# ANNUAL REPORT 2024

Year Ended March 31, 2024

HEIWA REAL ESTATE

# Contents

# Part 1 Company Overview

## 1. History

| | |
|---|---|
| July 1947 | The Company was established for the purpose of leasing stock exchange buildings in Tokyo, Osaka, Nagoya, and other cities along with all other associated assets to a newly founded organization comprised of stock exchanges and their operators following the dissolution of the previous owner, the Japan Securities Exchange, pursuant to a law enacted in 1947 to decentralize stock exchanges in Japan.<br>Based in Tokyo, the Company set up a branch in Osaka and offices in six other cities. |
| May 1949 | Listed on the Tokyo Stock Exchange, Osaka Securities Exchange (currently Osaka Exchange), and Nagoya Stock Exchange |
| July 1949 | Listed on the Fukuoka Stock Exchange |
| July 1950 | Listed on the Sapporo Securities Exchange |
| July 1958 | Completed construction of the Fukuoka Shoken Building |
| March 1962 | Completed construction of the Kyoto Shoken Building |
| March 1965 | Completed construction of the Fukuoka Heiwa Building |
| April 1965 | Commenced sales of residential land in the Heiwadai district of the city of Nagareyama |
| April 1969 | Upgraded offices in Nagoya and Fukuoka to branches |
| May 1972 | Completed construction of the Kabutocho Heiwa Building |
| March 1977 | Commenced sales of houses in the Fusaheiwadai district of the city of Abiko |
| May 1980 | Commenced sales of condominium units of the Sunny Park Heights Narita condominium complex |
| October 1984 | Completed construction of the trading floor building (currently Arrows) in the Tokyo Stock Exchange Building complex |
| December 1984 | Established Heiwa Regional Service Co., Ltd. (currently Heiwa Real Estate Property Management Co., Ltd.) |
| April 1987 | Completed construction of the Osaka Heiwa Building |
| April 1988 | Completed construction of the main building in the Tokyo Stock Exchange Building complex |
| October 1993 | Completed construction of the Daimaru Kyoto Store West Kyodo Building |
| June 1994 | Completed construction of the Daimaru Kyoto Store North Kyodo Building |
| April 2000 | Acquired the Mita Heiwa Building |
| February 2001 | Acquired the Uchisaiwaicho Heiwa Building |
| September 2002 | Acquired the Dogin Building |
| March 2004 | Completed construction of the Nagoya Heiwa Building |
| December 2004 | Completed construction of the Osaka Securities Exchange Building |
| December 2005 | Acquired the Isemachi Heiwa Building |
| March 2006 | Acquired the Sapporo Ekimae Godo Building |
| August 2006 | Opened the Sapporo Branch |
| June 2007 | Acquired the Kayabacho 1-Chome Heiwa Building |
| August 2007 | Completed construction of the Nagoya Stock Exchange Building |
| February 2008 | Made Housing Service Co., Ltd., a consolidated subsidiary |
| March 2008 | Completed construction of the Hotel Brighton City Osaka Kitahama<br>Acquired the Tenjin Heiwa Building |
| May 2008 | Acquired the Shin-Odori Building |
| October 2009 | Made Canal Investment Trust Co., Ltd. (currently HEIWA REAL ESTATE Asset Management Co., Ltd.), a consolidated subsidiary |
| February 2010 | Completed construction of CentRise Sakae |
| January 2012 | Completed construction of the Ichibancho Heiwa Building |
| January 2013 | Made The Tokyo Shoken Building Incorporated a consolidated subsidiary |
| March 2015 | Completed construction of the Maruzen Nagoya Honten Building |
| December 2017 | Acquired the Osaka Midosuji Building |

| | |
|---|---|
| March 2019 | Acquired the Sakae Sun City Building |
| August 2021 | Opened KABUTO ONE |
| April 2022 | The Company’s shares were listed on the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange following the respective market reorganizations of each exchange |
| March 2024 | Established the Heiwa Real Estate Group Purpose and formulated the Heiwa Real Estate Group Long-term Vision, “WAY 2040” |

## 2. Overview of Business Activities

The Heiwa Real Estate Group (hereafter, “the Group”) is comprised of Heiwa Real Estate Co., Ltd. (hereafter, “the Company”), which files consolidated financial statements as the parent company, and its five consolidated subsidiaries. The main business activities conducted by the Group, the names of the companies engaged in these businesses, and the respective business activities of each of these companies are presented below.

The main business activities conducted by the Group are categorized according to its reportable business segments.

(1) Building Business

Heiwa Real Estate Co., Ltd., The Tokyo Shoken Building Incorporated, and Tokyo Hibiya Hotel Corporation develop, lease, manage, and sell stock exchange buildings, office buildings, commercial facilities, and residential buildings.

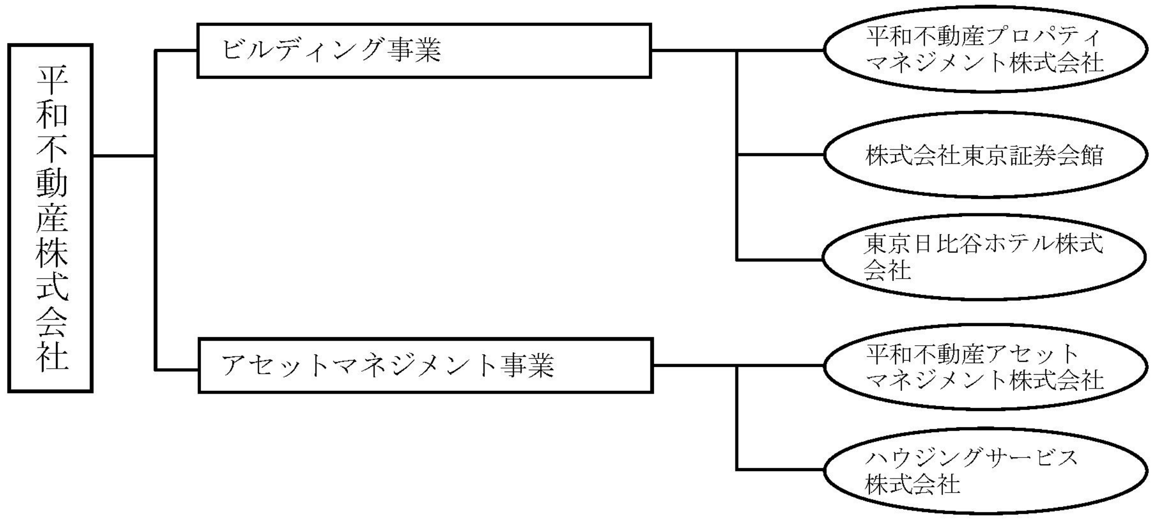
Heiwa Real Estate Property Management Co., Ltd., provides property management services.

(2) Asset Management Business

Heiwa Real Estate Co., Ltd., and HEIWA REAL ESTATE Asset Management Co., Ltd., manage the properties of HEIWA REAL ESTATE REIT, Inc.

Housing Service Co., Ltd., provides real estate agency services.

The details above are shown in the following diagram.




| | |
|---|---|
| 平和不動産株式会社 | Heiwa Real Estate Co., Ltd. |
| ビルディング事業 | Building Business |
| アセットマネジメント事業 | Asset Management Business |
| 平和不動産プロパティマネジメント株式会社 | Heiwa Real Estate Property Management Co., Ltd. |
| 株式会社東京証券会館 | The Tokyo Shoken Building Incorporated |
| 東京日比谷ホテル株式会社 | Tokyo Hibiya Hotel Corporation |
| 平和不動産アセットマネジメント株式会社 | HEIWA REAL ESTATE Asset Management Co., Ltd. |
| ハウジングサービス株式会社 | Housing Service Co., Ltd. |

## 3. Overview of Subsidiaries and Affiliates

| Company name | Location | Share capital (millions of yen) | Main business activities* | The Company's voting rights and ownership (%) | Related activities |
|---|---|---|---|---|---|
| Consolidated subsidiaries<br><br>Heiwa Real Estate Property Management Co., Ltd.* | Chuo-ku, Tokyo | 134 | Building Business | 100.0 | Consigned to manage the Company's leased buildings<br>Rents offices from the Company<br>Officers hold concurrent positions |
| Housing Service Co., Ltd. | Chuo-ku, Osaka | 95 | Asset Management Business | 100.0 | Officers hold concurrent positions |
| HEIWA REAL ESTATE Asset Management Co., Ltd. | Chuo-ku, Tokyo | 295 | Asset Management Business | 100.0 | Rents offices from the Company<br>Officers hold concurrent positions |
| The Tokyo Shoken Building Incorporated | Chuo-ku, Tokyo | 100 | Building Business | 100.0 | Rents stores to the Company<br>Officers hold concurrent positions |
| Tokyo Hibiya Hotel Corporation | Chiyoda-ku, Tokyo | 10 | Building Business | 100.0 | Rents hotels from the Company |

* The main business activities correspond to the business segment names.

## 4 Employee Data

(1) Employees of the Group

(As of March 31, 2024)

| Segment | Number of employees |
|---|---|
| Building Business | 140 |
| Asset Management Business | 87 |
| Group-wide non-segment | 28 |
| Total | 255 |

(Notes) 1. Number of employees refers to full-time employees, excluding employees transferred to organizations outside the Group and including personnel transferred to the Group from other organizations.

2. Group-wide non-segment refers to employees of administration divisions.

(2) Employees of the Company

(As of March 31, 2024)

| Number of employees | Average age of employees | Average years of employment | Average annual salary (thousands of yen) |
|---|---|---|---|
| 98 | 43.1 | 15.1 | 11,198 |

| Segment | Number of employees |
|---|---|
| Building Business | 70 |
| Asset Management Business | — |
| Company-wide non-segment | 28 |
| Total | 98 |

(Notes) 1. Number of employees refers to full-time employees, excluding employees transferred to organizations outside the Company and including personnel transferred to the Company from other organizations.

2. Average annual salary includes bonuses and additional wages.

3. Company-wide non-segment refers to employees of administration divisions.

(3) Labor unions

Employees of The Tokyo Shoken Building Incorporated, a consolidated subsidiary, have formed a labor union, and this company and the labor union have been maintaining a constructive relationship. There are no matters deserving special mention.

(4) Percentages of female employees holding management positions and male employees who have taken childcare leave

Reported by the Company

| Fiscal 2023 | |
|---|---|
| Percentage of female employees holding management positions (Note 1) | Percentage of male employees who have taken childcare leave (Note 2) |
| 14.3% | — |

(Notes) 1. The percentage of female employees holding management positions was calculated as of March 31, 2024, pursuant to provisions in the Act on Promotion of Women's Participation and Advancement in the Workplace (Act No. 64 of 2015), and in accordance with Paragraph 19-1-1 of the Ministry of Health, Labour and Welfare's Ordinance on the Action Plans for Business Owners (Ordinance No. 162 of 2015) based on this act.

2. The percentage of male employees who have taken childcare leave was determined over the fiscal year, pursuant to provisions in the Act on the Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave (Act No. 76 of 1991; hereafter, the "Childcare and Family Care Leave Act"), and in accordance with Paragraph 71-4-1 of the Ministry of Health, Labour and Welfare's ordinance on the enforcement of this act (Ordinance No. 25 of 1991). No male employees were eligible for childcare leave during fiscal 2023, ended March 31, 2024.

3. Employees employed directly by the Company, including those seconded by the Company to other companies, were included in calculations of the percentages of female employees holding management positions and male employees who have taken childcare leave. Employees seconded by other companies to the Company were not included in these calculations.

4. The Company has not disclosed differences in the salaries of male and female employees during fiscal 2023, and therefore, not included such data in this report, pursuant to provisions in the Act on Promotion of Women's Participation and Advancement in the Workplace, and in accordance with Paragraph 19-1-1 of the Ministry of Health, Labour and Welfare's Ordinance on the Action Plans for Business Owners based on this act.

5. Consolidated subsidiaries are not subject to the disclosure obligations under the Act on Promotion of Women's Participation and Advancement in the Workplace or the Childcare and Family Care Leave Act, and therefore their figures have been omitted.

## Part 2 Business Overview

### 1. Management Policies, Operating Environment, and Issues to Address

Details of the Group's management policies, operating environment, and issues to address are as follows.

Forward-looking statements in this report were based on judgments made as of March 31, 2024.

**Management Policies, Operating Environment, and Issues to Address**

Over the four-year period from fiscal 2020 to fiscal 2023, the Heiwa Real Estate Group advanced its medium-term management plan, Challenge & Progress, positioned itself to strive for new heights as a company contributing to district revitalization.

We progressed with the revitalization of the Nihonbashi Kabutocho and Kayabacho district, as well as large-scale redevelopment projects in Sapporo, and transitioned to a business model centered on creating added value through both external and internal growth. Meanwhile, our commitment to sustainability initiatives led us to actively address social issues. As a result, we achieved all key performance indicators (KPIs), including consolidated operating profit exceeding ¥12 billion, earnings per share (EPS) over ¥200, and a return on equity (ROE) over 6%. These achievements represent a significant advance for the Group over the past four years.

The Japanese economy is expected to pick up moderately due to improvements in employment and income conditions as well as the impact of various economic measures to be implemented by the government. Nevertheless, potential economic downturns around the world triggered by global inflation and monetary tightening will need to be closely monitored.

In Japan, the urban landscape and lifestyles are undergoing major changes due to various factors, including the diversification and qualitative shifts in workstyles, expanded demand from inbound tourism, population decline, a dwindling birthrate and an aging society, and intensified competition between cities and between regions. Additionally, heightened expectations for improved capital efficiency, the advancement of sustainability management, progress in digital technology, and the increasing threat of natural disasters are all contributing to the rapidly evolving operating environment.

After considering this operating environment, the Company announced the Heiwa Real Estate Group Purpose, "Enriching everyone's future with *Bazukuri** that draws people in," and the Heiwa Real Estate Group Long-term Vision, "WAY 2040," on March 29, 2024, followed by a new medium-term management plan, "WAY 2040 Stage 1," on April 30, 2024. In accordance with these plans, the Group will work to expand its redevelopment business, cultivate profit growth while enhancing capital efficiency, boost social value, and strengthen its business foundations, in an effort to increase corporate value.

* *Bazukuri* includes operations such as construction of buildings, creation of community and opportunities.

**New Medium-Term Management Plan: Background to Formulation and Positioning**

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."

**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 people draw 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

From fiscal 2024 to fiscal 2026, we have set an ROE target of at least 7%, exceeding the cost of shareholders' equity. For shareholder returns from fiscal 2024 to fiscal 2026, 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.

**Quantitative Targets**

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

| | | | |
|---|---|---|---|
| Financial KPIs | Profit targets | EPS | At least ¥270 (fiscal 2026) |
| | | Consolidated operating profit | At least ¥14 billion* (fiscal 2026) |
| | Capital efficiency | ROE | At least 7% from fiscal 2024 to fiscal 2026 |
| | Shareholder returns | Consolidated dividend payout ratio | We aim to maintain a consolidated dividend payout ratio of approximately 50% (fiscal 2024–fiscal 2026) 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 fiscal 2018 by fiscal 2025 (Scope 1 and 2)<br>Achieve net-zero emissions by fiscal 2050 (Scope 1, 2, and 3) |
| | | Water usage | Reduce in each application year on year |
| | | Waste generation | Reduce in each application year on year |
| | Social | Ratio of new graduate female hires: At least 30% (five-year average)<br>Ratio of female managers: At least 20% by fiscal 2030<br>Ratio of mid-career workers in management positions: At least 40% by fiscal 2030<br>Annual health check uptake: 100%<br>Uptake of cancer screenings (every two years): 100% of employees aged 35 or above<br>Annual stress check uptake: 100%<br>Annual paid holiday uptake: At least 70%<br>Male childcare leave uptake: 100% by fiscal 2030<br>First aid training qualification: All of our officers and employees | |
| | Governance | Ratio of cross-shareholdings to consolidated net assets: 10% or less by fiscal 2026 | |

* Breakdown of consolidated operating profit

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 (fiscal 2024–fiscal 2026)

| Fiscal 2024<br>Cash balance at beginning of period: Approx. ¥28 billion | Fiscal 2026<br>Cash balance at end of period: Approx. ¥20 billion |
|---|---|
| Capital generated through business and other sources: Approx. ¥70 billion<br>(Incl. revenue from sales of properties: Approx. ¥37 billion) | Redevelopment investment: Approx. ¥60 billion<br>(Breakdown)<br>Nihonbashi Kabutocho and Kayabacho district: Approx. ¥16 billion<br>Sapporo: Approx. ¥40 billion<br>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 |

(Note) 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.

