

ANNUAL REPORT 2025

Year Ended March 31, 2025



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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 composed 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. 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 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 composed of Heiwa Real Estate Co., Ltd. (hereafter, “the Company”), which files consolidated financial statements as the parent company, and its six 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, Tokyo Hibiya Hotel Corporation, and Tokyo Nihonbashi Kabutocho Hotel Co., Ltd. develop, lease, manage, and sell stock exchange buildings, office buildings, commercial facilities, and residential buildings.

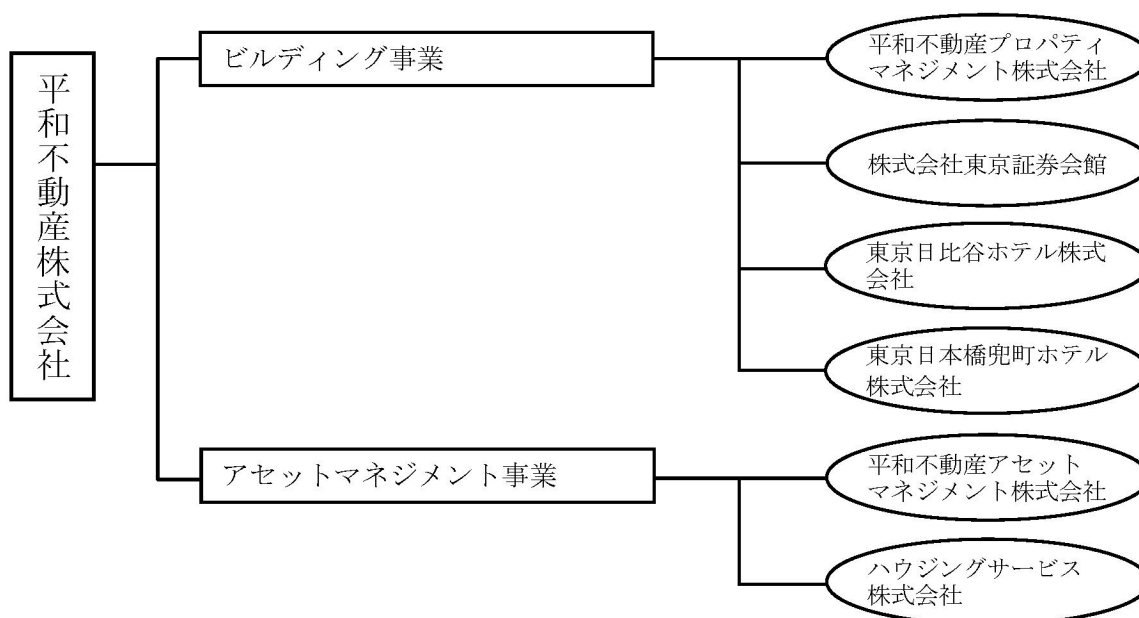
Heiwa Real Estate Property Management Co., Ltd., provides property management services.

(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
東京日本橋兜町ホテル株式会社	Tokyo Nihonbashi Kabutocho Hotel Co., Ltd.
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					
Heiwa Real Estate Property Management Co., Ltd.*	Chuo-ku, Tokyo	134	Building Business	100.0	Consigned to manage the Company's leased buildings Rents offices from the Company 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 Officers hold concurrent positions
The Tokyo Shoken Building Incorporated	Chuo-ku, Tokyo	100	Building Business	100.0	Rents stores to the Company Officers hold concurrent positions
Tokyo Hibiya Hotel Corporation	Chiyoda-ku, Tokyo	10	Building Business	100.0	Rents hotels from the Company
Tokyo Nihonbashi Kabutocho Hotel Co., Ltd.	Chuo-ku, Tokyo	10	Building Business	100.0	Rents hotels from the Company
Other Affiliates					
Taisei Corporation (Note 2)	Shinjuku-ku, Tokyo	122,742	Construction Business, etc.	Being owned 20.12	Entered into a capital and business alliance agreement with the Company.

(Notes) 1. The main business activities correspond to the business segment names.

2. Taisei Corporation submits its annual securities report.

4. Employee Data

(1) Employees of the Group

(As of March 31, 2025)

Segment	Number of employees
Building Business	142
Asset Management Business	86
Group-wide non-segment	31
Total	259

(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, 2025)

Number of employees	Average age of employees	Average years of employment	Average annual salary (thousands of yen)
103	42.5	14.6	11,033

Segment	Number of employees
Building Business	72
Asset Management Business	—
Company-wide non-segment	31
Total	103

(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 the company and the union have maintained 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 2024	
Percentage of female employees holding management positions (Note 1)	Percentage of male employees who have taken childcare leave (Note 2)
15.2%	100.0

(Notes) 1. The percentage of female employees holding management positions was calculated as of March 31, 2025, 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, Labor 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 took childcare leave was determined for 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 71-6-1 of the Ministry of Health, Labor and Welfare's Ordinance on the Enforcement of this Act (Ordinance No. 25 of 1991).

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 took childcare leave. Employees seconded to the Company from other companies were not included in these calculations.

4. The Company has not disclosed differences in the salaries of male and female employees during fiscal 2024, and, therefore, has 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, Labor and Welfare's Ordinance on the Action Plans for Business Owners based on this act.

5. Consolidated subsidiaries are not subject to disclosure obligations under the Act on Promotion of Women's Participation and Advancement in the Workplace or the Childcare and Family Care Leave Act; 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, 2025.

Management Policies, Operating Environment, and Issues to Address

While 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, the impacts of ongoing rising prices, the trends in U.S. policies such as trade policies, and financial capital market trends will need to be closely monitored going forward. 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 the 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.

The Company signed a capital and business alliance agreement (hereafter, the "Alliance Agreement") with Taisei Corporation (hereinafter, "Taisei") and signed an agreement concerning tripartite collaboration (hereafter, the "Cooperation Agreement") with Taisei, and Mitsubishi Estate Co., Ltd. (hereinafter, "Mitsubishi Estate") in June 2024 in order to realize the Group Long-term Vision, "WAY 2040." In the capital and business alliance with Taisei, the Company will establish a long-term cooperative relationship and further leverage the strengths of both companies, including their business bases and know-how, to mutually enhance their corporate value by 1) Expansion and speedily promotion in redevelopment business, 2) Collaboration in new business fields such as new real estate (asset class) investment and 3) Promotion of business alliances in the fields of sustainability and digital transformation (DX).

