



Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

April 30, 2024

For immediate release

Kiyoyuki Tsuchimoto, Representative Executive Officer,
President and CEO
Heiwa Real Estate Co., Ltd.
1-10, Nihonbashi Kabuto-cho, Chuo-ku, Tokyo
(Code No. 8803) TSE Prime Market, NSE Premier Market, Fukuoka, and Sapporo

Notice Regarding Formulation of New Medium-Term Management Plan, “WAY 2040 Stage 1”

Heiwa Real Estate Co., Ltd. hereby announces that a resolution was approved at the Board of Directors’ meeting held today regarding the formulation of the new medium-term management plan, “WAY 2040 Stage 1” covering the strategic period from FY2024 to FY2026.

1. Background and Positioning

At the Board of Directors’ meeting held on March 29, 2024, a decision was made to formulate the Heiwa Real Estate Group Purpose, “Enriching everyone’s future with *Bazukuri* that draws people in,” and the Long-term Vision “WAY 2040” as roadmaps toward the future. In the new medium-term management plan, WAY 2040 Stage 1 (FY2024–FY2026), we have positioned this period as the initial sprint toward dynamic growth. This involves establishing the Nihonbashi Kabutocho and Kayabacho district brand, undertaking our largest-ever redevelopment projects, located in Sapporo, and venturing into new business domains to realize our vision, characterized by the slogan: Pursue perpetual dynamic growth to become the “Bazukuri Company.”

Note: For detailed information regarding the Heiwa Real Estate Group Purpose and Long-term Vision, please refer to the announcements made on March 29, 2024: Notice Regarding Establishment of Heiwa Real Estate Group Purpose and Notice Regarding Formulation of Heiwa Real Estate Group Long-term Vision “WAY 2040.”

2. Key Strategies of the Plan to Realize Our Vision

- (1) Expand redevelopment business: Deploy *Bazukuri* endeavors that draw people in throughout Japan
 - 1) Establish the Nihonbashi Kabutocho and Kayabacho district brand
 - The introduction of new features through the opening of Caption by Hyatt Kabutocho Tokyo, the first of this series in Tokyo, will generate synergies among different aspects and services within the city, enhancing overall urban functionality. Further, we will implement diverse *Bazukuri* endeavors that draw people in and entrench our Nihonbashi Kabutocho and Kayabacho district brand. This will be achieved primarily through the expansion of FinGATE, a platform supporting the establishment and growth of entrepreneurs and startups, as well as the attraction and operation of unique commercial establishments that bring vibrancy both on weekdays and weekends, and cutting-edge urban sustainability initiatives.



- 2) Advance our largest-ever redevelopment projects, located in Sapporo
 - We will steadily advance toward the completion in 2028 of our largest-ever redevelopment projects—the Odori-nishi 4 South, Type 1 District Redevelopment Project and the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project (provisional names)—as part of our *Bazukuri* endeavors in Sapporo that draw people in. Through this, we aim to help boost the competitiveness of the city.
 - 3) Expand redevelopment projects nationwide
 - To enhance our presence as a Bazukuri Company, we will drive the implementation of redevelopment projects centered around our assets in major cities throughout Japan.
- (2) Cultivate profit growth while enhancing capital efficiency: Expand leasing business, promote reinvestment by realizing gains from property sales, and diversify into new business areas
- 1) Develop a business model for creating added value in the Building Business
 - We will realize gains from property sales by renewing our portfolio and sustainably develop our business model focused on creating added value.
 - 2) Expand revenue in the Asset Management Business
 - We will strive to increase asset management fees by supporting the growth of HEIWA REAL ESTATE REIT, Inc. and to enhance Group earnings with high capital efficiency through stable growth in brokerage business.
 - 3) Venture into new business domains to realize our vision
 - To achieve the dynamic growth emphasized in our Long-term Vision, we will strengthen our hotel business and explore opportunities for expansion into new business domains, primarily through M&A.
- (3) Boost social value: Promote sustainability initiatives
- 1) Implement sustainability management
 - We, as a Bazukuri Company, will contribute to realizing a sustainable society by addressing environmental and social issues, including achieving net-zero greenhouse gas (GHG) emissions, while encouraging interactive communication with all stakeholders.
 - 2) Promote the creation of sustainable districts
 - We will enhance the competitiveness of our asset portfolio by addressing social issues such as environmental friendliness and boosting disaster preparedness. This will be achieved through building development and operation as well as facility investment, and continuing efforts to reduce GHG emissions, among other initiatives.
- (4) Strengthen business foundations: Maximize human capital for accelerated growth
- 1) Implement management with an awareness of the cost of shareholders' equity and stock price
 - We set a return on equity (ROE) target for FY2024 to FY2026 of at least 7%, exceeding the cost of shareholders' equity. For shareholder returns from FY2024 to FY2026, we aim to maintain a consolidated dividend payout ratio of 50% in consideration of the cost of shareholders' equity, capital efficiency, and other factors. We will also flexibly implement share buybacks, taking into account aspects such as stock price, investment plans, and financial condition.



2) Maximize human capital

- As part of our Long-term Vision, we will promote human capital management to drive dynamic growth. This involves cultivating human resources capable of realizing our Purpose through career development, as well as individuals proficient in digital transformation (DX). Additionally, we will create an organization that promotes and maximizes diversity, while fostering comfortable and vibrant workplaces through health and productivity management, among other measures.

