

## Corporate Governance Report

Last Update: March 5, 2020

**Leopalace21 Corporation**

Bunya Miyao, President and CEO

Contact: Kiyoshi Arai, Executive Officer, representative  
in charge of Corporate Planning and Investor Relations,

Management Planning Headquarters

Securities Code: 8848

<http://eg.leopalace21.com/>

The corporate governance of Leopalace21 Corporation (the “Company”) is described below.

### **I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Views**

We see the construction and reinforcement of corporate governance as one of our most critical management tasks, and will aim to realize our corporate philosophy, achieve business plans, improve corporate value in the medium to long term, and grow continuously by reinforcing the corporate governance.

Our fundamental goal of corporate activities is to pursue efficient, fair, and highly transparent operations to attain greater corporate value for the sake of all our stakeholders.

To achieve the above goal, we endeavor to improve our management system and management organization mainly through appropriate and rapid decision-making, reinforcing the monitoring function of our decision-making, establishment of a compliance system, improvement and strengthening of an internal control system, and establishment of good relations with stakeholders.

#### **[Disclosure Based on the Principles of the Corporate Governance Code] Updated**

##### **Principle 1-4 Cross-held shares**

We have a basic policy of not acquiring cross-held shares. However, if the acquisition of shares of business partners and business alliance partners is deemed useful for maintaining and strengthening relationships with such partners and if the medium- to long-term economic benefits from acquiring the shares are expected to be greater than the expenses for the acquisition, we may acquire the shares according to the procedures set forth in the internal regulations. We currently hold shares of two listed companies, with a total market capital equal to about 0.5% of our total net assets.

We verify the economic rationality of each company at the Board of Directors, such as the propriety with the purpose of acquisition, dividends, and the effectiveness of the business relationship. If there is any doubt about the economic rationality as a result of the verification, we will examine the necessity of maintaining the holding of the shares.

With respect to the exercise of voting on the proposals, the Finance and Accounting Department comprehensively takes into consideration the purpose of holding the shares as well as the governance system of the issuer and whether there is an improvement in shareholder value. The Department exercises voting rights after making decisions based on the Company’s decision-making rules.

##### **Principle 1-7 Related party transactions**

If the Company needs to conduct a transaction with its officers, affiliates or major shareholders, the Company will conduct the transaction based on the Regulations on Related Party Transactions, which set forth the scope of the covered transactions, approval procedures and ex-post confirmation for the purpose of eliminating the impairment of the Company’s interest and common interest of the shareholders and avoiding the violation of laws and regulations that should be observed by the officers.

Based on the Regulations, the Board of Directors will make a prior approval for the transaction and make an ex-post confirmation to see whether the transaction is conducted with the approved content by receiving a confirmation letter from the related party on the details and obligations arising from the transaction.

#### **Principle 2-6 Roles of Corporate Pension Funds as an asset owner**

The Company's Corporate Pension Fund is a defined contribution type pension plan, and employees have control over investment decisions. We provide employees with various investment products to choose from, as well as the opportunity to learn about asset management.

#### **Principle 3-1 Enhancement of information disclosure**

(1) What the Company aims for (corporate philosophy, etc.), management strategies and business plans

Our corporate philosophy is to create new value in our own unique way by keeping a close eye on modern-day needs, constantly work to improve our products, services and technologies and grow as a company, and provide new value throughout society to help create a more comfortable and affluent society.

On our website, we disclose the medium-term management plan "Creative Evolution 2020" (for the fiscal year ended March 31, 2018 to the fiscal year ending March 31, 2020), which we formulated based on the corporate philosophy and management strategies.

(2) Fundamental view and policy of corporate governance

We regard the construction and enhancement of corporate governance as one of the most important management issues. Our fundamental goal of corporate activities is to pursue efficient, fair and highly transparent management to attain greater corporate value for all our stakeholders.

To achieve the above goal, we endeavor to improve our management system and management organization mainly through appropriate and rapid decision-making, reinforcing the monitoring function of our decision-making, establishment of a compliance system, improvement and strengthening of an internal control system, and establishment of good relations with stakeholders.

(3) Policy and procedures for the Board of Directors to determine remuneration for management executives and directors

Remuneration for directors of the Company is provided for the purpose of motivating the directors to execute their business to the maximum extent possible to achieve business plans and enhance the corporate value in the medium to long term.

For this purpose, the Company pays remuneration for directors consisting of four components, namely basic remuneration, stock options, performance bonus for a single fiscal year and performance bonus for the period of the medium-term management plan.

The remuneration will be determined through deliberations by the Nomination and Compensation Committee so that the remuneration for individual directors should be appropriate. The Nomination and Compensation Committee consists of seven outside directors and the President and CEO. Please refer to the policy and procedures for determining the remuneration for directors which are stated in "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" of this Report and the annual securities report.

(4) Policy and procedures for the Board of Directors to appoint and dismiss management executives and nominate candidates for directors and Audit & Supervisory Board members

To achieve the business plans and enhance the corporate value in the medium to long term, we set a policy of structuring the Board of Directors by giving due consideration to securing the speediness of decision making and strengthening the management supervisory function.

Accordingly, the Board will nominate the candidates for directors from talent pool with extensive knowledge of the Company's business and the business environment surrounding the Company as an executive director, and at the same time, nominate persons with deep expert insight in an independent position as outside directors to strengthen the management supervisory function. We adopted a policy of making the majority of Board of Directors consists of outside directors in order to emphasize the supervisory function.

With regard to candidates for Audit & Supervisory Board members, the Board will nominate persons with in-depth knowledge of finance and accounting to strengthen the management supervisory function. Particularly for outside Audit & Supervisory Board members, the Board will nominate persons with deep expert insight in an independent position.

Candidates for outside directors shall meet the independence criteria that we formulated in accordance with the independence standards of the Guidelines for Listing Examination, etc. of the Tokyo Stock Exchange. To nominate candidates for directors in accordance with these policies, the Board of Directors will determine through deliberations at the Nomination and Compensation Committee.

When a director or an Audit & Supervisory Board member is determined that they are not fulfilling their roles, a proposal for dismissing the subject director and/or Audit & Supervisory Board member will be brought up to the General Shareholders' Meeting, after deliberations at the Nomination and Compensation Committee and resolution of the Board of Directors.

(5) Explanation of individual appointment and nomination when management executives are appointed and dismissed and when candidates for directors and Audit & Supervisory Board members are nominated

At the general shareholders' meeting held on June 27, 2019, and on February 27, 2020, the appointment of 12 directors was approved, and the reasons for nominating them are stated and disclosed in the reference materials for the general shareholders' meeting. Please refer to the reasons for the individual appointments and nominations stated on pages 5 through 11 of the Notice of the 46th Annual General Shareholders' Meeting, and page 8 and 9 of the Notice of Extraordinary General Shareholders' Meeting dated February 12, 2020. For outside directors and outside Audit & Supervisory Board members, please refer to the relevant sections of this Corporate Governance Report as well.

**Principle 4-1-1 Roles and duties of the Board of Directors (1) (Scope of delegation to management)**

The Board of Directors regulations stipulate that the major roles of the Board of Directors of the Company are to make decisions on important matters for business operation, such as business plans, to resolve legally defined matters, and to monitor business activities.

However, certain judgment is delegated to the management to operate business promptly, and the Company's decision-making rules clearly define the scope of the delegation to management.

**Principle 4-9 Independence criteria and qualifications for independent outside directors**

To ensure the independence of outside officers, including outside directors, we developed independence criteria, taking into consideration issues for the business operation of the Company, with meeting the independence standards of Tokyo Stock Exchange, Inc. as the minimum requirement. For details, please refer to the relevant sections of this Corporate Governance Report.

