

# Consolidated Financial Results for the Nine Months ended December 31, 2009



January 29, 2010

Company Name: Heiwa Real Estate Co., Ltd.

Code Number: 8803

(URL: <http://www.heiwa-net.co.jp/>)

Stock Exchange Listing: Tokyo, Osaka, Nagoya, Sapporo, Fukuoka

Representative: Sakutaro Kimbara, Director and President

Scheduled date to submit the Quarterly Securities Report: February 10, 2010

Scheduled date to commence dividend payments: -

(Figures are rounded down to the nearest million yen)

## 1. Consolidated Financial Results for the Nine Months ended December 31, 2009 (From April 1, 2009 to December 31, 2009)

### (1) Consolidated Results of Operations (cumulative)

(% indicates changes from the previous term)

	Operating revenue		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2009	21,891	(21.6)	6,132	(7.8)	3,803	(16.9)	556	0.4
Nine months ended December 31, 2008	27,926	-	6,650	-	4,577	-	554	-

	Net income per share		Fully diluted net income per share	
	Yen		Yen	
Nine months ended December 31, 2009	3.74		3.30	
Nine months ended December 31, 2008	3.73		3.28	

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Nine months ended December 31, 2009	309,726	68,736	21.8	452.67
Year ended March 31, 2009	317,439	70,598	21.3	454.57

(Reference) Equity: Nine months ended December 31, 2009: ¥67,368 million  
Year ended March 31, 2009: ¥67,661 million

## 2. Dividends

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen				
Year ended March 31, 2009	-	6.00	-	6.00	12.00
Year ending March 31, 2010	-	3.00	-		
Year ending March 31, 2010 (Forecast)				3.00	6.00

(Note) Revision to the dividend forecast: No

### 3. Forecast of Consolidated Financial Results for Fiscal Year Ending March 31, 2010 (From April 1, 2009 to March 31, 2010)

(% indicates changes from the previous corresponding term)

	Operating revenue		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	40,000	(23.0)	8,000	(11.1)	4,500	(27.2)	1,600	85.6	10.70

(Note) Revision to the forecast of consolidated financial results: No

#### 4. Others

- (1) Significant changes of subsidiaries during period under review (affecting specific subsidiaries due to changes in scope of consolidation): Not applicable
- (2) Adoption of simplified accounting methods and special accounting treatment for preparing quarterly consolidated financial statements: Yes  
(Note) For details, please refer to Qualitative Information and Financial Statements 4. Others on Page 4.
- (3) Changes in the accounting principles, accounting procedures, presentation, etc., related to preparation of quarterly consolidated financial statements (those to be described as Changes in Significant Matters that are the Basis for Preparing Quarterly Consolidated Financial Statements)
  - 1) Changes due to the revision of accounting standards, etc.: Not applicable
  - 2) Any changes other than 1) above: Not applicable
- (4) Total number of issued shares (common stock)
  - 1) Total number of issued shares at end of period (including treasury stock):  
 Nine months ended December 31, 2009: 149,503,980 shares  
 Year ended March 31, 2009: 149,503,980 shares
  - 2) Total number of treasury shares at end of period:  
 Nine months ended December 31, 2009: 678,641 shares  
 Year ended March 31, 2009: 657,579 shares
  - 3) Average number of shares during period:  
 Nine months ended December 31, 2009: 148,833,478 shares  
 Nine months ended December 31, 2008: 148,368,543 shares

- The information stated in this reference material was compiled based on data considered reasonable as of the date of compilation of this reference material, and is subject to various uncertain factors. Accordingly, we do not ensure or promise the accuracy or completeness of the information, and may revise the information without notice. We also bear no liability for any deficiencies or errors of the data or expressions used in this reference material.

## Qualitative Information and Financial Statements

### 1. Qualitative information on consolidated results of operation

The Japanese economy continued to face severe constraints in the nine months ended December 31, 2009. Some signs of economic recovery began to show, mainly thanks to the effects of government economic policies and the progress of corporate inventory adjustments. Personal consumption and other forms of demand, however, remained sluggish, mainly due to the deterioration of employment and income conditions.