3) Further strengthen corporate governance

- We will bolster corporate governance mainly by enhancing the functions of the Board of Directors and reducing cross-shareholdings.

3. Quantitative Targets

(1) Financial and non-financial key performance indicators (KPIs)

Financial KPIs	Profit targets	Earnings per share (EPS)	At least ¥270 (FY2026)
		Consolidated operating profit	At least ¥14 billion* (FY2026)
	Capital efficiency	ROE	At least 7% (FY2024–FY2026)
	Shareholder returns	Consolidated dividend payout ratio	We aim to maintain a consolidated dividend payout ratio of approximately 50% (FY2024–FY2026) and will flexibly implement share buybacks, taking into account factors such as stock price, investment plans, and financial condition.
Non-financial KPIs	Environmental	GHG emissions	Reduce by 80% compared to FY2018 by FY2025 (Scope 1 and 2) Achieve net-zero emissions by FY2050 (Scope 1, 2, and 3)
		Water usage	Reduce in each application year on year
		Waste emissions	Reduce in each application year on year
	Social	Ratio of new graduate female hires: At least 30% (five-year average)	
		Ratio of female managers: At least 20% by FY2030	
		Ratio of mid-career workers in management positions: At least 40% by FY2030	
Governance	Annual health check uptake: 100%		
	Uptake of cancer screenings (every two years): 100% of employees aged 35 or above		
	Annual stress check uptake: 100%		
	Annual paid holiday uptake: At least 70%		
Governance	Male childcare leave uptake: 100% by FY2030		
	First aid training qualification: All of our officers and employees		
Governance	Ratio of cross-shareholdings to consolidated net assets: 10% or less by FY2026		



* Breakdown

- Building Business: ¥13.8 billion
- Asset Management Business: ¥2.4 billion
- Corporate and elimination: -¥2.2 billion

Reference indicator (financial soundness): Net debt-to-equity (D/E) ratio of approximately 2.0

(2) Capital allocation (FY2024– FY2026)

FY2024 Cash balance at beginning of period: Approx. ¥28 billion	FY2026 Cash balance at end of period: Approx. ¥20 billion
Capital generated through business and other sources: Approx. ¥70 billion (Incl. revenue from sales of properties: Approx. ¥37 billion)	Redevelopment investment: Approx. ¥60 billion (Breakdown) Nihonbashi Kabutocho and Kayabacho district: Approx. ¥16 billion Sapporo: Approx. ¥40 billion* Other: Approx. ¥4 billion
	Investment in property acquisition: Approx. ¥23 billion
Proceeds from interest-bearing liabilities: Approx. ¥40 billion	CAPEX: Approx. ¥17 billion
	Shareholder returns: Approx. ¥18 billion

* Currently, the estimated total investment for the provisionally named Odori-nishi 4 South, Type 1 District Redevelopment Project, scheduled for completion in 2028, and Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project, scheduled for completion in FY2028, is approximately ¥120 billion.

HEIWA REAL ESTATE GROUP

New Medium-Term Management Plan, “WAY 2040 Stage 1”