**Principle 4-11-1 Prior conditions for securing the effectiveness of the Board of Directors and the Audit & Supervisory Board (Policy and procedures for the appointment of directors)**

To achieve the medium-term management plan and enhance the corporate value in the medium to long term, we set a policy of structuring the Board of Directors by giving due consideration to securing the speediness of decision making and strengthening the management supervisory function.

Accordingly, candidates for directors will be nominated from persons who have extensive knowledge about the Company's business and the business environment surrounding the Company as an executive director, and at the same time, persons with deep expert insight in an independent position will be nominated as outside directors to strengthen the management supervisory function. We adopted a policy of making the majority of Board of Directors consists of outside directors in order to emphasize on the supervisory function.

We pay attention to structuring the Board of Directors to avoid extreme disparity in the length of service of the directors in order to strike a balance between the enhancement of experience and knowledge and creativity from a new perspective.

With respect to the number of directors on the Board, we pay attention to setting a number that can secure fulfilling deliberations and is suited to the scale of business activities.

**Principle 4-11-2 Prior conditions for securing the effectiveness of the Board of Directors and the Audit & Supervisory Board (Concurrent serving as an officer in another listed company)**

We limit in principle the number of other listed companies to three where a director or an Audit & Supervisory Board member of the Company can concurrently serve as an officer, so as not to pose a problem for their execution of duty in the Company.

With respect to the directors and Audit & Supervisory Board members who are concurrently serving as officers in another listed company, Mr. Hisafumi Koga, a Director, serves as director of Kyodo Public Relations Co., Ltd, Ms. Yoshiko Sasao, a Director, serves as managing executive officer of JDC Corporation,

and Mr. Takao Yuhara, an Audit & Supervisory Board Member, currently serves as an auditor at Kameda Seika Co., Ltd. and a director at T. Hasegawa Co., Ltd.

**Principle 4-11-3 Prior conditions for securing the effectiveness of the Board of Directors and the Audit & Supervisory Board** (Analysis and evaluation of the Board of Directors)

After the end of the fiscal year, we evaluated the function, etc. to be fulfilled by the Board of Directors mainly for the purpose of improving management issues. The evaluation method was an individual evaluation using a questionnaire to all the members of the Board of Directors. The secretariat of the Board of Directors aggregated data, undertook an analysis and made a report to the Board of Directors to hold discussions. In the evaluation for the fiscal year ended March 31, 2019, we confirmed that the Company's Board of Directors and governance system functioned effectively in general.

Specifically, based on the evaluation of the Board of Directors in the previous fiscal year, we deepened discussions on medium- to long-term strategies for each business, conducted a succession plan aiming for developing the next generation of management, and implemented measures to help the female employees to develop their career progression.

We shared the recognition that it is necessary to reform compliance framework and risk management system as well as to restore the brand damaged by the construction defects problem and that it is important to prepare the business plans and medium-term management plan, to continue the succession planning and the career formation support for female employees.

The evaluation of the Board of Directors clarified issues including the above that the Board of Directors should address in the fiscal year ending March 31, 2020.

In addition, each member of the Audit & Supervisory Board evaluated the effectiveness of the Audit & Supervisory Board and submitted a report in writing to the President and CEO and the Corporate Planning Department.

It was confirmed by this self-evaluation that the members of the Audit & Supervisory Board highlighted the benefits of working closely with the accounting auditor and the Auditing Department as well as information provision and exchange with the outside officers including part-time members of the Audit & Supervisory Board. The Audit & Supervisory Board independently investigated the construction defects problem and current construction management system to increase the impact of their activities. They found issues in the reporting system to the Audit & Supervisory Board which was resolved by the fiscal year end and pointed the governance-related issue of the affiliated companies for improvement. The Audit & Supervisory Board will follow up the issue and continue to monitor the improvement.

**Principle 4-14-2 Training of directors and Audit & Supervisory Board members** (Training policy)

In the belief that facilitating the acquisition of the necessary knowledge by the directors and the Audit & Supervisory Board members will contribute to the execution of business operation and the enhancement of corporate value in the future, we provide and support opportunities for acquiring knowledge.

Specifically, we provide training that will contribute to the resolution of management issues such as corporate governance and corporate finance as well as the understanding of the business environment, the development of human resources and the strengthening of the organization. We also provide training on legal responsibilities after the directors and the Audit & Supervisory Board members have taken office.

**Principle 5-1 Policy for constructive dialogues with shareholders**

To promote the sustainable growth of the Company and enhance its corporate value in the medium to long term, we established a department specializing in IR headed by the director in charge of IR to promote constructive dialogues (meetings) with shareholders. Specifically, we provide clear explanations about the Company's management policies, etc. to stakeholders including shareholders by holding results briefings, individual investors' meetings and foreign institutional investors' meetings, in addition to individual meetings.

With respect to the policy and efforts for the development of a system for promoting constructive dialogues with shareholders, we developed a Disclosure Policy and disclosed it on our website. Please refer to it.

## 2. Capital Structure

Foreign Shareholding Ratio	More than 30%
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**[Status of Major Shareholders]**

Name / Company Name	Number of Shares Owned	Percentage (%)
Ardisia Investment, Inc	10,600,700	4.33
Reno, Inc.	7,875,400	3.22
RBC ISB S/A DUB NON RESIDENT / TREATY RATE UCITS-CLIENTS ACCOUNT	7,090,161	2.90
JPMorgan Securities Japan Co., Ltd.	6,643,128	2.71
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	6,211,756	2.54
Leopalace21 Business Partners Stock Ownership Association	5,662,400	2.31
The Master Trust Bank of Japan (Trust Account)	5,652,400	2.31
BNYM AS AGT / CLTS 10 PERCENT	5,097,204	2.08
STATE STREET BANK AND TRUST COMPANY	4,945,040	2.02
EUROCLEAR BANK S.A. / N.V.	4,901,300	2.00

Controlling Shareholder (excluding Parent Company)	—
Parent Company	None

Supplementary Explanation
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**3. Corporate Attributes**

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Real Estate
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

**4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

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**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

We are in the midst of implementing various countermeasures based on what the External Investigation Committee recommended in the wake of a series of construction defects problems.

We set up on February 27, 2019 as a result of the construction defects problems a third-party External Investigation Committee which is independent and does not hold any interest with the Company. We received an investigation report from the Committee and took special notice of the overall and fundamental causes of the problem which the Committee specified in the report. We are trying to restore the credibility by all the stakeholders and put the three-pointed countermeasures in execution: Introduce radical reform of corporate culture to develop customer-oriented culture, rebuild the structure and system for compliance and risk management, and revise the construction subcontracting business system.