Medium-Term Management Plan: Background to Formulation and Positioning

In the medium-term management plan, WAY 2040 Stage 1 (Fiscal2024–Fiscal2026), 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 Medium-Term Management 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 Fiscal2028 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 promoting environmental friendliness and boosting disaster preparedness. This will be achieved through building development and operation as well as facility investment, and continued 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 a ROE target of 7% or more, 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.
The Company announced its "Initiatives to Further Advance Management Conscious of the Cost of Capital and the Company's Stock Price" on January 31, 2025. If the gain on sale of investment securities recorded as extraordinary income, increases as planned by accelerating efforts to reduce cross-shareholdings, ROE for fiscal 2025 and fiscal 2026 is expected to improve to 8% or more.
 - 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 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

Financial and non-financial key performance indicators (KPIs)

Financial KPIs	Profit targets	EPS	¥135 or more (Note 3) (fiscal 2026) Forecast: ¥150 or more (Note 3) (fiscal 2026)
		Consolidated operating profit	¥14 billion or more (Note 1) (fiscal 2026)
	Capital efficiency	ROE	7% or more (from fiscal 2024 to fiscal 2026) Results and Forecast: 7.9% (fiscal 2024 results) 8% or more (from fiscal 2025 to fiscal 2026 forecast)
	Shareholder returns	Consolidated dividend payout ratio	We aim to maintain a consolidated dividend payout ratio of approximately 50% (from fiscal 2024 to fiscal 2026) and will flexibly implement share buybacks, taking into account factors such as stock price, investment plans, and financial condition. Annual dividends and dividends forecast per share (Note 3): Fiscal 2024 results: ¥86 (Ordinary dividend: ¥71, Special dividend: ¥15) Fiscal 2025 forecast: ¥88 (Ordinary dividend: ¥73, Special dividend: ¥15) Fiscal 2026 forecast: ¥90 or more (Ordinary dividend: ¥75 or more, Special dividend: ¥15)
Non-financial KPIs	Environmental	GHG emissions	Reduce by 80% compared to fiscal 2018 by fiscal 2025 (Scope 1 and 2) 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: 30% or more (five-year average) Ratio of female managers: 20% or more by fiscal 2030 Ratio of mid-career workers in management positions: 40% or more by fiscal 2030 Annual health check uptake: 100% Uptake of cancer screenings (every two years): 100% of employees aged 35 or above Annual stress check uptake: 100% Annual paid holiday uptake: 70% or more Male childcare leave uptake: 100% by fiscal 2030 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 Forecast: The Company will accelerate efforts to reduce its cross-shareholdings, aiming to cut the approximately ¥17.5 billion balance as of December 31, 2024, by half or less.

(Notes) 1. Breakdown of consolidated operating profit

Building Business: ¥13.8 billion

Asset Management Business: ¥2.4 billion

Corporate and elimination: -¥2.2 billion

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

3. Since the Company conducted a 2-for-1 stock split effective July 1, 2025, the above figures take this stock

split into account.

The targeted and planned amounts for the KPIs mentioned above, are as of the time this report was submitted. The Company makes no guarantee that these targets will be achieved, and actual results may differ substantially. These targets 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 2024 is presented as follows.

1) Financial position and operating results

In fiscal 2024, while 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, the impacts of ongoing rising prices, the trends in U.S. policies such as trade policies, and financial capital market trends 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 continued to decline in central Tokyo and average rents have increased, reflecting a rebound in demand for office space driven by improvements in workplace environments. In the real estate investment market, strong investment appetite for domestic real estate remained firm and stable despite the Bank of Japan's termination of negative interest rates and subsequent rate hikes.

In this operating environment, the Company’s consolidated financial results were mixed. Net sales totaled ¥42,075 million, a decrease of ¥2,357 million (5.3%) compared with the previous fiscal year. Operating profit increased by ¥174 million (1.3%) to ¥13,196 million, while ordinary profit rose by ¥188 million (1.6%) to ¥11,651 million. Profit attributable to owners of parent amounted to ¥9,565 million, up ¥1,115 million (13.2%) year on year.

Consolidated financial results by business segment are as follows.

(Millions of yen)

Segment	Fiscal 2023		Fiscal 2024		Difference	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Building Business	40,544	12,639	37,997	13,010	(2,547)	371
Asset Management Business	3,888	2,197	4,078	2,355	189	157
Adjustments	—	(1,814)	—	(2,169)	—	(355)
Total	44,433	13,022	42,075	13,196	(2,357)	174

Net sales from major tenants and their percentage of net sales in fiscal 2023 and 2024 are as follows.

Tenant	Fiscal 2023		Fiscal 2024	
	Net sales (millions of yen)	Percentage of net sales	Net sales (millions of yen)	Percentage of net sales
HEIWA REAL ESTATE REIT, Inc.	8,164	18.4	8,727	20.7
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 ¥1,135 million (4.3%) year on year to ¥27,517 million, primarily due to contributions from building opened in the previous fiscal year, namely the Mercure Hotel Tokyo Hibiya (in Chiyoda-ku, Tokyo) and buildings acquired in the previous fiscal year, as well as to the leasing of newly occupied office space and rent revisions. Revenue from sales of properties decreased by ¥3,815 million (29.9%) to ¥8,965 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 ¥37,997 million, a decrease of ¥2,547 million (6.3%) compared with the previous fiscal year. On the other hand, segment operating profit rose by ¥371 million (2.9%) to ¥13,010 million.

As of March 31, 2025, the vacancy rate of buildings leased by the Heiwa Real Estate Group (excluding buildings for which leases have been suspended due to redevelopment) was 3.25%.

Breakdown of net sales

(Millions of yen)

Classification	Fiscal 2023		Fiscal 2024	
	Area (m ²)	Amount	Area (m ²)	Amount
Leasing revenue	Leased land area 3,272.00	26,382	Leased land area 3,335.24	27,517
	Leased floor space 381,500.28		Leased floor space 353,508.53	
Revenue from sales of properties	—	12,780	—	8,965
Other	—	1,382	—	1,514
Total	—	40,544	—	37,997

(ii) Asset Management Business

In the Asset Management Business segment, asset management revenue increased by ¥215 million (8.4%) to ¥2,781 million, while brokerage commissions decreased by ¥25 million (1.9%) to ¥1,296 million. As a result, segment net sales came to ¥4,078 million, up ¥189 million (4.9%) year on year. Segment operating profit totaled ¥2,355 million, an increase of ¥157 million (7.2%) compared with the previous fiscal year.

Breakdown of net sales

(Millions of yen)

Classification	Fiscal 2023	Fiscal 2024	Difference
Asset management revenue	2,565	2,781	215
Brokerage commissions	1,322	1,296	(25)
Total	3,888	4,078	189

2) Cash flows

As of March 31, 2025, consolidated cash and cash equivalents amounted to ¥25,241 million, down ¥1,074 million compared with March 31, 2024.

Fiscal 2024 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 ¥16,048 million, compared with ¥19,584 million in the previous fiscal year. Major inflows included profit before income taxes of ¥12,434 million and a decrease in inventories of ¥3,584 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥24,839 million, compared with ¥19,356 million in the previous fiscal year. Main outflows included ¥23,717 million for the purchase of property, plant and equipment, and ¥1,908 million in payments for acquisition of investment securities.

Cash flows from financing activities

Net cash provided by financing activities came to ¥7,716 million, compared with ¥280 million in the previous fiscal year. Main outflows included ¥17,008 million for repayments of long-term borrowings, ¥9,058 million for purchase of treasury shares, ¥5,974 million for dividends paid, and ¥3,624 million for redemption of bonds, while main inflows included ¥43,639 million in proceeds from long-term borrowings.

(Reference) Results for cash flow-related indicators

Indicator	As of March 31, 2021	As of March 31, 2022	As of March 31, 2023	As of March 31, 2024	As of March 31, 2025
Equity ratio	31.1%	31.7%	30.0%	30.9%	28.1%
Market cap-to-assets ratio	33.7%	38.4%	34.0%	36.0%	37.4%
Debt repayment period (years)	26.0	6.0	9.5	11.8	15.8
Interest coverage ratio (times)	6.2	24.2	16.2	11.8	8.5
Net D/E ratio	1.6	1.5	1.7	1.6	1.9

(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 in 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, 2025.

