

To our shareholders

Measures against construction defects of
properties constructed by Leoplace21



To our shareholders

On behalf of Leopalace21, I would like to take this opportunity to convey my gratitude for our shareholder's continued support.

I sincerely apologize to our tenants, property owners and all other stakeholders for the distress caused by the construction defects found in apartments constructed by Leopalace21. I would also like to apologize for the serious impact on financial results and share price as a result of these construction defects. All officers and employees of Leopalace21 Group are united in resolving this series of problems as soon as possible, with the aim of ensuring that tenants can live in our apartments with peace of mind.

We will promote reform of our corporate culture to realize the basic policy of benefitting "society as a whole" set forth in our mission statement. In addition, as the most important value for our business activities, we will thoroughly implement

"compliance-first" by regularly distributing messages, strengthening compliance training, and introducing personnel evaluations based on measures related to compliance.

In light of the financial results we have unfortunately decided to forgo the payment of dividends for this fiscal year. I am deeply sorry for the worry and trouble we have caused our shareholders and other stakeholders.

I would like to request the continued support and encouragement of all of our shareholders.

Bunya Miyao

President and CEO
Leopalace21 Corporation

Typification and outline of construction defects / Outline of the series of deficient properties

	Parting Walls		3. Issue With Exterior Wall Specifications	4. Issue with Ceilings
	1. Issue with Parting Walls in Attics, etc.	2. Issue with Urethane Foam in Parting Walls		
Impact of Defects	<ul style="list-style-type: none"> Issue concerning defects caused by not constructing parting walls in attics or ceiling spaces Discrepancies in materials used and parting wall specifications 	<ul style="list-style-type: none"> Issue concerning defects caused by using urethane foam as insulation material in parting walls rather than glass wool or rock wool as noted in design drawings 	<ul style="list-style-type: none"> Issue concerning defects caused by exterior walls not meeting specifications required for certification by the Minister of Land, Infrastructure and Transport as noted in design drawings 	<ul style="list-style-type: none"> Issue concerning defects caused by construction of ceilings not meeting specifications provided for a Public Notice of the Ministry of Land, Infrastructure and Transport as noted in design drawings
Required response	<ul style="list-style-type: none"> Decide on repair methods following consultation with property owners and designated administrative agencies Existence of property series that are repairable on the outside and property series that require repairs to each dwelling 	<ul style="list-style-type: none"> Decide on repair methods following consultation with property owners and designated administrative agencies, and inform tenants about relocation or temporary residence 	<ul style="list-style-type: none"> Decide on repair methods following consultation with property owners and designated administrative agencies, and inform tenants about relocation or temporary residence 	<ul style="list-style-type: none"> Promptly inform tenants about relocation or temporary residence due to inadequate fireproofing Approximately 88% of the 4,518 tenants living in properties constructed by the Company have already relocated, shifted to a temporary residence or have a date for relocating (as of May 31, 2019)

		Preferentially investigated properties (15,283)		Other series (23,802)	
		The "Nail series" (913)	Six series (14,370)	Villa Alta (153)	Other series (23,649)
Property	Series name Construction period	<ul style="list-style-type: none"> Gold Nail (wooden structure) 1994 – 1997 New Gold Nail (wooden structure) 1994 – 1997 	<ul style="list-style-type: none"> Gold Residence (steel structure) 1996 – 2001 New Silver Residence (wooden structure) 1997 – 2001 New Gold Residence (steel structure) 1998 – 2002 Special Steel Residence (steel structure) 1999 – 2001 Better Steel Residence (steel structure) 2000 – 2001 Con Grazia (wood and steel structure) 2000 – 2014 	<ul style="list-style-type: none"> Villa Alta (AGR) (steel structure) 1999 – 2001 	<ul style="list-style-type: none"> All 41 series 1991 – 2018
Construction defects	Parting walls in attics, etc.	✓	✓	Defects caused by inadequate construction supervision	Defects caused by inadequate construction supervision
	Urethane foam in parting walls		✓		
	Exterior wall specifications		✓	✓ (53)	
	Ceilings		✓		
		(Gold Residence and New Gold Residence 1,271)			

