

**(Appendix 2) Notice Concerning the Commencement of Considerations for Fundamental Reforms
Including Business Alliances and Business Reorganizations***

(*English translation provided by Reno, Inc.)

Leopalace21 Corporation (Headquarters: Nakano, Tokyo; President and CEO: Bunya Miyao; the “Company”) announces that it will begin considerations (“Considerations”) of plans for fundamental reforms including business alliances and business restructuring, in order to maximize shareholder value and for the stable management by apartments owners as well as the stabilization of employment for our employees.

The series of events that led to these Considerations can be found in the following particulars.

The Company will continue to promote repair works for the construction defects, with the aim of ensuring peace of mind for our tenants and owners.

Particulars

1. Surfacing of the construction defects problem and the formulation of recurrence prevention measures

The Company made announcements on defects in the parting walls of small-scale attics of the “Nail” apartment series and on defects in the parting walls of the “Gold Residence” apartment series, etc., on April 27, 2018 and May 29, 2018 respectively.

Thereafter, the Company released information on additional construction defects that were confirmed during the course of all-building investigations (discrepancies in insulation materials inside parting walls, exterior wall structures not meeting qualifications certified by the Minister of Land Infrastructure and Transport, and construction defects of ceilings), and also subsequently announced specification discrepancies for fireproof properties with steel braced frame structures on May 29, 2019.

Given these construction defects in our properties, the Company established an external investigation committee on February 27, 2019 with the aim to objectively verify the causes of these defects and devise recurrence prevention measures. Investigations were conducted thereafter, and the Company received Investigation Reports regarding the construction defects problem on May 29 and July 31, 2019.

Given the content of the reports by the external investigation committee, the company formulated and announced on May 29, 2019 recurrence prevention measures based on drastic reforms of the corporate culture, restructuring the compliance risk management system, and reviewing the construction subcontracting business system.

The Company is promoting various recurrence prevention measures such as dialogues with stakeholders, enhancing the compliance structure by revising how the Compliance Committee is operated, etc., active detention of potential risks, and establishing a Construction Law Department in the Compliance Management Department to conduct checks of construction management and verifications, with the aim to foster a customer-first corporate culture.

Please refer to the Company’s website “Measures against problems concerning construction defects of properties

constructed by Leopalace 21” for the progress in our recurrence prevention measures.

2. Policy regarding the structure of the Board of Directors for improved corporate governance

The Company has been focusing on executing the recurrence prevention measures formulated on May 29, 2019, but judged that a structure to check on management with outside perspectives needs to be enhanced in order to drastically conduct recurrence prevention, and made a board resolution on December 16, 2019, to submit a proposal at the annual shareholders’ meeting scheduled for June 2020 to make the majority of the Directors of the Board outside directors, which was also publicly announced on the same day.

3. Commencement of considerations for fundamental reforms including business alliances and business reorganizations

As stated above, the Company is promoting various recurrence prevention measures, and has just decided on a policy for its governance structure.

On the other hand, due to the Company prioritizing the all-building investigation, delays have occurred in the completion of repair constructions and the resumption of accepting new tenants’ recruitment, and as a result, the Company is forecasting a net loss of 30.4 billion yen for the fiscal year ending March 2020, as announced on November 7, 2019 in the “Notice Concerning Revision of Earnings” (later partially corrected on November 8, 2019).

The Company takes this matter seriously, and has been considering its management policies such as improvement in productivity through business structural reforms, cost reductions, and deepening our business model centered around our leasing business.

However, as occupancy rates struggle, the business environment for our Company remains difficult, and we have come to the decision that considerations for fundamental reforms including business alliances and business reorganizations will be necessary in order to maximize shareholder value and stabilize the apartment management of owners as well as the employment for our employees.

The Company’s social mission is to provide safe and comfortable homes to tenants, and it believes that this mission has to be fulfilled in order to benefit shareholders, owners, and employees.

From that perspective, the Company will swiftly consider all options, not limited to business alliances and business reorganizations, and announce the results of the considerations at around the end March 2020.

The Company will also engage in constructive dialogue with shareholders so as to benefit the sustainable growth of the Company as well as the long-term maximization of enterprise value, in accordance to [Principle 5.1 Policy for Constructive Dialogue with Shareholders] of Japan’s Corporate Governance Code.