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

The Group 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. In fiscal 2024, we focused on external growth by carrying out the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project (Sapporo City, Hokkaido), Odori-nishi 4 South, Type 1 District Redevelopment Project (Sapporo City, Hokkaido), and Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), and the acquisition of ORSUS Kiyosumi-shirakawa Riverfront and ORSUS Shimura-sakaue, as well as internal growth through the acquisition of hotel business revenue from "Mercure Tokyo Hibiya" (Chiyoda-ku, Tokyo), which opened in the previous fiscal year. Among consolidated financial results, operating profit increased by ¥174 million to ¥13,196 million. Profit attributable to owners of parent increased by ¥1,115 million to ¥9,565 million, mainly reflecting the recording of a gain on sale of investment securities following a reduction of cross-shareholdings and a decrease in income taxes – deferred resulting from the recognition of deferred tax assets.

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, 2024, and March 31, 2025, were as follows:

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025	Difference
Total assets	405,979	419,541	13,561
Total liabilities	280,334	301,541	21,207
Net assets	125,645	117,999	(7,646)
Interest-bearing liabilities	231,323	254,072	22,749

(Note) Interest-bearing liabilities were composed 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, 2025, total assets amounted to ¥419,541 million, an increase of ¥13,561 million compared with March 31, 2024. Among the main factors underlying this result, land decreased by ¥14,072 million and buildings and structures decreased by ¥5,238 million, construction in progress rose by ¥26,217 million, and real estate for sale increased by ¥9,175 million which reflected reclassification from fixed assets to real estate for sale, reclassification of accounts and payment of participation fee following the approval of rights conversion for the Sapporo redevelopment project, construction cost outlays for Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), and the recording of depreciation expense.

In the consolidated balance sheets, the combined balance of leased property and real estate that includes the portion used as lease property was ¥311,316 million as of March 31, 2025, an increase of ¥6,828 million compared with April 1, 2024. As of March 31, 2025, the market value of the Company's holdings was ¥439,801 million, an increase of ¥18,554 million from April 1, 2024.

Total liabilities

As of March 31, 2025, total liabilities amounted to ¥301,541 million, an increase of ¥21,207 million compared with March 31, 2024. Among the main factors underlying this result, interest-bearing liabilities rose by ¥22,749 million.

As of March 31, 2025, the balance of interest-bearing liabilities was ¥254,072 million, and the net D/E ratio stood at 1.9. The Company has set a net D/E ratio target of 2.0 in its indicator of financial soundness of medium-term management plan, WAY 2040 Stage 1, and has kept the ratio within this range.

Net assets

As of March 31, 2025, net assets stood at ¥117,999 million, a decrease of ¥7,646 million compared with March 31, 2024. This was mainly while retained earnings increased by ¥3,568 million, the decrease was mainly due to an acquisition of treasury stock of ¥9,054 million.

As of March 31, 2025, in addition to flexibly implementing 2.4 million of share buybacks, as part of efforts to further promote management with an awareness of the cost of shareholders' equity and stock price, the Company accelerated the reduction of cross-shareholdings. In line with our basic policy on shareholder returns of maintaining a consolidated dividend payout ratio of 50%, the Company implemented special dividends, in addition to ordinary dividends.

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, 2025, Building Business segment assets amounted to ¥358,049 million, an increase of ¥16,604 million compared with March 31, 2024. This mainly reflected reclassification from fixed assets to real estate for sale, the reclassification of accounts and payment of participation fees following the approval of rights conversion for the Sapporo redevelopment project, construction cost outlays for Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), and the recording of depreciation expense. Asset Management Business segment assets totaled ¥23,181 million, down ¥1,472 million compared with March 31, 2024. 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, 2024	As of March 31, 2025	Difference
Building Business	341,445	358,049	16,604
Asset Management Business	24,653	23,181	(1,472)
Adjustments	39,881	38,310	(1,570)
Amount in consolidated financial statements	405,979	419,541	13,561

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 2024 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 investments 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, 2025, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥254,072 million; net interest-bearing liabilities, which exclude marketable securities and cash and deposits from interest-bearing liabilities, amounted to ¥228,731 million; and the net D/E ratio came to 1.9.

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 50% from fiscal 2024 to 2026, taking into account returns on business investments while focusing on capital cost and capital efficiency. As part of efforts to further promote management with an awareness of the cost of shareholders' equity and stock price, the Company accelerated the reduction of cross-shareholdings. In line with our basic policy on shareholder returns of maintaining a consolidated dividend payout ratio of 50%, the Company implemented special dividends, in addition to ordinary dividends. In accordance with this policy, the Company paid dividends totaling ¥5,771 million for fiscal 2024, which included a special dividend of ¥1,006 million. As a result, the consolidated total shareholder return ratio stood at 60.8%.

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 2023			Fiscal 2024		
	Net sales	Segment profit (loss)	Depreciation	Net sales	Segment profit (loss)	Depreciation
Leasing revenue	26,382	8,007	5,681	27,517	8,664	5,551
Revenue from sales of properties	12,780	4,808	—	8,965	4,519	—
Other	1,382	(176)	5	1,514	(173)	4
Total	40,544	12,639	5,687	37,997	13,010	5,556

(Note) Leasing revenue includes sales and expenses associated with restaurant operations. In fiscal 2023, these operations contributed ¥500 million to net sales, reduced segment profit by ¥20 million, and accounted for ¥35 million in depreciation. In fiscal 2024, they contributed ¥558 million to net sales, reduced segment profit by ¥9 million, and included ¥29 million in depreciation.

2. Asset Management Business

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

Classification	Fiscal 2023			Fiscal 2024		
	Net sales	Segment profit	Depreciation	Net sales	Segment profit	Depreciation
Asset management revenue	2,565	1,885	9	2,781	2,038	13
Brokerage commissions	1,322	312	2	1,296	316	2
Total	3,888	2,197	11	4,078	2,355	16

Part 3 Financial Reporting

Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Assets		
Current assets		
Cash and deposits (Notes 11 and 13)	20,416	19,343
Trade accounts receivable (Notes 7, 13, and 21)	2,114	2,291
Securities (Notes 11, 13, and 14)	8,005	5,997
Real estate for sale (Note 7)	20,645	29,821
Real estate for sale in process (Note 7)	567	32
Operating investments in capital (Notes 13 and 14)	551	1,173
Other	956	1,376
Allowance for doubtful accounts	(0)	(0)
Total current assets	53,257	60,036
Non-current assets		
Property, plant and equipment		
Buildings and structures (Note 7)	180,769	172,277
Accumulated depreciation	(96,211)	(92,957)
Buildings and structures, net (Note 7)	84,557	79,319
Machinery, equipment and vehicles	2,259	2,063
Accumulated depreciation	(1,834)	(1,691)
Machinery, equipment and vehicles, net (Note 7)	425	371
Tools, furniture and fixtures	2,669	2,851
Accumulated depreciation	(1,839)	(2,047)
Tools, furniture and fixtures, net (Note 7)	829	804
Land (Note 7)	184,669	170,597
Construction in progress	5,039	31,257
Total property, plant and equipment	275,522	282,350
Intangible assets		
Leasehold interests in land (Note 7)	30,492	30,374
Goodwill (Notes 11 and 22)	645	602
Other	181	187
Total intangible assets	31,320	31,164
Investments and other assets		
Investment securities (Notes 7, 13, and 14)	38,072	37,027
Deferred tax assets (Note 18)	250	243
Other	7,175	8,391
Total investments and other assets	45,498	45,662
Total non-current assets	352,341	359,177
Deferred assets		
Bond issuance costs	381	326
Total deferred assets	381	326
Total assets	405,979	419,541

