ANNUAL REPORT 2026

Year Ended March 31, 2026

HEIWA REAL ESTATE

Contents

Page

Part 1 Company Overview…… 3

1 History…… 3

2 Overview of Business Activities…… 5

3 Overview of Subsidiaries and Affiliates…… 6

4 Employee and Other Data…… 7

Part 2 Business Overview…… 9

1 Management Policies, Operating Environment, and Issues to Address…… 9

2 Management's Analysis of Financial Position, Operating Results, and Cash Flows…… 13

Part 3 Financial Reporting…… 19

1 Consolidated Financial Statements…… 19

Independent Auditor's Report

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”
October 2025	Opened the Caption by Hyatt Kabutocho Tokyo

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 7 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.

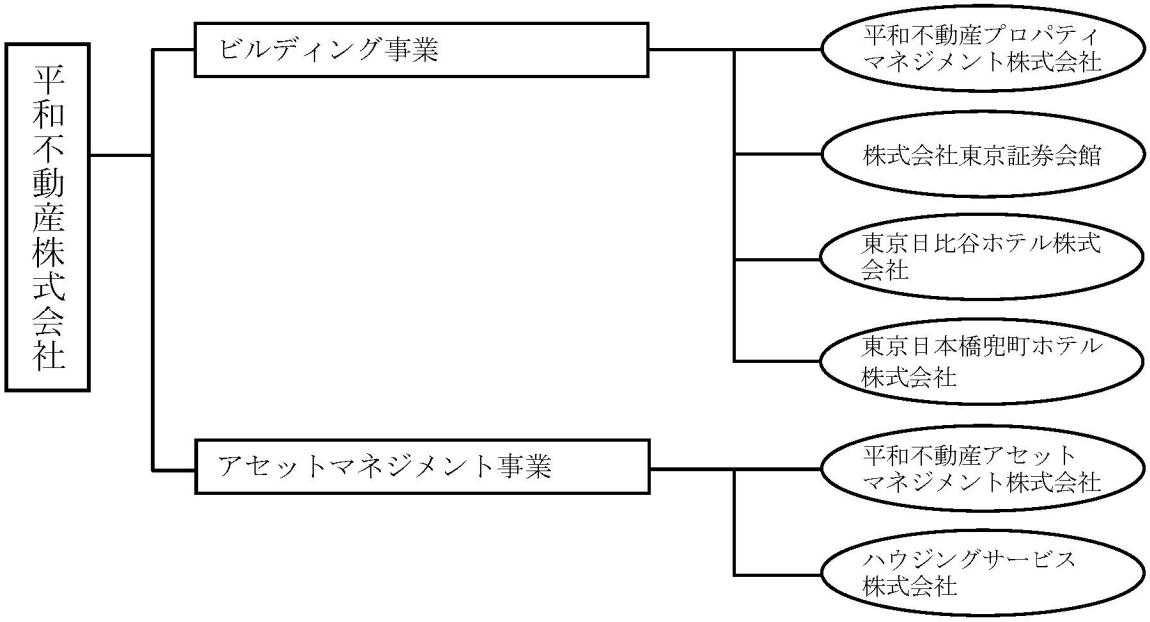
Heiwa Real Estate Property Management Co., Ltd., provides property management services.

(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 (Note 1)	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
One other consolidated subsidiary					
Other Affiliates					
Taisei Corporation (Note 2)	Shinjuku-ku, Tokyo	122,742	Construction Business, etc.	Being owned 20.31	Entered into a capital and business alliance agreement with the Company.

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

2. Taisei Corporation submits its annual securities report.

4. Employee and Other Data

(1)Employees of the Group

(As of March 31, 2026)

Segment	Number of employees
Building Business	143
Asset Management Business	90
Group-wide non-segment	32
Total	265

(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, 2026)

Number of employees	Average age of employees	Average years of employment	Average annual salary (thousands of yen)	Year-on-year change in average annual salary (%)
107	42.1	14.7	12,253	11.1

Segment	Number of employees
Building Business	75
Asset Management Business	―
Company-wide non-segment	32
Total	107

(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) Stock ownership plan for officers and employees exclusively for employees and other workers

The Company has established a stock ownership plan for officers and employees exclusively for employees and other workers.