April 30, 2024

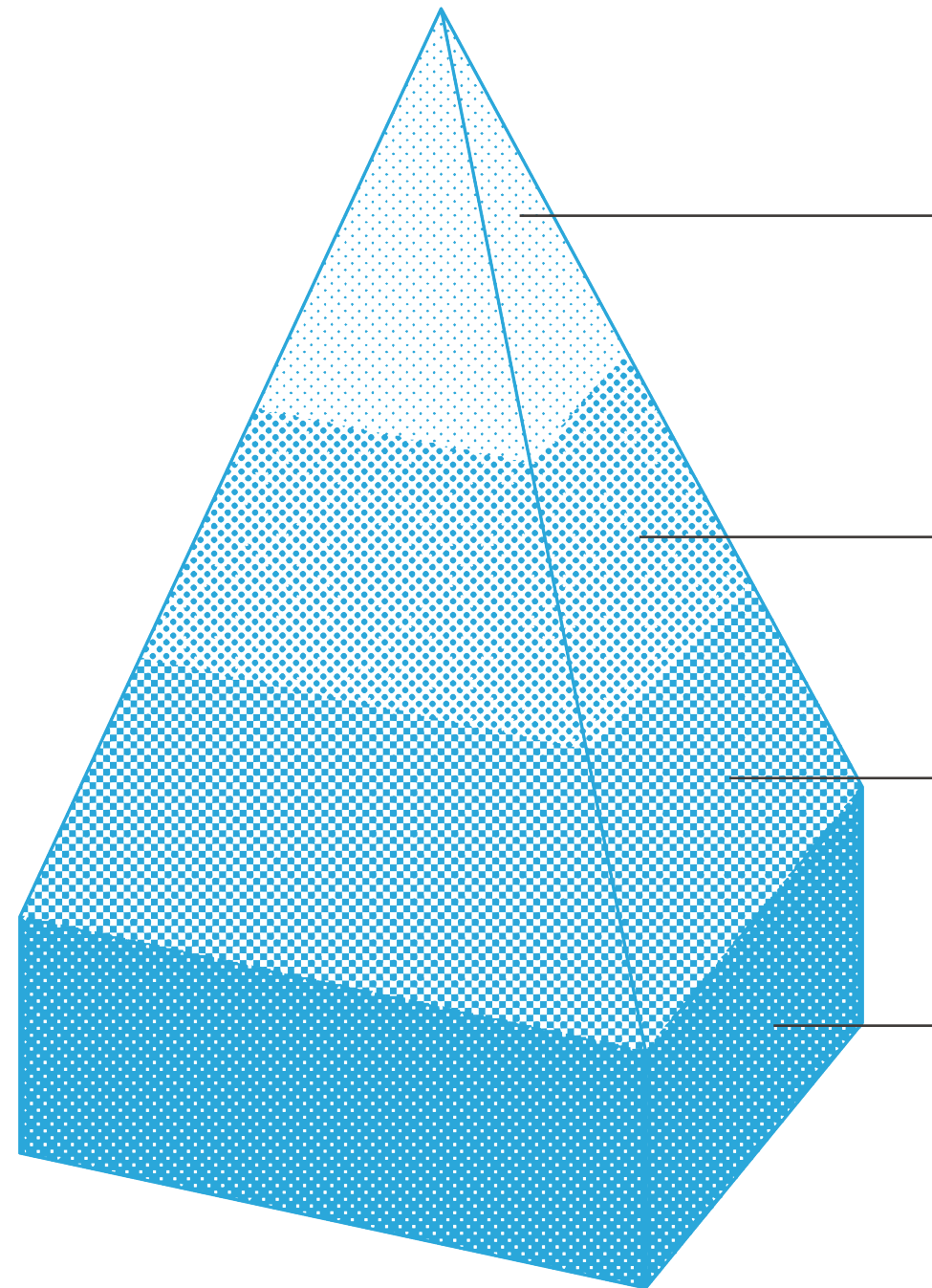
Our Purpose

Enriching everyone's future with *Bazukuri* that draws people in



Group Philosophy

Heiwa Real Estate Group Corporate Philosophy



Our Purpose

**Enriching everyone's future
With *Bazukiri* that draws people in**

This is the Group's raison d'être. It articulates the fundamental purpose and guiding principles of our existence within society.

Long-term Vision "WAY 2040"

**Pursue perpetual dynamic
growth to become the
"Bazukuri Company"**

This represents the Group's vision. It outlines the journey toward realizing Our Purpose and declares the kind of presence we aspire to embody.

Our Values

Trust Forward thinking Co-creation

These are the shared values of the Group, indicating what we hold dear and how we conduct our business.

Basic Policy

**Code of Conduct /
Heiwa Real Estate Group Credo /
Standards for Behavior**

This forms the guideline for each officer and employee of the Group to fulfill their social responsibility with a high ethical standard.

Group Purpose

Heiwa Real Estate Group Purpose

Enriching everyone's future with *Bazukuri* that draws people in

Our aim is to enrich the future of all stakeholders. This includes both material and spiritual prosperity. We are committed to continuously creating spaces where everyone involved can enjoy this abundance.

Through continuous *Bazukuri*, we have infused vibrancy into districts. The fundamental value shared across the Group's work is drawing people in through diverse *Bazukuri* endeavors. As a Group, we will embark on initiatives to create captivating living environments.

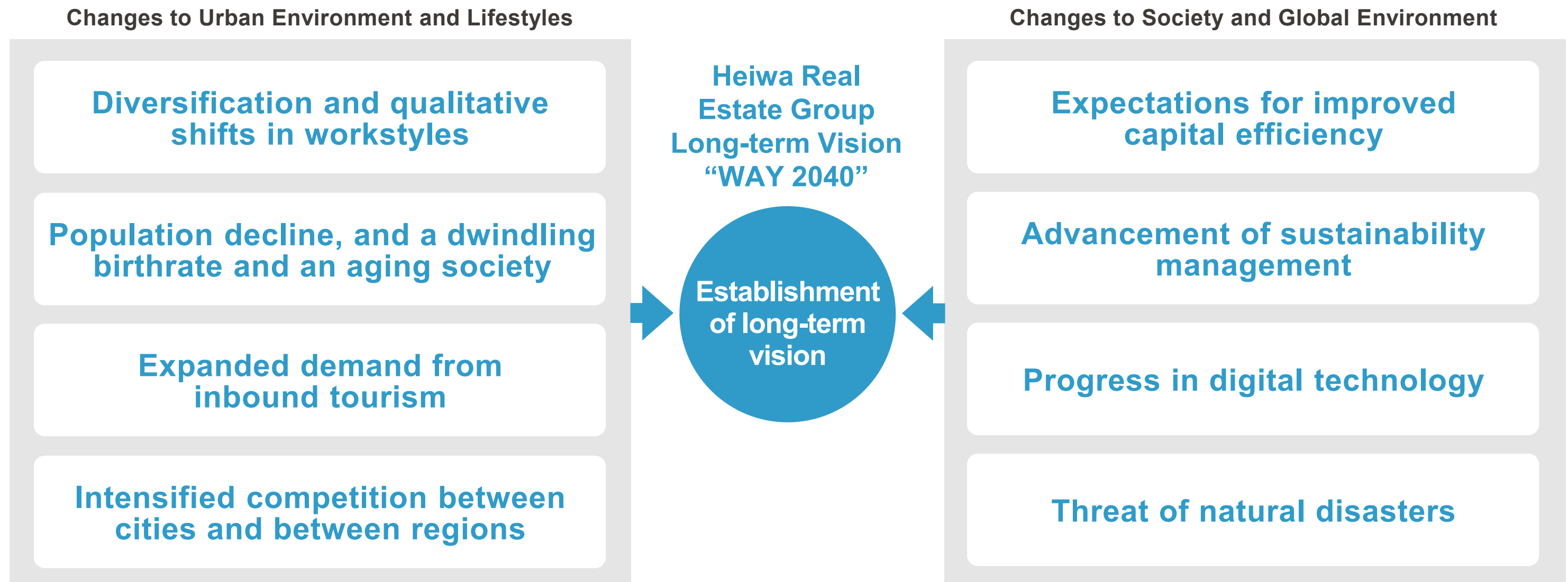
HEIWA REAL ESTATE GROUP

Long-term Vision “WAY 2040”

*Pursue perpetual dynamic
growth to become the
“Bazukuri Company”*

Assessment of External Environment

Amid significant changes in the business environment, establishing a long-term vision enables us to enhance corporate value.