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Liabilities		
Current liabilities		
Trade accounts payable (Note 13)	1,923	1,698
Current portion of bonds payable (Notes 13 and 25)	3,624	4,259
Short-term borrowings (Notes 13 and 25)	800	800
Current portion of long-term borrowings (Notes 13 and 25)	16,681	18,695
Income taxes payable (Note 18)	1,674	2,560
Accrued consumption taxes	1,738	123
Provision for bonuses for directors (and other officers)	109	126
Provision for bonuses	272	301
Other (Notes 7, 21, and 25)	2,228	3,841
Total current liabilities	29,052	32,407
Non-current liabilities		
Bonds payable (Notes 13 and 25)	27,864	23,605
Long-term borrowings (Notes 13, 15, and 25)	173,703	198,320
Long-term accounts payable – other (Notes 13 and 25)	8,391	8,133
Leasehold and guarantee deposits received (Note 13)	23,636	23,206
Deferred tax liabilities (Note 18)	9,466	7,368
Deferred tax liabilities for land revaluation (Note 7)	7,186	7,333
Provision for share awards	213	310
Retirement benefit liability (Note 16)	126	180
Asset retirement obligations (Note 19)	683	675
Other	9	—
Total non-current liabilities	251,282	269,134
Total liabilities	280,334	301,541
Net assets		
Shareholders' equity		
Share capital	21,492	21,492
Capital surplus	19,720	19,720
Retained earnings	61,012	64,580
Treasury shares	(9,989)	(19,043)
Total shareholders' equity	92,235	86,749
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,339	15,265
Deferred gains or losses on hedges	(6)	54
Revaluation reserve for land (Note 7)	16,076	15,928
Total accumulated other comprehensive income	33,409	31,249
Total net assets	125,645	117,999
Total liabilities and net assets	405,979	419,541

2. Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Net sales (Notes 8, 21, and 22)	44,433	42,075
Cost of sales	25,863	23,028
Gross profit	18,569	19,046
Selling, general and administrative expenses		
Salaries and allowances	1,610	1,618
Provision for bonuses for directors (and other officers)	112	126
Provision for bonuses	180	202
Provision for share awards	87	100
Retirement benefit expenses	24	103
Commission expenses	848	915
Other	2,683	2,783
Total selling, general and administrative expenses	5,547	5,850
Operating profit (Note 22)	13,022	13,196
Non-operating income		
Interest income	17	18
Dividend income	382	529
Miscellaneous income	44	26
Total non-operating income	444	575
Non-operating expenses		
Interest expenses	1,664	1,891
Amortization of bond issuance costs	50	52
Miscellaneous losses	287	176
Total non-operating expenses	2,003	2,120
Ordinary profit	11,463	11,651
Extraordinary income		
Gain on sale of investment securities	1,215	799
Subsidy income	2	—
Total extraordinary income	1,218	799
Extraordinary losses		
Loss on retirement of non-current assets (Note 8)	20	16
Impairment losses (Notes 8 and 22)	66	—
Loss on tax purpose reduction entry of non-current assets	2	—
Loss on valuation of investment securities	181	—
Total extraordinary losses	271	16
Profit before income taxes	12,409	12,434
Income taxes – current	4,040	4,361
Income taxes – deferred	(81)	(1,493)
Total income taxes (Note 18)	3,959	2,868
Profit	8,450	9,565
Profit attributable to owners of parent	8,450	9,565

3. Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Profit	8,450	9,565
Other comprehensive income (Note 9)		
Valuation difference on available-for-sale securities	1,896	(2,073)
Deferred gains or losses on hedges	(6)	60
Revaluation reserve for land	—	(147)
Total other comprehensive income	1,889	(2,160)
Comprehensive income (Note 9)	10,340	7,405
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,340	7,405

4. Consolidated Statements of Changes in Equity

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

Year ended March 31, 2025

(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	61,012	(9,989)	92,235
Changes during period					
Dividends of surplus			(5,997)		(5,997)
Profit attributable to owners of parent			9,565		9,565
Purchase of treasury shares				(9,058)	(9,058)
Disposal of treasury shares		0		4	4
Reversal of revaluation reserve for land			—		—
Net changes in items other than shareholders' equity					
Total changes during period	—	0	3,568	(9,054)	(5,485)
Balance at end of period	21,492	19,720	64,580	(19,043)	86,749

	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	17,339	(6)	16,076	33,409	125,645
Changes during period					
Dividends of surplus					(5,997)
Profit attributable to owners of parent					9,565
Purchase of treasury shares					(9,058)
Disposal of treasury shares					4
Reversal of revaluation reserve for land					—
Net changes in items other than shareholders' equity	(2,073)	60	(147)	(2,160)	(2,160)
Total changes during period	(2,073)	60	(147)	(2,160)	(7,646)
Balance at end of period	15,265	54	15,928	31,249	117,999

5. Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Cash flows from operating activities		
Profit before income taxes	12,409	12,434
Depreciation	5,778	5,636
Loss on retirement of non-current assets	20	16
Impairment losses	66	—
Amortization of goodwill	7	42
Loss (gain) on valuation of investment securities	181	—
Increase (decrease) in allowance for doubtful accounts	(24)	0
Increase (decrease) in provision for bonuses	15	29
Increase (decrease) in retirement benefit liability	(108)	54
Interest and dividend income	(400)	(548)
Interest expenses	1,664	1,891
Amortization of bond issuance costs	50	52
Loss (gain) on sale of investment securities	(1,215)	(799)
Decrease (increase) in trade receivables	(147)	(176)
Decrease (increase) in inventories	6,273	3,584
Decrease (increase) in operating investments in capital	475	(621)
Decrease (increase) in prepaid expenses	(10)	20
Decrease (increase) in accounts receivable – other	264	(1,020)
Increase (decrease) in trade payables	(144)	(105)
Increase (decrease) in advances received	(46)	1,394
Increase (decrease) in accrued consumption taxes	1,096	(1,615)
Increase (decrease) in deposits received	26	117
Increase (decrease) in leasehold and guarantee deposits received	(181)	(909)
Other, net	(253)	1,355
Subtotal	25,798	20,832
Interest and dividends received	422	548
Interest paid	(1,650)	(1,864)
Income taxes paid	(4,984)	(3,467)
Net cash provided by (used in) operating activities	19,584	16,048

(Millions of yen)

Year ended March 31, 2024 Year ended March 31, 2025

Cash flows from investing activities		
Purchase of securities	(4,000)	—
Proceeds from sale and redemption of securities	4,000	2,005
Purchase of investment securities	(1,290)	(1,908)
Proceeds from sale and redemption of investment securities	1,816	1,039
Payments for acquisition of businesses (Note 11)	(1,231)	—
Purchase of property, plant and equipment	(18,190)	(23,717)
Purchase of intangible assets	(74)	(900)
Purchase of long-term prepaid expenses	(396)	(1,408)
Payments of guarantee deposits	(65)	(248)
Proceeds from refund of guarantee deposits	73	288
Other, net	1	10
Net cash provided by (used in) investing activities	(19,356)	(24,839)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,000)	—
Proceeds from long-term borrowings	19,827	43,639
Repayments of long-term borrowings	(16,050)	(17,008)
Proceeds from issuance of bonds	3,500	—
Redemption of bonds	(3,648)	(3,624)
Proceeds from increased long-term accounts payable	3,800	—
Repayments of long-term accounts payable	—	(258)
Purchase of treasury shares	(14)	(9,058)
Dividends paid	(4,012)	(5,974)
Other, net	(120)	(0)
Net cash provided by (used in) financing activities	280	7,716
Effect of exchange rate change on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	508	(1,074)
Cash and cash equivalents at beginning of period	25,807	26,316
Cash and cash equivalents at end of period (Note 11)	26,316	25,241

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: 6

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

Tokyo Nihonbashi Kabutocho Hotel Co., Ltd.