The targeted and planned amounts for the KPIs and investment plans, above, are as of the time this report was submitted. The Company makes no guarantee that these targets and plans will be achieved, and results could differ substantially. These targets and investment plans may be revised in the future due to changes in the operating environment or other factors.

## 2 Management’s Analysis of Financial Position, Operating Results, and Cash Flows

(1) Overview of financial results

An overview of the Group’s consolidated financial position, operating results, and cash flows (hereafter, “financial results”) in fiscal 2023 is presented as follows.

1) Financial position and operating results

In fiscal 2023, the Japanese economy continued to pick up moderately on the back of improved employment and income conditions as well as various economic measures implemented by the government. Nevertheless, the impacts of rising prices, economic downturns in other countries, and financial capital market trends and volatility risks will need to be closely monitored going forward.

Against this backdrop, conditions were favorable in Japan’s real estate industry. In the office building leasing market, vacancy rates declined in central Tokyo, reflecting a rebound in demand for office space despite substantial availability in newly constructed buildings. In the real estate investment market, investment demand for real estate remained firm and stable due to comparably low interest rates in Japan’s financing market.

In this operating environment, the Company’s consolidated financial results were mixed. Net sales totaled ¥44,433 million, a decrease of ¥89 million (0.2%) compared with the previous fiscal year. Operating profit increased by ¥2,237 million (20.7%) to ¥13,022 million, while ordinary profit rose by ¥1,816 million (18.8%) to ¥11,463 million. Profit attributable to owners of parent amounted to ¥8,450 million, down ¥686 million (7.5%) year on year. Nevertheless, the Company achieved all of the KPIs set in its medium-term management plan, Challenge & Progress, particularly its fiscal 2023 operating profit target of ¥12.0 billion, posting a record high for this indicator.

Consolidated financial results by business segment are as follows.

(Millions of yen)

| Segment | Fiscal 2022 | | Fiscal 2023 | | Difference | |
|---|---|---|---|---|---|---|
| | Net sales | Operating profit | Net sales | Operating profit | Net sales | Operating profit |
| Building Business | 40,848 | 10,572 | 40,544 | 12,639 | (303) | 2,066 |
| Asset Management Business | 3,674 | 2,071 | 3,888 | 2,197 | 214 | 126 |
| Adjustments | ― | (1,859) | ― | (1,814) | ― | 44 |
| Total | 44,522 | 10,784 | 44,433 | 13,022 | (89) | 2,237 |

Net sales from major tenants and their percentage of net sales in fiscal 2022 and 2023 are as follows.

| Tenant | Fiscal 2022 | | Fiscal 2023 | |
|---|---|---|---|---|
| | Net sales (millions of yen) | Percentage of net sales | Net sales (millions of yen) | Percentage of net sales |
| HEIWA REAL ESTATE REIT, Inc. | 13,365 | 30.0 | 8,164 | 18.4 |
| Godo Kaisha Shinsatsu | ― | ― | 4,500 | 10.1 |

(Note) Only tenants that account for 10% or more of net sales are reported as major tenants.

(i) Building Business

In the Building Business segment, leasing revenue increased by ¥1,251 million (5.0%) year on year to ¥26,382 million, primarily due to contributions from buildings acquired in the previous fiscal year, namely the Heiwa Real Estate Nagoya Fushimi Building and the Heiwa Real Estate Sakura-dori Building (both in Nagoya-shi, Aichi), as well as to the leasing of newly occupied office space. Revenue from sales of properties decreased by ¥1,284 million (9.1%) to ¥12,780 million, reflecting a year-on-year decrease in proceeds from the sell-off of properties designated as real estate for sale. These results combined with other net sales in this segment brought total net sales to ¥40,544 million, a decrease of ¥303 million (0.7%) compared with the previous fiscal year. On the other hand, segment operating profit rose by ¥2,066 million (19.5%) to ¥12,639 million.

As of March 31, 2024, the vacancy rate of buildings leased by the Heiwa Real Estate Group (excluding buildings for which leases have been suspended due to redevelopment) was 2.83%.

Breakdown of net sales (Millions of yen)

| Classification | Fiscal 2022 | | Fiscal 2023 | |
|---|---|---|---|---|
| | Area ($m^2$) | Amount | Area ($m^2$) | Amount |
| Leasing revenue | Leased land area 3,380.75 | 25,130 | Leased land area 3,272.00 | 26,382 |
| | Leased floor space 434,916.94 | | Leased floor space 381,500.28 | |
| Revenue from sales of properties | — | 14,065 | — | 12,780 |
| Other | — | 1,652 | — | 1,382 |
| Total | — | 40,848 | — | 40,544 |

(ii) Asset Management Business

In the Asset Management Business segment, asset management revenue increased by ¥82 million (3.3%) to ¥2,565 million, and brokerage commissions rose by ¥131 million (11.0%) to ¥1,322 million. As a result, segment net sales came to ¥3,888 million, up ¥214 million (5.8%) year on year. Segment operating profit totaled ¥2,197 million, an increase of ¥126 million (6.1%) compared with the previous fiscal year.

Breakdown of net sales (Millions of yen)

| Classification | Fiscal 2022 | Fiscal 2023 | Difference |
|---|---|---|---|
| Asset management revenue | 2,482 | 2,565 | 82 |
| Brokerage commissions | 1,191 | 1,322 | 131 |
| Total | 3,674 | 3,888 | 214 |

2) Cash flows

As of March 31, 2024, consolidated cash and cash equivalents amounted to ¥26,316 million, up ¥508 million compared with March 31, 2023.

Fiscal 2023 consolidated results for each category of cash flows and main factors underlying the results are as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥19,584 million, compared with ¥23,952 million in the previous fiscal year. Major inflows included profit before income taxes of ¥12,409 million and a decrease in inventories of ¥6,273 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥19,356 million, compared with ¥40,250 million in the previous fiscal year. Main outflows included ¥18,190 million for the purchase of property, plant and equipment, and ¥1,231 million in payments for acquisition of businesses.

Cash flows from financing activities

Net cash provided by financing activities came to ¥280 million, compared with ¥13,994 million in the previous fiscal year. Main outflows included ¥16,050 million for repayments of long-term borrowings and a ¥3,000 million net decrease in short-term borrowings, while main inflows included ¥19,827 million in proceeds from long-term borrowings.

(Reference) Results for cash flow-related indicators

| Indicator | As of March 31, 2020 | As of March 31, 2021 | As of March 31, 2022 | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|---|---|---|
| Equity ratio | 31.6% | 31.1% | 31.7% | 30.0% | 30.9% |
| Market cap-to-assets ratio | 31.2% | 33.7% | 38.4% | 34.0% | 36.0% |
| Debt repayment period (years) | 6.5 | 26.0 | 6.0 | 9.5 | 11.8 |
| Interest coverage ratio (times) | 22.8 | 6.2 | 24.2 | 16.2 | 11.8 |
| Net D/E ratio | 1.5 | 1.6 | 1.5 | 1.7 | 1.6 |

(Notes) 1. The following formulas for calculating the indicators shown above are based on consolidated financial results.

Equity ratio = shareholders' equity ÷ total assets

Market cap-to-assets ratio = market capitalization ÷ total assets

Debt repayment period = interest-bearing liabilities ÷ net cash provided by operating activities

Interest coverage ratio = net cash provided by operating activities ÷ interest expenses

Net D/E ratio = (interest-bearing liabilities – cash and deposits + securities) ÷ net assets

2. Interest-bearing liabilities comprise short-term borrowings, the current portion of bonds payable, the current portion of long-term borrowings, certain other current liabilities, bonds payable, long-term borrowings, and long-term accounts payable–other, as stated in the consolidated balance sheets. Interest expenses used for the calculations are recorded in the consolidated statements of income.

3. Net cash provided by operating activities used for the calculations are recorded in the consolidated statements of cash flows.

3) Production, orders, and net sales

Results related to production, orders, and net sales for each segment are presented above in 1) Financial position and operating results.

(2) Management's analysis of business results and issues for consideration

Management's recognition and analysis of the Group's financial results as well as issues for consideration are presented below.

Forward-looking statements in this report were based on judgments made as of March 31, 2024.

1) Recognition and analysis of financial position and operating results, and issues for consideration

The Group is striving to increase its corporate value based on the business strategies of its medium-term management plan, Challenge & Progress, which was announced on April 30, 2020. Specifically, it is carrying out redevelopment projects and taking steps to realize external growth in its Building Business and Asset Management Business. In fiscal 2023, we focused on external growth through the acquisition of Pregio Shin-Osaka Rouge (Osaka City, Osaka Prefecture) and construction activities at Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), as well as internal growth through rental rate increases. Among consolidated financial results, operating profit increased by ¥2,237 million to ¥13,022 million, mainly due to an increase in earnings from the sale of real estate in the Building Business segment. Profit attributable to owners of parent decreased by ¥686 million to ¥8,450 million, mainly reflecting a decline in gain on sale of investment securities following a reduction in cross-shareholdings.

Major factors that could have a significant impact on the Group's operating results include trends in the domestic economy and real estate market, particularly the office building leasing market and real estate investment market.

Total assets, total liabilities, and net assets as of March 31, 2023, and March 31, 2024 were as follows:

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 | Difference |
|---|---|---|---|
| Total assets | 398,333 | 405,979 | 7,645 |
| Total liabilities | 279,009 | 280,334 | 1,324 |
| Net assets | 119,324 | 125,645 | 6,321 |
| Interest-bearing liabilities | 226,895 | 231,323 | 4,428 |

(Note) Interest-bearing liabilities were comprised of short-term borrowings, the current portion of bonds payable, the current portion of long-term borrowings, certain other current liabilities, bonds payable, long-term borrowings, and long-term accounts payable–other.

Total assets

As of March 31, 2024, total assets amounted to ¥405,979 million, an increase of ¥7,645 million compared with March 31, 2023. Among the main factors underlying this result, investment securities increased by ¥3,440 million mainly due to rises in market values, construction in progress rose by ¥3,316 million, which reflected construction cost outlays for Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), and goodwill increased by ¥645 million.

In the consolidated balance sheets, the combined balance of leased property and real estate that includes the portion used as lease property was ¥304,487 million as of March 31, 2024, a decrease of ¥4,162 million compared with April 1, 2023. As of March 31, 2024, the market value of the Company's holdings was ¥421,246 million, an increase of ¥1,061 million from April 1, 2023.

Total liabilities

As of March 31, 2024, total liabilities amounted to ¥280,334 million, an increase of ¥1,324 million compared with March 31, 2023. Among the main factors underlying this result, interest-bearing liabilities rose by ¥4,428 million and accrued consumption taxes increased by ¥1,096 million, more than offsetting a decrease in trade accounts payable of ¥3,803 million.

As of March 31, 2024, the balance of interest-bearing liabilities was ¥231,323 million, and the net D/E ratio stood at 1.6. The Company has set a net D/E ratio target of 1.8 in its medium-term management plan, Challenge & Progress, and has kept the ratio within this range.

Net assets

As of March 31, 2024, net assets stood at ¥125,645 million, an increase of ¥6,321 million compared with March 31, 2023. This was mainly due to an increase in retained earnings of ¥4,713 million and an increase in valuation difference on available-for-sale securities of ¥1,896 million.

Considering that our performance for fiscal 2023, the final year of the medium-term management plan "Challenge & Progress," exceeded the planned targets, we have announced both an ordinary dividend and a special dividend. This action aligns with our goal of achieving a consolidated total shareholder return ratio of around 70%.

The Company's recognition and analysis of its financial position and operating results by business segment along with related issues for consideration are as follows.

Analysis of financial position

As of March 31, 2024, Building Business segment assets amounted to ¥341,445 million, an increase of ¥4,005 million compared with the previous fiscal year-end. This mainly reflected an increase in property, plant and equipment resulting from the acquisition of Pregio Shin-Osaka Rouge (Osaka City, Osaka Prefecture) and construction activities at Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo). However, this was partially offset by a decrease in real estate for sale due to property disposals. Asset Management Business segment assets totaled ¥24,653 million, down ¥611 million compared with the previous fiscal year-end. This was largely due to a decrease in the market value of investment units of HEIWA REAL ESTATE REIT, Inc. held by the Company.

Segment assets (Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 | Difference |
|---|---|---|---|
| Building Business | 337,439 | 341,445 | 4,005 |
| Asset Management Business | 25,264 | 24,653 | (611) |
| Adjustments | 35,629 | 39,881 | 4,251 |
| Amount in consolidated financial statements | 398,333 | 405,979 | 7,645 |

Analysis of operating results

Operating results for each segment are presented above in (1) Overview of financial results, 1) Financial position and operating results.

2) Analysis of cash flows, issues for consideration, and sourcing and liquidity of funds

An analysis of cash flows for fiscal 2023 is presented in (1) Overview of financial results, 2) Cash flows.

The Group's sources of funds include cash inflows from its business activities, loans from financial institutions, and bonds issued by the Company. The funds it secures are allocated in a manner that ensures a sound balance between working capital, shareholder returns, internal reserves needed for maintaining stable operations, and investment for future growth, such as redevelopment and building businesses. The Group's working capital is mainly used to pay expenses for the operation of business assets, operating expenses, including selling, general and administrative expenses, and non-operating expenses, such as interest expenses.

As a basic policy, the Company maintains an appropriate level of discipline when financing and procuring funds, using the net D/E ratio as an indicator of financial discipline. As of March 31, 2024, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥231,323 million; net interest-bearing liabilities, which exclude marketable securities and cash and deposits from interest-bearing liabilities, amounted to ¥202,902 million; and the net D/E ratio came to 1.6.

The Company will return profits to shareholders based on the assumption that its businesses, particularly the redevelopment and building businesses, will operate stably over the long term, and sufficient internal reserves for raising shareholder value will be secured. As a basic policy, the Company aimed for a consolidated total shareholder return ratio of around 70% from fiscal 2020 to 2023, taking into account returns on business investments while focusing on capital cost and capital efficiency. In accordance with this policy, the Company paid dividends totaling ¥5,969 million for fiscal 2023, which includes a special dividend of ¥1,797 million. As a result, the consolidated total shareholder return ratio stood at 70.6%.

3) Significant accounting policies and estimates

The Group prepares its consolidated financial statements in accordance with accounting standards generally accepted in Japan. When preparing these statements, accounting estimates are made based on reasonable standard.

More details are presented in Part 3 Financial Reporting, Consolidated Financial Statements, 6. Notes to Consolidated Financial Statements, Note 2 Significant Accounting Policies.

Accounting estimates are necessary for the impairment of fixed assets and valuation of real estate for sale, in particular. Information concerning the impact of uncertainty inherent in such estimates and assumptions as well as changes therein on operating results is presented in Part 3 Financial Reporting, Consolidated Financial Statements, 6. Notes to Consolidated Financial Statements, Note 3 Significant Accounting Estimates.

Additional Information

1. Building Business

Breakdown of net sales, segment profit (loss), and depreciation (Millions of yen)

| Classification | Fiscal 2022 | | | Fiscal 2023 | | |
|---|---|---|---|---|---|---|
| | Net sales | Segment profit (loss) | Depreciation | Net sales | Segment profit (loss) | Depreciation |
| Leasing revenue | 25,130 | 7,549 | 5,600 | 26,382 | 8,007 | 5,681 |
| Revenue from sales of properties | 14,065 | 3,140 | — | 12,780 | 4,808 | — |
| Other | 1,652 | (118) | 4 | 1,382 | (176) | 5 |
| Total | 40,848 | 10,572 | 5,605 | 40,544 | 12,639 | 5,687 |

(Note) Leasing revenue includes sales and expenses associated with restaurant operations. In fiscal 2022, these operations contributed ¥381 million to net sales, reduced segment profit by ¥130 million, and accounted for ¥47 million in depreciation. In fiscal 2023, they contributed ¥500 million to net sales, reduced segment profit by ¥20 million, and included ¥35 million in depreciation.