Conditions in the real estate industry reflected the overall economic conditions mentioned above. The nationwide average for land prices fell, with especially sharp price declines in business districts. In keeping with the growing cost-consciousness of companies, the vacancy rates in office buildings continued to worsen, mainly through steps by enterprises to reduce and consolidate their offices. As a result, the demand for office buildings remained sluggish and the rental market values of office buildings continued to weaken. Meanwhile, sales in the housing market, such as sales of condominiums, partly moved into a recovery trend, with improved sales of condominiums, mainly as a result of adjustments in sales prices, expanded tax reductions for housing loans, and other measures for economic recovery. Overall, however, housing starts and sales remained low.

Under these circumstances, operating revenue in the Building Division of the Company for the nine months ended December 31, 2009 decreased by ¥646 million (4.6%) from the same period of the previous fiscal year to ¥13,454 million, mainly due to a decrease in rental revenue resulting from the previous years' sales of buildings owned.

In the Housing Division, the Company sold total 99 condominiums, including SOUTH ALL CITY (1st stage) (Nishi-ku, Sakai-city, Osaka), and operating revenue increased by ¥1,878 million (77.9%) to ¥4,291 million. With the Housing Leasing Business added to the above, total operating revenue in this division increased by ¥1,595 million (47.2%) to ¥4,973 million.

In the Asset Development Division, operating revenue from the real estate development and management businesses decreased by ¥7,084 million (79.1%) to ¥1,867 million, mainly due to a decrease in the sales of real estate development.

In the Other Divisions, sales activities related to corporations produced ¥301 million in revenue in the Real Estate Brokerage Business, an increase of ¥1 million (0.3%). Operating revenue from the Contract Construction Business and Building Management Business increased by ¥87 million (10.6%) to ¥914 million. Operating revenue from the Private Nursing Home Business increased by ¥27 million (9.8%) to ¥312 million. With the other operating revenue added to the above, the operating revenue for the Other Divisions in the nine months ended December 31, 2009 increased by ¥101 million (6.8%) to ¥1,595 million.

Accordingly, total operating revenue decreased by ¥6,034 million (21.6%) to ¥21,891 million, cost of sales decreased by ¥5,376 million (29.4%) to ¥12,906 million, and selling, general and administrative expenses decreased by ¥140 million (4.7%) to ¥2,852 million.

Consequently, operating income for the nine months ended December 31, 2009 decreased by ¥517 million (7.8%) to ¥6,132 million, and ordinary income decreased by ¥773 million (16.9%) to ¥3,803 million. Net income increased by ¥2 million (0.4%) to ¥556 million, mainly due to a loss on sale of fixed assets.

### 2. Qualitative information on the consolidated financial position

Total assets at the end of the nine months ended December 31, 2009 decreased by ¥7,713 million from the end of the previous fiscal year to ¥309,726 million. The assets breakdown is as follows: cash and deposits decreased by ¥11,601 million, mainly due to redemption of bonds.

Total liabilities decreased by ¥5,851 million from the end of the previous fiscal year, mainly due to the redemption of bonds.

Total net assets decreased by ¥1,861 million from the end of the previous fiscal year. The net assets breakdown is as follows: ¥556 million of net income increased net assets, while ¥1,339 million of dividend payments and ¥1,568 million decrease in minority shareholders' equity (a decrease mainly due to additional investment in subsidiaries) decreased net assets.

#### <Consolidated cash flows>

Cash and cash equivalents ("Funds") on a consolidated basis at the end of the nine months ended December 31, 2009 decreased by ¥4,437 million from the end of the previous fiscal year to ¥24,617 million.

Cash flows from operating activities increased by ¥9,130 million. The breakdown is as follows: net income before income taxes was ¥1,156 million and depreciation was ¥3,718 million. (Cash flows from operating activities for the same period of the previous fiscal year were an inflow of ¥7,047 million.)

Cash flows from investing activities decreased by ¥7,712 million, mainly due to the acquisition of tangible fixed assets. (Cash flows from investing activities for the same period of the previous fiscal year were an outflow of ¥9,427 million.)

Cash flows from financing activities decreased by ¥5,855 million, mainly due to redemption of bonds. (Cash flows from financing activities for the same period of the previous fiscal year were an inflow of ¥4,583 million.)

### 3. Qualitative information on forecast of consolidated financial results

We have not revised our forecast announced on April 30, 2009.