Overview of Parting Wall Construction Defects

Details of the problems

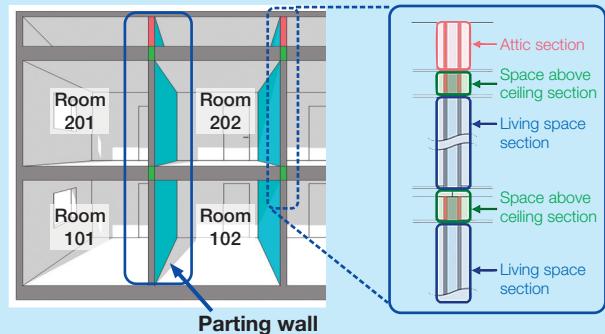
After two apartment owners pointed out the defect, we confirmed that parting walls between attics indicated in building confirmation notices had not been constructed in two apartment series, Gold Nail and New Gold Nail (the “Nail series”) developed and sold by Leopalace21.

Furthermore, during investigations into series other than the Nail series, we confirmed discrepancies between construction drawings and construction manuals in six other series: Gold Residence, New Silver Residence, New Gold Residence, Special Steel Residence, Better Steel Residence, and Con Grazia (the “six series”). Parting wall construction work in some of these apartments may be in violation of the Building Standards Act.

What are Parting Walls?

Parting walls are walls that separate dwelling units (rooms) in apartment buildings.

These walls must fulfill meet technical standards relating to sound insulation and fireproofing established by the Building Standards Act and other related laws and regulations, and must reach attics or spaces above ceilings.



Impact of Construction Defects

Construction defects have been confirmed in parting walls between attics, spaces above ceilings and living spaces in certain properties constructed by Leopalace21.

There is a possibility that fire resistance will decrease in properties with construction defects in parting walls between attics and spaces above ceilings. Similarly, there is a possibility that noise from neighboring rooms will pass through attics and spaces above ceilings more easily due to the defects.

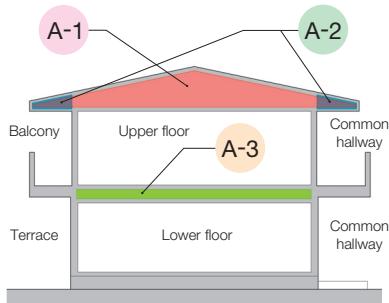
Parting Walls and Structural Resistance

In general, defects in parting walls between attics or spaces above ceilings do not affect the overall structural resistance of a building, even if there are problems with construction.

Note: This is not the case when the parting wall acts as a load-bearing wall.

Examples of Defects in the Construction of Parting Walls

■ No parting wall (A-1~3)



A-1 Attics

No parting wall at any point in the attic



A-2 Eaves

No parting wall in eaves

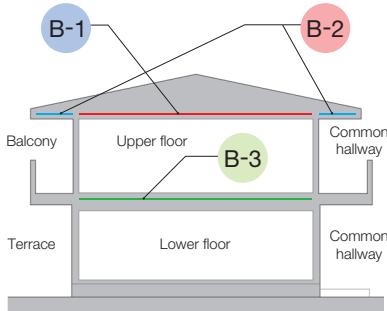


A-3 Intermediate floors (spaces above ceilings)

No parting wall in intermediate floors (space above ceilings)



■ No defects (B-1~3)



B-1 Attics

Partial defects in attic



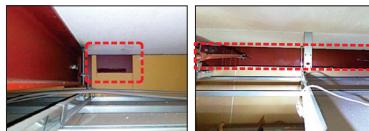
B-2 Eaves

Partial defects in eaves

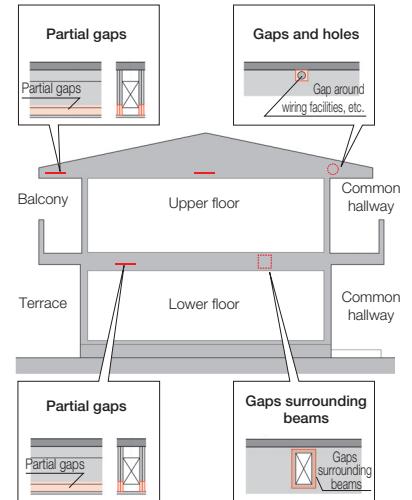


B-3 Intermediate floors (spaces above ceilings)

Partial defects in intermediate floors (space above ceilings)



■ Minor defects



Attics and Intermediate floors (space above ceilings)

Defects in work concerning gaps and holes in attics and Intermediate floors (space above ceilings)