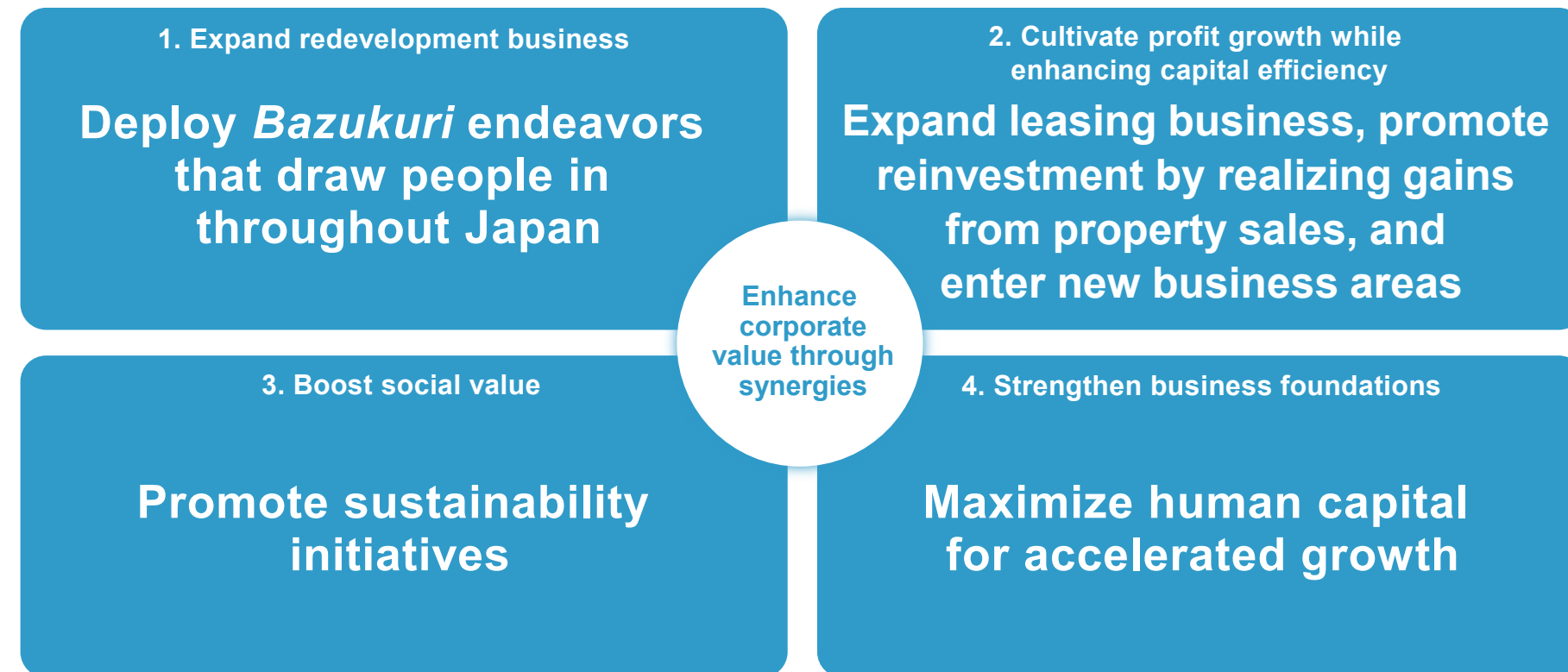
Growth Strategy

Through four growth strategies, we aim to enhance corporate value and achieve our vision for 2040.

Long-term Vision “WAY 2040”

Pursue perpetual dynamic growth to become the “Bazukuri Company”