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	20
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President and CEO
Number of Directors <span>Updated</span>	12
Appointment of Outside Directors	Appointed
Number of Outside Directors <span>Updated</span>	7
Number of Independent Directors <span>Updated</span>	6

#### Outside Directors' Relationship with the Company (1) Updated

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Tadashi Kodama	From another company								△			
Tetsuji Taya	From another company								○			
Yoshiko Sasao	From another company											
Yoshitaka Murakami	From another company											
Hisafumi Koga	From another company				○							
Kazuyasu Fujita	From another company											
Yutaka Nakamura	From another company								△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the Company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/Audit & Supervisory Board member
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board members are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2) Updated

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Tadashi Kodama	Yes	<p>Mr. Tadashi Kodama held positions including the representative director and vice chairman of and the special advisor to Aioi Nissay Dowa Insurance Co., Ltd. and retired in June 2015. He assumed the office of an outside director of the Company in June 2016.</p> <p>While the Company has a business relationship with Aioi Nissay Dowa Insurance, its amount is less than 0.1% of the consolidated net sales of the Company, it does not have an impact on the independence of the Outside Director.</p> <p>Important concurrent post</p> <ul style="list-style-type: none"> <li>• Not applicable</li> </ul>	<p>Utilizing his profound knowledge and experience of business management cultivated through his career as a manager of a listed company, he actively expresses opinions at meetings of the Board of Directors, etc. from an independent and fair standpoint and appropriately fulfills the role of supervising the execution of business of the Company. Serving as a member of the Nomination and Compensation Committee, he also helps increase the transparency and objectivity of the procedures for appointing officers and determining their remuneration.</p> <p>Mr. Kodama meets the Company's own Independence Criteria for Outside Directors and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>
Tetsuji Taya	Yes	<p>Mr. Tetsuji Taya is a Representative Director, CFO and Managing Director of Industrial Growth Platform, Inc. and assumed the office of an outside director of the Company in June 2010.</p> <p>While the Company had a business relationship with Industrial Growth Platform in the past, the amount was less than 0.1% of the consolidated net sales of the Company, it does not have an</p>	<p>Utilizing his profound knowledge and experience of business management cultivated through his career as a corporate manager, he actively expresses opinions at meetings of the Board of Directors, etc. from an independent and fair standpoint and appropriately fulfills the role of supervising the execution of the business of the Company. Serving as a member of the Nomination and Compensation Committee, he also helps increase</p>

		<p>impact on the independence of the Outside Director.</p> <p>Important concurrent post</p> <ul style="list-style-type: none"> <li>Representative Director, CFO and Managing Director of Industrial Growth Platform, Inc.</li> </ul>	<p>the transparency and objectivity of the procedures for appointing officers and determining their remuneration.</p> <p>Mr. Taya meets the Company's own Independence Criteria for Outside Directors and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>
Yoshiko Sasao	Yes	<p>Important concurrent post</p> <ul style="list-style-type: none"> <li>Executive officer (in charge of workstyle reforms) of JDC Corporation</li> </ul>	<p>Utilizing her profound knowledge and experience of business management cultivated through her career as a corporate manager, she actively expresses opinions at meetings of the Board of Directors, etc. from an independent and fair standpoint and appropriately fulfills the role of supervising the execution of the business of the Company. Serving as a member of the Nomination and Compensation Committee, she also helps increase the transparency and objectivity of the procedures for appointing officers and determining their remuneration.</p> <p>Ms. Sasao meets the Company's own Independence Criteria for Outside Directors and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>
Yoshitaka Murakami	Yes	<p>Important concurrent post</p> <ul style="list-style-type: none"> <li>Nothing particular</li> </ul>	<p>Utilizing his profound knowledge and experience of business management cultivated through his career as a member of Audit &amp; Supervisory Board and as a high-ranking civil servant in the central government, Mr. Murakami was expected to appropriately fulfill the role of supervising the execution of the business of the Company from an independent and fair standpoint since June 2019. Serving as a member of the Nomination and Compensation Committee, he also helps increase the transparency and objectivity of the procedures for appointing officers and determining their remuneration.</p> <p>Mr. Murakami meets the Company's own Independence Criteria for Outside Directors and the independence standards set</p>

			forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.
Hisafumi Koga		Mr. Koga serves as chairman of Kyodo Public Relations Co., Ltd. and took office in June 2020. The Company has a business relationship with Kyodo Public Relations with the latter's amount which stood at less than five percent of its consolidated net sales in the previous fiscal year and with the former's amount which was less than 0.1 percent of our consolidated net sales in the previous fiscal year.	Utilizing his profound knowledge and experience of business management cultivated through his career as a corporate manager, Mr. Koga was expected to appropriately fulfill the role of supervising the execution of the business of the Company from an independent and fair standpoint since June 2019. Serving as a member of the Nomination and Compensation Committee, he also helps increase the transparency and objectivity of the procedures for appointing officers and determining their remuneration.
Kazuyasu Fujita	Yes	Important concurrent post • President, Management Consulting Partner	Utilizing his profound knowledge and experience of business management cultivated through his career as a corporate manager, Mr. Fujita was expected to appropriately fulfill the role of supervising the execution of the business of the Company from an independent and fair standpoint since February 2020. Serving as a member of the Nomination and Compensation Committee, he also helps increase the transparency and objectivity of the procedures for appointing officers and determining their remuneration. Mr. Fujita meets the Company's own Independence Criteria for Outside Directors and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.
Yutaka Nakamura	Yes	Mr. Nakamura built his career up to Senior Principal for Quality & Customer Satisfaction, Panasonic Homes Co., Ltd. and resigned from Panasonic Homes Co., Ltd. in March 2019. He assumed his office in February 2020. While the Company has a business relationship with Panasonic Homes Co., Ltd. which amounts to less than 0.1% of the Company, it does not have an impact on Mr. Nakamura's independence. Important concurrent post	Utilizing his profound knowledge and experience of quality management and environmental management in the construction work management cultivated through his career as a corporate manager, Mr. Nakamura was expected to appropriately fulfill the role of supervising the execution of the business of the Company from an independent and fair standpoint since February 2020. Serving as a member of the Nomination and Compensation Committee, he also

		<ul style="list-style-type: none"> <li>• Nothing particular</li> </ul>	<p>helps increase the transparency and objectivity of the procedures for appointing directors and determining their remuneration.</p> <p>Mr. Fujita meets the Company's own Independence Criteria for Outside Directors and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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#### Committee's Name, Composition, and Attributes of Chairperson Updated

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination and Compensation Committee	Nomination and Compensation Committee
All Committee Members	8	8
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	7	7
Outside Experts	0	0
Other	0	0
Chairperson	One of the Outside Directors	One of the Outside Directors

#### Supplementary Explanation

The Company established policies for appointing directors and Audit & Supervisory Board members and has been determining remuneration for these officers as well as procedures for making decisions through deliberations by the Nomination and Compensation Committee, an advisory body to the Board of Directors, according to the policies for making the best appointments and determination of remuneration.

#### [Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	4

Number of Audit & Supervisory Board Members	4
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#### Cooperation between Audit & Supervisory Board members, Accounting Auditor and Internal Auditing Departments

We entered into an auditing contract with Grant Thornton Taiyo LLC, an accounting firm to conduct audits in accordance with the Companies Act and the Financial Instruments and Exchange Act.

The Audit & Supervisory Board members and the accounting auditor exchange opinions by holding quarterly briefing meetings on the settlement of accounts four times a year, and ad-hoc meetings as required.

With regard to the Internal Audit organization, the Auditing Department, which is independent from the business departments, was established as a department under the direct control of the President and CEO and reports the audit results to the directors and the Audit & Supervisory Board members at the monthly meetings of Auditing Council to share information.