Tokyo Nihonbashi Kabutocho Hotel Co., Ltd. was newly established and included in the scope of consolidation during the fiscal year ended March 31, 2025.

(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 are insignificant as a whole.

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

The accounting year of consolidated subsidiaries Tokyo Hibiya Hotel Corporation and Tokyo Nihonbashi Kabutocho Hotel Co., Ltd. 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 to 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 in 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 receivable. 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 for share awards was calculated based on the expected amount of stock compensation obligations as of March 31, 2025 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, 2025 minus the fair value of pension assets. Retirement benefit liability is not calculated for 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 at 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, 2025.

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, 2025.

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Property, plant and equipment	275,522	282,350
Leasehold interests in land and goodwill among intangible assets	31,138	30,977
Impairment losses	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, 2025

In principle, individual assets that generate cash flows 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 the 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, 2025; 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, 2025

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Real estate for sale	20,645	29,821
Real estate for sale in process	567	32

(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, 2025

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, 2025, 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, 2025, 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 — Changes in Accounting Policies

Application of the Accounting Standards for Current Income Taxes

Effective from April 1, 2024, the Company applied the revised Accounting Standard for Current Income Taxes (Statement No. 27) issued by the Accounting Standards Board of Japan (ASBJ) on October 28, 2022. Accordingly, the Company applied the revised classification of income taxes, specifically taxation related to other comprehensive income, in accordance with the transitional accounting treatment subject to Paragraph 20-3 of this standard as well as Paragraph 65-2 (2) of the revised Implementation Guidance on Tax Effect Accounting (Guidance No. 28) issued by ASBJ on October 28, 2022. This change in accounting policy did not impact on results posted in the consolidated financial statements for the period under review.

Note 5 — Accounting Standards Not Yet Adopted

- Accounting Standard for Lease Transactions (ASBJ Statement No. 34 (revised)) issued on September 13, 2024
- Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 33 (revised)) issued on September 13, 2024

(1) Overview

As part of the efforts to make Japanese GAAP internationally consistent, the ASBJ has been considering the development of

accounting standard for lease transactions that recognize assets and liabilities for all leases of lessees, based on international accounting standards. As a basic policy, the ASBJ published lease accounting standards based on the single accounting model of IFRS 16, but with the aim of making it simple and convenient by adopting only major provisions rather than all provisions of IFRS 16, and making it basically unnecessary to revise the provisions of IFRS 16 for non-consolidated financial statements.

As for the accounting treatment of lessees, a single accounting model for allocating the cost of a lease to the lessee, as in IFRS 16, is applied to all leases, regardless of whether the lease is a finance lease or an operating lease, in which depreciation on the right-of-use asset and interest expense on the lease liability are recognized.

(2) Scheduled date of application

The Company will apply the accounting standards, etc. from the beginning of the fiscal year ending March 31, 2028.

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

The impact of applying the revised Accounting Standard for Lease Transactions on the consolidated financial statements is currently being assessed.

Note 6 – 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 ¥304 million as of March 31, 2024, and ¥304 million as of March 31, 2025, and the amount of treasury shares totaled 98,700 shares as of March 31, 2024, and 98,700 shares as of March 31, 2025.

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 ¥295 million as of March 31, 2024, and ¥291 million as of March 31, 2025, and the amount of treasury shares totaled 70,300 shares as of March 31, 2024, and 69,300 shares as of March 31, 2025.

Note 7 — 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, 2024	As of March 31, 2025
Receivables from contracts with customers (Note 1)	281	539
Contract assets (Note 1)	510	519
Contract liabilities (Note 2)	44	192

(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, 2024	As of March 31, 2025
Housing loans for employees of Heiwa Real Estate Co., Ltd.	91	69

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, 2024, and March 31, 2025, 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, 2024	As of March 31, 2025
Investment units of HEIWA REAL ESTATE REIT, Inc.	21,596 (151,979 units)	19,984 (157,979 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, 2024	As of March 31, 2025
Real estate for sale	41	10
Buildings and structures	244	243
Total	285	253

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

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Transferred from non-current assets to real estate for sale	13,035	12,233

Note 8 — 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. Revenue from contracts with customers is shown as follows.

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
	19,719	17,649

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

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Buildings and structures	19	14
Other	0	2
Total	20	16

3. Impairment losses

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 mentioned 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.

Year ended March 31, 2025

Not applicable

Note 9 — Consolidated Statements of Comprehensive Income

Reclassification adjustment, income taxes and tax effect related to other comprehensive income

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Valuation difference on available-for-sale securities:		
Amount incurred for the fiscal year	3,936	(1,898)
Reclassification adjustment	(1,203)	(800)
Before income taxes and tax effect adjustment	2,733	(2,698)
Income taxes and tax benefit (expense)	(836)	625
Valuation difference on available-for-sale securities	1,896	(2,073)
Deferred gains or losses on hedges:		
Amount incurred for the fiscal year	(9)	88
Before income taxes and tax effect adjustment	(9)	88
Income taxes and tax benefit (expense)	2	(27)
Deferred gains or losses on hedges	(6)	60
Revaluation reserve for land:		
Income taxes and tax benefit (expense)	—	(147)
Total other comprehensive income	1,889	(2,160)

Note 10 — Consolidated Statements of Changes in Equity

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, and 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 composed of 3,168 odd-lot shares acquired.

2. The decrease of 6,338 common shares of treasury shares was composed 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 ended 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

(Note) 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 dividend per share amount includes a special dividend of ¥50 per share.

Year ended March 31, 2025

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, and 3)	3,070,344	2,402,503	1,073	5,471,774
Total	3,070,344	2,402,503	1,073	5,471,774

(Notes) 1. The increase of 2,402,503 common shares of treasury shares was composed of 2,400,000 shares acquired by the Company pursuant to a resolution of the Board of Directors and 2,503 odd-lot shares acquired.

2. The decrease of 1,073 common shares of treasury shares was composed of 600 shares provided to and 400 shares sold by the trust for the Company's stock compensation plan for employees, and 73 odd-lot shares sold.

3. The total number of common shares of treasury shares as of March 31, 2025, included 168,000 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, 2024	Common shares	3,883	108.0	March 31, 2024	June 3, 2024
Meeting of Board of Directors held on October 31, 2024	Common shares	2,114	63.0	September 30, 2024	December 2, 2024

(Notes) 1. The total amount of dividends approved at the Board of Directors' meeting held on May 17, 2024, 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 dividend per share amount approved at the Board of Directors' meeting held on May 17, 2024, includes a special dividend of ¥50 per share.

3. The total amount of dividends approved at the Board of Directors' meeting held on October 31, 2024, included ¥10 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, 2025, and an effective date falling in the fiscal year ending March 31, 2026

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 16, 2025	Common shares	3,657	Retained earnings	109.0	March 31, 2025	June 2, 2025

(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 dividend per share amount includes a special dividend of ¥30 per share.