Four Growth Strategies



Quantitative Targets

Consolidated operating profit of at least ¥25 billion in 2040*1

Sustainable ROE exceeding cost of shareholders' equity

Net-zero greenhouse gas (GHG) emissions by 2050*2

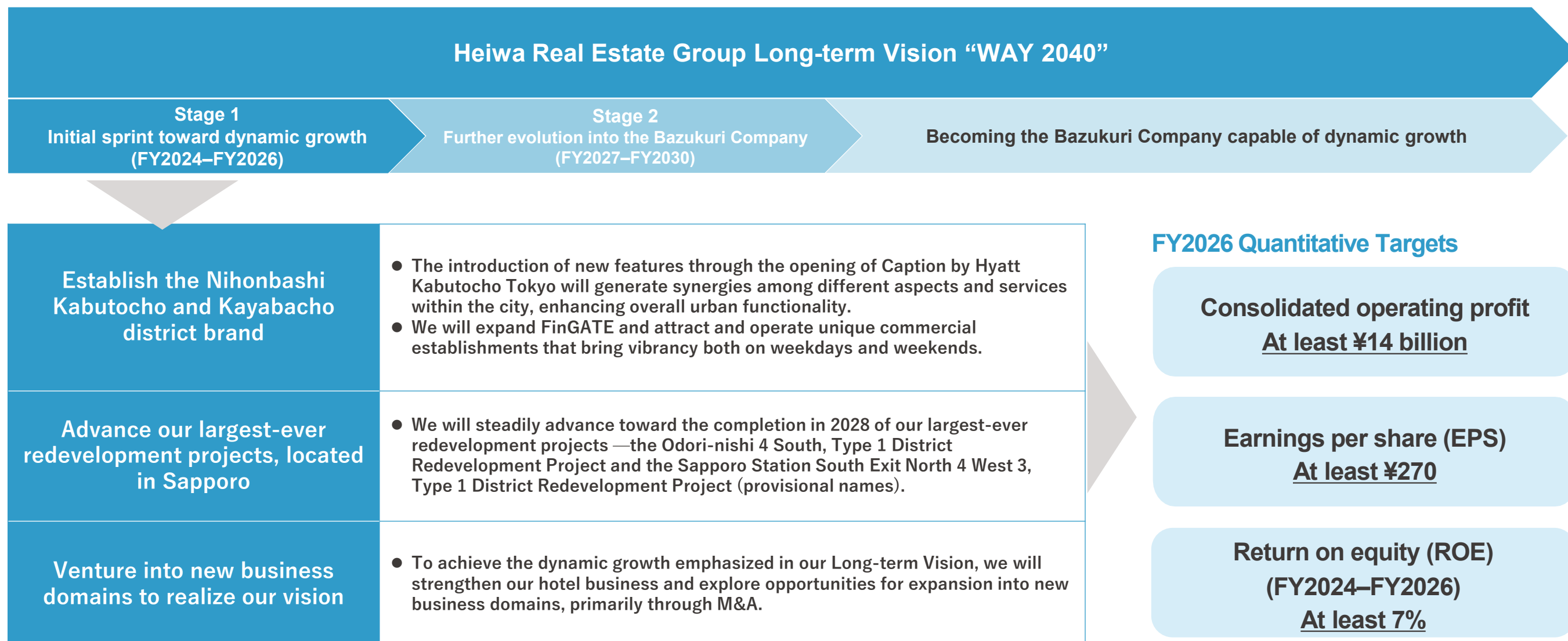
*1. Achieve around double the consolidated operating profit level in FY2023.

*2. The ROE target is set for each medium-term management plan.

Positioning of the Plan

Our new medium-term management plan, WAY 2040 Stage 1, marks the period of our initial sprint toward dynamic growth.

This initial sprint toward dynamic growth is dedicated to establishing the Nihonbashi Kabutocho and Kayabacho district brand, undertaking our largest-ever redevelopment projects, located in Sapporo, and venturing into new business domains to realize our vision. This signals the beginning of our efforts to “Pursue perpetual dynamic growth to become the ‘Bazukuri Company,’” the key goal of our Long-term Vision, Way 2040.



Growth strategy (1) Expand redevelopment business: Deploy *Bazukuri* endeavors that draw people in throughout Japan

Establish the Nihonbashi Kabutocho and Kayabacho district brand



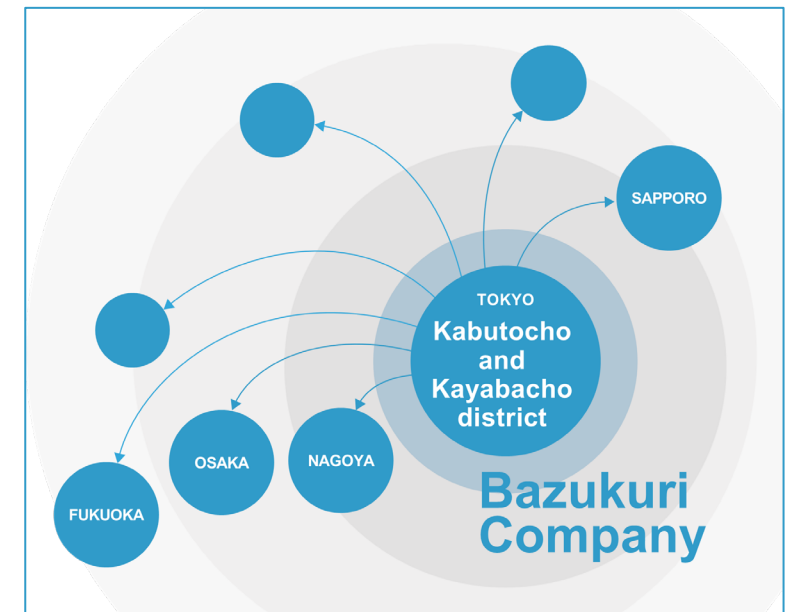
Introducing new features through Caption by Hyatt Kabutocho Tokyo, the first in Tokyo, will generate synergies among different city services. By expanding FinGATE, attracting and operating unique commercial establishments that add vibrancy all week, and applying innovative urban sustainability initiatives, we will create diverse spaces that draw people in and entrench our Nihonbashi Kabutocho and Kayabacho district brand.

Advance our largest-ever redevelopment projects, located in Sapporo



We will steadily advance toward the completion in 2028 of our largest-ever redevelopment projects—the Odori-nishi 4 South, Type 1 District Redevelopment Project and the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project (provisional names)—as part of our *Bazukuri* endeavors in Sapporo that draw people in..