2. Asset Management Business

Breakdown of net sales, segment profit, and depreciation (Millions of yen)

| Classification | Fiscal 2022 | | | Fiscal 2023 | | |
|---|---|---|---|---|---|---|
| | Net sales | Segment profit | Depreciation | Net sales | Segment profit | Depreciation |
| Asset management revenue | 2,482 | 1,828 | 10 | 2,565 | 1,885 | 9 |
| Brokerage commissions | 1,191 | 242 | 4 | 1,322 | 312 | 2 |
| Total | 3,674 | 2,071 | 14 | 3,888 | 2,197 | 11 |

Part 3 Financial Reporting

Consolidated Financial Statements

**1. Consolidated Balance Sheets**

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits (Notes 10 and 12) | 20,908 | 20,416 |
| Trade accounts receivable (Notes 6, 12 and 21) | 1,967 | 2,114 |
| Securities (Notes 10, 12 and 13) | 6,999 | 8,005 |
| Real estate for sale (Note 6) | 14,153 | 20,645 |
| Real estate for sale in process (Note 6 ) | 298 | 567 |
| Operating investments in capital (Notes 12 and 13) | 1,027 | 551 |
| Other | 1,300 | 956 |
| Allowance for doubtful accounts | (24) | (0) |
| Total current assets | 46,630 | 53,257 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures (Note 6) | 179,609 | 180,769 |
| Accumulated depreciation | (93,392) | (96,211) |
| Buildings and structures, net (Note 6) | 86,217 | 84,557 |
| Machinery, equipment and vehicles | 2,359 | 2,259 |
| Accumulated depreciation | (1,878) | (1,834) |
| Machinery, equipment and vehicles, net (Note 6) | 480 | 425 |
| Tools, furniture and fixtures | 2,234 | 2,669 |
| Accumulated depreciation | (1,626) | (1,839) |
| Tools, furniture and fixtures, net (Note 6) | 607 | 829 |
| Land (Note 6) | 190,497 | 184,669 |
| Construction in progress | 1,723 | 5,039 |
| Total property, plant and equipment | 279,526 | 275,522 |
| Intangible assets | | |
| Leasehold interests in land (Note 6) | 30,464 | 30,492 |
| Goodwill (Notes 10, 18 and 22) | — | 645 |
| Other | 193 | 181 |
| Total intangible assets | 30,658 | 31,320 |
| Investments and other assets | | |
| Investment securities (Notes 6, 12 and 13) | 34,632 | 38,072 |
| Deferred tax assets (Note 17) | 226 | 250 |
| Other | 6,345 | 7,175 |
| Total investments and other assets | 41,204 | 45,498 |
| Total non-current assets | 351,388 | 352,341 |
| Deferred assets | | |
| Bond issuance costs | 314 | 381 |
| Total deferred assets | 314 | 381 |
| Total assets | 398,333 | 405,979 |

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Trade accounts payable (Note 12) | 5,727 | 1,923 |
| Current portion of bonds payable (Notes 12 and 25) | 3,648 | 3,624 |
| Short-term borrowings (Notes 12 and 25) | 3,800 | 800 |
| Current portion of long-term borrowings (Notes 12 and 25) | 15,727 | 16,681 |
| Income taxes payable (Note 17) | 2,618 | 1,674 |
| Accrued consumption taxes | 642 | 1,738 |
| Provision for bonuses for directors (and other officers) | 134 | 109 |
| Provision for bonuses | 256 | 272 |
| Other (Notes 6, 21 and 25) | 1,988 | 2,228 |
| Total current liabilities | 34,543 | 29,052 |
| Non-current liabilities | | |
| Bonds payable (Notes 12 and 25) | 27,989 | 27,864 |
| Long-term borrowings (Notes 12, 14 and 25) | 170,880 | 173,703 |
| Long-term accounts payable – other (Notes 12 and 25) | 4,850 | 8,391 |
| Leasehold and guarantee deposits received (Note 12) | 23,524 | 23,636 |
| Deferred tax liabilities (Note 17) | 8,849 | 9,466 |
| Deferred tax liabilities for land revaluation (Note 6) | 7,314 | 7,186 |
| Provision for share awards | 147 | 213 |
| Retirement benefit liability (Note 15) | 234 | 126 |
| Asset retirement obligations (Note 19) | 676 | 683 |
| Other | — | 9 |
| Total non-current liabilities | 244,466 | 251,282 |
| Total liabilities | 279,009 | 280,334 |
| Net assets | | |
| Shareholders’ equity | | |
| Share capital | 21,492 | 21,492 |
| Capital surplus | 19,720 | 19,720 |
| Retained earnings | 56,298 | 61,012 |
| Treasury shares | (9,997) | (9,989) |
| Total shareholders’ equity | 87,513 | 92,235 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 15,443 | 17,339 |
| Deferred gains or losses on hedges | — | (6) |
| Revaluation reserve for land (Note 6) | 16,366 | 16,076 |
| Total accumulated other comprehensive income | 31,810 | 33,409 |
| Total net assets | 119,324 | 125,645 |
| Total liabilities and net assets | 398,333 | 405,979 |

## 2. Consolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Net sales (Notes 7, 21 and 22) | 44,522 | 44,433 |
| Cost of sales | 28,242 | 25,863 |
| Gross profit | 16,279 | 18,569 |
| Selling, general and administrative expenses | | |
| Salaries and allowances | 1,578 | 1,610 |
| Provision for bonuses for directors (and other officers) | 141 | 112 |
| Provision for bonuses | 170 | 180 |
| Provision for share awards | 66 | 87 |
| Retirement benefit expenses | 124 | 24 |
| Commission expenses | 838 | 848 |
| Other | 2,575 | 2,683 |
| Total selling, general and administrative expenses | 5,495 | 5,547 |
| Operating profit (Note 22) | 10,784 | 13,022 |
| Non-operating income | | |
| Interest income | 6 | 17 |
| Dividend income | 539 | 382 |
| Miscellaneous income | 30 | 44 |
| Total non-operating income | 575 | 444 |
| Non-operating expenses | | |
| Interest expenses | 1,480 | 1,664 |
| Amortization of bond issuance costs | 56 | 50 |
| Miscellaneous losses | 175 | 287 |
| Total non-operating expenses | 1,713 | 2,003 |
| Ordinary profit | 9,647 | 11,463 |
| Extraordinary income | | |
| Gain on sale of investment securities | 3,543 | 1,215 |
| Gain on sale of businesses (Note 7) | 240 | ― |
| Subsidy income | 44 | 2 |
| Total extraordinary income | 3,827 | 1,218 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets (Note 7) | 61 | 20 |
| Impairment losses (Notes 7 and 22) | 108 | 66 |
| Loss on tax purpose reduction entry of non-current assets | 44 | 2 |
| Loss on valuation of investment securities | ― | 181 |
| Total extraordinary losses | 214 | 271 |
| Profit before income taxes | 13,260 | 12,409 |
| Income taxes – current | 4,655 | 4,040 |
| Income taxes – deferred | (532) | (81) |
| Total income taxes (Note 17) | 4,123 | 3,959 |
| Profit | 9,137 | 8,450 |
| Profit attributable to owners of parent | 9,137 | 8,450 |

### 3. Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Profit | 9,137 | 8,450 |
| Other comprehensive income (Note 8) | | |
| Valuation difference on available-for-sale securities | (2,624) | 1,896 |
| Deferred gains or losses on hedges | ― | (6) |
| Total other comprehensive income | (2,624) | 1,889 |
| Comprehensive income (Note 8) | 6,512 | 10,340 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 6,512 | 10,340 |

## 4. Consolidated Statements of Changes in Equity

Year ended March 31, 2023

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 21,492 | 19,720 | 50,258 | (7,306) | 84,165 |
| Changes during period | | | | | |
| Dividends of surplus | | | (3,775) | | (3,775) |
| Profit attributable to owners of parent | | | 9,137 | | 9,137 |
| Purchase of treasury shares | | | | (2,708) | (2,708) |
| Disposal of treasury shares | | 0 | | 17 | 17 |
| Reversal of revaluation reserve for land | | | 678 | | 678 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | – | 0 | 6,040 | (2,691) | 3,348 |
| Balance at end of period | 21,492 | 19,720 | 56,298 | (9,997) | 87,513 |

| | Accumulated other comprehensive income | | | | Total net assets |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Total accumulated other comprehensive income | |
| Balance at beginning of period | 18,068 | – | 17,045 | 35,113 | 119,278 |
| Changes during period | | | | | |
| Dividends of surplus | | | | | (3,775) |
| Profit attributable to owners of parent | | | | | 9,137 |
| Purchase of treasury shares | | | | | (2,708) |
| Disposal of treasury shares | | | | | 17 |
| Reversal of revaluation reserve for land | | | | | 678 |
| Net changes in items other than shareholders' equity | (2,624) | – | (678) | (3,303) | (3,303) |
| Total changes during period | (2,624) | – | (678) | (3,303) | 45 |
| Balance at end of period | 15,443 | – | 16,366 | 31,810 | 119,324 |

Year ended March 31, 2024

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 21,492 | 19,720 | 56,298 | (9,997) | 87,513 |
| Changes during period | | | | | |
| Dividends of surplus | | | (4,027) | | (4,027) |
| Profit attributable to owners of parent | | | 8,450 | | 8,450 |
| Purchase of treasury shares | | | | (12) | (12) |
| Disposal of treasury shares | | 0 | | 20 | 20 |
| Reversal of revaluation reserve for land | | | 290 | | 290 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | — | 0 | 4,713 | 7 | 4,721 |
| Balance at end of period | 21,492 | 19,720 | 61,012 | (9,989) | 92,235 |

| | Accumulated other comprehensive income | | | | Total net assets |
|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Total accumulated other comprehensive income | |
| Balance at beginning of period | 15,443 | — | 16,366 | 31,810 | 119,324 |
| Changes during period | | | | | |
| Dividends of surplus | | | | | (4,027) |
| Profit attributable to owners of parent | | | | | 8,450 |
| Purchase of treasury shares | | | | | (12) |
| Disposal of treasury shares | | | | | 20 |
| Reversal of revaluation reserve for land | | | | | 290 |
| Net changes in items other than shareholders' equity | 1,896 | (6) | (290) | 1,599 | 1,599 |
| Total changes during period | 1,896 | (6) | (290) | 1,599 | 6,321 |
| Balance at end of period | 17,339 | (6) | 16,076 | 33,409 | 125,645 |

## 5. Consolidated Statements of Cash Flows

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 13,260 | 12,409 |
| Depreciation | 5,668 | 5,778 |
| Loss on retirement of non-current assets | 61 | 20 |
| Impairment losses | 108 | 66 |
| Amortization of goodwill | — | 7 |
| Loss (gain) on valuation of investment securities | — | 181 |
| Loss (gain) on sale of businesses | (240) | — |
| Increase (decrease) in allowance for doubtful accounts | (0) | (24) |
| Increase (decrease) in provision for bonuses | 6 | 15 |
| Increase (decrease) in retirement benefit liability | 114 | (108) |
| Interest and dividend income | (545) | (400) |
| Interest expenses | 1,480 | 1,664 |
| Amortization of bond issuance costs | 56 | 50 |
| Loss (gain) on sale of investment securities | (3,543) | (1,215) |
| Decrease (increase) in trade receivables | (157) | (147) |
| Decrease (increase) in inventories | 11,012 | 6,273 |
| Decrease (increase) in operating investments in capital | 597 | 475 |
| Decrease (increase) in prepaid expenses | 0 | (10) |
| Decrease (increase) in accounts receivable – other | 1,323 | 264 |
| Increase (decrease) in trade payables | (55) | (144) |
| Increase (decrease) in advances received | 12 | (46) |
| Increase (decrease) in accrued consumption taxes | 545 | 1,096 |
| Increase (decrease) in deposits received | (544) | 26 |
| Increase (decrease) in leasehold and guarantee deposits received | 1,006 | (181) |
| Other, net | 35 | (253) |
| Subtotal | 30,203 | 25,798 |
| Interest and dividends received | 522 | 422 |
| Interest paid | (1,457) | (1,650) |
| Income taxes paid | (5,315) | (4,984) |
| Net cash provided by (used in) operating activities | 23,952 | 19,584 |

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Cash flows from investing activities | | |
| Purchase of securities | (3,000) | (4,000) |
| Proceeds from sale and redemption of securities | 1,015 | 4,000 |
| Purchase of investment securities | (313) | (1,290) |
| Proceeds from sale and redemption of investment securities | 4,141 | 1,816 |
| Payments for acquisition of businesses (Note 10) | ― | (1,231) |
| Proceeds from sale of businesses | 240 | ― |
| Purchase of property, plant and equipment | (38,239) | (18,190) |
| Purchase of intangible assets | (2,374) | (74) |
| Purchase of long-term prepaid expenses | (1,155) | (396) |
| Payments of guarantee deposits | (614) | (65) |
| Proceeds from refund of guarantee deposits | 48 | 73 |
| Other, net | 2 | 1 |
| Net cash provided by (used in) investing activities | (40,250) | (19,356) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | ― | (3,000) |
| Proceeds from long-term borrowings | 29,860 | 19,827 |
| Repayments of long-term borrowings | (13,472) | (16,050) |
| Proceeds from issuance of bonds | 7,790 | 3,500 |
| Redemption of bonds | (4,368) | (3,648) |
| Proceeds from increased long-term accounts payable | 850 | 3,800 |
| Purchase of treasury shares | (2,704) | (14) |
| Dividends paid | (3,761) | (4,012) |
| Other, net | (198) | (120) |
| Net cash provided by (used in) financing activities | 13,994 | 280 |
| Effect of exchange rate change on cash and cash equivalents | ― | ― |
| Net increase (decrease) in cash and cash equivalents | (2,303) | 508 |
| Cash and cash equivalents at beginning of period | 28,111 | 25,807 |
| Cash and cash equivalents at end of period (Note 10) | 25,807 | 26,316 |

## 6. Notes to Consolidated Financial Statements

Note 1 — Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Heiwa Real Estate Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and translated into English for the benefit of readers outside Japan. In addition, the notes to the consolidated financial statements include information which may not be required under Japanese GAAP but is presented herein as additional information.

Note 2 — Significant Accounting Policies

1. Scope of consolidation

(1) Consolidated subsidiaries: 5

Names of consolidated subsidiaries:

Heiwa Real Estate Property Management Co., Ltd.
Housing Service Co., Ltd.
HEIWA REAL ESTATE Asset Management Co., Ltd.
The Tokyo Shoken Building Incorporated
Tokyo Hibiya Hotel Corporation

(2) Names, etc. of major non-consolidated subsidiaries

Major non-consolidated subsidiaries

The Company has no major non-consolidated subsidiaries to report.

(Reason for exclusion from scope of consolidation)

Non-consolidated subsidiaries are small-scale businesses and their aggregated total assets, net sales, profit/loss (corresponding to the equity owned by the Company), and retained earnings (corresponding to the equity owned by the Company) have no significant effect on the overall results of the consolidated financial statements.

2. Application of the equity method

(1) Names of major non-consolidated subsidiaries not accounted for using the equity method

The Company has no major non-consolidated subsidiaries to report.

(2) Reason for exclusion from application of equity method accounting

A non-consolidated subsidiary not accounted for using the equity method is excluded from the scope of application of equity method accounting because its profit/loss (corresponding to the equity owned by the Company) and retained earnings (corresponding to the equity owned by the Company), etc. have an immaterial effect on the consolidated financial statements and is insignificant as a whole.

3. Matters related to the fiscal year period of consolidated subsidiaries

The accounting year of consolidated subsidiary Tokyo Hibiya Hotel Corporation ends on the last day of February.

This closing date was used for the preparation of these consolidated financial statements; however, if any significant transactions occur between March 1 and the end of the consolidated fiscal year on March 31, adjustments for the consolidated financial statements will be implemented as necessary.