The Auditing Department informs the accounting auditor of results of their internal audits.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

#### Outside Audit & Supervisory Board Member's Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masahiko Nakamura	Tax Accountant													
Takao Yuhara	From another company										△			
Jiro Yoshino	From another company										△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Audit & Supervisory Board member of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board member

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board member himself/herself only)

- k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board members are mutually appointed (the Audit & Supervisory Board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board member himself/herself only)
- m. Others

Outside Audit & Supervisory Board Member's Relationship with the Company (2) Updated

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Masahiko Nakamura	Yes	<p>Important concurrent post</p> <ul style="list-style-type: none"> <li>• Masahiko Nakamura Certified Tax Accountant Office</li> <li>• Auditor, Seven Uniform Co., Ltd.</li> <li>• Auditor, JM Corporation</li> </ul>	<p>We appointed Mr. Nakamura to strengthen the audit function of the Company as we believed that he should be able to utilize his considerable knowledge and expertise as a certified tax accountant for the Company. Mr. Nakamura meets the Company's own Independence Criteria for Outside Officers and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>
Takao Yuhara	Yes	<p>Mr. Takao Yuhara held several executive positions such as the managing executive director of Zensho Holdings Co., Ltd. and retired from it in January 2013. He assumed the office of an outside member of Audit &amp; Supervisory Board of the Company in June 2015. While the Company has a business relationship with Zensho Holdings with the amount of less than 0.1% of the consolidated net sales of the Company, and more than six years have passed from the time when he was a managing executive director of Zensho Holdings, it does not have an impact on his independence as a member of the Audit &amp; Supervisory Board.</p> <p>Important concurrent post</p> <ul style="list-style-type: none"> <li>• Auditor, Kameda Seika Co., Ltd.</li> <li>• Director, T. Hasegawa Co., Ltd.</li> </ul>	<p>We appointed Mr. Yuhara to strengthen the audit function of the Company as he had deep insight in a range of areas as a result of considerable business experience, and we believed that he should be able to conduct appropriate audits of the Company's management from an objective standpoint based on his past service as an auditor at several companies. Mr. Yuhara meets the Company's own Independence Criteria for Outside Officers the and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.</p>

Jiro Yoshino	Yes	Mr. Jiro Yoshino held positions such as an executive officer and the full-time auditor of MS&AD Insurance Group Holdings, Inc. and retired from it in June 2017. He assumed the office of a full-time outside member of Audit & Supervisory Board of the Company in June 2017. While the Company has a business relationship with MS&AD Insurance Group Holdings with the amount of less than 0.1% of the consolidated net sales of the Company, it does not have an impact on his independence as a member of the Audit & Supervisory Board.	We appointed Mr. Yoshino to strengthen the audit function of the Company as we believed that he should be able to conduct appropriate audits of the Company's management from an objective standpoint by utilizing his considerable experience and expertise cultivated as an executive officer and auditor at the listed company. Mr. Yoshino meets the Company's own Independence Criteria for Outside Officers and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines for Listing Examination, etc.
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#### [Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members <u>Updated</u>	9
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#### Other matters relating to Independent Directors/Audit & Supervisory Board Members

Our criteria for independence at the time of appointing an outside director and an outside member of Audit & Supervisory Board stipulate that they shall not fall under any of the following.

- (a) A person who executes business in the Leopalace21 Group (a person who executes business such as a director (excluding an outside director), an executive officer, an employee who executes business, an executive board member or any other similar manager or employee of a corporation or a group)
- (b) A major shareholder of the Company (a shareholder who directly or indirectly holds 10% or more of the total voting rights) or a person who executes business at the major shareholder
- (c) A person who executes business in a corporation in which the Company is a significant investor (a person who directly or indirectly holds 10% or more of the total voting rights)
- (d) An entity of which the major business partner is the Company (a business partner which provides products or services to the Company and whose transactions with the Company in the immediate preceding fiscal year accounted for 2% or more of its net sales or total revenue) or a person who executes business at the entity
- (e) A major business partner of the Company (a business partner to whom the Company provides products or services and the Company's transactions with which, in the immediate preceding fiscal year, accounted for 2% or more of the Company's net sales) or a person who executes business at the major business partner
- (f) A person who executes business at a major financial institution of the Company (a financial institution from which the Company borrows and the amount of borrowings of the Company which, in the immediate preceding fiscal year, accounted for 2% or more of the Company's total assets)
- (g) A person who belongs to an audit firm that conducts statutory audits of the Company
- (h) A person who receives a fee of at least 10 million yen a year, or 2% of net sales or total revenue of an accounting expert such as a certified public accountant, a tax expert such as a certified tax accountant, a legal expert such as a lawyer or other consultant (hereinafter collectively referred to the "Consultant and the like"), whichever is higher, from the Company in the immediate preceding fiscal year, except for his/her officer's

remuneration, or a person who belongs to a group in cases where the Consultant and the like is the group, such as a corporation and an association

(i) A person who executes business in the Company, if he/she serves as an outside officer at present or within the past three years at some other company

(j) An entity which received a donation of 10 million yen a year or 2% of the entity's net sales or total revenue, whichever is higher, from the Company in the immediate preceding fiscal year, or a person who executes business at the entity

(k) An entity which or a person who has fallen under any of (a) through (j) in the past three years

(l) A relative within second degree of kinship of any of the persons listed in (a) through (j) above or a person who depends on any of the persons listed in (a) through (j) above (however, in the "person who executes business" listed in (b) through (f), (i) and (j) above, this is limited to a director (excluding an outside director), an executive officer, an employee who executes business, an executive board member or a person who executes important business such as a responsible person of a department, and in the "person who belongs to" listed in (g) and (h) above, this is limited to a person who has a professional qualification such as a certified public accountant or a lawyer)

(m) A person who is reasonably judged to give rise to conflicts of interest with shareholders who is equivalent to that in (a) through (l) above

#### [Incentives]

Incentive Policies for Directors	Stock Options
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Supplementary Explanation

At the meeting of the Board of Directors held on May 15, 2009, we resolved to reform the officers' remuneration system. That is, we decided to introduce a bonus system linked to the business performance of the Company to create a fair and transparent officers' remuneration system by clarifying the directors' responsibility for the business results and abolish the current retirement benefit plan. For full-time directors, we decided to change the system to a method of incorporating some of the current payment amount in their monthly remuneration and granting the remaining payment amount as a stock option. These measures were approved and passed at the annual general shareholders' meeting held on June 29, 2009.

Recipients of Stock Options	Inside Directors
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Supplementary Explanation

We will provide the equivalent amount of remuneration right to those directors who receive the allotment of share acquisition rights so that they can offset the allotted share acquisition rights.

#### [Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

Content of officers' remuneration (the payment amounts in the most recent fiscal year)  
The payment amounts to nine directors, one member of the Audit & Supervisory Board and six outside officers totaled 594 million yen.

The annual securities report and the business report in which the above content is stated are posted on the Company's website.

Policy on Determining Remuneration Amounts  
and Calculation Methods Updated

Established

#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company holds a basic policy of the remuneration system for directors, namely the amount and calculation method, which will contribute to an improvement in the Company's business performance in various ranges and the enhancement of its corporate value.

The remuneration has four components: the basic remuneration as a fixed portion, the stock options which is designed to boost medium- to long-term Company earnings and corporate value by sharing the advantages and disadvantages of stock price fluctuations with the shareholders, the annual performance bonuses on the attainment of a single fiscal year management targets, and the medium-term performance bonuses on the attainment of the medium-term management plan.

Each of the four types of remuneration will be determined considering the following: the basic remuneration is paid as a fixed amount dependent on the job responsibility and job-associated risks; the stock options are granted in light of the Company performance and in calculation of respective directors' comprehensive contribution according to the internal regulations; the performance bonuses for a single fiscal year is payable based on the respective directors' comprehensive contribution in achieving the numerical targets and qualitative targets such as strengthening management bases; the performance bonuses for the period of the medium-term management plan is payable based on the respective directors' comprehensive contribution against the numerical targets and qualitative targets including reinforcing the business foundations. Outside directors are not eligible for the stock options and the performance bonuses for a single fiscal year as well as for the period of the medium-term management plan. The resolution date for the directors' remuneration was June 29, 2017 at the ordinary general meeting of shareholders. The annual remuneration for directors are capped at 800 million yen which excludes employee-portion of salaries and that for outside directors is limited to 100 million yen. The stock option scheme as stock-linked compensation is granted 300 million yen at maximum which excludes employee-portion of salaries. The general meeting also decided upon leaving the individual amount of remuneration with the Board of Directors. The maximum number of directors are stipulated as 20 in the Article of Incorporation.