Results of Investigations (As of May 31, 2019)

Relevant series	Total number of buildings	Investigation commenced	Evaluation complete	% of evaluation complete	No defects (total)	Defects (total)	Interior				Exterior	
							No parting wall		Partial defects		No parting wall	Defects
							Attic	Intermediate floor (space above ceiling)	Partial defects in attic	Partial defects in intermediate floor (space above ceiling)	Above balcony or hallway	Partial defects in balcony and hallway
A-1	A-3	B-1	B-3	A-2	B-2							
The "Nail series"	913	909	905	99.12%	5	870	825	0	25	0	0	20

Relevant series	Total number of buildings	Investigation commenced	Evaluation complete	% of evaluation complete	No defects (total)	Defects (total)	Interior				Exterior	
							No parting wall		Partial defects		No parting wall	Defects
							Attic	Intermediate floor (space above ceiling)	Partial defects in attic	Partial defects in intermediate floor (space above ceiling)	Above balcony or hallway	Partial defects in balcony and hallway
A-1	A-3	B-1	B-3	A-2	B-2							
Six series	14,370	14,051	13,348	92.89%	1,577	5,533	451	514	2,758	902	376	532

Relevant series	Total number of buildings	Investigation commenced	Evaluation complete	% of evaluation complete	No defects (total)	Defects (total)	Interior				Exterior	
							No parting wall		Partial defects		No parting wall	Defects
							Attic	Intermediate floor (space above ceiling)	Partial defects in attic	Partial defects in intermediate floor (space above ceiling)	Above balcony or hallway	Partial defects in balcony and hallway
A-1	A-3	B-1	B-3	A-2	B-2							
Other series	23,802	9,938	7,803	32.78%	3,708	1,618	110	122	586	457	11	332

Relevant series	Total number of buildings	Investigation commenced	Evaluation complete	% of evaluation complete	No defects (total)	Defects (total)	Interior				Exterior	
							No parting wall		Partial defects		No parting wall	Defects
							Attic	Intermediate floor (space above ceiling)	Partial defects in attic	Partial defects in intermediate floor (space above ceiling)	Above balcony or hallway	Partial defects in balcony and hallway
A-1	A-3	B-1	B-3	A-2	B-2							
All 52 series	39,085	24,898	22,056	56.43%	5,290	8,021	1,386	636	3,369	1,359	387	884

- In addition to the above, we have confirmed other minor defects in 8,745 of the 22,056 buildings that we have finished evaluating, and we will repair these defects. As of May 31, 2019, the total number of buildings that we have confirmed contain defects is 16,766, which is a total of 8,021 in the table above plus 8,745 with minor defects.
- We have confirmed defects in buildings constructed by other companies. We are investigating these properties to determine the cause of the defects as well as to come up with measures to prevent recurrence, and we will disclose results of our investigations in the future. Buildings constructed by other companies are mainly apartments on land we sold between 1983 and 1990. These buildings were constructed by other companies, and Leoplace21 was responsible for their design and supervised construction work.
- When multiple defects based on different evaluations in the same building are identified, the larger defects are prioritized and aggregated. Therefore, the same building will not be counted multiple times.
(Example) When defects in A-1, A-3, and B-2 are confirmed in the same building, data is merged in A-1.

Discrepancies in insulation materials in parting walls and exterior wall structures not meeting certain qualifications

Course of events leading to the manufacture of urethane foam (rigid polyurethane foam) panels

At that time, we were examining measures to increase productivity at construction sites. We had been using urethane foam (rigid polyurethane foam) as an adhesive to simplify the method of attaching materials to exterior walls (siding and reinforced gypsum board) and parting walls (both sides of the gypsum boards), and we then manufactured panels (the “panels”) filled with urethane foam as heat insulation materials in walls.

Apartments Built Using Foamed Urethane Panels (Rigid Polyurethane Foam)

A list prepared at the time the panels were manufactured contains the apartment numbers to which panels were delivered. By checking this list against the list of apartments we have constructed and checking designs drawings, we confirmed that panels may have been installed in parting and/or exterior walls in 925 of our apartments, in three series: Gold Residence, New Gold Residence, and Villa Alta, constructed between 1996 and 2001.