4. Accounting policy

(1) Method and basis of valuation of significant assets

1) Securities

Held-to-maturity bonds

Held-to-maturity bonds are valued at cost, with cost being determined using the amortized cost method (straight-line method).

Available-for-sale securities

a) Investments other than stocks without quoted market prices

The market value method is used for investments other than stocks without quoted market prices (differences in valuation are included directly in net assets, and costs of securities sold are calculated using the moving-average method).

b) Stocks without quoted market prices

They are mainly valued at cost determined using the moving-average method.

2) Inventories

Inventories are valued at cost determined by the specific identification method (the value on the consolidated balance sheet is appraised by the write-down of the book value of inventories based on the deterioration of profitability).

(2) Depreciation method for significant depreciable assets

1) Property, plant and equipment (excluding leased assets)

Depreciation of property, plant and equipment is computed using the declining balance method. The straight-line method, however, is used for the Tokyo Stock Exchange Building and one other building, as well as for buildings (excluding attached facilities) acquired on or after April 1, 1998, and facilities and structures attached to buildings acquired on or after April 1, 2016.

Depreciation of consolidated subsidiaries' property, plant and equipment is computed using the straight-line method.

The principal useful lives of property, plant and equipment are as follows:

Buildings and structures: 2–65 years

Machinery, equipment and vehicles: 2–30 years

Tools, furniture and fixtures: 2–20 years

2) Intangible assets (excluding leased assets)

Amortization of intangible assets is computed using the straight-line method. The cost of software for internal use is amortized using the straight-line method based on the expected useful life of the software (five years).

3) Leased assets

Leased assets are depreciated to a residual value of zero using the straight-line method over the lease period.

(3) Method of accounting for significant deferred assets

Bond issuance costs

Bond issuance costs are amortized using the straight-line method over the period until bond redemption.

(4) Basis of accounting for significant allowances and provisions

1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover losses on trade accounts receivable and bad debts at an amount estimated based on the historical write-off ratio for general accounts receivables. For doubtful accounts receivable, the allowance is determined at the amount estimated to be uncollectible on an individual basis.

2) Provision for bonuses for directors (and other officers)

Provision for bonuses for directors (and other officers) is calculated based on the total amount of estimated bonus payments.

3) Provision for bonuses

Provision for bonuses for employees is calculated based on the total amount of estimated bonus payments.

4) Provision for share awards

The provision of share awards was calculated based on the expected amount of stock compensation obligations as of March 31, 2024 in order to provide the Company's stock as compensation to directors and executive officers of the Company and certain subsidiaries in accordance with its share-based remuneration rules, and as compensation to its employees in accordance with share-based remuneration rules concerning the trust for the Company's stock ownership plan for employees.

(5) Accounting for retirement benefits

In order to provide the retirement benefits of employees and pension recipients, retirement benefit liability is calculated at an amount equal to the projected benefit obligation as of March 31, 2024 minus the fair value of pension assets. Retirement benefit liability is not calculated at any consolidated subsidiary that has a defined contribution retirement plan.

(6) Basis for calculating significant revenues and expenses

Details about the primary performance obligations of the Heiwa Real Estate Group's main businesses that generate revenue from contracts with customers, and the points in time when such performance obligations are generally satisfied (the points in time when revenues are generally recognized) are as follows.

1) Building Business

Revenue from sales of properties

The Company generates revenue from sales of properties by increasing the value of properties it has acquired through redevelopment, lease-ups, and renovations, and then selling them for prices that exceed their acquisition prices. The Company has performance obligations to deliver properties based on real estate sales agreements.

These performance obligations are satisfied at the time of delivering a property, and revenue is recognized once the property is delivered.

2) Asset Management Business

Asset management revenue from management fees

The Company generates asset management revenue from management fees obtained through asset management services provided to HEIWA REAL ESTATE REIT, Inc. Based on property lease agreements, the Company has performance obligations to manage properties, handle leasing and financing, and acquire and transfer ownership of properties.

Its performance obligations to manage properties and handle leasing and financing are satisfied by providing these services over their specified periods of time, and revenue is recognized in proportion to the degree these performance obligations are satisfied.

Its performance obligations to acquire and transfer ownership of properties are satisfied once an acquisition or transfer of a property has been completed, and revenue is recognized at either of those points in time.

(7) Method of significant hedge accounting

1) Method of hedge accounting

The Company applies deferred hedge accounting. The special treatment applies to interest rate swaps because they meet the requirements.

2) Hedging instruments and hedged items

Hedging instruments: interest rate swaps

Hedged items: interest rates of borrowings

3) Policy of hedging transactions

Interest rate swap transactions are conducted to reduce the exposure to fluctuations in the interest rates of borrowings.

4) Method of assessing hedge effectiveness

Hedge effectiveness is assessed by comparing the percentage differences between accumulated changes in cash flows of hedged items and the hedging instruments that are applied.

Interest rate swaps for which special treatment is applied, however, are excluded from this assessment of hedge effectiveness.

(8) Method and period of goodwill amortization

Goodwill is amortized using the straight-line method over the period in which it has an effect.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, cash in banks that can be withdrawn on demand, and short-term investments with maturities of three months or less from the acquisition date, which are highly liquid instruments that can be easily converted into cash and are exposed to little risk of change in value.

(10) Other important matters for the preparation of consolidated financial statements

Accounting for consumption taxes

In principle, non-deductible consumption taxes were charged as expenses in the fiscal year ended March 31, 2024.

Note 3 － Significant Accounting Estimates

1. Impairment of non-current assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2024.

(Millions of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Property, plant and equipment | 279,526 | 275,522 |
| Leasehold interests in land and goodwill among intangible assets | 30,464 | 31,138 |
| Impairment losses | 108 | 66 |

(2) Information on the details of the significant accounting estimates for identified items

1) Method for calculating amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2024

In principle, individual assets that generate cash flow independently from other asset groups are recognized as the minimum unit for indications of impairment.

Indications of impairment include recurring operating losses, significant deteriorating of the business environment, and significant declines in market value.

If indications of impairment are deemed to exist, the Company will decide whether to recognize an impairment loss. If recording an impairment loss is deemed necessary, the Company will compare the undiscounted future cash flow with the book value, and if the undiscounted future cash flow is less than the book value, the Company will reduce the book value to a recoverable amount (either the net sales price or the value in use, whichever is higher), and record the reduced book value as an impairment loss.

2) Main assumptions used for significant accounting estimates

The Group sets market values based on the real estate appraisal value determined by external real estate appraisers (hereafter, "externally appraised real estate value"). Future cash flows and recoverable amounts are estimated based on the externally appraised real estate value and forecasts of an asset group's operating results, which includes assumptions regarding future rent levels, occupancy rates, operating expenses, and other factors.

In addition, for its real estate redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho district) and Sapporo, the Company groups together multiple assets from the time when redevelopment plans are deemed feasible based on negotiations with landowners.

3) Possible impact of changes in main assumptions on results recorded in consolidated financial statements for the following fiscal year

The main assumptions listed in 2), above, are derived from the best estimates based on available information as of March 31, 2024, however, if those assumptions change due to changes in redevelopment projects or market conditions, the Group's performance could be affected, such as recording impairment losses.

2. Valuation of real estate for sale

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2024

(Millions of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Real estate for sale | 14,153 | 20,645 |
| Real estate for sale in process | 298 | 567 |

(2) Information on the details of the significant accounting estimates for identified items

1) Method for calculating amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2024

The net sales price of real estate for sale and real estate for sale in process is estimated based on the expected sales price minus the expected amount of site preparation and building construction costs and the expected amount of selling expenses. If the net sales price is less than the book value, the difference is recorded in cost of sales as a loss on revaluation of inventories.

2) Main assumptions used for significant accounting estimates

To estimate the expected sales price, the Group takes into account the externally appraised real estate value, its rental rates and forecast yields, and the impact of falling demand in the future, among other factors.

As of March 31, 2024, the Group had estimated the expected sales prices of its residential buildings based on its rental rates and forecast yields, and assumed no major fluctuations in rental rates and forecast yields in the real estate market going forward.

3) Possible impact of changes in main assumptions on results recorded in consolidated financial statements for the following fiscal year

The main assumptions listed in 2), above, are derived from the best estimates based on available information as of March 31, 2024, however, if those assumptions change due to certain factors, such as lower than expected sales prices caused by falling demand in the real estate market, the Group's performance could be affected, such as recording a loss on revaluation of inventories.

Note 4 — Accounting Standards Not Yet Adopted

• Accounting Standard for Current Income Taxes (ASBJ Statement No. 27 (revised)) issued on October 28, 2022
• Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25 (revised)) issued on October 28, 2022
• Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28 (revised)) issued on October 28, 2022

(1) Overview

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28) was issued in February 2018, and the transfer of practical guidelines for tax effect accounting from the Japan Institute of Certified Public Accountants to the ASBJ was completed. In deliberations during that process, however, the following two matters were reconsidered following the issuance of ASBJ Statement No. 28, and then further deliberated and announced:

1. Classification of tax expenses for the taxation of other comprehensive income
2. Tax effect of selling shares of subsidiaries or affiliated companies when a consolidated corporate tax system is used

(2) Scheduled date of application

The Company will apply the accounting standards, etc. from April 1, 2024.

(3) Impact of applying the accounting standards, etc.

The impact of applying the revised Accounting Standard for Current Income Taxes on the consolidated financial statements is currently being assessed.

Note 5 － Additional Information

Performance-based stock compensation plan for directors and executive officers

The Company has established a performance-based stock compensation plan for its executive officers (excluding non-residents of Japan), managing officers (excluding those who have been specially appointed to be in charge of the Audit Committee Office, as well as managing officers of Group companies and non-residents of Japan), and directors and managing officers of the Company's major subsidiaries (excluding part-time directors, directors or managing officers who have been seconded from the Company, and non-residents of Japan).

(1) Overview of the ownership plan

A trust established with funds contributed by the Company acquires company stock to be used as compensation for directors and officers eligible under the plan (listed above). Through the trust, company stock or a cash amount equivalent to the value of the stock is delivered to these individuals in an amount commensurate with the number of points each has earned based on share-based remuneration rules set by the Company's Board of Directors. As a rule, they will receive this compensation upon retiring from their respective post.

(2) Company stock held in the trust

Company stock held in the trust is calculated based on the book value of the stock (excluding incidental expenses) and is included in treasury shares under net assets. The book value of the applicable treasury shares amounted to ¥321 million as of March 31, 2023, and ¥304 million as of March 31, 2024, and the amount of treasury shares totaled 104,400 shares as of March 31, 2023, and 98,700 shares as of March 31, 2024.

Stock ownership plan for employees

The Company has set up a stock ownership plan for employees as a means to provide them with incentives.

(1) Overview of the ownership plan

The plan provides employees with the Company's stock or a cash amount equivalent to the market value of the stock commensurate with a number of points awarded based on share-based remuneration rules concerning the trust for the Company's stock compensation plan for employees set by the Board of Directors. The shares for the plan are acquired by a trust that has been set up using funds contributed by the Company.

(2) Company stock held in the trust

Company stock held in the trust is calculated based on the book value of the stock (excluding incidental expenses) and is included in treasury shares under net assets. The book value of the applicable treasury shares amounted to ¥298 million as of March 31, 2023, and ¥295 million as of March 31, 2024, and the amount of treasury shares totaled 70,900 shares as of March 31, 2023, and 70,300 shares as of March 31, 2024.

Note 6 － Consolidated Balance Sheets

1. Net balances of receivables from contracts with customers, contract assets, and contract liabilities are as follows:

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Receivables from contracts with customers (Note 1) | 186 | 281 |
| Contract assets (Note 1) | 485 | 510 |
| Contract liabilities (Note 2) | 5 | 44 |

(Notes) 1. Receivables from contracts with customers and contract assets are included in “trade accounts receivable.”
2. Contract liabilities are included in “other” under “current liabilities.”

2. Guarantee liabilities

The Company-guaranteed loans owed by employees to financial institutions are as follows:

(Millions of yen)

| As of March 31, 2023 | | As of March 31, 2024 | |
|---|---|---|---|
| Housing loans for employees of Heiwa Real Estate Co., Ltd. | 114 | Housing loans for employees of Heiwa Real Estate Co., Ltd. | 91 |

3. Pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 of March 31, 2001), the Company revalued its land held for business. Corporation taxes equivalent to net unrealized gains are reported as “deferred tax liabilities for land revaluation” in liabilities, and net unrealized gains, net of deferred taxes, are reported as “revaluation reserve for land” in net assets.

- Method of revaluation: Fair values are determined by applying appropriate adjustments to values computed using the method published by the Commissioner of the National Tax Agency for the calculation of land values that serve as the basis for taxable amounts of land-holding tax set forth in Article 16 of the Land-holding Tax Act as set forth in Article 2, Item 4 of the Order for Enforcement of Act on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).
- Date of revaluation: March 31, 2001
- Since the fair value of the revalued land exceeded the carrying value of the land after the revaluation as of March 31, 2023, and March 31, 2024, the difference between the amounts has not been stated.

4. Assets included under investment securities are as follows:

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Investment units of HEIWA REAL ESTATE REIT, Inc. | 22,444<br>(147,179 units) | 21,596<br>(151,979 units) |

5. Amount of reduction entry associated with national subsidies, etc.

Due to the receipt of state subsidies, the following amounts of reduction entry were deducted from acquisition costs.

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Real estate for sale | 48 | 41 |
| Buildings and structures | 283 | 244 |
| Total | 332 | 285 |

6. The amounts below were transferred due to a change in their purpose of ownership

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Transferred from non-current assets to real estate for sale | 5,589 | 13,035 |

Note 7 ― Consolidated Statements of Income

1. Revenue from contracts with customers

Revenue from contracts with customers and revenues other than those from contracts with customers are not recorded separately under net sales. Revenues from contracts with customers are shown as follows.

(Millions of yen)

| Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|
| 20,293 | 19,719 |

2. Gain on sale of businesses is due to the sale of the insurance-related business operated by Heiwa Real Estate Property Management Co., Ltd., the consolidated subsidiary of the Company.

3. Details of loss on retirement of non-current assets are as follows:

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Buildings and structures | 59 | 19 |
| Other | 2 | 0 |
| Total | 61 | 20 |

4. Impairment losses

Year ended March 31, 2023

| Location | Principal use | Category | Impairment losses |
|---|---|---|---|
| Abiko-shi, Chiba | Stores and other commercial facilities | Land and buildings | ¥108 million |

The Group recorded impairment losses on the asset group above. To calculate impairment losses, assets are grouped according to the smallest unit of assets that generates cash flows that are largely independent of the cash flows provided from other assets or asset groups.

The book values of real estate for rent whose profitability substantially decreased were written down to a recoverable amount, and the decreased amounts were recorded as impairment losses of ¥108 million under extraordinary losses.

The recoverable amount of this asset group was determined by its net realizable value, which was based on amounts assessed by real estate appraisers.

Year ended March 31, 2024

| Location | Principal use | Category | Impairment losses |
|---|---|---|---|
| Abiko-shi, Chiba | Stores and other commercial facilities | Land and buildings | ¥66 million |

The Group recorded impairment losses on the asset group above. To calculate impairment losses, assets are grouped according to the smallest unit of assets that generates cash flows that are largely independent of the cash flows provided from other assets or asset groups.

The book values of real estate for rent whose profitability substantially decreased were written down to a recoverable amount, and the decreased amounts were recorded as impairment losses of ¥66 million under extraordinary losses.

The recoverable amount of this asset group was determined by its net realizable value, which was based on amounts assessed by real estate appraisers.