Note 11 — Consolidated Statements of Cash Flows

1. Reconciliation of the balance of cash and cash equivalents at the end of the period and account items in the consolidated balance sheets

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Cash and deposits	20,416	19,343
Marketable securities	8,005	5,997
Time deposits with terms of more than 3 months	(100)	(100)
Bonds with redemption periods of more than 3 months	(2,005)	—
Cash and cash equivalents	26,316	25,241

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, 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

Year ended March 31, 2025

Not applicable

Note 12 — 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 canceled.

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Due within 1 year	5,014	5,729
Due after 1 year	12,595	10,686
Total	17,610	16,416

Note 13 — 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 composed of shares in 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 18 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 amounts recorded in the consolidated balance sheets, their fair values, and the differences between them are presented as follows.

As of March 31, 2024

	Amount in 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.

As of March 31, 2025

	Amount on the consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Marketable securities and investment securities	42,382	42,390	8
Total assets	42,382	42,390	8
(1) Bonds payable	27,864	26,508	(1,356)
(2) Long-term borrowings	217,016	212,089	(4,926)
(3) Long-term accounts payable – other	8,391	7,812	(579)
(4) Leasehold and guarantee deposits received	23,206	22,543	(662)
Total liabilities	276,479	268,953	(7,525)
Derivatives (Note 4)	79	79	—

- (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, 2025
Stocks without quoted market prices	388

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 ¥1,427 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, 2024

	Within 1 year (millions of yen)	Within 1 to 5 years (millions of yen)	Within 5 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	—	—

As of March 31, 2025

	Within 1 year (millions of yen)	Within 1 to 5 years (millions of yen)	Within 5 to 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	19,343	—	—	—
Trade accounts receivable	2,291	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	—	—	—	—
(2) Bonds payable	—	190	—	—
(3) Other	6,000	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	—	—	—	—
Total	27,635	190	—	—

(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, 2024

	Within 1 year (millions of yen)	Within 1 to 2 years (millions of yen)	Within 2 to 3 years (millions of yen)	Within 3 to 4 years (millions of yen)	Within 4 to 5 years (millions of yen)	Over 5 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

As of March 31, 2025

	Within 1 year (millions of yen)	Within 1 to 2 years (millions of yen)	Within 2 to 3 years (millions of yen)	Within 3 to 4 years (millions of yen)	Within 4 to 5 years (millions of yen)	Over 5 years (millions of yen)
Short-term borrowings	800	—	—	—	—	—
Bonds payable	4,259	714	714	5,714	714	15,747
Long-term borrowings	18,695	28,920	30,954	22,467	19,878	96,098
Long-term accounts payable – other	258	373	515	543	543	6,158
Total	24,013	30,008	32,184	28,725	21,136	118,004

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, 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

As of March 31, 2025

Classification	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available-for-sale securities				
Stocks	15,753	—	—	15,753
Investment trusts	20,440	—	—	20,440
Derivatives				
Interest rate-related derivatives	—	79	—	79
Total assets	36,194	79	—	36,274

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

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

As of March 31, 2025

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	—	—	—	—
Bonds payable	—	200	—	200
Other	—	5,996	—	5,996
Total assets	—	6,196	—	6,196
Bonds payable	—	26,508	—	26,508
Long-term borrowings	—	212,089	—	212,089
Long-term accounts payable – other	—	7,812	—	7,812
Leasehold and guarantee deposits received	—	22,543	—	22,543
Total liabilities	—	268,953	—	268,953

(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 that deal 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 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 for interest rate swaps is included in the fair value of long-term borrowings as 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 14 – Securities

1. Held-to-maturity bonds

As of March 31, 2024

	Category	Amount in consolidated balance sheet (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

As of March 31, 2025

	Category	Amount in consolidated balance sheet (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	—	—	—
	(2) Bonds payable	190	200	9
	(3) Other	—	—	—
	Subtotal	190	200	9
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	—	—	—
	(3) Other	5,997	5,996	(0)
	Subtotal	5,997	5,996	(0)
Total		6,188	6,196	8

2. Available-for-sale securities

As of March 31, 2024

	Category	Amount in consolidated balance sheet (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 investments 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.

As of March 31, 2025

	Category	Amount in consolidated balance sheet (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	14,758	4,600	10,157
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	19,993	7,791	12,201
	Subtotal	34,752	12,392	22,359
Available-for-sale securities of which the amount recorded in the consolidated balance sheets does not exceed the acquisition cost	(1) Stocks	995	1,003	(8)
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	446	463	(17)
	Subtotal	1,442	1,467	(25)
Total		36,194	13,860	22,334

(Note) Stocks without quoted market prices (totaling ¥388 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 ¥1,427 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, 2024

Not applicable

Year ended March 31, 2025

Not applicable

4. Available-for-sale securities sold

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	—

Year ended March 31, 2025

Category	Sale amount (millions of yen)	Gain on sale recorded (millions of yen)	Loss on sale recorded (millions of yen)
(1) Stocks	954	799	—
(2) Bonds			
1) National and municipal bonds	—	—	—
2) Bonds payable	—	—	—
3) Other	—	—	—
(3) Other	—	—	—
Total	954	799	—

5. Impairment losses on marketable securities

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 investments 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.

Year ended March 31, 2025

Not applicable

Note 15 — 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, 2024

Hedge accounting method	Type of transaction	Major hedged items	Contract amount (millions of yen)	Contract amount over 1 year (millions of yen)	Fair value (millions of yen)
Principle treatment method	Interest rate swaps: Receiving floating rate/paying fixed rate	Long-term borrowings	2,619	2,511	(9)
Special treatment of interest rate swaps	Interest rate swaps: Receiving floating rate/paying 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.

As of March 31, 2025

Hedge accounting method	Type of transaction	Major hedged items	Contract amount (millions of yen)	Contract amount over 1 year (millions of yen)	Fair value (millions of yen)
Principle treatment method	Interest rate swaps: Receiving floating rate/paying fixed rate	Long-term borrowings	2,511	2,403	79
Special treatment of interest rate swaps	Interest rate swaps: Receiving floating rate/paying fixed rate	Long-term borrowings	36,424	34,180	(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 16 – 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, 2024	Year ended March 31, 2025
Balance at the beginning of the fiscal year	234	126
Retirement benefit expenses	(6)	143
Retirement benefits paid	(67)	(56)
Contributions to the plan	(34)	(32)
Balance at the end of the fiscal year	126	180

(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, 2024	As of March 31, 2025
Benefit obligation	1,351	1,356
Pension assets	(1,225)	(1,176)
Net balance of liabilities and assets recorded in the consolidated balance sheets	126	180
Retirement benefit liability	126	180
Net balance of liabilities and assets recorded in the consolidated balance sheets	126	180

(3) Retirement benefit expenses

	(Millions of yen)	
	Year ended March 31, 2024	Year ended March 31, 2025
Retirement benefit expenses calculated using simplified accounting methods	(6)	143

3. Defined contribution plan

The required contributions for the defined contribution plans of consolidated subsidiaries amounted to ¥29 million in the fiscal year ended March 31, 2024, and ¥30 million in the fiscal year ended March 31, 2025.