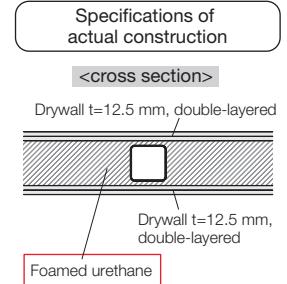
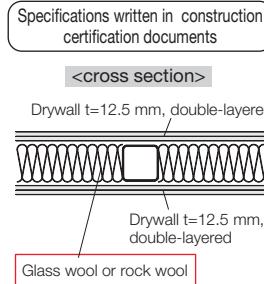
■ Maximum number of properties with possibility of defects in ceilings

Series	Total number of buildings constructed	Construction of foamed urethane foam (rigid polyurethane foam) panels		
			Defect in parting wall	Defect in exterior wall
Gold Residence (GR)	1,660	546	546	546
New Gold Residence (NGR)	679	326	225	326
Villa Alta (AGR)	153	53	—	53
Total	2,492	925	771	925

Details of defects that may be in violation of the Building Standards Act

■ Insulation Material Discrepancies in Parting Walls

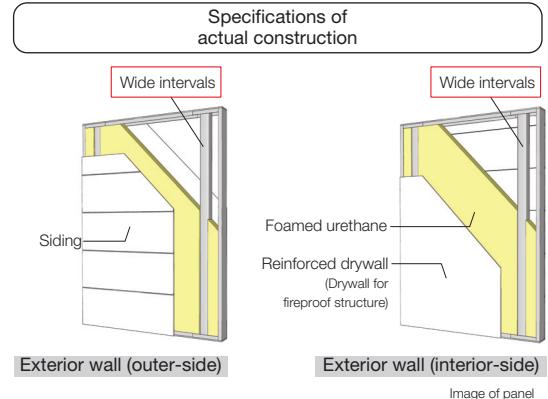
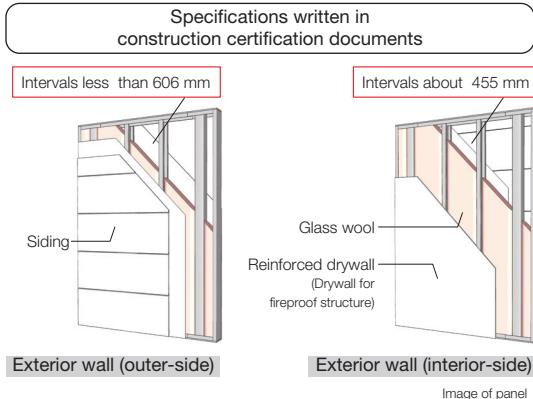
Although design drawings state that glass wool is to be used as insulation in parting walls, we confirmed that urethane foam (rigid polyurethane foam) was used in certain buildings. There is a possibility that these buildings do not meet the sound insulation standards required of parting walls in apartments by the Building Standards Act.



Since foamed urethane was used instead of glass wool as an insulation material, subject apartments do not meet the sound insulation standards required by the Building Standard Law

■ Exterior Wall Structures not Meeting Specifications Required for Certification by the Minister of Land, Infrastructure and Transport

According to the Building Standards Act, exterior walls in apartments are required to be semi-fire-resistant or fireproof. However, we confirmed that certain buildings in which the panels are installed do not meet the specifications required for certification by the Minister of Land, Infrastructure and Transport, as noted in design drawings.



Since foamed urethane was used as an adhesive to bind sidings and reinforced drywall, the intervals between wall backings became wider than the required specifications.