Note 8 — Consolidated Statements of Comprehensive Income

Reclassification adjustment and tax effect related to other comprehensive income

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Valuation difference on available-for-sale securities: | | |
| Amount incurred for the fiscal year | (220) | 3,936 |
| Reclassification adjustment | (3,562) | (1,203) |
| Before tax effect adjustment | (3,783) | 2,733 |
| Tax benefit (expense) | 1,158 | (836) |
| Valuation difference on available-for-sale securities | (2,624) | 1,896 |
| Deferred gains or losses on hedges: | | |
| Amount incurred for the fiscal year | — | (9) |
| Reclassification adjustment | — | — |
| Before tax effect adjustment | — | (9) |
| Tax benefit (expense) | — | 2 |
| Deferred gains or losses on hedges | — | (6) |
| Total other comprehensive income | (2,624) | 1,889 |

Note 9 — Consolidated Statements of Changes in Equity

Year ended March 31, 2023

1. Type and number of shares issued and treasury shares

(Number of shares)

| | At the beginning of the fiscal year | Increase in the fiscal year | Decrease in the fiscal year | At the end of the fiscal year |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 38,859,996 | — | — | 38,859,996 |
| Total | 38,859,996 | — | — | 38,859,996 |
| Treasury shares | | | | |
| Common shares (Notes 1, 2, 3) | 2,380,419 | 700,264 | 7,169 | 3,073,514 |
| Total | 2,380,419 | 700,264 | 7,169 | 3,073,514 |

(Notes) 1. The increase of 700,264 common shares of treasury shares was comprised of 646,100 shares acquired by the Company pursuant to a resolution of the Board of Directors, 52,000 shares acquired for the trust for the Company’s stock compensation plan for directors and executive officers, and 2,164 odd-lot shares acquired.

2. The decrease of 7,169 common shares of treasury shares was comprised of 4,900 shares provided to and 2,000 shares sold by the trust for the Company’s stock compensation plan for directors and executive officers, 200 shares sold by the trust for the Company’s stock compensation plan for employees, and 69 odd-lot shares sold.

3. The total number of common shares of treasury shares as of March 31, 2023, included 175,300 shares held in the trust for the Company’s stock compensation plan for directors and executive officers, and the trust for the Company’s stock compensation plan for employees.

2. Dividends

(1) Payments of dividends

| Approval | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Ordinary General Shareholders' Meeting held on June 24, 2022 | Common shares | 1,976 | 54.0 | March 31, 2022 | June 27, 2022 |
| Meeting of Board of Directors held on October 31, 2022 | Common shares | 1,798 | 50.0 | September 30, 2022 | December 1, 2022 |

(Notes) 1. The total amount of dividends approved at the Ordinary General Shareholders' Meeting held on June 24, 2022, included ¥7 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

2. The total amount of dividends approved at the Board of Directors meeting held on October 31, 2022, included ¥8 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

(2) Dividends with a record date falling in the fiscal year ended March 31, 2023, and an effective date falling in the fiscal year ended March 31, 2024

| Approval | Type of shares | Total amount of dividends (millions of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Meeting of Board of Directors held on May 17, 2023 | Common shares | 1,941 | Retained earnings | 54.0 | March 31, 2023 | June 5, 2023 |

(Note) The total amount of dividends included ¥9 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

Year ended March 31, 2024

1. Type and number of shares issued and treasury shares

(Number of shares)

| | At the beginning of the fiscal year | Increase in the fiscal year | Decrease in the fiscal year | At the end of the fiscal year |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 38,859,996 | — | — | 38,859,996 |
| Total | 38,859,996 | — | — | 38,859,996 |
| Treasury shares | | | | |
| Common shares (Notes 1, 2, 3) | 3,073,514 | 3,168 | 6,338 | 3,070,344 |
| Total | 3,073,514 | 3,168 | 6,338 | 3,070,344 |

(Notes) 1. The increase of 3,168 common shares of treasury shares was comprised of 3,168 odd-lot shares acquired.

2. The decrease of 6,338 common shares of treasury shares was comprised of 4,000 shares provided to and 1,700 shares sold by the trust for the Company's stock compensation plan for directors and executive officers, 300 shares provided to and 300 shares sold by the trust for the Company's stock compensation plan for employees, and 38 odd-lot shares sold.

3. The total number of common shares of treasury shares as of March 31, 2024, included 169,000 shares held in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

2. Dividends

(1) Payments of dividends

| Approval | Type of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Meeting of Board of Directors held on May 17, 2023 | Common shares | 1,941 | 54.0 | March 31, 2023 | June 5, 2023 |
| Meeting of Board of Directors held on October 31, 2023 | Common shares | 2,085 | 58.0 | September 30, 2023 | December 1, 2023 |

(Notes) 1. The total amount of dividends approved at the Board of Directors meeting held on May 17, 2023, included ¥9 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

2. The total amount of dividends approved at the Board of Directors meeting held on October 31, 2023, included ¥9 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

(2) Dividends with a record date falling in the fiscal year ended March 31, 2024, and an effective date falling in the fiscal year ending March 31, 2025

| Approval | Type of shares | Total amount of dividends (millions of yen) | Source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Meeting of Board of Directors held on May 17, 2024 | Common shares | 3,883 | Retained earnings | 108.0 | March 31, 2024 | June 3, 2024 |

(Notes) 1. The total amount of dividends included ¥18 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

2. The amount of dividend per share includes a special dividend of ¥50 per share.

Note 10 ― Consolidated Statements of Cash Flows

1. Reconciliation of the balance of cash and cash equivalents at the end of the period and account items on the consolidated balance sheet

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Cash and deposits | 20,908 | 20,416 |
| Marketable securities | 6,999 | 8,005 |
| Time deposits with terms of more than 3 months | (100) | (100) |
| Bonds with redemption periods of more than 3 months | (2,000) | (2,005) |
| Cash and cash equivalents | 25,807 | 26,316 |

2. Breakdown of main assets and liabilities associated with acquisitions of businesses for which consideration is paid in cash and cash equivalents

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

The breakdown of assets acquired and liabilities assumed for acquisitions, and the relationship between the acquisition cost and payments for acquisition of businesses, is as follows.

| | (Millions of yen) |
|---|---|
| Current assets | 18 |
| Non-current assets | 598 |
| Goodwill | 652 |
| Non-current liabilities | (18) |
| Acquisition cost | 1,250 |
| Cash and cash equivalents | (18) |
| After deduction: Payments for acquisition of businesses | 1,231 |

Note 11 — Lease Transactions

1. Finance lease transactions

(As lessee)

Finance lease transactions not involving transfer of ownership

Not applicable

2. Operating lease transactions

(As lessor)

Future lease payments on operating leases for which leasing contracts cannot be cancelled.

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Due within 1 year | 4,937 | 5,014 |
| Due after 1 year | 12,258 | 12,595 |
| Total | 17,196 | 17,610 |

Note 12 — Financial Instruments

1. Items related to financial instruments

(1) Measures and policies concerning financial instruments

The Group procures necessary funds specified in its capital investment plans mainly by borrowing from banks and issuing bonds. It invests temporary surplus cash in highly liquid assets, and raises short-term working capital through bank loans. The Group does not engage in speculative investments as a matter of policy, and uses derivatives to hedge against the following risks.

(2) Details of financial instruments and related risks

Trade accounts receivable as operating receivables expose the Company to credit risk of building tenants and other clients.

Marketable securities and investment securities, which are mainly comprised of shares of companies with which the Company has business relationships, expose the Company to the risk of market price fluctuations.

Trade accounts payable as operating payables are due within a period of three months.

The Company secures loans payable, issues corporate bonds, and holds long-term accounts payable–other mainly for the purpose of procuring funds needed for capital investment, with the repayment and redemption dates extending no more than 19 years after the settlement date. Some of these financial instruments are subject to variable interest rates, and are, therefore, exposed to the risk of interest rate fluctuations; however, the Company uses derivatives in the form of interest rate swaps to hedge against these risks.

Interest rate swaps are also used for the purpose of hedging against the risk of fluctuating interest payments on loans. For information regarding hedging instruments, hedged items, hedging policies, and methods for evaluating hedge effectiveness, please refer to Note 2 — Significant Accounting Policies, 4. Accounting Policy, (7) Method of significant hedge accounting.

(3) Financial instrument-related risk management

1) Management of credit risk (including risk relating to non-performance of contract by a counterparty)

With respect to operating receivables, relevant departments of the Company regularly monitor the status of major counterparties, manage due dates and balances for each counterparty, quickly identify concerns regarding collection due to worsening financial conditions or other factors, and take steps to mitigate a damage. Consolidated subsidiaries manage these risks in the same way in accordance with the Company's credit management rules.

2) Management of market risks (including risk relating to fluctuating exchange rates and interest rates)

The Company uses interest rate swaps to mitigate the risk of fluctuating interest payments on loans.

The Company regularly checks the market price of marketable securities and investment securities along with the financial status of their issuers, which are the Company's business partners. The Company also continually reviews its holdings of securities other than held-to-maturity bonds, taking into consideration market conditions and its relationships with business partners.

3) Management of fund procurement-related liquidity risk (including risk of being unable to pay by due dates)

The Company manages liquidity risk by having departments in charge prepare and update on a timely basis financing plans based on reports submitted by all relevant departments, and by maintaining liquidity on hand.

(4) Additional information regarding items related to the fair value of financial instruments

Variable factors are considered when calculating the fair value of financial instruments, and therefore, the amount of fair value could change due to adoption of different assumptions. In addition, the contract amounts of derivatives, shown in Note 14 — Derivatives, do not represent derivative-related market risks.

2. Items related to the fair value of financial instruments

The amount recorded in the consolidated balance sheet, fair value, and their differences are presented as follows.

As of March 31, 2023

| | Amount on the consolidated balance sheet (millions of yen) | Fair value (millions of yen) | Difference (millions of yen) |
|---|---|---|---|
| (1) Marketable securities and investment securities | 40,704 | 40,705 | 0 |
| Total assets | 40,704 | 40,705 | 0 |
| (1) Bonds payable | 31,637 | 31,144 | (492) |
| (2) Long-term borrowings | 186,607 | 184,871 | (1,736) |
| (3) Long-term accounts payable – other | 4,850 | 4,709 | (140) |
| (4) Leasehold and guarantee deposits received | 23,524 | 23,085 | (438) |
| Total liabilities | 246,619 | 243,811 | (2,808) |
| Derivatives | — | — | — |

(Notes) 1. In the table above, cash was not included, and deposits, trade accounts receivable, trade accounts payable, and short-term borrowings were also not included because their fair value approximates their book value since they are settled over short periods of time.

2. Stocks without quoted market prices are not included in (1) Marketable securities and investment securities in the table above. The amount of this financial instrument in the consolidated balance sheets is shown below.

(Millions of yen)

| Classification | As of March 31, 2023 |
| --- | --- |
| Stocks without quoted market prices | 655 |

3. In accordance with the treatment specified in Paragraph 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 (revised)) issued on June 17, 2021, the table above does not include investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥1,298 million in the consolidated balance sheets).

As of March 31, 2024

| | Amount on the consolidated balance sheet (millions of yen) | Fair value (millions of yen) | Difference (millions of yen) |
| --- | --- | --- | --- |
| (1) Marketable securities and investment securities | 45,286 | 45,295 | 9 |
| Total assets | 45,286 | 45,295 | 9 |
| (1) Bonds payable | 31,489 | 30,686 | (802) |
| (2) Long-term borrowings | 190,384 | 187,705 | (2,678) |
| (3) Long-term accounts payable – other | 8,650 | 8,327 | (322) |
| (4) Leasehold and guarantee deposits received | 23,636 | 23,103 | (533) |
| Total liabilities | 254,160 | 249,823 | (4,337) |
| Derivatives (Note 4) | (9) | (9) | — |

(Notes) 1. In the table above, cash was not included, and deposits, trade accounts receivable, trade accounts payable, and short-term borrowings were also not included because their fair value approximates their book value since they are settled over short periods of time.

2. Stocks without quoted market prices are not included in (1) Marketable securities and investment securities in the table above. The amount of this financial instrument in the consolidated balance sheets is shown below.

(Millions of yen)

| Classification | As of March 31, 2024 |
| --- | --- |
| Stocks without quoted market prices | 524 |

3. In accordance with the treatment specified in Paragraph 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 (revised)) issued on June 17, 2021, the table above does not include investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥818 million in the consolidated balance sheets).

4. Net receivables and payables arising from derivatives are presented in net amounts, with items that result in a net liability indicated in parentheses.

(Note) 1. Amounts of monetary claims and marketable securities with maturity dates expected to be redeemed after the balance sheet date

As of March 31, 2023

| | Within one year (millions of yen) | Within one to five years (millions of yen) | Within five to 10 years (millions of yen) | Over 10 years (millions of yen) |
|---|---|---|---|---|
| Cash and deposits | 20,908 | – | – | – |
| Trade accounts receivable | 1,967 | – | – | – |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | | | | |
| (1) National and municipal bonds | – | 5 | – | – |
| (2) Bonds payable | – | 101 | – | – |
| (3) Other | 6,999 | – | – | – |
| Available-for-sale securities with maturity dates | | | | |
| (1) Corporate bonds | – | – | – | – |
| (2) Other | – | – | – | – |
| Total | 29,875 | 107 | – | – |

As of March 31, 2024

| | Within one year (millions of yen) | Within one to five years (millions of yen) | Within five to 10 years (millions of yen) | Over 10 years (millions of yen) |
|---|---|---|---|---|
| Cash and deposits | 20,416 | – | – | – |
| Trade accounts receivable | 2,114 | – | – | – |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | | | | |
| (1) National and municipal bonds | 5 | – | – | – |
| (2) Bonds payable | – | 191 | – | – |
| (3) Other | 7,999 | – | – | – |
| Available-for-sale securities with maturity dates | | | | |
| (1) Corporate bonds | – | – | – | – |
| (2) Other | – | – | – | – |
| Total | 30,536 | 191 | – | – |

(Note) 2. Amounts of bonds payable, long-term borrowings, and other interest-bearing liabilities scheduled for repayment after the balance sheet date

As of March 31, 2023

| | Within one year (millions of yen) | Within one to two years (millions of yen) | Within two to three years (millions of yen) | Within three to four years (millions of yen) | Within four to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|---|
| Short-term borrowings | 3,800 | — | — | — | — | — |
| Bonds payable | 3,648 | 3,449 | 4,084 | 539 | 539 | 19,376 |
| Long-term borrowings | 15,727 | 15,958 | 16,184 | 26,217 | 28,250 | 84,270 |
| Long-term accounts payable – other | — | 258 | 258 | 258 | 285 | 3,790 |
| Total | 23,175 | 19,665 | 20,526 | 27,014 | 29,075 | 107,437 |

As of March 31, 2024

| | Within one year (millions of yen) | Within one to two years (millions of yen) | Within two to three years (millions of yen) | Within three to four years (millions of yen) | Within four to five years (millions of yen) | Over five years (millions of yen) |
|---|---|---|---|---|---|---|
| Short-term borrowings | 800 | — | — | — | — | — |
| Bonds payable | 3,624 | 4,259 | 714 | 714 | 5,714 | 16,461 |
| Long-term borrowings | 16,681 | 16,907 | 26,995 | 29,029 | 20,542 | 80,229 |
| Long-term accounts payable – other | 258 | 258 | 373 | 515 | 543 | 6,701 |
| Total | 21,363 | 21,425 | 28,083 | 30,259 | 26,799 | 103,392 |

3. Items related to different levels of the fair value of financial instruments

The fair value of financial instruments is classified according to the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1: Fair values determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Fair values determined based on inputs other than Level 1 inputs that are observable, either directly or indirectly
Level 3: Fair values determined based on significant unobservable inputs

When multiple inputs that have material impacts on fair value calculations are used, the fair value falls under the lowest level in which the respective inputs correspond to the fair value calculations.