Note 17 – Stock Options

Not applicable

Note 18 – Tax Effect Accounting

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

(Millions of yen)

	As of March 31, 2024	As of March 31, 2025
Deferred tax assets		
Provision for bonuses	87	96
Accrued enterprise taxes	127	158
Inventory depreciation	114	195
Accounts receivable – other	37	38
Loss on building reconstruction	517	533
Impairment losses	376	386
Provision for share awards	45	58
Retirement benefit liability	42	60
Loss carryforwards	120	71
Asset retirement obligations	214	218
Asset adjustment account	278	225
Compensation income	–	414
Other	442	461
Subtotal	2,405	2,918
Valuation allowance (Note)	(1,086)	(33)
Total deferred tax assets	1,318	2,885
Deferred tax liabilities		
Reserve for tax purpose reduction entry	(764)	(775)
Valuation difference on available-for-sale securities	(7,670)	(7,045)
Difference in valuation of non-current assets	(2,005)	(2,077)
Retirement expenses for asset retirement obligations	(86)	(79)
Other	(6)	(32)
Total deferred tax liabilities	(10,534)	(10,010)
Net amount of deferred tax assets (liabilities)	(9,215)	(7,125)

(Note) The main reason for the significant change in valuation allowance was a change in the Company's classification of companies in determining the recoverability of deferred tax assets.

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

	As of March 31, 2024	As of March 31, 2025
The statutory effective tax rate (Adjustment)	This information has been omitted because the difference between the statutory effective tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting was less than	30.6%
Items that are not permanently deductible, such as entertainment expenses	5% of the statutory effective tax rate.	0.8
Items that are not permanently taxable, such as dividend income		(0.3)
Increase (Decrease) in valuation allowance		(8.5)
Other		0.3
Tax burden rate of corporate and other taxes after the application of tax effect accounting		23.1

3. Revision of the amount of deferred tax assets and deferred tax liabilities due to changes in corporate and other tax rates

With the enactment of the “Act to Partially Amend the Income Tax Act, etc.” (Act No. 13 of Reiwa 7) by the Diet on March 31, 2025, the “Defense Special Corporate Tax” will be levied from the fiscal year starting on or after April 1, 2026.

As a result, the statutory effective tax rate has been changed from 30.6% to 31.5% for deferred tax assets and liabilities related to temporary differences that are expected to be resolved after the fiscal year beginning April 1, 2026.

As a result of these changes, the amount of deferred tax liabilities (minus the amount of deferred tax assets) for the fiscal year ended March 31, 2025 increased by ¥226 million, the deferred income taxes increased by ¥24 million, and the valuation difference on available-for-sale securities decreased by ¥201 million and the amount of deferred gains and losses on hedges decreased by ¥0 million.

In addition, deferred tax liabilities related to revaluation increased by ¥210 million, and the revaluation reserve for land decreased by the same amount.

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, 2024	Year ended March 31, 2025
Beginning balance	676	683
Adjustment due to passage of time	7	7
Other increase (decrease)	—	(15)
Ending balance	683	675

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 sheets, increase and decrease during the period, and their market values are as follows:

(Millions of yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Lease property, etc.		
Amount in the consolidated balance sheets		
Beginning balance	275,533	253,661
Increase (decrease)	(21,871)	(30,256)
Ending balance	253,661	223,404
Market value at fiscal year end	350,858	315,718
Real estate that includes the portion used as lease property, etc.		
Amount in the consolidated balance sheets		
Beginning balance	33,117	50,826
Increase(decrease)	17,709	37,085
Ending balance	50,826	87,911
Market value at fiscal year end	70,388	124,083

(Notes) 1. The amount in the consolidated balance sheets 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, 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). The net increase in the fiscal year ended March 31, 2025, was mainly due to the progress and completion of construction (¥13,236 million) as well as the acquisition of real estate (¥5,902 million), while the net decrease was mainly due to the transfer of properties to real estate for sale (¥12,211 million).

3. The market values of principal properties as of March 31, 2025, 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, 2024	Year ended March 31, 2025
Lease property, etc.		
Leasing revenue	20,933	18,417
Leasing expenses	12,444	10,331
Net	8,489	8,086
Other loss	(72)	(12)
Real estate that includes the portion used as lease property, etc.		
Leasing revenue	3,693	4,896
Leasing expenses	3,199	3,953
Net	493	943
Other loss	(13)	(1)

(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 composed 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, 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.

Year ended March 31, 2025

(Millions of yen)

	Reportable segments		Total
	Building Business	Asset Management Business	
Revenue from sales of properties	8,965	—	8,965
Asset management revenue from management fees	—	1,692	1,692
Other	5,694	1,296	6,991
Revenue from contracts with customers	14,659	2,989	17,649
Other revenue (Note)	23,337	1,088	24,426
Net sales from external customers	37,997	4,078	42,075

(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, as well as the timing and amounts of revenue from contracts with customers expected to be recognized during and after the next fiscal year.

(1) Balance of contract assets and contract liabilities

(Millions of yen)

	Year ended March 31,2024	Year ended March 31, 2025
Receivables from contracts with customers (Beginning balance)	186	281
Receivables from contracts with customers (Ending balance)	281	539
Contract assets (Beginning balance)	485	510
Contract assets (Ending balance)	510	519
Contract liabilities (Beginning balance)	5	44
Contract liabilities (Ending balance)	44	192

Contract assets are the Group's right to consideration in exchange for services that are 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 are based on prevailing market prices.

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

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.

Year ended March 31, 2025

(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	37,997	4,078	42,075	—	42,075
Intersegment sales and transfers	49	—	49	(49)	—
Total	38,046	4,078	42,124	(49)	42,075
Segment profit	13,010	2,355	15,366	(2,169)	13,196
Segment assets	358,049	23,181	381,230	38,310	419,541
Other items					
Depreciation (Note 3)	5,556	16	5,572	64	5,636
Increase in property, plant and equipment and intangible assets (Note 3)	24,451	2	24,454	59	24,514

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

- (1) The negative adjustments to segment profit of ¥2,169 million mainly include corporate expenses amounting to ¥2,169 million that belong to the administration division and are not allocated to any of the reportable segments.
 - (2) Adjustments to segment assets of ¥38,310 million mainly include unallocated corporate assets amounting to ¥41,664 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, 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 Asset Management Business
Godo Kaisha Shinsatsu	4,500	Building Business

Year ended March 31, 2025

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.	8,727	Building Business Asset Management Business

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

Year ended March 31, 2024

(Millions of yen)

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

Year ended March 31, 2025

Not applicable

Amortization and Unamortized Balance of Goodwill by Reportable Segment

Year ended March 31, 2024

(Millions of yen)

	Building Business	Asset Management Business	Intersegment eliminations	Total
Amortization for the period	7	—	—	7
Balance at end of period	645	—	—	645

Year ended March 31, 2025

(Millions of yen)

	Building Business	Asset Management Business	Intersegment eliminations	Total
Amortization for the period	42	—	—	42
Balance at end of period	602	—	—	602

Information on Gain on Negative Goodwill by Reportable Segment

Year ended March 31, 2024

Not applicable

Year ended March 31, 2025

Not applicable

Information on Related Parties

Year ended March 31, 2024

Not applicable

Year ended March 31, 2025

Not applicable

Note 23 — Per Share Information

(Yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Net assets per share	3,510.66	3,534.16
Earnings per share	236.13	283.11

(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 169,000 shares in the fiscal year ended March 31, 2024 and 168,000 shares in the fiscal year ended March 31, 2025, 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 170,000 shares in the fiscal year ended March 31, 2024 and 168,000 shares in the fiscal year ended March 31, 2025.