The Board of Directors has the authority of determining the calculation method and individual amount of remuneration, accordingly the Board approves the respective directors' amount of remuneration in accordance with the internal regulations. The Nomination and Compensation Committee, a voluntary organ, submits the proposal to the Board of Directors for approval. For this fiscal year the Committee deliberated the proposal and the Board approved it on June 27, 2019.

The general meeting determined on June 29, 2004, the maximum amount of remuneration for a member of Audit & Supervisory Board as 60 million yen and the individual amount is discussed and mutually agreed in the Audit & Supervisory Board.

#### [Support for Outside Directors and/or Outside Members of the Audit & Supervisory Board]

The Corporate Planning Department provides support for the activities of the outside directors. An employee assigned by the Auditing Department provides support for the activities of the outside Audit & Supervisory Board members.

In addition, the general manager of the Corporate Planning Department, among others, reports on important changes in the business environment and provides a prior explanation about individual projects as required to maintain the proper decision-making process.

#### [Status of officer who previously took office of President and CEO and the like]

Details including name of officer who previously took office of President and CEO

Name	Position	Job Description	Work Pattern	Date of retiring from President and CEO	Term of Service
Eisei Miyama	Advisor	<ul style="list-style-type: none"> <li>• Provide general advice on business operations</li> <li>• Engaged in the External activities</li> </ul>	Part-time / With compensation	May 29, 2019	March 31, 2020

Number of Advisors who previously took office of President and CEO and the like	One
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Others Updated

- The Company is contracted with experienced people who have specialized skills or people who have experience of corporate officers with other companies as advisor to obtain their advice. We have a total of ten advisors (including six outside advisors) with a monthly aggregated compensation of six million yen. They are not involved in the management of the Company.
- The Board of Directors will resolve the service agreement for advisors at the time of appointment with the term of service which shall be one year maximum in accordance with the relevant internal rules.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

### 1. Corporate Governance System

We set up the Board of Directors which has the authority to decide important matters concerning business operations such as the decision of business plans, to make resolutions set out by the laws and regulations as well as the Articles of Incorporation, and to monitor the business activities with the objective of improving corporate value by responding dynamically to the changes in the business and management environment.

The Board of Directors consults before the meeting of the Board of Directors the Corporate Management Council which discuss important matters concerning business operation for the purpose of rapid decision-making of management and smooth business operation. In addition, the Board of Executive Officers meeting is held to share information about company management to aim at smooth business operation and further organizational cooperation.

Furthermore, the Board of Directors set up various committees as its advisory bodies to discuss the major management challenges of the Company and make recommendations back to the Board. Specifically, we set up the "Nomination and Compensation Committee" for nominating director candidates and for preparing a proposal for directors' remuneration, the "Risk Management Committee" to manage risks in the business operation, the "Compliance Committee" to maintain and manage the compliance structure, the "Personnel Committee" to confer about personnel utilization, the "IT Committee" to maintain IT environment, the "CSR Executive Committee" and "CSR Committee" to work on CSR challenges.

In the business operation structure, the Company holds four headquarters organizations: the Business Operation Headquarters managing each business division and mutual cooperation, Management Planning Headquarters which formulates and monitors the management strategies as well as strengthens the ties between the business divisions, Management Headquarters supporting the business operations, and Compliance Management Headquarters which maintains the legal compliance and monitor to see if the compliance is duly put in place.

We also recognize that improving our capabilities to oversee business operations is a key management issue. That is why we have in place the Audit & Supervisory Board to monitor business execution of directors, appointed outside directors, and in addition as set up the Auditing Department to perform internal audits, through which we strive to enhance management oversight functions.

Under these systems, we will take steps to clarify the scope of responsibilities and authority and make every effort to further strengthen our corporate governance.

The Board of Directors, composed of 12 directors including 7 outside directors, emphasizes both securing speediness of decision-making process and improving monitor function. We think appropriate election of directors is important to improve the corporate value. We incorporate therefore in the decision process the deliberation at Nomination and Compensation Committee which has outside directors as committee members. The Board of Directors holds a monthly regular meetings and extraordinary meetings at any time as required, to make timely decisions on critical management matters as well as to monitor business operations and directors' performance of duties.

The director in charge of the Management Planning Headquarters is responsible for supervising the management of Leoplace21 and its affiliates in order to achieve thorough governance throughout the Group. We hold a regular affiliates conference to facilitate smooth information exchange and to align all group activities. In addition, directors of each affiliate are in charge of establishing CSR promoting framework, compliance system, and risk management system, in line with policies based on business plan and efficient business operation.

To strengthen the compliance system, the Company established the Compliance Committee as an advisory body to the Board of Directors, in addition to implementing the Corporate Ethics Charter and the internal compliance hotline. With one of the outside directors serving as chair, the Compliance Committee consists of the members which include lawyers and other external experts. In the efforts to bolster governance, the Committee develops various measures relating to compliance such as enhancing training and reinforcing the information management system as well as strengthening monitoring systems and identifying problems for improvement. Each department assigns a person responsible for compliance to ensure promoting compliance-related measures in the respective workplaces.

To reinforce risk management, the Company established the Risk Management Committee as an advisory body to the Board of Directors to comprehensively identify and manage the risks facing the entire Company. With the president serving as chair, the Risk Management Committee membership includes lawyers and other external experts. The Committee not only examines risk management conditions but also plans and implements training and other measures in its efforts to reduce risk and increase preparedness and prevention. Each department extracts and analyzes risks concerning their operations, establishes and supervises risk countermeasures, and reports these efforts to the Risk Management Committee. The Committee ensures the proper management of risks in each department through consultation and guidance.

The Company controls and maintains the proper operations of its subsidiaries by adhering to the management rules of the affiliated companies and by holding a regular affiliates conference to facilitate the smooth information exchange and to align all group activities. The decision on each subsidiary's management issues require prior approval by and subsequent reporting to the Company's Board of Directors, or Corporate Management Council, or responsible Board member in accordance with the decision rules. Furthermore the director in charge of the Management Planning Headquarters is responsible for supervising the Company's affiliates and he operates his duty by receiving reports by the relevant subsidiaries at the affiliates conference. The respective general managers are responsible for overseeing each subsidiary's business while respecting its autonomy, ensuring its business activities aligned with the corporate business plans, and implementing the Group's compliance system and risk management system to support the efficient operations.

Such general managers collect relevant information through regular and ad-hoc meetings with the respective subsidiaries and report the state of managing subsidiaries to the Board of Directors and the Corporate Management Council.

Our Group's basic policy of the internal control system is to base our corporate activities on legal compliance and compliance with social ethics. Specifically, the Audit & Supervisory Board, the Compliance Committee, the Compliance Management Division, the General Affairs Department, and the Auditing Department supervise and check if all departments comply with relevant laws and regulations, with the Corporate Ethics Charter as a fundamental reference. Additionally, we established the Auditing Council to prepare proper financial statements while aiming to comply with relevant laws and regulations, to safeguard the company's assets, and to carry out efficient business activities. We also created the Risk Management Committee, which operates a system to investigate in advance all management risks within the company group to sort them into

categories of significance. We set up an internal hotline function to collect and grasp various risk issues and others to further improve and reinforce the internal control system.

## **2. Internal Audit and Audit by the Audit & Supervisory Board Members**

The Auditing Department, directly reporting to the president, oversees the internal control and internal audit functions and conducts audits not only for the Company but for affiliated companies as well. The Auditing Council was set up to maintain sound internal control such as monitoring management activities and risk management and thereby strengthens governance. The Auditing Department reports the results of audits to the directors and the auditors at monthly meetings of the Auditing Council and also to the accounting auditor for information sharing.