(1) Financial instruments recorded at fair value in the consolidated balance sheets

As of March 31, 2023

| Classification | Fair value (millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities and investment securities | | | | |
| Available-for-sale securities | | | | |
| Stocks | 10,935 | — | — | 10,935 |
| Investment trusts | 22,662 | — | — | 22,662 |
| Total assets | 33,597 | — | — | 33,597 |

As of March 31, 2024

| Classification | Fair value (millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities and investment securities | | | | |
| Available-for-sale securities | | | | |
| Stocks | 15,111 | — | — | 15,111 |
| Investment trusts | 21,978 | — | — | 21,978 |
| Total assets | 37,090 | — | — | 37,090 |
| Derivatives | | | | |
| Interest rate-related derivatives | — | 9 | — | 9 |
| Total liabilities | — | 9 | — | 9 |

(2) Financial instruments other than those recorded at fair value in the consolidated balance sheets

As of March 31, 2023

| Classification | Fair value (millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | | | | |
| National and municipal bonds | 5 | — | — | 5 |
| Bonds payable | — | 101 | — | 101 |
| Other | — | 7,000 | — | 7,000 |
| Total assets | 5 | 7,101 | — | 7,107 |
| Bonds payable | — | 31,144 | — | 31,144 |
| Long-term borrowings | — | 184,871 | — | 184,871 |
| Long-term accounts payable – other | — | 4,709 | — | 4,709 |
| Leasehold and guarantee deposits received | — | 23,085 | — | 23,085 |
| Total liabilities | — | 243,811 | — | 243,811 |

As of March 31, 2024

| Classification | Fair value (millions of yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | | | | |
| National and municipal bonds | 5 | — | — | 5 |
| Bonds payable | — | 199 | — | 199 |
| Other | — | 8,000 | — | 8,000 |
| Total assets | 5 | 8,200 | — | 8,205 |
| Bonds payable | — | 30,686 | — | 30,686 |
| Long-term borrowings | — | 187,705 | — | 187,705 |
| Long-term accounts payable – other | — | 8,327 | — | 8,327 |
| Leasehold and guarantee deposits received | — | 23,103 | — | 23,103 |
| Total liabilities | — | 249,823 | — | 249,823 |

(Note) Valuation methods and inputs used to calculate fair value are explained as follows.

Marketable securities and investment securities

Quoted market prices are used to measure fair values of stocks, investment trusts, and national bonds. Since they are traded in an active market, their fair values are classified as Level 1. The fair values of commercial paper and money in trust, which are included under “bonds payable” and “other” in the table above, are measured using market prices provided by financial institutions dealing in such instruments. They are classified as Level 2 because of the relatively low frequency of trade in the market and therefore they cannot be regarded as having quoted market prices in active markets.

Bonds payable

Bonds payable with fixed interest rates are classified as Level 2, and their fair value is calculated by discounting the total amount of the principal and interest at an interest rate that reflects their remaining maturity and credit risk. Those with variable interest rates are classified as Level 2, and their fair value is based on their book value, which are assumed to be similar since variable interest rates reflect market interest rates over the short term.

Long-term borrowings and long-term accounts payable – other

Long-term borrowings and long-term accounts payable – other with fixed interest rates are classified as Level 2, and their fair value is calculated by discounting the total amount of principal and interest at an interest rate estimated based on the scenario of a similar loan or account. Those with variable interest rates are classified as Level 2, and their fair value is based on their book value, which are assumed to be similar since variable interest rates reflect market interest rates over the short term. Among long-term borrowings and long-term accounts payable – other with variable interest rates, those subject to special treatment of interest rate swaps are calculated by discounting the total amount of principal and interest treated together with the interest rate swaps at an interest rate reasonably estimated based on the scenario of a similar loan.

Leasehold and guarantee deposits received

Leasehold and guarantee deposits received are classified as Level 2, and their fair value is calculated by discounting the current amount of deposits at an interest rate that reflects the remaining period of redemption and credit risk.

Derivatives

Derivatives are valued based on market prices provided by financial institutions and classified as Level 2 in the fair value hierarchy.

The fair value of derivatives subject to special treatment of interest rate swaps is included in the fair value of long-term borrowings since they are treated together with long-term loans payable – other designated as hedged items. (Refer to the explanation under “Long-term borrowings and long-term accounts payable – other,” above.)

Note 13 — Securities

1. Held-to-maturity bonds

As of March 31, 2023

| | Category | Amount in consolidated balance sheets (millions of yen) | Fair value (millions of yen) | Difference (millions of yen) |
|---|---|---|---|---|
| Held-to-maturity bonds with fair value exceeding the amount recorded in the consolidated balance sheets | (1) National and municipal bonds | 5 | 5 | 0 |
| | (2) Bonds payable | — | — | — |
| | (3) Other | 2,000 | 2,001 | 1 |
| | Subtotal | 2,005 | 2,006 | 1 |
| Held-to-maturity bonds with fair value not exceeding the amount recorded in the consolidated balance sheets | (1) National and municipal bonds | — | — | — |
| | (2) Bonds payable | 101 | 101 | (0) |
| | (3) Other | 4,999 | 4,999 | (0) |
| | Subtotal | 5,101 | 5,100 | (0) |
| Total | | 7,106 | 7,107 | 0 |

As of March 31, 2024

| | Category | Amount in consolidated balance sheets (millions of yen) | Fair value (millions of yen) | Difference (millions of yen) |
|---|---|---|---|---|
| Held-to-maturity bonds with fair value exceeding the amount recorded in the consolidated balance sheets | (1) National and municipal bonds | 5 | 5 | 0 |
| | (2) Bonds payable | 89 | 98 | 8 |
| | (3) Other | 2,000 | 2,001 | 1 |
| | Subtotal | 2,095 | 2,105 | 10 |
| Held-to-maturity bonds with fair value not exceeding the amount recorded in the consolidated balance sheets | (1) National and municipal bonds | — | — | — |
| | (2) Bonds payable | 101 | 101 | (0) |
| | (3) Other | 5,999 | 5,999 | (0) |
| | Subtotal | 6,100 | 6,100 | (0) |
| Total | | 8,196 | 8,205 | 9 |

2. Available-for-sale securities

As of March 31, 2023

| | Category | Amount in consolidated balance sheets (millions of yen) | Acquisition cost (millions of yen) | Difference (millions of yen) |
|---|---|---|---|---|
| Available-for-sale securities of which the amount recorded in the consolidated balance sheets exceeds the acquisition cost | (1) Stocks | 10,056 | 3,641 | 6,415 |
| | (2) Bonds | | | |
| | 1) National and municipal bonds | — | — | — |
| | 2) Bonds payable | — | — | — |
| | 3) Other | — | — | — |
| | (3) Other | 22,474 | 6,322 | 16,152 |
| | Subtotal | 32,531 | 9,963 | 22,567 |
| Available-for-sale securities of which the amount recorded in the consolidated balance sheets does not exceed the acquisition cost | (1) Stocks | 878 | 1,135 | (256) |
| | (2) Bonds | | | |
| | 1) National and municipal bonds | — | — | — |
| | 2) Bonds payable | — | — | — |
| | 3) Other | — | — | — |
| | (3) Other | 187 | 198 | (11) |
| | Subtotal | 1,065 | 1,333 | (267) |
| Total | | 33,597 | 11,297 | 22,299 |

(Note) Stocks without quoted market prices (totaling ¥655 million in the consolidated balance sheets) and investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥1,298 million in the consolidated balance sheets) are not included in available-for-sale securities shown in the table above.

As of March 31, 2024

| | Category | Amount in consolidated balance sheets (millions of yen) | Acquisition cost (millions of yen) | Difference (millions of yen) |
|---|---|---|---|---|
| Available-for-sale securities of which the amount recorded in the consolidated balance sheets exceeds the acquisition cost | (1) Stocks | 15,111 | 4,652 | 10,458 |
| | (2) Bonds | | | |
| | 1) National and municipal bonds | — | — | — |
| | 2) Bonds payable | — | — | — |
| | 3) Other | — | — | — |
| | (3) Other | 21,607 | 7,022 | 14,584 |
| | Subtotal | 36,718 | 11,675 | 25,042 |
| Available-for-sale securities of which the amount recorded in the consolidated balance sheets does not exceed the acquisition cost | (1) Stocks | — | — | — |
| | (2) Bonds | | | |
| | 1) National and municipal bonds | — | — | — |
| | 2) Bonds payable | — | — | — |
| | 3) Other | — | — | — |
| | (3) Other | 371 | 381 | (9) |
| | Subtotal | 371 | 381 | (9) |
| Total | | 37,090 | 12,057 | 25,032 |

(Note) Stocks without quoted market prices (totaling ¥524 million in the consolidated balance sheets) and investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥818 million in the consolidated balance sheets) are not included in available-for-sale securities shown in the table above.

3. Held-to-maturity bonds sold

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

Not applicable

4. Available-for-sale securities sold

Year ended March 31, 2023

| Category | Sale amount (millions of yen) | Gain on sale recorded (millions of yen) | Loss on sale recorded (millions of yen) |
|---|---|---|---|
| (1) Stocks | 3,939 | 3,543 | — |
| (2) Bonds | | | |
| 1) National and municipal bonds | — | — | — |
| 2) Bonds payable | — | — | — |
| 3) Other | — | — | — |
| (3) Other | — | — | — |
| Total | 3,939 | 3,543 | — |

Year ended March 31, 2024

| Category | Sale amount (millions of yen) | Gain on sale recorded (millions of yen) | Loss on sale recorded (millions of yen) |
|---|---|---|---|
| (1) Stocks | 1,377 | 1,215 | — |
| (2) Bonds | | | |
| 1) National and municipal bonds | — | — | — |
| 2) Bonds payable | — | — | — |
| 3) Other | — | — | — |
| (3) Other | — | — | — |
| Total | 1,377 | 1,215 | — |

5. Impairment losses on marketable securities

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

Impairment losses on marketable securities for the fiscal year ended March 31, 2024, totaled ¥181 million. This includes ¥33 million related to stocks without quoted market prices under available-for-sale securities and ¥148 million related to investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets.

Impairment losses on stocks without quoted market prices and investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets are individually assessed for recoverability to determine if impairment is necessary. This assessment is conducted when there is a significant decline in fair value due to deteriorating financial conditions and other relevant factors.

## Note 14 — Derivatives

1. Derivatives for which hedge accounting is not applied

Not applicable

2. Derivatives for which hedge accounting is applied

Interest rate-related derivatives

As of March 31, 2023

| Hedge accounting method | Type of transaction | Major hedged items | Contract amount (millions of yen) | Contract amount over one year (millions of yen) | Fair value (millions of yen) |
|---|---|---|---|---|---|
| Special treatment of interest rate swaps | Interest rate swaps: Receiving floating rate/payable fixed rate | Long-term borrowings | 37,202 | 34,469 | (Note) |

(Note) The fair value of derivatives subject to special treatment of interest rate swap transactions is included in the fair value of long-term borrowings since they are treated together with long-term borrowings designated as hedged items.

As of March 31, 2024

| Hedge accounting method | Type of transaction | Major hedged items | Contract amount (millions of yen) | Contract amount over one year (millions of yen) | Fair value (millions of yen) |
|---|---|---|---|---|---|
| Principle treatment method | Interest rate swaps: Receiving floating rate/payable fixed rate | Long-term borrowings | 2,619 | 2,511 | (9) |
| Special treatment of interest rate swaps | Interest rate swaps: Receiving floating rate/payable fixed rate | Long-term borrowings | 35,875 | 31,499 | (Note) |

(Note) The fair value of derivatives subject to special treatment of interest rate swap transactions is included in the fair value of long-term borrowings since they are treated together with long-term borrowings designated as hedged items.

Note 15 － Retirement Benefits

1. Overview of retirement benefit plans in place

The Company and its consolidated subsidiaries have both a lump-sum retirement payment plan and a defined benefit pension plan. Certain consolidated subsidiaries have adopted a defined contribution plan and other types of plans.

Simplified accounting methods are used to calculate retirement benefit liability and retirement benefit expenses for the lump-sum retirement payment plan and defined benefit pension plan adopted by the Company and its consolidated subsidiaries.

2. Defined benefit plan

(1) Reconciliation of beginning and ending balances of retirement benefit liability

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Balance at the beginning of the fiscal year | 119 | 234 |
| Retirement benefit expenses | 180 | (6) |
| Retirement benefits paid | (32) | (67) |
| Contributions to the plan | (32) | (34) |
| Balance at the end of the fiscal year | 234 | 126 |

(2) Reconciliation between net defined benefit liabilities (assets) recorded in the consolidated balance sheets and the balances of benefit obligation and pension assets at the end of the period

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Benefit obligation | 1,350 | 1,351 |
| Pension assets | (1,115) | (1,225) |
| Net balance of liabilities and assets recorded in the consolidated balance sheets | 234 | 126 |
| | | |
| Retirement benefit liability | 234 | 126 |
| Net balance of liabilities and assets recorded in the consolidated balance sheets | 234 | 126 |

(3) Retirement benefit expenses

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Retirement benefit expenses calculated using simplified accounting methods | 180 | (6) |

3. Defined contribution plan

The required contributions for the defined contribution plans of consolidated subsidiaries amounted to ¥28 million in the fiscal year ended March 31, 2023 and ¥29 million in the fiscal year ended March 31, 2024.

Note 16 — Stock Options

Not applicable

Note 17 — Tax Effect Accounting

1. Breakdown of main components of deferred tax assets and deferred tax liabilities

(Millions of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Deferred tax assets | | |
| Provision for bonuses | 82 | 87 |
| Accrued enterprise taxes | 166 | 127 |
| Inventory depreciation | 140 | 114 |
| Accounts receivable – other | 42 | 37 |
| Loss on building reconstruction | 517 | 517 |
| Impairment losses | 360 | 376 |
| Provision for share awards | 30 | 45 |
| Retirement benefit liability | 75 | 42 |
| Loss carryforwards | 106 | 120 |
| Asset retirement obligations | 211 | 214 |
| Asset adjustment account | — | 278 |
| Other | 413 | 442 |
| Subtotal | 2,148 | 2,405 |
| Valuation allowance | (1,014) | (1,086) |
| Total deferred tax assets | 1,133 | 1,318 |
| Deferred tax liabilities | | |
| Reserve for tax purpose reduction entry | (833) | (764) |
| Valuation difference on available-for-sale securities | (6,834) | (7,670) |
| Difference in valuation of non-current assets | (1,988) | (2,005) |
| Retirement expenses for asset retirement obligations | (95) | (86) |
| Other | (5) | (6) |
| Total deferred tax liabilities | (9,756) | (10,534) |
| Net amount of deferred tax assets (liabilities) | (8,622) | (9,215) |

2. Breakdown of main items underlying a significant difference between the effective statutory tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| | This information has been omitted because the difference between the effective statutory tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting was less than 5% of the effective statutory tax rate. | This information has been omitted because the difference between the effective statutory tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting was less than 5% of the effective statutory tax rate. |

Note 18 — Business Combinations, etc.

Business combination through acquisition

1. Overview of business combination

(1) Name of the acquired company and details of its business

| | |
|---|---|
| Company name | K5 Co., Ltd. |
| Business | Hotel and tenant operations |

(2) Main reason for business combination

The Company aims to enhance synergies for hotel leasing revenue and the revitalization of the Kabutocho district.

(3) Date of business combination

February 1, 2024

(4) Legal form of business combination

Business transfer

(5) Name of acquired company after business combination

Unchanged

(6) Main rationale for determining the acquired company

The Company acquired business in exchange for cash.

2. Business period of the acquired company included in the consolidated financial statements

February 1, 2024, to March 31, 2024

3. Acquisition cost and breakdown by type of consideration (Millions of yen)

| | | |
|---|---|---|
| Consideration for the acquisition | Cash | 1,250 |
| Acquisition cost | | 1,250 |

4. Nature and amount of major acquisition-related costs

Notes omitted due to lack of materiality.

5. Amount of goodwill, reason for recognition, and method and period of amortization

(1) Amount of goodwill

¥652 million

(2) Reason for recognition

Since the acquisition cost exceeded the net allocated amount of acquired assets and assumed liabilities, the difference was recorded as goodwill.

(3) Method and period of amortization

Goodwill is amortized using the straight-line method over its expected useful life.

6. Amount and details of the assets acquired and liabilities assumed on the date of the business combination

| | (Millions of yen) |
|---|---|
| Current assets | 18 |
| Non-current assets | 598 |
| Total assets | 616 |
| Non-current liabilities | 18 |
| Total liabilities | 18 |

7. Estimated impact on the consolidated statement of income for the fiscal year ended March 31, 2024, with the method of its

calculation, assuming that the business combination was completed on the commencement date of the fiscal year
Notes omitted due to lack of materiality.

## Note 19 ― Asset Retirement Obligations

Asset retirement obligations recorded in the consolidated balance sheets

1. Summary of the asset retirement obligations
   The obligations are for the removal of asbestos from buildings used as operating assets.