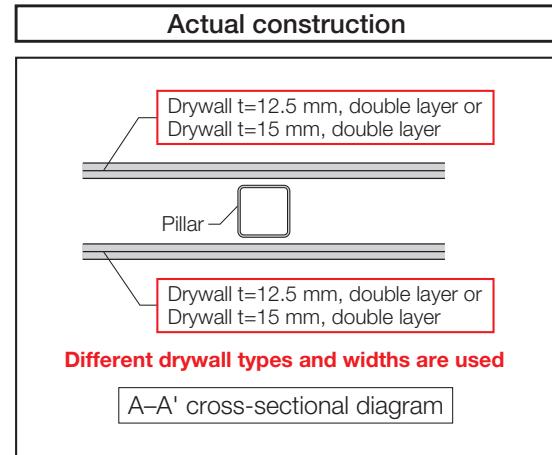
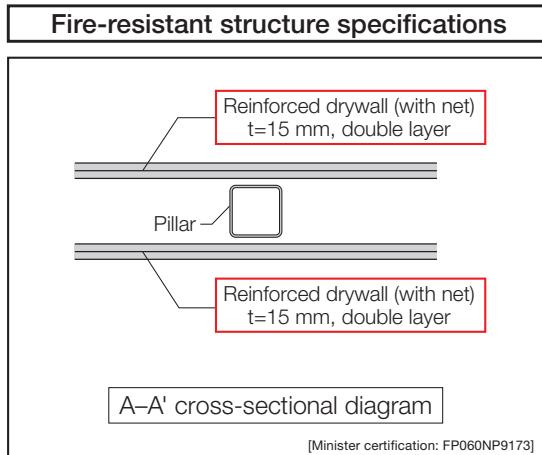
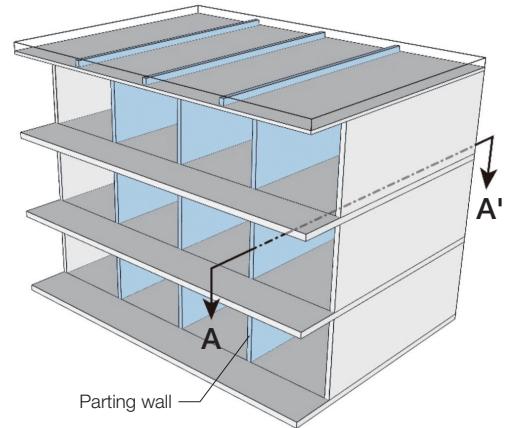
Discrepancies in insulation materials in parting walls not meeting certain qualifications

■ Non-Compliance of Fire-Resistant Performance in Steel-Framed Structures

Of the 2,240 buildings constructed as fire-resistant properties, on-site investigations were conducted on 204, of which 63 were confirmed to be properties whose specifications do not comply with the Building Standards Act, stating that parting walls must be fire-proof structures. We believe 62 out of the 63 buildings comply with 2015 Ministry of Land, Infrastructure and Transport Notice No. 253, which meet one-hour semi-fire-resistant performance.

We confirmed one of the 63 buildings does not meet one-hour semi-fire-resistant performance, or sound-insulation specifications certified by the Minister of Land, Infrastructure, and Transport.

■ Position of parting wall



This specification does meet one-hour semi-fire-resistant performance.

Construction defects in ceilings

Apartments that may have construction defects in ceilings

We checked construction drawings and specifications for all apartment series and have confirmed that only construction drawings and specifications for three-story “GR” contain misleading notations. Properties that may be defective are limited to three-story “GR” with one hour semi-fire-resistant structures. There are a maximum of 641 such buildings nationwide.

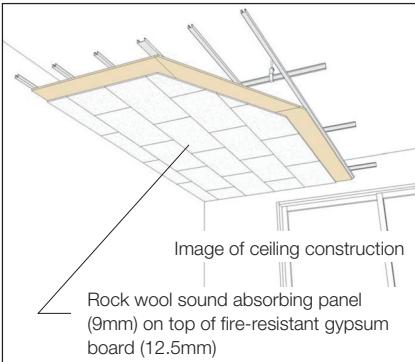
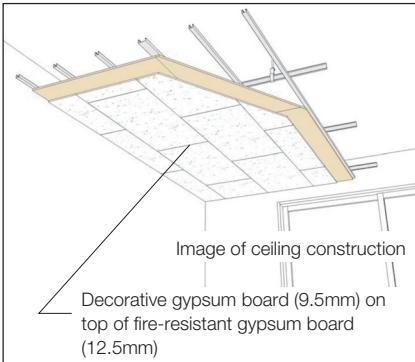
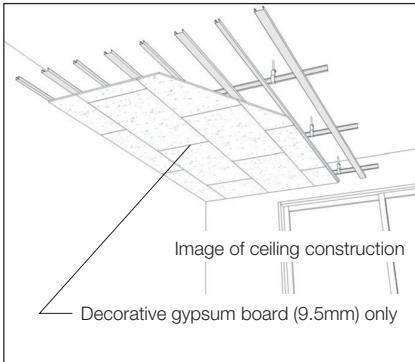
■ Target series (constructed between 1996 and 2001)



Gold Residence (GR), Three-stories

■ Maximum number of properties that may have defects in ceilings

Series		Total number of buildings constructed	Buildings with defects in ceiling
Gold Residence (GR)	Three-stories	780	641