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

	Year ended March 31, 2024	Year ended March 31, 2025
Profit attributable to owners of parent (millions of yen)	8,450	9,565
Amount not attributable to common shareholders (millions of yen)	—	—
Profit attributable to common shareholders of parent (millions of yen)	8,450	9,565
Average number of shares outstanding during the period (thousands of shares)	35,789	33,789

Note 24 — Significant Subsequent Events

Stock Split and Related Partial Amendment to the Articles of Incorporation

The Company has resolved to implement a stock split together with a related partial amendment to the Articles of Incorporation on May 16, 2025.

1. Purpose of the stock split

The purpose of the stock split is to lower the investment unit price of the Company's shares, thereby creating a more accessible investment environment for investors with a view to expanding the investor base.

2. Overview of the stock split

(1) Method of the stock split

The stock split was conducted at a ratio of 2-for-1, with the Company's common shares held by shareholders recorded in the shareholder register as of the record date, June 30, 2025.

(2) Number of shares increased as a result of the stock split

Total number of outstanding shares prior to the stock split	38,859,996
Number of shares issued as a result of the stock split	38,859,996
Total number of outstanding shares following the stock split	77,719,992
Total number of authorized shares following the stock split	220,000,000

(3) Schedule

Announcement of record date (scheduled)	June 13, 2025
Record date	June 30, 2025
Effective date	July 1, 2025

(4) Possible impact in per share information

Assuming that the stock split was executed at the beginning of the previous fiscal year, the per-share information is as follows.

(Yen)

	Year ended March 31, 2024	Year ended March 31, 2025
Net assets per share	1,755.33	1,767.08
Earnings per share	118.06	141.55

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

3. Related partial amendment to the Articles of Incorporation

(1) Reason for amendment

In line with this stock split, the total number of authorized shares set forth in Article 6 of the Company's Articles of Incorporation was amended as of July 1, 2025, in accordance with Article 184, Paragraph 2 of the Companies Act.

(2) Details

The details of the amendment are as follows:

(Changes have been underlined.)

Articles of Incorporation Prior to Amendment	Articles of Incorporation Following Amendment
(Total Number of Authorized Shares) Article 6: The total number of authorized shares of the Company shall be <u>110,000,000</u> shares.	(Total Number of Authorized Shares) Article 6: The total number of authorized shares of the Company shall be <u>220,000,000</u> shares.

(3) Schedule of the amendment

Effective date: July 1, 2025

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.	24th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 25, 2014	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	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	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	1,897 (165)	1,732 (1,732)	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	1,322 (115)	1,207 (1,207)	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	660 (55)	605 (605)	0.52% annually	Unsecured bond	March 31, 2026
Heiwa Real Estate Co., Ltd.	36th Unsecured Bond (limited to authorized institutional investors)	March 31, 2017	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	1,050 (75)	975 (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	1,125 (75)	1,050 (75)	0.76% annually	Unsecured bond	January 31, 2034
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	3,093 (165)	2,928 (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	2,365 (124)	2,241 (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	1,900 (100)	1,800 (100)	0.987% 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)	3,325 (175)	1.12% annually	Unsecured bond	March 17, 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
Total	—	—	31,489 (3,624)	27,864 (4,259)	—	—	—

(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, 2025

Within 1 year (millions of yen)	Within 1 to 2 years (millions of yen)	Within 2 to 3 years (millions of yen)	Within 3 to 4 years (millions of yen)	Within 4 to 5 years (millions of yen)
4,259	714	714	5,714	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	800	800	0.7	—
Current portion of long-term borrowings	16,681	18,695	0.8	—
Current portion of lease liabilities	—	—	—	—
Long-term borrowings (excluding current portion)	173,703	198,320	0.9	2026–2038
Lease liabilities (excluding current portion)	—	—	—	—
Other interest-bearing liabilities				
Current portion of long-term accounts payable	258	258	0.5	—
Long-term accounts payable (excluding current portion)	8,391	8,133	0.9	2026–2043
Total	199,834	226,208	—	—

(Notes) 1. The average interest rate is the weighted-average interest rate for the respective item in the table as of March 31, 2025.

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, 2025, are shown below.

	Within 1 to 2 years (millions of yen)	Within 2 to 3 years (millions of yen)	Within 3 to 4 years (millions of yen)	Within 4 to 5 years (millions of yen)
Long-term borrowings	28,920	30,954	22,467	19,878
Long-term accounts payable – other	373	515	543	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, 2024, and March 31, 2025, have been omitted because the amounts are less than one percent of total balance of liabilities and net assets as of April 1, 2024, and March 31, 2025.



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, 2025 and 2024, 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, 2025 and 2024, 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 real estate for the Building Business

The key audit matter	How the matter was addressed in our audit
<p>Property, plant and equipment of ¥282,350 million and leasehold interests in land and goodwill among intangible assets of ¥30,977 million 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 74.7% of total assets in the consolidated financial statements. These assets mainly include stock exchanges, offices and hotels in Japan and the real estate owned by the Company and its consolidated subsidiaries for several redevelopment projects in Nihonbashi Kabutocho and Kayabacho districts and Sapporo.</p> <p>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 changes in the scope or method of 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. With respect to the redevelopment projects, several assets are combined into a single asset group when the business plan is determined to be feasible.</p> <p>The Company's identification of an impairment indicator and judgment as to whether impairment losses should be recognized for real estate entail various risks due to the economic conditions or the real estate market, and therefore involve a high degree of uncertainty and dependency on management's subjective judgment.</p> <p>In particular, the business plan that serves as the basis for the Company's identification of an impairment indicator and judgment as to whether impairment losses should be recognized in relation to the redevelopment projects was prepared by management using various assumptions including the policy for developing blocks to be commercialized, prospective</p>	<p>The primary procedures we performed to assess the appropriateness of the Company's identification of an impairment indicator and judgment as to whether impairment losses should be recognized for real estate included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to identifying an impairment indicator and determining impairment losses to be recognized for real estate.</p> <p>(2) Assessment of the appropriateness of the Company's identification of an impairment indicator</p> <ul style="list-style-type: none"> ● 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 assess management's judgment on expected operating profits and losses and their decisions on changes in the scope or method of usage. ● With respect to the redevelopment projects, we evaluated the consistency between grouping units of assets and the latest business plans prepared by management, and assessed the appropriateness of continuation and review of the grouping. ● We conducted a site inspection to assess the occupancy status of the real estate owned by the Company and progress of the redevelopment plan. <p>(3) Assessment of the appropriateness of judgment as to whether impairment losses should be recognized</p> <ul style="list-style-type: none"> ● We assessed the reasonableness of management's estimates by comparing the estimated future cash flows with the actual results for the current fiscal year and examining the negotiation status with tenants. ● For redevelopment projects, we compared the development costs, the post-development rental rate and occupancy rate, on which the business plan was based, with similar cases

approval for developments and subsidy granted by local governments, development costs and expected rental rates, and thus management need to make a complex judgment. In addition, a review may be conducted on the project duration and construction costs due to an extended redevelopment period.

We, therefore, determined that our assessment of the appropriateness of the Company's identification of an impairment indicator and judgment as to whether impairment losses should be recognized for non-current assets was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose 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 46 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 17, 2025

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.