2. Method for calculating the amount of the asset retirement obligations
   The amount of asset retirement obligations is calculated at discount rates between 0.2% and 2.3% over expected period of use estimated between 8 and 50 years.

3. Changes in the asset retirement obligations

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Beginning balance | 669 | 676 |
| Adjustment due to passage of time | 6 | 7 |
| Ending balance | 676 | 683 |

## Note 20 ― Lease Property, etc.

The Company and some consolidated subsidiaries own lease properties such as office buildings and commercial facilities in Tokyo and other areas for the purpose of earning leasing revenue. Some lease office buildings used by the Company and consolidated subsidiaries are presented as the real estate that includes the portion used as lease property, etc.

The amounts of such lease property, etc. and real estate that includes the portion used as lease property, etc. in the consolidated balance sheet, increase and decrease during the period, and their market values are as follows:

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Lease property, etc. | | |
| Amount on the consolidated balance sheet | | |
| Beginning balance | 252,485 | 275,533 |
| Increase (decrease) | 23,047 | (21,871) |
| Ending balance | 275,533 | 253,661 |
| Market value at fiscal year-end | 373,765 | 350,858 |
| Real estate that includes the portion used as lease property, etc. | | |
| Amount on the consolidated balance sheet | | |
| Beginning balance | 24,228 | 33,117 |
| Increase | 8,889 | 17,709 |
| Ending balance | 33,117 | 50,826 |
| Market value at fiscal year-end | 46,420 | 70,388 |

(Notes) 1. The amount on the consolidated balance sheet is equal to the acquisition cost minus the accumulated depreciation and accumulated impairment losses.
2. The net increase in the fiscal year ended March 31, 2023 was mainly due to the acquisition of real estate (¥35,221 million), while the net decrease was mainly due to the transfer of properties to real estate for sale (¥5,572 million). The net increase in the fiscal year ended March 31, 2024 was mainly due to the progress and completion of construction (¥4,323 million) as well as the acquisition of real estate (¥4,319 million), while the net decrease was mainly due to the transfer of properties to real estate for sale (¥13,009 million).
3. The market values of principal properties as of March 31, 2024, are based on the standards of real estate appraisal by independent real estate appraisers, and those of other properties are calculated by the Company based on the Real Estate Appraisal Standard. If, however, certain appraisal values and indices considered to appropriately reflect the fair values have not changed significantly from the time of acquisition from a third party or the latest appraisal, an amount

appropriately adjusted using the appraisal values and indices is used.

Profit and loss on lease property, etc. and real estate that includes the portion used as lease property, etc. are as follows.

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Lease property, etc. | | |
| Leasing revenue | 20,138 | 20,933 |
| Leasing expenses | 12,971 | 12,444 |
| Net | 7,166 | 8,489 |
| Other loss | (141) | (72) |
| Real estate that includes the portion used as lease property, etc. | | |
| Leasing revenue | 3,328 | 3,693 |
| Leasing expenses | 1,952 | 3,199 |
| Net | 1,375 | 493 |
| Other loss | (19) | (13) |

(Notes) 1. Because the real estate that includes the portion used as lease property, etc. includes portions used by the Company and some consolidated subsidiaries for the delivery of services and business management, the relevant leasing revenue was not reported. Expenses for real estate (depreciation, repair expenses, insurance expenses, taxes and dues, etc.) were included in the leasing expenses.

2. Other loss is comprised of a loss on retirement of non-current assets and impairment losses.

Note 21 — Revenue Recognition

1. Revenues from contracts with customers

Year ended March 31, 2023

(Millions of yen)

| | Reportable segments | | Total |
|---|---|---|---|
| | Building Business | Asset Management Business | |
| Revenue from sales of properties | 14,065 | — | 14,065 |
| Asset management revenue from management fees | — | 1,573 | 1,573 |
| Other | 3,463 | 1,191 | 4,655 |
| Revenue from contracts with customers | 17,528 | 2,764 | 20,293 |
| Other revenue (Note) | 23,320 | 909 | 24,229 |
| Net sales from external customers | 40,848 | 3,674 | 44,522 |

(Note) Other revenue includes leasing revenue calculated based on accounting standards related to lease transactions.

Year ended March 31, 2024

(Millions of yen)

| | Reportable segments | | Total |
|---|---|---|---|
| | Building Business | Asset Management Business | |
| Revenue from sales of properties | 12,780 | ― | 12,780 |
| Asset management revenue from management fees | ― | 1,598 | 1,598 |
| Other | 4,017 | 1,322 | 5,339 |
| Revenue from contracts with customers | 16,797 | 2,921 | 19,719 |
| Other revenue (Note) | 23,747 | 966 | 24,714 |
| Net sales from external customers | 40,544 | 3,888 | 44,433 |

(Note) Other revenue includes leasing revenue calculated based on accounting standards related to lease transactions.

2. Basis for understanding revenues from contracts with customers

The basis for understanding revenues from contracts with customers is explained in Note 2 ― Significant Accounting Policies, 4. Accounting Policy, (6) Basis for calculating significant revenues and expenses.

3. Satisfaction of performance obligations in accordance with contracts with customers and cash flows generated from such contracts, and the timing and amounts of revenue expected to be recognized during and after the next fiscal year from contracts with customers in effect during the fiscal year ended March 31, 2024

(1) Balance of contract assets and contract liabilities

(Millions of yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Receivables from contracts with customers (Beginning balance) | 197 | 186 |
| Receivables from contracts with customers (Ending balance) | 186 | 281 |
| Contract assets (Beginning balance) | 465 | 485 |
| Contract assets (Ending balance) | 485 | 510 |
| Contract liabilities (Beginning balance) | 25 | 5 |
| Contract liabilities (Ending balance) | 5 | 44 |

Contract assets are the Group’s right to consideration in exchange for services that have yet to be billed, and are recognized as revenue over the course of satisfaction of its performance obligations. Contract assets are transferred to receivables from contracts with customers at the time when the Group’s right to consideration becomes unconditional.

Contract liabilities are mainly advances received from customers and are reversed upon the recognition of revenue.

(2) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations have not been described because the Group applied a practical expedient since it has no significant contracts with an initially expected contract period extending beyond one year. Furthermore, transaction prices did not comprise any material amounts among considerations arising from contracts with customers.

Note 22 ― Segment and Other Information

Segment information

1. Reportable segments overview

The reportable segments of the Company are the business units for which the separate financial information is available in order for the Board of Directors to conduct periodic reviews to determine the distribution of management resources and evaluate their business results.

The Company's two reportable segments are the Building Business segment and Asset Management Business segment.

The Building Business segment deals with the development, leasing, management, and sale of stock exchange buildings, office buildings, commercial facilities, and residential buildings. The Asset Management Business segment manages the properties of HEIWA REAL ESTATE REIT, Inc., and provides real estate brokerage services through Housing Service Co., Ltd.

2. Methods of calculating the amounts of net sales, profit/loss, assets, liabilities, and other items by reportable segments

The accounting methods for the reportable segments are the same as those described in Note 2 ―Significant Accounting Policies.

The amounts of reportable segment profit are based on operating profit. Intersegment sales is based on prevailing market prices.

3. Information on net sales, profit/loss, assets, liabilities, and other items by reportable segments

Year ended March 31, 2023

(Millions of yen)

| | Reportable segments | | | Adjustments (Note 1) | Amount in consolidated financial statements (Note 2) |
|---|---|---|---|---|---|
| | Building Business | Asset Management Business | Total | | |
| Net sales | | | | | |
| Net sales from external customers | 40,848 | 3,674 | 44,522 | ― | 44,522 |
| Intersegment sales and transfers | 37 | ― | 37 | (37) | ― |
| Total | 40,885 | 3,674 | 44,560 | (37) | 44,522 |
| Segment profit | 10,572 | 2,071 | 12,643 | (1,859) | 10,784 |
| Segment assets | 337,439 | 25,264 | 362,704 | 35,629 | 398,333 |
| Other items | | | | | |
| Depreciation (Note 3) | 5,605 | 14 | 5,619 | 49 | 5,668 |
| Increase in property, plant and equipment and intangible assets (Note 3) | 43,952 | 9 | 43,962 | 150 | 44,112 |

(Notes) 1. Details of adjustments are as follows:

(1) The negative adjustments to segment profit of ¥1,859 million mainly include corporate expenses amounting to ¥1,859 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥35,629 million mainly include unallocated corporate assets amounting to ¥37,382 million, which primarily consist of cash and deposits, securities, and investment securities that belong to the administration division.

(3) The adjusted amounts of increases in property, plant and equipment and intangible assets are the amount of increase of the unallocated corporate assets that have not been assigned to the reportable segments.

2. Segment profit is adjusted with operating profit in the consolidated statements of income.

3. The depreciation and increases in property, plant and equipment and intangible assets in the other items include the amortization of and an increase in long-term prepaid expenses.

Year ended March 31, 2024

(Millions of yen)

| | Reportable segments | | | Adjustments (Note 1) | Amount in consolidated financial statements (Note 2) |
|---|---|---|---|---|---|
| | Building Business | Asset Management Business | Total | | |
| Net sales | | | | | |
| Net sales from external customers | 40,544 | 3,888 | 44,433 | — | 44,433 |
| Intersegment sales and transfers | 47 | — | 47 | (47) | — |
| Total | 40,592 | 3,888 | 44,480 | (47) | 44,433 |
| Segment profit | 12,639 | 2,197 | 14,836 | (1,814) | 13,022 |
| Segment assets | 341,445 | 24,653 | 366,098 | 39,881 | 405,979 |
| Other items | | | | | |
| Depreciation (Note 3) | 5,687 | 11 | 5,698 | 79 | 5,778 |
| Increase in property, plant and equipment and intangible assets (Note 3) | 15,625 | 32 | 15,657 | 11 | 15,668 |

(Notes) 1. Details of adjustments are as follows:

(1) The negative adjustments to segment profit of ¥1,814 million mainly include corporate expenses amounting to ¥1,814 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥39,881 million mainly include unallocated corporate assets amounting to ¥42,134 million, which primarily consist of cash and deposits, securities, and investment securities that belong to the administration division.

(3) The adjusted amounts of increases in property, plant and equipment and intangible assets are the amount of increase of the unallocated corporate assets that have not been assigned to the reportable segments.

2. Segment profit is adjusted with operating profit in the consolidated statements of income.

3. The depreciation and increases in property, plant and equipment and intangible assets in the other items include the amortization of and an increase in long-term prepaid expenses.

Related Information

Year ended March 31, 2023

1. Information by products and services

These details have been omitted because the same information is disclosed in the segment information.

2. Information by geographical area

(1) Net sales

There are no applicable details to report because the Company receives no sales from tenants or other clients outside Japan.

(2) Property, plant and equipment

There are no applicable details to report because the Company possesses no property, plant and equipment outside Japan.

3. Information by major tenants

(Millions of yen)

| Name of tenant | Net sales | Applicable business segment |
|---|---|---|
| HEIWA REAL ESTATE REIT, Inc. | 13,365 | Building Business<br>Asset Management Business |

Year ended March 31, 2024

1. Information by products and services

These details have been omitted because the same information is disclosed in the segment information.

2. Information by geographical area

(1) Net sales

There are no applicable details to report because the Company receives no sales from tenants or other clients outside Japan.

(2) Property, plant and equipment

There are no applicable details to report because the Company possesses no property, plant and equipment outside Japan.

3. Information by major tenants

(Millions of yen)

| Name of tenant | Net sales | Applicable business segment |
|---|---|---|
| HEIWA REAL ESTATE REIT, Inc. | 8,164 | Building Business<br>Asset Management Business |
| Godo Kaisha Shinsatsu | 4,500 | Building Business |

Information on Impairment Losses of Non-current Assets by Reportable Segment

Year ended March 31, 2023

(Millions of yen)

| | Building Business | Asset Management Business | Intersegment eliminations | Total |
|---|---|---|---|---|
| Impairment losses | 108 | — | — | 108 |

Year ended March 31, 2024

(Millions of yen)

| | Building Business | Asset Management Business | Intersegment eliminations | Total |
|---|---|---|---|---|
| Impairment losses | 66 | — | — | 66 |

Amortization and Unamortized Balance of Goodwill by Reportable Segment

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

(Millions of yen)

| | Building Business | Asset Management Business | Intersegment eliminations | Total |
|---|---|---|---|---|
| Depreciation for the period | 7 | ― | ― | 7 |
| Balance at end of period | 645 | ― | ― | 645 |

Information on Gain on Negative Goodwill by Reportable Segment

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

Not applicable

Information on Related Parties

Year ended March 31, 2023

Not applicable

Year ended March 31, 2024

Not applicable

Note 23 ― Per Share Information

(Yen)

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Net assets per share | 3,334.34 | 3,510.66 |
| Earnings per share | 254.27 | 236.13 |

(Notes) 1. Diluted earnings per share is not presented, as there are no potentially dilutive shares.

2. To calculate net assets per share and earnings per share, the Company's stock held in the trust for its stock compensation plan for directors and officers and in the trust for its employee stock ownership plan was included in the amount of treasury shares subtracted from calculations of the total number of shares issued as of March 31 of the respective fiscal year and the average number of shares outstanding during each respective fiscal year. The number of such treasury shares issued as of the end of the period subtracted from calculations of the total number of shares issued as of the end of the period came to 175,000 shares in the fiscal year ended March 31, 2023 and 169,000 shares in the fiscal year ended March 31, 2024, and the average number of such treasury shares during the period subtracted from calculations of the average number of shares outstanding during the period was 159,000 shares in the fiscal year ended March 31, 2023 and 170,000 shares in the fiscal year ended March 31, 2024.

3. Earnings per share is calculated based on the following.

| | Year ended March 31, 2023 | Year ended March 31, 2024 |
|---|---|---|
| Profit attributable to owners of parent (millions of yen) | 9,137 | 8,450 |
| Amount not attributable to common shareholders (millions of yen) | — | — |
| Profit attributable to common shareholders of parent (millions of yen) | 9,137 | 8,450 |
| Average number of shares outstanding during the period (thousands of shares) | 35,934 | 35,789 |

Note 24 — Significant Subsequent Events

Conclusion of Capital and Business Alliance Agreement between the Company and Taisei Corporation, and Related Tripartite Agreement including Mitsubishi Estate Co., Ltd.

The Company resolved at the Board of Directors meeting held on June 7, 2024, to enter into a capital and business alliance (hereafter, the "Alliance") with Taisei Corporation (hereinafter, "Taisei") and signed a capital and business alliance agreement (hereafter, the "Alliance Agreement") on the same day. Additionally, the Company, Taisei, and Mitsubishi Estate Co., Ltd. (hereinafter, "Mitsubishi Estate") signed an agreement concerning tripartite collaboration on this date (hereafter, the "Cooperation Agreement"). This agreement pertains to the Alliance Agreement as well as a capital and business alliance agreement between the Company and Mitsubishi Estate dated February 17, 2011. Details of the Alliance are as follows.

1. Reasons for Concluding the Alliance and the Cooperation Agreement

Under the Group Purpose, "Enriching everyone's future with *Bazukuri* that draws people in," and guided by the Group Long-term Vision, "WAY 2040," the Company is committed to various growth strategies based on the slogan, "Pursue perpetual dynamic growth to become the 'Bazukuri Company.'" These strategies include efforts to expand the redevelopment business (deploy *Bazukuri* endeavors that draw people in throughout Japan), cultivate profit growth while enhancing capital efficiency (expand leasing business, promote reinvestment by realizing gains from property sales, and enter new business areas), and boost social value (promote sustainability initiatives). The Company has been considering business alliances with potential collaborators who can work together to achieve these goals.

Taisei, a partner in the Alliance, has an outstanding track record, particularly in urban redevelopment, as one of Japan's leading general contractors. Moreover, both the Company and Taisei believe they can establish a strong collaborative relationship, especially in asset management and sustainability initiatives. Based on these considerations, the Company concluded that Taisei is the optimal business alliance partner to collaboratively develop these areas.

Additionally, since the Company has already formed a capital and business alliance with Mitsubishi Estate, the conclusion of the Cooperation Agreement aims to establish mutual understanding between the three parties—Heiwa Real Estate, Taisei, and Mitsubishi Estate—regarding how the new Alliance Agreement relates to the existing alliance with Mitsubishi Estate.