Notified specification	Actual construction	
 <p>Image of ceiling construction</p> <p>Rock wool sound absorbing panel (9mm) on top of fire-resistant gypsum board (12.5mm)</p>	 <p>Image of ceiling construction</p> <p>Decorative gypsum board (9.5mm) on top of fire-resistant gypsum board (12.5mm)</p>	 <p>Image of ceiling construction</p> <p>Decorative gypsum board (9.5mm) only</p>

Notification of the Ministry of Land, Infrastructure, Transport and Tourism, No. 253

Measures to Resolve the Problem

Establishment of an Emergency Headquarters

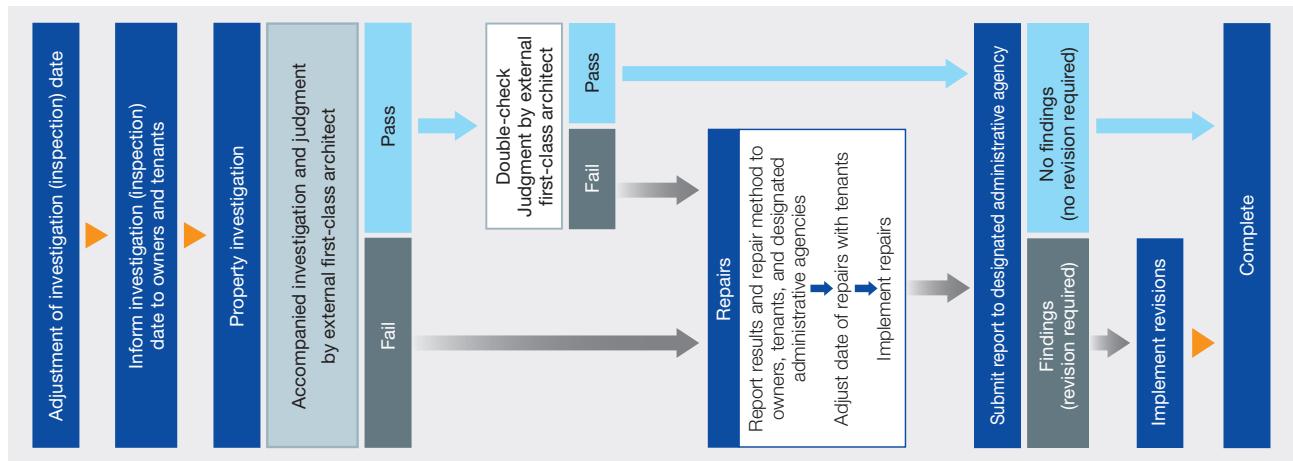
After announcing the issues relating to construction deficiencies, we immediately established an Emergency Headquarters for Construction Defects, and we have been investigating all buildings constructed by the Company and repairing properties found to contain defects. We have gradually strengthened the organizational structure of the headquarters and currently have 2,125 members working to investigate and repair properties.

Investigations and repair constructions of the properties.

Property investigations have been checking for discrepancies between actual construction and construction drawings with respect to parting walls. Third-party first-class architects have been cooperating with investigations to ensure neutrality and objectivity.

Repairs are being undertaken using repair methods determined based on the results of investigations and in consultation with the designated administrative agencies.

- **Properties investigations: Investigation accompanied with third-party first-class external architect**
 - **Result of investigation: Double checked by two third-party first-class external architects**
 - **Repair construction: Repair construction has been taken after consultation with the related administrative agency**
- **The procedure of properties investigations and repair constructions.**



Changing of the investigation method

On the way of the investigation as of February 7, 2019, in light of newly confirmed deficiencies, we have switched to a method of investigation that confirms ceiling specifications and exterior walls as well.

① Investigation about the parting wall in attic, spaces above ceilings.

Open the ceiling and check the construction condition of the parting wall.
In addition, check the specifications and thickness of the ceiling from the opening.



Shoot with a 360 ° camera from the open ceiling.

② Investigation about internal parting wall.

Open the parting wall and check the insulation and wall thickness inside.