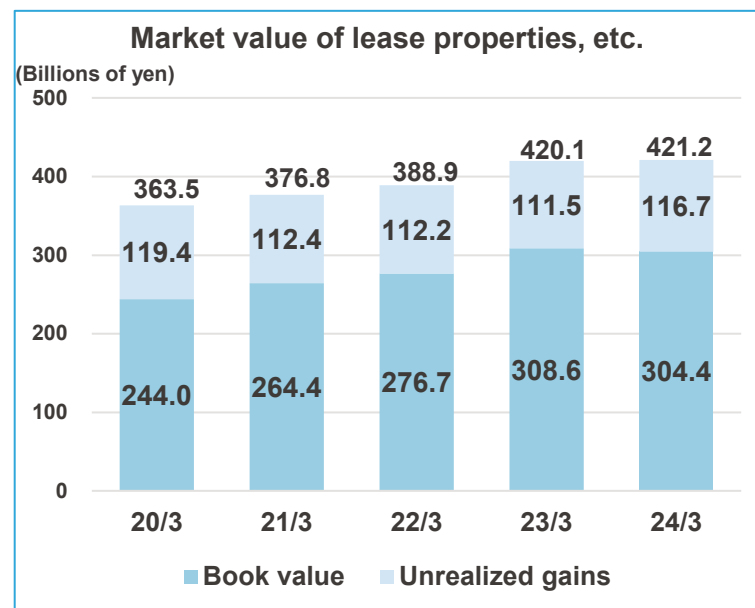
Expand redevelopment projects nationwide



To enhance our presence as a Bazukuri Company, we will drive the implementation of redevelopment projects centered around our assets in major cities throughout Japan.

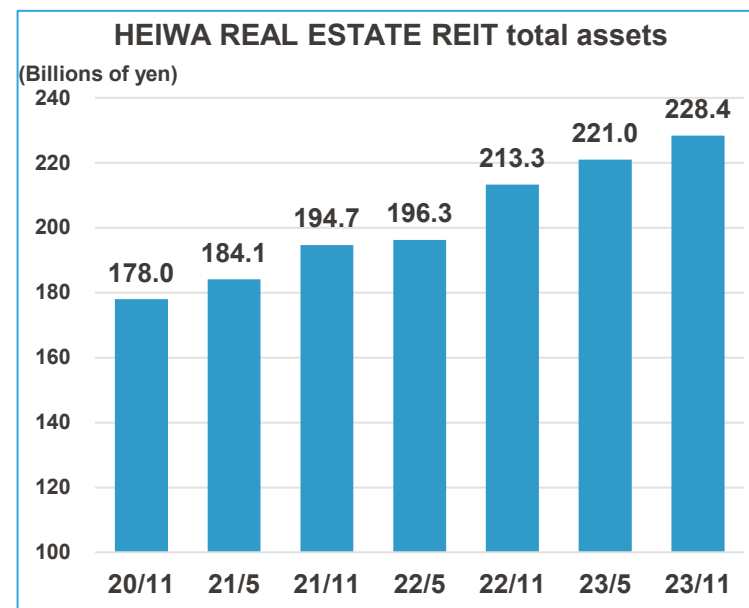
Growth strategy (2) Cultivate profit growth while enhancing capital efficiency: Expand leasing business, promote reinvestment by realizing gains from property sales, and diversify into new business areas

Develop a business model for creating added value in the Building Business



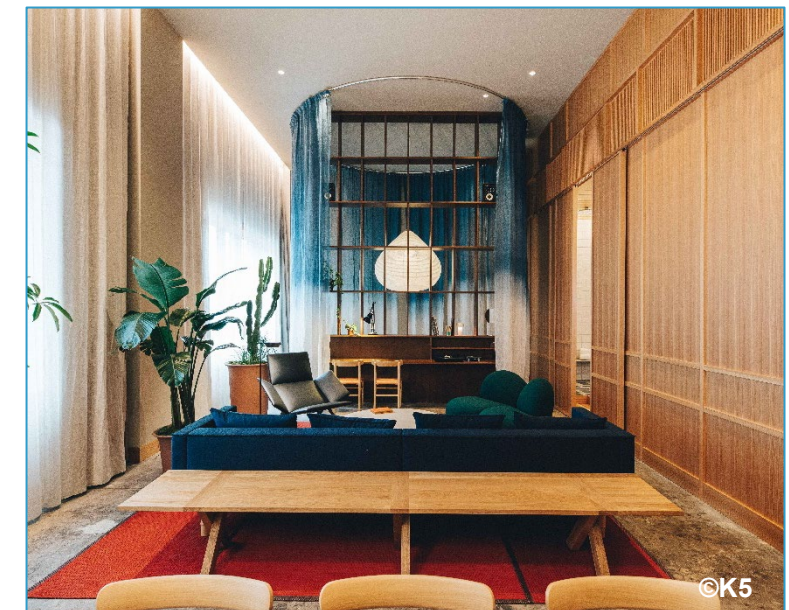
We will realize gains from property sales by renewing our portfolio and sustainably develop our business model focused on creating added value.

Expand revenue in the Asset Management Business



We will strive to increase asset management fees by supporting the growth of HEIWA REAL ESTATE REIT, Inc. and to enhance Group earnings with high capital efficiency through stable growth in brokerage business.