2. Details of the Alliance and the Cooperation Agreement

(1) Details of the Alliance

The Company and Taisei have agreed to collaborate in various business domains, with the main contents outlined as follows.

1) Collaboration in redevelopment business, etc.

To facilitate the progress of long-term redevelopment projects, the parties have agreed to establish and develop a collaborative relationship for redevelopment projects in the Nihonbashi Kabutocho district, along with Mitsubishi Estate. They will also engage in sincere discussions to: a) examine and promote redevelopment projects in Sapporo, b) establish a comprehensive cooperative relationship, including the mutual provision of know-how related to redevelopment projects as needed, and c) collaborate on redevelopment projects that either or both may consider pursuing in the future.

2) Collaboration in new business fields such as new real estate investment

The Company aims to venture into new business fields to achieve the Group Long-term Vision, and the parties have agreed to actively collaborate on business alliances in new business fields such as investment in logistics facilities, a new asset class.

3) Collaboration in sustainability and DX

The parties have agreed to actively collaborate on business alliances in the fields of sustainability and DX.

In addition, Taisei has agreed to nominate one person as a candidate for an executive officer position at the Company. Taisei acknowledges and fully respects the Company's commitment to maintaining listing status and management autonomy, prioritizing the collective interests of all shareholders in addition to its own.

(2) Details of the Cooperation Agreement

The Company, Taisei, and Mitsubishi Estate shall mutually respect the spirit, purpose, and content of each other's capital and business alliance agreements, and shall advance the alliances based on their respective agreements. In doing so, they shall cooperate and collaborate with each other within the required scope.

(3) Details of the capital alliance, etc.

The Company and Taisei, as well as the Company and Mitsubishi Estate, have agreed to smoothly advance their respective capital and business alliance agreements and the tripartite collaborative relationship. To facilitate this process, on June 7, 2024, Taisei entered into share transfer agreements with Simplex Asset Management Co., Ltd., and Simplex Asset Management (HK) Company Limited (collectively referred to as "Simplex") and Mitsubishi Estate. Under these agreements, Taisei will acquire all of the common shares of the Company held by Simplex (5,829,000 shares, representing 16.30% of the total voting rights (357,527) as of March 31, 2024, with the percentage rounded to two decimal places. This number includes one voting right for 100 shares that, while registered under the Company's name in the shareholder register, are not substantially owned by the Company.) and a portion of the common shares of the Company held by Mitsubishi Estate (388,500 shares, representing 1.09% of the voting rights) through off-market transactions. The transfer of shares was completed on June 10, 2024, upon which Taisei became one of the Company's major shareholders as well as the largest shareholder among major shareholders. After the share repurchase outlined below, Taisei has become one of the Company's other affiliated companies, and the Company has become an equity-method affiliate of Taisei. The Company also plans to acquire common shares of Taisei in the market, ensuring that the voting rights ratio does not exceed 0.5%.

In addition, on June 7, 2024, the Company resolved to execute a share repurchase and determined the specific acquisition method. Subsequently, Mitsubishi Estate has sold a portion of its common shares of the Company back to the Company. As a result, Mitsubishi Estate is no longer categorized as a major shareholder of the Company.

Share Repurchase

The Company decided at the Board of Directors meeting held on June 7, 2024 to conduct a share repurchase and determined the specific acquisition method in compliance with Article 156 of the Companies Act of Japan, as applied pursuant to Paragraph 3 of Article 165 of this act. Moreover, the Company made the following share repurchase based on the aforementioned Board of Directors resolution.

1. Reason for share repurchase

The Company repurchased its own shares in order to increase shareholders' returns, specifically by increasing EPS and ROE.

2. Details of acquisition decision

| | |
|---|---|
| (1) Type of shares to acquire | The Company's common shares |
| (2) Number of shares to acquire | Up to 2,400,000 shares<br>(equivalent to 6.67% of all shares issued, excluding treasury shares) |
| (3) Value of shares acquired | ¥9,048 million (upper limit) |
| (4) Date of acquisition | June 10, 2024 |
| (5) Share acquisition method | The shares were acquired through the Tokyo Stock Exchange Trading Network for off-floor share repurchases (ToSTNeT-3). |

3. Result of acquisition

| | |
|---|---|
| (1) Type of shares acquired | The Company's common shares |
| (2) Number of shares acquired | 2,400,000 shares |
| (3) Value of shares acquired | ¥9,048 million |
| (4) Date of acquisition | June 10, 2024 |
| (5) Share acquisition method | The shares were acquired through the Tokyo Stock Exchange Trading Network for off-floor share repurchases (ToSTNeT-3). |

Note 25 — Consolidated Supplemental Schedules

1. Schedule of bonds payable

| Issuing company | Bond name | Date of issuance | Balance at beginning of period (millions of yen) | Balance at end of period (millions of yen) | Coupon | Security | Redemption date |
|---|---|---|---|---|---|---|---|
| Heiwa Real Estate Co., Ltd. | 21st Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 30, 2013 | 525 (525) | — | 0.97% annually | Unsecured bond | September 29, 2023 |
| Heiwa Real Estate Co., Ltd. | 22nd Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | March 25, 2014 | 200 (200) | — | 0.88% annually | Unsecured bond | March 25, 2024 |
| Heiwa Real Estate Co., Ltd. | 23rd Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | March 31, 2014 | 770 (770) | — | 0.89% annually | Unsecured bond | March 29, 2024 |
| Heiwa Real Estate Co., Ltd. | 24th Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 25, 2014 | 750 | 750 (750) | 1.03% annually | Unsecured bond | September 25, 2024 |
| Heiwa Real Estate Co., Ltd. | 25th Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 25, 2014 | 112 (75) | 37 (37) | 0.81% annually | Unsecured bond | September 25, 2024 |
| Heiwa Real Estate Co., Ltd. | 26th Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 30, 2014 | 862 (75) | 787 (787) | 0.79% annually | Unsecured bond | September 30, 2024 |
| Heiwa Real Estate Co., Ltd. | 30th Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | June 30, 2015 | 2,062 (165) | 1,897 (165) | 0.76% annually | Unsecured bond | June 30, 2025 |
| Heiwa Real Estate Co., Ltd. | 32nd Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 30, 2015 | 1,437 (115) | 1,322 (115) | 0.62% annually | Unsecured bond | September 30, 2025 |
| Heiwa Real Estate Co., Ltd. | 33rd Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | March 25, 2016 | 715 (55) | 660 (55) | 0.52% annually | Unsecured bond | March 31, 2026 |
| Heiwa Real Estate Co., Ltd. | 35th Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | September 30, 2016 | 1,129 (1,129) | — | 0.11% annually | Unsecured bond | September 29, 2023 |
| Heiwa Real Estate Co., Ltd. | 36th Unsecured Bond (limited to authorized institutional investors) | March 31, 2017 | 1,000 | 1,000 (1,000) | 0.42% annually | Unsecured bond | March 31, 2025 |
| Heiwa Real Estate Co., Ltd. | 37th Unsecured Bond (limited to authorized institutional investors) | December 8, 2017 | 1,125 (75) | 1,050 (75) | 0.71% annually | Unsecured bond | December 8, 2032 |
| Heiwa Real Estate Co., Ltd. | 38th Unsecured Bond | December 13, 2018 | 5,000 | 5,000 | 0.755% annually | Unsecured bond | December 13, 2028 |
| Heiwa Real Estate Co., Ltd. | 39th Unsecured Bond (limited to authorized institutional investors) | January 31, 2019 | 1,200 (75) | 1,125 (75) | 0.76% annually | Unsecured bond | January 31, 2034 |

| Issuing company | Bond name | Date of issuance | Balance at beginning of period (millions of yen) | Balance at end of period (millions of yen) | Coupon | Security | Redemption date |
|---|---|---|---|---|---|---|---|
| Heiwa Real Estate Co., Ltd. | 40th Unsecured Bond | January 21, 2021 | 7,000 | 7,000 | 0.78% annually | Unsecured bond | January 21, 2031 |
| Heiwa Real Estate Co., Ltd. | 41st Unsecured Bond (limited to authorized institutional investors) | November 30, 2022 | 3,258 (165) | 3,093 (165) | 0.76% annually | Unsecured bond | November 30, 2032 |
| Heiwa Real Estate Co., Ltd. | 42nd Unsecured Bond (limited to authorized institutional investors) | February 28, 2023 | 2,490 (124) | 2,365 (124) | 1.00% annually | Unsecured bond | February 28, 2033 |
| Heiwa Real Estate Co., Ltd. | 43rd Unsecured Bond (bank guarantee included and limited to authorized institutional investors) | February 28, 2023 | 2,000 (100) | 1,900 (100) | 0.356% annually | Unsecured bond | February 25, 2031 |
| Heiwa Real Estate Co., Ltd. | 44th Unsecured Bond (limited to authorized institutional investors) | March 19, 2024 | — | 3,500 (175) | 1.12% annually | Unsecured bond | March 17, 2034 |
| Total | — | — | 31,637 (3,648) | 31,489 (3,624) | — | — | — |

(Notes) 1. Amounts shown in parentheses are scheduled for redemption within one year.

2. Amounts scheduled for redemption each year within five years from March 31, 2024

| Within one year (millions of yen) | Within one to two years (millions of yen) | Within two to three years (millions of yen) | Within three to four years (millions of yen) | Within four to five years (millions of yen) |
|---|---|---|---|---|
| 3,624 | 4,259 | 714 | 714 | 5,714 |

2. Schedule of borrowings

| Classification | Balance at beginning of period (millions of yen) | Balance at end of period (millions of yen) | Average interest rate (%) | Repayment period |
|---|---|---|---|---|
| Short-term borrowings | 3,800 | 800 | 0.5 | — |
| Current portion of long-term borrowings | 15,727 | 16,681 | 0.7 | — |
| Current portion of lease liabilities | — | — | — | — |
| Long-term borrowings (excluding current portion) | 170,880 | 173,703 | 0.8 | 2025–2038 |
| Lease liabilities (excluding current portion) | — | — | — | — |
| Other interest-bearing liabilities | | | | |
| Current portion of long-term accounts payable | — | 258 | 0.5 | — |
| Long-term accounts payable (excluding current portion) | 4,850 | 8,391 | 0.9 | 2025–2043 |
| Total | 195,257 | 199,834 | — | — |

(Notes) 1. The average interest rate is the weighted average interest rate for the respective item in the table as of March 31, 2024.

2. The payment period and amounts of long-term borrowings (excluding current portion) and long-term accounts payable (excluding current portion) within five years from March 31, 2024, are shown below.

| | Within one to two years (millions of yen) | Within two to three years (millions of yen) | Within three to four years (millions of yen) | Within four to five years (millions of yen) |
|---|---|---|---|---|
| Long-term borrowings | 16,907 | 26,995 | 29,029 | 20,542 |
| Long-term accounts payable – other | 258 | 373 | 515 | 543 |

3. Schedule of asset retirement obligations

Pursuant to Article 92-2 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the amounts of asset retirement obligations as of April 1, 2023, and March 31, 2024, have been omitted because the amounts are less than one percent of total balance of liabilities and net assets as of April 1, 2023 and March 31, 2024.

# Independent auditor's report

**To the Board of Directors of Heiwa Real Estate Co., Ltd.:**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of Heiwa Real Estate Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2024 and 2023, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Appropriateness of the Company’s valuation of non-current assets for the Building Business | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| Property, plant and equipment of ¥275,522 million and leasehold interests in land and goodwill among intangible assets of ¥31,138 million (“real estate”) were recognized as real estate held for leasing in the consolidated balance sheet of Heiwa Real Estate Co., Ltd. (the “Company”) and its consolidated subsidiaries for the current fiscal year, representing 75.5% of total assets in the consolidated financial statements. These assets mainly include real estate such as stock exchanges, offices and hotels in Japan and the real estate owned by the Company and its consolidated subsidiaries for several redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho districts) and Sapporo.<br><br>As described in Note 3, “Significant Accounting Estimates, Impairment of non-current assets” to the consolidated financial statements, management identifies an impairment indicator based on the smallest unit of assets (individual assets, in principle) that generates cash flows that are largely independent of the cash flows from other assets or asset groups. Impairment indicators include changes that significantly decrease the recoverable amount, such as recurring operating losses, a significant decline in market value, significant deterioration of the business environment, and a change in usage. When it is determined that there is an impairment indicator, management judges whether an impairment loss should be recognized by comparing the undiscounted future cash flows that are expected to be generated from the related real estate with its carrying amounts. In addition, for the redevelopment projects, several assets are grouped together when the business plan is determined to be feasible. In assessing the market value, the Company uses the real estate appraisal value obtained from external appraisers.<br><br>- Judgment as to whether there is an impairment indicator<br><br>In determining whether there is an impairment indicator, management needs to make a complex judgment on expected changes in operating profits and losses and the method of usage. The business plan that serves as the basis for determining the redevelopment projects was prepared by management using various assumptions including the policy for developing blocks to be commercialized, prospective approval for developments by local governments, development | The primary procedures we performed to assess the appropriateness of the Company’s judgments as to whether there is an impairment indicator for real estate and whether impairment losses should be recognized included the following:<br><br>(1) Internal control testing<br><br>We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to identifying an impairment indicator for real estate and determining impairment losses to be recognized.<br><br>(2) Assessment of the appropriateness of the Company’s judgment as to whether there is an impairment indicator<br><br>● We inspected the board minutes, the minutes of the executive officers, the requests for approval, and other relevant materials, and inquired of management and responsible personnel at the relevant department in order to confirm management’s judgment on expected changes in operating profits and losses and their decisions on changes in the scope and method of usage.<br><br>● We conducted a site inspection to confirm the occupancy status and progress of the redevelopment plan for real estate that was newly acquired and whose occupancy rate changed.<br><br>● With respect to the redevelopment projects, we evaluated the consistency between grouping units of assets and the latest business plans prepared by management. In addition, we examined the feasibility of the redevelopment projects by inquiring of responsible personnel at the relevant department regarding whether there was any change in development costs and a possible delay in the business plan, inspecting negotiation records with other landowners and tenants of existing buildings and other relevant documents, and then evaluating the consistency between these documents and the results of queries.<br><br>● We inquired of the external real estate appraisers used by management to assess the market value about their appraisal value, and assessed the appropriateness of the appraisal |

| | |
|---|---|
| costs and expected rental rates, and therefore involved a high degree of uncertainty and dependency on management's subjective judgment.<br><br>- Judgment as to whether impairment losses should be recognized<br><br>With respect to real estate for which an impairment indicator (such as the cease of operations for future redevelopments and a temporary decrease in operating earnings right after the restart of operations) was identified, the estimate of future cash flows reflected significant assumptions such as the level of rental rate, the occupancy rate, and operating costs in the future, and therefore involved a high degree of uncertainty and dependency on management's subjective judgment. In addition, it was possible that the business plan for redevelopment projects was reviewed as it extended over a long period of time.<br><br>We, therefore, determined that our assessment of the appropriateness of the Company's judgments as to whether there is an impairment indicator for real estate and whether impairment losses should be recognized was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter. | method, underlying basis and discount rates for part of the real estate by involving a real estate appraisal specialist within our domestic network firms.<br><br>(3) Assessment of the appropriateness of judgment as to whether impairment losses should be recognized<br><br>● We assessed the reliability and reasonableness of management's estimates by comparing the estimated future cash flows with the actual results for the current fiscal year, inspecting the negotiation records with tenants and examining the leasing status.<br><br>● For redevelopment projects, we compared the construction costs and the post-development rental rate for tenants and vacancy rate, on which the business plan was based, with similar cases by inspecting relevant documents and assessed the consistency of these costs and rates with market information on neighbouring real estate. |

## Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit committee is responsible for overseeing the executive officers' and directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit committee is responsible for overseeing the executive officers' and directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries for the current year are 44 million yen and 0 million yen, respectively.

## Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Yohei Morimoto

Designated Engagement Partner

Certified Public Accountant

/S/ Hirofumi Hanyu

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

July 31, 2024

**Notes to the Reader of Independent Auditor's Report:**
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.