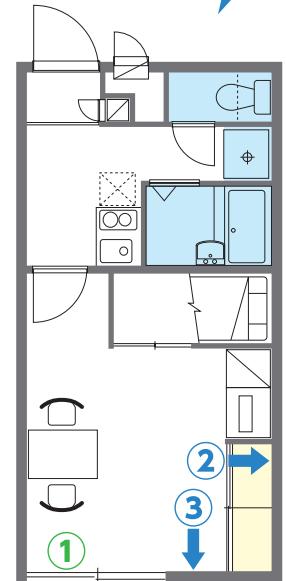
Measure each thickness of 2 walls

③ Investigation about internal outer wall.

Open the outer wall and check the insulation and wall thickness inside.



Survey point



Note: Survey points vary depending on the property type.

* The above is part of the survey method.

Future Courses of Action

(1) For Tenants Living in Apartments Constructed by the Company

1) Apartments with Defects Confirmed in Parting Walls

Although fire resistance is ensured by double-layered gypsum boards, there is a possibility that sound insulation does not meet the standards required by the Building Standards Act. We will make arrangements to relocate tenants living in apartments managed by the Company once we have consulted with apartment owners and designated administrative agencies about repair methods. We will bear the expenses relating to relocation.

We will make arrangements to relocate tenants living in apartments managed by other companies once we have notified apartment owners and property management companies of the situation and have consulted with designated administrative agencies about repair methods. We will bear the expenses relating to relocation for such tenants.

2) Apartments with Defects Confirmed in Exterior Walls

Fire resistance performance tests were conducted at the time of construction and we received consistent evaluations. However, since the buildings do not comply with Minister of Land, Infrastructure and Transport certifications, we are considering repairs to meet the specifications required for certification. We will make arrangements to relocate tenants living in apartments managed by the Company once we have consulted with apartment owners and designated administrative agencies about repair methods. We will bear the expenses relating to relocation.

We will make arrangements to relocate tenants living in apartments managed by other companies once we have notified apartment owners and property management companies of the situation and have consulted with designated administrative agencies about repair methods. Once again, we will bear the expenses relating to relocation.

3) Apartments with Construction Defects Confirmed in Ceilings

We will promptly make arrangements to relocate tenants living in apartments in which fire resistance performance does not meet the standards required by the Building Standards Act. We will make arrangements to relocate tenants living in apartments managed by the Company and we will bear all expenses relating to relocation. We will make arrangements to relocate tenants living in apartments managed by other companies once we have notified apartment owners and property management companies of the situation. We will bear the expenses relating to relocation for such tenants.

(2) For Owners of Apartments Constructed by the Company

1) Apartments with Defects Confirmed in Parting Walls

We will inform owners of apartments with defects. We will bear all expenses relating to repairs and we will compensate owners for rent on vacant units while advertising for tenants is suspended.

2) Apartments with Defects Confirmed in Exterior Walls

We will inform owners of apartments with defects. We are considering repairs to meet the specifications required for certification by the Minister of Land, Infrastructure and Transport, and will proceed following consultation with apartment owners and

designated administrative agencies. At the same time, we will check whether the building will be eligible for certification by the Minister of Land, Infrastructure and Transport. We will bear all related expenses and we will compensate owners for rent on vacant units while advertising for tenants is suspended.

3) Apartments with Construction Defects Confirmed in Ceilings

We will inform owners of apartments with defects. We will bear all expenses relating to repairs and we will compensate owners for rent on vacant units while advertising for tenants is suspended.

Impact on Results and Future Outlook

The Company recorded an extraordinary loss of 54.7 billion yen as a reserve for losses related to repairs and construction to remedy parting wall defects in certain properties constructed by the Company as announced on April 27, 2018 and May 29, 2018 as well as defects newly confirmed during an investigation of all buildings as announced on February 7, 2019.

In addition, the occupancy rate as of the end of March 2019 was 84.33% (down 9.39% year on year) and the annual average occupancy rate was 88.34% (down 2.25% year on year) due to the suspension of new tenant recruitments for properties with defects until completion of investigations and repairs. This caused a decline in rent

revenue as well as other indicators. This fiscal year marked the first time in eight periods since the fiscal year ended March 2011 that the Company recorded a net loss, which totaled 68.6 billion yen.

With regard to financial forecasts for the year ending March 31, 2020, the Company is projecting sales of 502.2 billion yen (down 0.6% year on year), operating profit of 2.2 billion yen (down 70.2% year on year), recurring profit of 1.3 billion yen (down 81.6%), and net income attributable to shareholders of the parent of 100 million yen*.