### 4. Others

- (1) Significant changes of subsidiaries during period under review (affecting specific subsidiaries due to changes in scope of consolidation):

Not applicable

- (2) Adoption of simplified accounting methods and special accounting treatment for preparing quarterly consolidated financial statements

(Simplified accounting methods)

Valuation of inventories

We estimated the net saleable value only for inventories whose profitability had apparently declined and wrote down their book values.

(Application of special accounting treatment for preparing quarterly consolidated financial statements)

Calculation of tax expenses

We reasonably estimated the effective tax rate after applying tax-effect accounting to net income before income taxes for the fiscal year, including the nine months ended December 31, 2009. Accordingly, we computed tax expenses by multiplying net income before income taxes by the estimated effective tax rate.

Additionally, we include deferred income taxes in the income taxes.

- (3) Changes in the accounting principles, accounting procedures, presentation, etc. related to preparation of quarterly consolidated financial statements

Not applicable

#### 4. Quarterly Consolidated Financial Statements

##### (1) Quarterly Consolidated Balance Sheets

(In millions of yen)

	Nine months ended December 31, 2009 (As of December 31, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
<b>Assets</b>		
Current assets		
Cash and deposits	10,666	22,267
Accounts receivable – trade	1,011	1,399
Marketable securities	14,662	7,075
Real estate for sale	18,923	22,275
Real estate for sale in process	17,692	16,723
Other inventories	202	2
Operating investment	9,349	11,547
Other	1,293	771
Allowance for doubtful accounts	(79)	(38)
Total current assets	73,722	82,023
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	77,852	83,744
Land	131,687	133,470
Other, net	6,954	2,476
Total tangible fixed assets	216,494	219,691
Intangible fixed assets		
Goodwill	203	39
Other	5,793	5,756
Total intangible fixed assets	5,996	5,795
Investments and other assets		
Other	14,104	10,560
Allowance for doubtful accounts	(848)	(841)
Total investments and other assets	13,256	9,718
Total fixed assets	235,747	235,205
Deferred assets	256	209
Total assets	309,726	317,439

(In millions of yen)

	Nine months ended December 31, 2009 (As of December 31, 2009)	Previous fiscal year (As of March 31, 2009) Condensed
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	1,774	2,673
Current portion of bonds	20,850	20,370
Short-term loans payable	28,350	26,120
Current portion of long-term loans	25,140	24,024
Accrued corporation and other taxes	28	1,176
Provision	122	253
Other	3,539	3,121
Total current liabilities	79,805	77,739
Long-term liabilities		
Bonds	32,865	44,430
Convertible bonds (with stock acquisition rights)	20,000	20,000
Long-term loans payable	78,812	75,348
Provision	631	618
Negative goodwill	357	33
Other	28,517	28,671
Total long-term liabilities	161,183	169,101
Total liabilities	240,989	246,840
Net assets		
Shareholders' equity		
Common stock	15,797	15,797
Additional paid-in capital	14,025	14,025
Retained earnings	29,138	30,046
Treasury stock, at cost	(372)	(366)
Total shareholders' equity	58,589	59,503
Valuation and translation adjustments		
Unrealized gain on securities	(454)	(950)
Revaluation surplus of land	9,233	9,109
Total valuation and translation adjustments	8,779	8,158
Minority shareholders' equity	1,367	2,936
Total net assets	68,736	70,598
Total liabilities and net assets	309,726	317,439

(2) Quarterly Consolidated Statement of Profit and Loss  
(Nine months ended December 31, 2008 and 2009)

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)	Nine months ended December 31, 2009 (From April 1, 2009 to December 31, 2009)
Operating revenue	27,926	21,891
Cost of sales	18,283	12,906
Gross profit	9,643	8,985
Selling, general and administrative expenses	2,993	2,852
Operating income	6,650	6,132
Non-operating income		
Interest income	12	14
Dividends earned	197	141
Amortization of negative goodwill	—	24
Interest on refund	57	—
Other	20	29
Total non-operating income	288	210
Non-operating expenses		
Interest expense	2,225	2,396
Other	135	142
Total non-operating expenses	2,360	2,538
Ordinary income	4,577	3,803
Extraordinary income		
Reversal of allowance for doubtful accounts	3	2
Gain on sale of fixed assets	11	16
Gain on sale of investment securities	—	235
Other	—	11
Total extraordinary income	14	266
Extraordinary loss		
Loss on sale of fixed assets	—	1,645
Loss on disposal of fixed assets	43	1,268
Loss on revaluation of investment securities	2,875	—
Other	436	—
Total extraordinary loss	3,355	2,914
Income before income taxes	1,237	1,156
Income taxes	585	502
Minority interests	97	97
Net income	554	556