The Audit & Supervisory Board, composed of four members including three Outside Auditors, makes audit plans, and the auditors attend important meetings, including meetings of the Board of Directors, according to the audit plans to monitor important decision-making processes and the directors' performance of their duties. They also conduct operational status investigations and regularly exchange opinions with the president to enhance the effectiveness of audits. All of the four auditors have considerable knowledge of finance and accounting, for Atsunori Nasu having experienced the general manager of the Auditing Department of the Company, for Masahiko Nakamura for his wealth of experience as a certified tax accountant, for Takao Yuhara having experienced CFO roles in several listed companies, and for Jiro Yoshino having experience of an executive officer and a full-time auditor in a listed company. The auditors and accounting auditor exchange their opinions at quarterly briefing sessions on closing of accounts and hold other meetings as needed.

As described above, the Auditing Department, auditors, and accounting auditor work together to carry out efficient internal audits and auditor's audits.

## **3. Outside Directors and Outside Audit & Supervisory Board Members**

The Company has seven outside directors: Tadashi Kodama, Tetsuji Taya, Yoshiko Sasao, Yoshitaka Murakami, Hisafumi Koga, Kazuyasu Fujita and Yutaka Nakamura, and three outside members of the Audit & Supervisory Board: Masahiko Nakamura, Takao Yuhara, and Jiro Yoshino.

The Company expects that the appointment of the outside directors and the outside Audit & Supervisory Board members will help secure the transparency and fairness of management by strengthening the function to supervise the decision-making process and the execution of the business of the Board of Directors and enhance the role of making proposals and strengthening the supervisory function from an objective standpoint based on the considerable knowledge and experience and deep insight as corporate executives they cultivated through their careers.

There is no personal, capital or business relationship or any other interest between the Company and the outside directors and the outside Audit & Supervisory Board members, except for their holding of the Company's shares by the three outside directors, Tadashi Kodama, Tetsuji Taya, and Yoshiko Sasao as well as one outside member of the Audit & Supervisory Board, Jiro Yoshino. The Company has no more than a usual business relationship with Kyodo Public Relations Co., Ltd. for which Hisafumi Koga, one of the Company's outside directors serving as executive chairman, with the comparable terms and conditions to other general business partners.

There is no personal, capital or business relationship or any other interest between the Company and the companies where the outside directors and the outside Audit & Supervisory Board members have a concurrent post.

We notified Tokyo Stock Exchange, Inc. of Tadashi Kodama, Tetsuji Taya, Yoshiko Sasao, Yoshitaka Murakami, Kazuyasu Fujita and Yutaka Nakamura out of the outside directors of the Board as independent directors, and of Masahiko Nakamura, Takao Yuhara, and Jiro Yoshino, outside members of the Audit & Supervisory Board as independent.

With respect to their independence at the time of appointing them as outside directors and outside Audit & Supervisory Board members, they have independence based on the Independence Criteria for Outside Officers established by the Company on its own and the independence standards set forth by the Tokyo Stock Exchange in its Guidelines Concerning Listing Examination, etc.

Given the appointment of highly independent outside directors and outside Audit & Supervisory Board members with professional knowledge as described above, we believe that we established a system in which an objective and neutral management supervision fully functions from the external standpoint.

The reference is made to the supervision by the outside directors and mutually coordinated audits between audits by the outside Audit & Supervisory Board members, internal audits, audits by the Audit & Supervisory Board and financial audits as well as the status of control by the departments responsible for the internal control. The outside directors fulfill their duty of supervision by attending the Board meetings and Auditing Council meetings to receive reports on the findings by the internal audits, audits by the Audit & Supervisory Board and financial audits as well as the things raised by the responsible departments for internal control, for making relevant proposals and recommendations as needed. The outside members of the Audit & Supervisory Board strive to perform efficient audits in mutual coordination between internal audits, audits by the Audit & Supervisory Board members and the financial audits by receiving reports on the findings of these audits and the status of control by the departments responsible for internal control at the meetings of the Board of Directors and the Audit & Supervisory Board.

### **3. Reasons for Adoption of Current Corporate Governance System**

We adopted the current corporate governance system to strengthen the supervisory function over decision-making, establish the compliance system, enhance and strengthen the internal control system, and build good relationships with stakeholders and so on.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholders Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Electromagnetic Means of Exercising Voting Rights	We developed and have been utilizing the voting environment by using the electronic voting platform for institutional investors operated by ICJ, Inc.
Participation in Electronic Voting Platform and Other Initiatives to Improve the Environment for Exercising Voting Rights by Institutional Investors	We developed and have been utilizing the voting environment by using the electronic voting platform for institutional investors operated by ICJ, Inc.
Providing Convocation Notice in English	We have been preparing an English convocation notice (summary version).

#### 2. IR Activities Updated

	Supplementary Explanations	Explanation by the Representative in Person
Preparation and Publication of Disclosure Policy	We make disclosure in “Information for Investors” on the website.	—
Organize Regular Investor Briefings for Analysts and Institutional Investors	We hold, in principle, a results briefing at the head office on the business day following the announcement of the half-year interim results and the annual results. We release on the IR part of the website the presentation materials and video of the meeting.	Yes
Posting of IR Materials on Website	The URL of the IR site is <a href="http://eg.leopalace21.com/ir/">http://eg.leopalace21.com/ir/</a> , which contains the materials including monthly data, materials for timely disclosure, financial statements, Investor Meeting presentations, Integrated Reports, the medium-term management plans, and reports on IR activities (mainly for individual investors).	—
Dedicated Organization or Personnel Handling IR Matters	Department in charge of IR: IR Promotion Office, Corporate Planning Department Officer in charge of IR: Seishi Okamoto, Director, Managing Executive Officer Officer in charge of IR: Kiyoshi Arai, Executive Officer and General Manager of Corporate Planning Department	—
Other	Deliver monthly result of major indicators (occupancy rates, orders received, and so on) to institutional and individual investors in Japan and overseas by email.	—

### 3. Measures to Demonstrate Respect for Stakeholders Updated

	Supplementary Explanations
Stipulate Stakeholder-related Clauses in Internal Rules or other things	The Corporate Ethics Charter prescribes relationships with all stakeholders including customers, business partners, shareholders, investors and employees. It is disclosed on the website.
Implement Environmental Activities, CSR Activities etc.	<p>As the basic policy on CSR activities, we set the following five themes: 1. “Providing high-quality services and supporting affluent living,” 2. “Contributing to local communities,” 3. “Creating pleasant work environments and developing diverse human resources,” 4. “Creating an environmentally friendly society” and 5. “Engaging in sound, constructive communication with stakeholders.” The Company continues its CSR activities based on this policy.</p> <p>Specifically, we work to propose and provide a living environment tailored to customers’ lifestyles by capturing their needs, and to increase their satisfaction through the technology enabled by IoT such as “promotion of smart apartments” and our “electronic contract services.” We also strive to reduce the environmental burden of our business activities through efforts to save electricity and water in our apartments nationwide and the promotion of a “Cool Biz” dress code for summer, the reuse of discarded materials and the introduction of more mini motor vehicles in our fleet. We place emphasis on work-life balance for the creation of pleasant workplace environments and the development of human resources. We work to ensure that the work-life balance prevail in practice with understanding the management policy focusing on diversity, including promoting female employees’ career development and harnessing the capability of global human resources. For communications with stakeholders, we built a careful follow-up system for customers.</p> <p>We also provide opportunities to actively share information on the Company’s business and performance by regularly holding events and seminars to enhance our IR activities. In addition, we publish the Integrated Report annually for the purpose of comprehensively reporting our efforts through business activities for the fiscal year.</p>
Develop Policies on Information Provision to Stakeholders	The Corporate Ethics Charter stipulates that “Officers and employees shall maintain appropriate and harmonious relationships with customers, shareholders, investors and other stakeholders, make every effort to disclose management information fairly, timely and adequately, and ensure that management is transparent and sound.” According to the Charter, we set the disclosure policy and established the IR Promotion Office in the Corporate Planning Department to provide information promptly to all stakeholders.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

1. System to ensure that the execution of duties by the officers and employees of the Company and its subsidiaries comply with laws, regulations and the Articles of Incorporation

(1) A corporate group consisting of the Company and its subsidiaries (hereinafter “the Group”) does business based on its corporate philosophy to “create new value.” As part of that process, we set out a Corporate Ethics Charter. We are determined to establish legal and social compliance as the cornerstone of all of our corporate activities. This is exemplified by our President and CEO and Chief Legal Officer of the Compliance Management Headquarters, whose role is to continuously share the spirit of this charter with all officers and employees of the Group.