* Financial forecasts are based on information available on the date of release of this document. Actual results may differ from these forecasts due to various factors.

External Investigation Committee Establishment and Reports, and Responsibilities of the Company's Management

1. Establishment of an External Investigation Committee

To objectively verify the cause of the construction defects, the Company has established an external investigation committee, comprised of neutral and fair experts, completely independent from the Company, in accordance with the Japan Federation of Bar Associations' "Guidelines for Third-Party Committees Relating to Corporate Scandals".

The investigation committee is comprised of three external lawyers who have no interests in the Company. Nishimura & Asahi, the law firm to which the committee members are affiliated, also has no interests in the Company.

- Chairperson: Tetsuo Ito, Lawyer (Nishimura & Asahi)
- Member: Hiroshi Kimeda, Lawyer (Nishimura & Asahi)
- Member: Norimitsu Yamamoto, Lawyer (Nishimura & Asahi)

2. Preparation of Investigative Report

The external investigation committee conducted a strict and thorough investigation concerning the cause of the defects, and a final report was prepared on May 29, 2019.

The entire investigative report can be viewed as a PDF at the following link.

Investigative report

http://eg.leopalace21.com/ir/news/2019/pdf/0529_5.pdf



3. Responsibilities of the Company's Management

As announced by the Company on May 9, 2019, we are taking the revisions to our earnings forecasts seriously and we have decided to reduce remuneration paid to directors as follows to clarify our management responsibility.

(a) Reduction in Director Remuneration

Period

May 2019 to March 2020

Target officers

Directors, audit & supervisory board members and executive officers

Details

President and CEO 60% reduction

Other internal directors 45% to 55% reduction

Full-time audit & supervisory board members 35% reduction

Executive officers 35% to 45% reduction

(b) Retirement of Directors

As announced in the press release dated May 10, 2019, President & CEO Eisei Miyama will retire. He will also retire as a director due to the expiration of his term, at the conclusion of the 46th Annual General Meeting of Shareholders, along with the following directors.

Director Mr. Tadahiro Miyama

Director Mr. Yuzuru Sekiya

Director Mr. Hiroshi Takeda

Director Mr. Kazuto Tajiri

Director Mr. Hiroyuki Harada

Director Mr. Hiromi Ito

Measures to Prevent Recurrence

The Company has previously looked into measures to prevent recurrence and has also taken seriously the suggested measures from the Investigation Committee. We considered how to make such measures effective, and developed measures to prevent recurrence as follows.

(1) Drastic reform of the corporate culture

The Final Report points out a lack of awareness of legal compliance, a weak sense of responsibility and risk sensitivity with regard to quality matters, and a tendency to delay measures even if issues are detected in accordance with a policy of “thinking while running” that had been established as a corporate culture at that time.

Taking these points into consideration, we will implement radical reforms to the corporate culture as described below, with the aim of encouraging officers and employees to see things from the perspective of owners, tenants, and other customers and to have an awareness that the Company’s social significance lies in providing value that our customers appreciate, as well as of restoring our customers’ trust, which was lost due to the defects related to parting walls etc.

We will work to reform our existing corporate culture which gives priority to sales performance and profitability and adopt a policy that gives top priority to compliance with laws and regulations when performing our business activities (“compliance-first”).

(2) Restructuring the compliance risk management system

One cause of the construction defects was the absence of system that tests legal conformity in the development

of new products. As discussed above, the Company has consolidated a compliance-first policy, and we have decided to restructure our compliance risk management system as follows, so as to systematically secure compliance-first.

(3) Reviewing the Construction Subcontracting Business System

With regard to the problem of the defects related to parting walls etc., as described above, the conceivable causes are a lack of consideration of legal compliance when developing new products, as well as construction management that depends on voluntary inspections and construction supervision, with architects barely involved. In addition, the causes may include an improper construction management system such as insufficient process inspections due to a shortage of chief engineers, and an improper system of construction supervision such as negligence of on-site construction supervision by the architect who created the building certification application documents. Because of these aspects, we will review the system of the Construction Subcontracting Business.

Please refer to our news release on May 29, 2019 titled “Notice Concerning Causes and Measures to Prevent Recurrence of Construction Defects of Parting Walls, etc. of Properties Constructed by Leopalace21” for details of recurrence prevention measures.

*The information on this brochure are based on the date of each article has been noted.