Venture into new business domains to realize our vision



To achieve the dynamic growth emphasized in our Long-term Vision, we will explore opportunities for expansion into new business domains by strengthening our hotel business and implementing M&A.

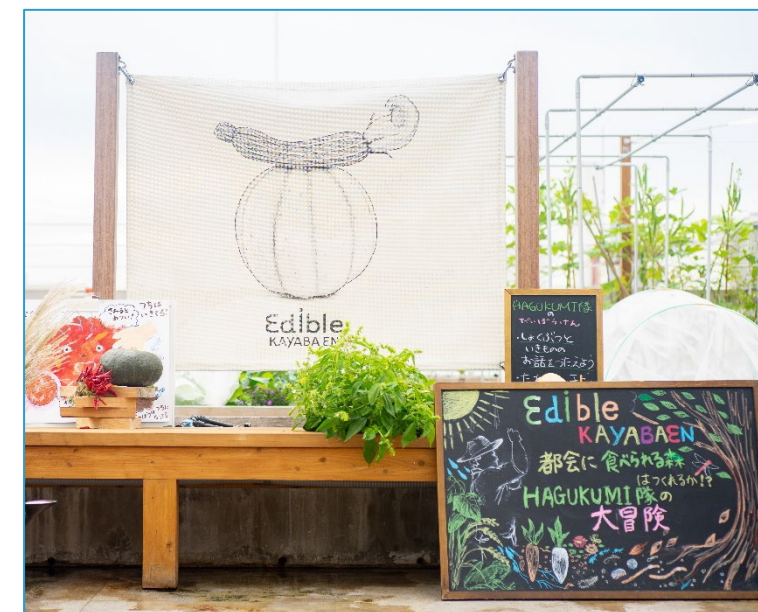
Growth Strategy (3) Boost Social Value

Implement sustainability management



We, as a Bazukuri Company, will contribute to realizing a sustainable society by addressing environmental and social issues, including achieving net-zero greenhouse gas (GHG) emissions, while encouraging interactive communication with all stakeholders.

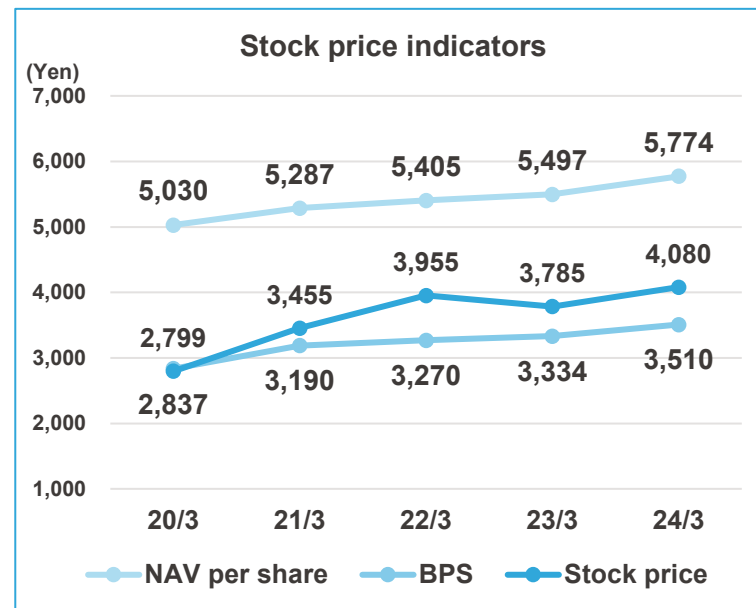
Promote the creation of sustainable districts



We will enhance the competitiveness of our asset portfolio by addressing social issues such as environmental friendliness and boosting disaster preparedness. This will be achieved through building development and operation as well as facility investment, and continuing efforts to reduce GHG emissions, among other initiatives.

Growth strategy (4) Strengthen business foundations: Maximize human capital for accelerated growth

Implement management with an awareness of the cost of shareholders' equity and stock price



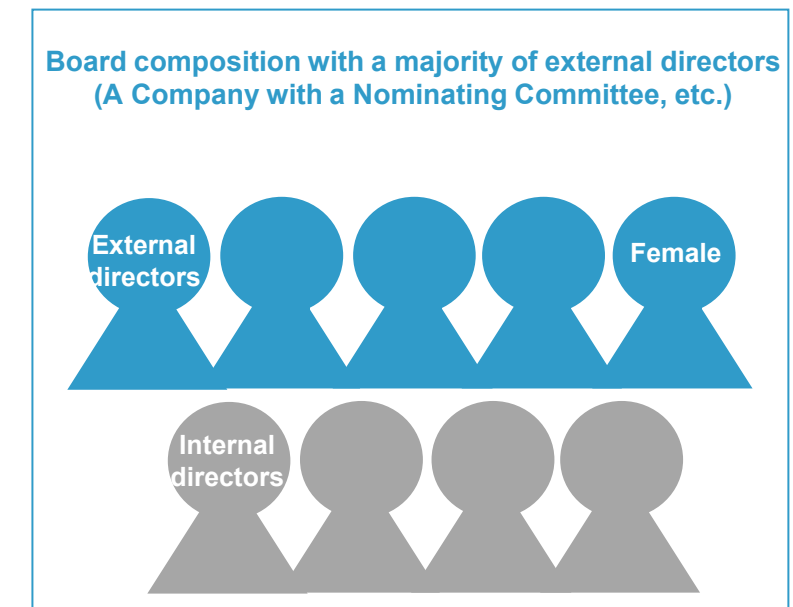
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Further strengthen corporate governance



We will bolster corporate governance by enhancing the functions of the Board of Directors and reducing cross-shareholdings.