(2) The Company’s Board of Directors of which outside directors should consist of at least one third, secures the supervisory control including compliance by strengthening the function for overseeing the decision-making and the execution of business of the Board of Directors.

(3) The Company established the Compliance Committee as an advisory body to the Board of Directors. The Committee is headed by one of the outside directors and will be staffed by the external experts such as lawyers and the like. The Compliance Committee as a part of the Group’s efforts of strengthening governance, plans and implements the measures regarding Group’s compliance framework including reinforcing the training and information management system, and monitors the corporate activities in accordance with the compliance regulations to identify the issues for improvement. In cases of suspected violations of laws and regulations, the Compliance Committee will have the authority to suspend operations.

(4) The Company established the Compliance Management Headquarters headed by an Executive Officer, serves as Chief Legal Officer who manages all the matters related to the legal compliance. The Compliance Management Headquarters is responsible for planning and implementing measures to promote the Group’s compliance as well as improving issues to develop the autonomous corporate culture.

(5) The Company created under the Compliance Management Headquarters the Compliance Management Division which promotes planning related to compliance activities and is responsible for checking the legal compliance, in particular, verifying the products such as buildings to comply with related laws and regulations. The Division supports the business departments’ compliance-related operations including the progress management and monitoring the business operations as well as contract verification and dealing with the lawsuits.

(6) The Group deploys the compliance coordinators across the Group so that all the officers and employees are adequately informed on the compliance-related measures and the coordinators can immediately report any anomalies. In addition, the internal hotlines are available with the focal points both inside and outside the Group for immediate consultation and reporting. The Group organizes periodic survey on the employees’ awareness with a view to grasp risks at an early stage and to gauge the degree of compliance awareness. The Group ensures the whistle blower protection in the whistle blower regulations to make all the officers and employees aware of the Company’s intention of preventing any retaliation or other disadvantage to the whistle blowers who consults or reports on somebody’s questionable actions against the laws, regulations and the Articles of Incorporation.

(7) The Company established the Auditing Department which controls the internal control function and the internal audit function directly under the President and CEO. The Department considers items and methods for business operations audits and maintains monitoring and risk management of the operations. The Department promotes efficient business activities by reinforcing the governance and preparing appropriate financial statements, complying with the legal system, and protecting the Group’s assets. The Company holds Auditing Council to increase the effectiveness of the auditing system.

(8) The Company works continuously to develop the compliance regulations and related individual regulations, guidelines and manuals, etc. and to periodically organize the compliance-centered training programs in light of hierarchical positions and jobs so that the Company can enhance the compliance awareness by all the officers and employees in the Group. The performance appraisal system may include the

measurement in terms of proactively demonstrating compliance behavior and multi-directional personnel rating system.

(9) The Company promotes the active dialogues between the management team and all the stakeholders so that it lead to develop the customer-oriented corporate culture by increasing the transparency and fostering the mutual understanding.

(10) The Group put as basis development of sense of compliance firmly in the organization and having in combination the organizational structure spearheaded by the Compliance Management Headquarters and reinforced compliance mindset assisted by the Auditing Department's audits and whistle blowing system so that the Group can pursue the concept of compliance-first.

## 2. System to store and manage information on the execution of duties by directors

The President and CEO of the Company assigns the director in charge of the Management Headquarters as the chief supervisor for the storage and management of information on the execution of duties by directors. The information on the execution of duties by directors is organized, stored and managed by recording it in documents or electromagnetic recording media in accordance with the document handling regulations and the information management regulations. The Company organizes the training to strengthen the information management system.

## 3. Regulations and other systems to manage the risk of loss in the Company and its subsidiaries

(1) To comprehensively identify and manage risks in the Group, the Company established the Risk Management Committee consisting of lawyers and other outside experts, with the President and CEO of the Company serving as chair, as an advisory body to the Board of Directors of the Company.

(2) The Risk Management Committee develops the risk management regulations and related individual regulations, guidelines and manuals, etc. for the risk management of the Group, checks the operation status against these regulations, etc. and implements training for the officers and employees of the Group. The director in charge of the Compliance Management Headquarters quarterly reports the Group's risk management situation to the Board of Directors.

(3) The Auditing Department audits the status of business execution by each department of the Group and, if it identifies any business risk that could cause a loss, immediately reports the details and the significance of loss to the President and CEO and the responsible departments.

## 4. System to ensure the efficient execution of directors' duties

(1) The Company works to improve its business performance through appropriate and prompt decision-making by establishing the Board of Directors and responding to changes in business and the business environment in a proactive manner. The Board of Directors, which consists of an appropriate number of members with diverse background, determines important management matters and checks the status of business execution by holding a regular monthly meeting and other meetings as required.

(2) The Company also regularly holds meetings of the Corporate Management Council as a prior deliberative body to discuss business execution policies, implementation of policies and the measures.

(3) The Company formulates a medium-term management plan for the Group and sets key yearly targets and budget allocations, etc. for the entire Group to materialize the plan.

(4) The Company reviews the results of income and expenditure plan of each department and subsidiary and progress in other important business plans at a monthly Board meeting or when appropriate at other meetings to highlight issues for the corrective actions.

## 5. System to report matters on the execution of duties by the directors of subsidiaries to the Company and other systems to secure the appropriateness of business in the Group

(1) By applying the management rules of the affiliated companies to the subsidiaries, the Company has the subsidiaries obtain a prior approval of its Board of Directors, or of the officer in charge of the subsidiaries for their important management matters in accordance with the decision-making criteria of the Company.

(2) The director in charge of the Management Planning Headquarters controls the management of subsidiaries. The director in charge receives the necessary reports from subsidiaries to promote efficient information exchange and align all group activities by holding a regular affiliates conference with the subsidiaries.

(3) The respective general managers are responsible for overseeing each subsidiary's business while respecting its autonomy, ensuring its business activities aligned with the corporate business plans, and implementing the Group's compliance system and risk management system to support the efficient operations. Such general managers collect relevant information through regular and ad-hoc meetings with the respective subsidiaries and report the state of managing subsidiaries to the Board of Directors and the Corporate Management Council.

(4) The Auditing Department and the Audit & Supervisory Board members audit the subsidiaries regularly or temporarily and make a report to the President and CEO and the Auditing Council.

6. System related to an employee in cases where a member of the Audit & Supervisory Board requests the Company to assign a certain employee to assist his/her duties, matters related to the independence of the employee from the directors and matters related to securing the effectiveness of the instruction of the member of the Audit & Supervisory Board

(1) If a member of the Audit & Supervisory Board requests the Company to assign a certain employee to assist his/her duties, the Board of Directors nominates such an employee from the members of the Auditing Department after consulting the Audit & Supervisory Board member.

