving to realize the business recovery and to progress measures for construction defects problem so that we should be able to enhance corporate value for medium to long term and increase share value accordingly.

We very much look forward to the shareholders' continued support.