Financial and non-financial key performance indicators (KPIs)

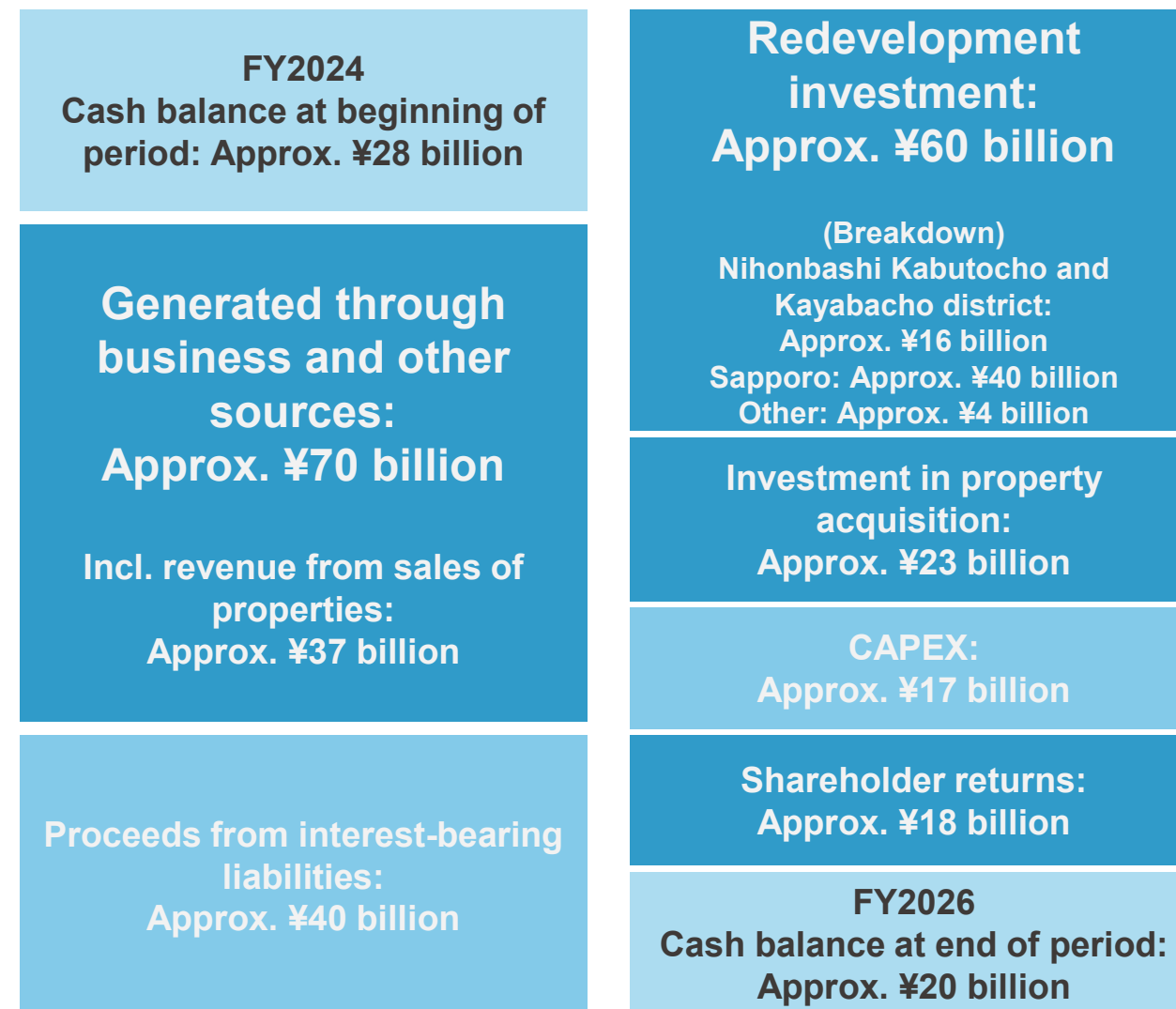
Financial KPIs

Profit targets	EPS	At least ¥270 (FY2026)
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Non-financial KPIs

Environmental	GHG emissions	Reduce by 80% compared to FY2018 by FY2025 (Scope 1 and 2) Achieve net-zero emissions by FY2050 (Scope 1, 2, and 3)
	Water usage	Reduce in each application year on year
	Waste emissions	Reduce in each application year on year
Social		Ratio of new graduate female hires: At least 30% (five-year average) Ratio of female managers: At least 20% by FY2030 Ratio of mid-career workers in management positions: At least 40% by FY2030 Annual health check uptake: 100% Uptake of cancer screenings (every two years): 100% of employees aged 35 or above Annual stress check uptake: 100% Annual paid holiday uptake: At least 70% Male childcare leave uptake: 100% by FY2030 First aid training qualification: All of our officers and employees
Governance		Ratio of cross-shareholdings to consolidated net assets: 10% or less by FY2026

**Capital allocation
(FY2024–FY2026)**



- Notes: 1. Currently, the estimated total investment for the provisionally named Odori-nishi 4 South, Type 1 District Redevelopment Project, scheduled for completion in 2028, and Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project, scheduled for completion in FY2028, is approximately ¥120 billion.
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