(Third quarter ended December 31, 2008 and 2009)

(In millions of yen)

	Previous third quarter (From October 1, 2008 to December 31, 2008)	Current third quarter (From October 1, 2009 to December 31, 2009)
Operating revenue	13,802	7,692
Cost of sales	9,866	4,170
Gross profit	3,936	3,521
Selling, general and administrative expenses	995	1,058
Operating income	2,941	2,462
Non-operating income		
Interest income	2	3
Dividends earned	55	51
Amortization of negative goodwill	—	19
Other	4	13
Total non-operating income	62	88
Non-operating expenses		
Interest expense	743	806
Other	34	48
Total non-operating expenses	777	854
Ordinary income	2,226	1,696
Extraordinary income		
Reversal of allowance for doubtful accounts	1	—
Gain on sale of fixed assets	5	11
Total extraordinary income	7	11
Extraordinary loss		
Loss on sale of fixed assets	—	1,645
Loss on disposal of fixed assets	36	24
Loss on revaluation of investment securities	1,475	—
Other	192	—
Total extraordinary loss	1,703	1,669
Income before income taxes	529	38
Income taxes	251	20
Minority interests	27	10
Net income	250	7

## (3) Quarterly Consolidated Statement of Cash Flows

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)	Nine months ended December 31, 2009 (From April 1, 2009 to December 31, 2009)
<b>Cash flows from operating activities</b>		
Income before income taxes	1,237	1,156
Depreciation	4,164	3,718
Loss (gain) on revaluation of investment securities	2,875	—
Loss on disposal of fixed assets	43	1,268
Increase (decrease) in allowance for doubtful accounts	50	47
Increase (decrease) in accrued bonuses	(115)	(143)
Increase (decrease) in accrued bonuses for directors and statutory auditors	(17)	13
Increase (decrease) in accrued severance indemnities for employees	159	(13)
Increase (decrease) in reserve for retirement allowances for directors and statutory auditors	23	—
Interest income and dividends earned	(209)	(156)
Interest expense	2,225	2,396
Amortization of bond-issuing expenses	20	47
Loss (gain) on sale of investment securities	—	(235)
Loss (gain) on sale of fixed assets	(11)	1,629
Decrease (increase) in notes and accounts receivable – trade	1,020	583
Decrease (increase) in inventories	442	2,071
Decrease (increase) in operating investment	(2,633)	2,198
Decrease (increase) in accrued expenses	(107)	(124)
Decrease (increase) in accounts receivable – other	525	8
Increase (decrease) in notes and accounts payable – trade	(2,514)	(693)
Increase (decrease) in advances received	(203)	71
Increase (decrease) in accrued consumption taxes	490	(440)
Increase (decrease) in deposits received and deposits of landlord	(128)	(27)
Other	65	(687)
Subtotal	7,404	12,689
Interest and dividends income received	209	156
Interest expenses paid	(1,846)	(1,918)
Income taxes (paid) refund	1,279	(1,796)
Net cash provided by operating activities	7,047	9,130

(In millions of yen)

	Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)	Nine months ended December 31, 2009 (From April 1, 2009 to December 31, 2009)
<b>Cash flows from investing activities</b>		
Net decrease (increase) in time deposits	(0)	(448)
Purchase of marketable securities	—	(100)
Proceeds from sales and redemption of marketable securities	19	124
Purchase of investment securities	(529)	(3,170)
Proceeds from sales and redemption of investment securities	9	451
Acquisition of subsidiaries' stock due to changes in scope of consolidation	—	(397)
Purchase of tangible fixed assets	(8,786)	(5,739)
Proceeds from sales of tangible fixed assets	87	2,165
Purchase of intangible fixed assets	(19)	(54)
Purchase of long-term prepaid expenses	(208)	(50)
Payments for guarantee deposits	(28)	(546)
Proceeds from collection of guarantee deposits	22	249
Proceeds from cancellation of insurance funds	3	—
Other	2	(196)
Net cash used in investing activities	(9,427)	(7,712)
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term loans payable	220	2,230
Proceeds from long-term loans payable	12,000	19,600
Repayment of long-term loans payable	(5,817)	(15,020)
Proceeds from issuance of bonds	—	9,000
Redemption of bonds	—	(17,385)
Cancellation by purchase of bonds	—	(2,702)
Redemption of convertible bonds (with stock acquisition rights)	(52)	—
Purchase of treasury stock	(29)	(4)
Payments of dividends	(1,625)	(1,312)
Payments of dividends to minority shareholders	(72)	(166)
Repayments of investments in capital to minority shareholders	(43)	—
Other	3	(95)
Net cash provided by (used in) financing activities	4,583	(5,855)
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	2,203	(4,437)
Balance of cash and cash equivalents at beginning of period	5,670	29,055
Balance of cash and cash equivalents at end of period	7,874	24,617

(4) Note on going concern assumption

Not applicable

(5) Segment information

[Business segment information]

Previous third quarter (From October 1, 2008 to December 31, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,720	930	7,667	484	13,802	—	13,802
(2) Intersegment revenue and transfer	6	0	40	438	485	(485)	—
Total	4,726	930	7,707	923	14,288	(485)	13,802
Operating income (loss)	2,167	(1,166)	2,267	(65)	3,203	(261)	2,941

Current third quarter (From October 1, 2009 to December 31, 2009)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	4,470	2,081	621	517	7,692	—	7,692
(2) Intersegment revenue and transfer	6	0	40	241	288	(288)	—
Total	4,477	2,081	662	759	7,980	(288)	7,692
Operating income (loss)	2,105	372	233	(1)	2,710	(247)	2,462

Nine Months ended December 31, 2008 (From April 1, 2008 to December 31, 2008)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	14,101	3,378	8,952	1,494	27,926	—	27,926
(2) Intersegment revenue and transfer	21	0	120	826	969	(969)	—
Total	14,122	3,378	9,073	2,320	28,895	(969)	27,926
Operating income (loss)	6,447	(1,850)	3,040	(153)	7,483	(833)	6,650

Nine Months ended December 31, 2009 (From April 1, 2009 to December 31, 2009)

(In millions of yen)

	Building	Housing	Asset Development	Other	Total	Eliminations or Corporate	Consolidated
Operating revenue							
(1) Operating revenue from external customers	13,454	4,973	1,867	1,595	21,891	—	21,891
(2) Intersegment revenue and transfer	20	0	121	810	951	(951)	—
Total	13,474	4,973	1,988	2,406	22,843	(951)	21,891
Operating income (loss)	6,404	563	35	(5)	6,997	(865)	6,132

Notes:

- Business segments are classified according to the types of business transactions.
- Contents of principal businesses of the Group:
  - Building.....Leasing, management, and operation of buildings, facilities, and real estate
  - Housing .....Development, sales, and leasing of residential real estate
  - Asset Development .....Development of profitable real estate and operation and management of assets
  - Other.....Real estate brokerage business, management and renovation of buildings, facilities, etc., insurance agency business, and private nursing home enterprise
- The above amounts are exclusive of consumption tax.

[Geographical segment information]

Previous third quarter (From October 1, 2008 to December 31, 2008), Current third quarter (From October 1, 2009 to December 31, 2009), Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008) and 2009 (From April 1, 2009 to December 31, 2009)

Because we have neither consolidated subsidiaries nor significant foreign branches located in countries or areas other than Japan, there are no applicable issues.

[Overseas operating revenue]

Previous third quarter (From October 1, 2008 to December 31, 2008), Current third quarter (From October 1, 2009 to December 31, 2009), Nine months ended December 31, 2008 (From April 1, 2008 to December 31, 2008) and 2009 (From April 1, 2009 to December 31, 2009)

Because we have no overseas operating revenue, there are no applicable issues.

- Notes on significant changes in the amount of shareholders' equity  
Not applicable