(2) For the work to assist the Audit & Supervisory Board member, the employee's independence from the Board of Directors is secured by assuming that the command authority over the nominated employee has been transferred to the Audit & Supervisory Board member. The nominated employee follow the command and orders of the Audit & Supervisory Board member in his or her assisting work. The Audit & Supervisory Board will undertake the performance assessment of the employee in his or her assisting work, and the Audit & Supervisory Board member and the department manager of Human Resources Department discuss the personnel transfer and treatment of the employee.

7. System for the directors and employees of the Company and the directors, Audit & Supervisory Board members and employees of the subsidiaries to make a report to the Audit & Supervisory Board members of the Company, a system for them to make other reports to the members of the Audit & Supervisory Board of the Company, and a system to ensure the effective audits of the Audit & Supervisory Board members of the Company

(1) The officers and employees of the Group shall report any matters and misconduct that could cause significant damage to the Group and other necessary important matters to the Audit & Supervisory Board members as required based on laws, regulations and internal regulations of the Company such as the Audit & Supervisory Board regulations and the standards on audits by the Audit & Supervisory Board members. In addition, the Audit & Supervisory Board members may ask the officers and employees to make a report whenever necessary.

(2) The Audit & Supervisory Board members may attend important meetings such as the Board of Directors' meetings, the Corporate Management Council, the Compliance Committee, the Risk Management Committee and the affiliates conferences to understand important decision-making processes and the status of business execution by the directors of the Group, and inspect important documents related to business execution, such as approval documents. The Audit & Supervisory Board members shall also conduct monitoring and verification by regularly exchanging information with the President and CEO, having regular interviews with departments of the Group, the Audit & Supervisory Board members of the subsidiaries through audits.

(3) The Audit & Supervisory Board members shall secure the effectiveness of audits, taking advantage of their independence and authority under the Audit & Supervisory Board regulations and the standards on audits by the Audit & Supervisory Board members, and work to achieve their audit results while maintaining close

cooperation with the accounting auditor and the Auditing Department by receiving their audit reports on the departments of the Group.

(4) The Company intends to prevent any retaliation or other disadvantage to the officers and employees of the Group who made a report to a member of the Audit & Supervisory Board on that grounds, and fully enforces this prohibition.

(5) If a member of the Audit & Supervisory Board asks the Company to prepay or redeem expenses for the execution of his/her duties, the Company shall promptly compensate for the expenses or obligations in the request unless it is proved that the expenses or obligations in the request are unnecessary for the execution of duties by the Audit & Supervisory Board member.

#### 8. System to secure the reliability of financial reporting

To secure the reliability of the Company's financial reporting and the effective and appropriate submission of the internal control report prescribed in the Financial Instruments and Exchange Act, the Group built a system to develop and operate an appropriate internal control under the direction of the President and CEO and to continuously evaluate the system functionality for necessary corrections, as well as to secure the compliance with the Financial Instruments and Exchange Act and other related laws and regulations.

## **2. Basic Views on Eliminating Anti-Social Forces and the Progress of System Development**

### 1. Development of a system to eliminate anti-social forces

(1) The Group stipulated the elimination of relationships with anti-social forces in its Corporate Ethics Charter and will have no relationships with anti-social forces and groups and will resolutely respond to them which threaten the order and safety of civil society.

(2) The Group developed a system under which it will not submit to anti-social forces' undue claims by preparing detailed rules to eliminate anti-social forces and by appointing a person to deal with such undue claims at all branches and sales offices. The Group made the General Affairs Department as the controlling point to deal with the undue claims and consult the related departments including the Compliance Committee and the Risk Management Committee as well as the external specialized agencies, depending on the nature of the case.

## **V. Other**

### **1. Adoption of Anti-Takeover Measures**

Adoption of Anti-Takeover Measures	Not Adopted
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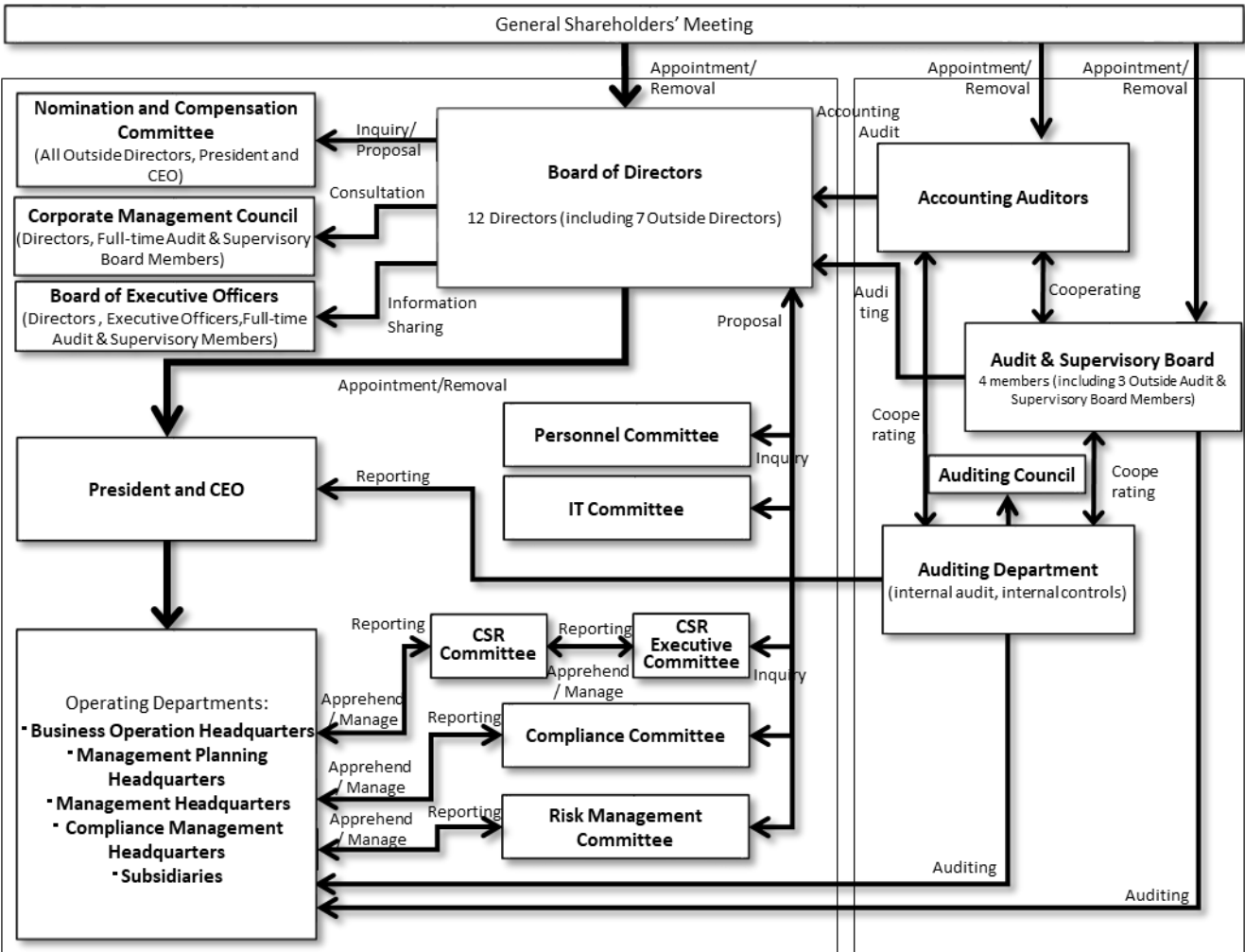
Supplementary Explanation
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### **2. Other Matters Concerning to Corporate Governance System**

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### Corporate Governance System



### Information Disclosure System