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

Reported by the Company

Fiscal 2025	
Percentage of female employees holding management positions (Note 1)	Percentage of male employees who have taken childcare leave (Note 2)
16.7%	50.0%

(Notes) 1. The percentage of female employees holding management positions was calculated as of March 31, 2026, 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 calculated 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 to 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 2025, 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, 2026.

Management Policies, Operating Environment, and Issues to Address

The moderate recovery in Japanese economy is expected to be supported by improved employment and income conditions as well as various economic measures implemented by the government. Nevertheless, developments such as the situation in the Middle East, fluctuations in financial and capital markets, and the trends in U.S. trade policies will need to be closely monitored going forward.

In the Heiwa Real Estate Group's operating environment, 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 has set forth the Heiwa Real Estate Group Purpose, "Enriching everyone's future with *Bazukuri* that draws people in." In line with the Heiwa Real Estate Group Long-term Vision, "WAY 2040," the Heiwa Real Estate Group has been implementing the medium-term management plan, "WAY 2040 Stage 1." 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.

To realize the Heiwa Real Estate Group Long-term Vision, "WAY 2040," the Company entered into a capital and business alliance agreement with TAISEI CORPORATION and established a tripartite cooperative relationship for the alliance among TAISEI CORPORATION, Mitsubishi Estate Co., Ltd., and the Company. Through this alliance with TAISEI CORPORATION, the Group will aim to establish a medium- to long-term collaborative relationship and work to enhance corporate value for both companies. This will be achieved by further leveraging their respective strengths in business foundations, expertise, and other domains to (1) expand and accelerate redevelopment business, (2) collaborate on new business areas such as investments in new real estate (asset classes), and (3) promote business alliances in the fields of sustainability and DX.

Medium-Term Management Plan: Background to Formulation and Positioning

In the medium-term management plan, WAY 2040 Stage 1 (Fiscal 2024–Fiscal 2026), 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 our largest-ever redevelopment projects — the SAPPORO ONE Project (the Odori-nishi 4 South, Type 1 District Redevelopment Project, which is scheduled to be completed in fiscal 2029) and the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project, which is scheduled to be completed in fiscal 2028 (provisional names) — as part of our *Bazukuri* endeavors in Sapporo that people draw in. Through this, we aim to help boost the competitiveness of the city.

3) Expand redevelopment projects nationwide

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

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

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

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

2) Expand revenue in the Asset Management Business

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

3) Venture into new business domains to realize our vision

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

(3) Boost social value: Promote sustainability initiatives

1) Implement sustainability management

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

2) Promote the creation of sustainable districts

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

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

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

We set a return on equity (ROE) target for fiscal 2025 to fiscal 2026 of at least 8%, exceeding the cost of shareholders' equity. For shareholder returns from fiscal 2024 to fiscal 2026, we aim to maintain a consolidated dividend payout ratio of 50% in consideration of the cost of shareholders' equity, capital efficiency, and other factors. We will also flexibly implement share buybacks, taking into account aspects such as stock price, investment plans, and financial condition.

2) Maximize human capital

As part of our Long-term Vision, we will promote human capital management to drive dynamic growth. This involves cultivating human resources capable of realizing our Purpose through career development, as well as individuals proficient in digital 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	¥160 or more (Note 3) (fiscal 2026) Fiscal 2026 forecast: ¥174 (Note 3) (fiscal 2026)
		Consolidated operating profit	¥15 billion or more (Note 1) (fiscal 2026) Fiscal 2026 forecast: ¥15.8 billion (Note 1) (fiscal 2026)
	Capital efficiency	ROE	8% or more (from fiscal 2025 to fiscal 2026)
	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 results: ¥98 (Ordinary dividend: ¥83, Special dividend: ¥15) Fiscal 2026 forecast: ¥103 (Ordinary dividend: ¥88, 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 (intensity target)
		Waste generation	Reduce in each application year on year (intensity target)
	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

Medium-term management plan:

Building Business: ¥14.8 billion

Asset Management Business: ¥2.7 billion

Corporate and elimination: ¥(2.5) billion

Fiscal 2026 forecast:
Building Business: ¥15.3 billion
Asset Management Business: ¥2.9 billion
Corporate and elimination: ¥(2.4) billion

2. Reference indicator (financial soundness): Net debt-to-equity (D/E) ratio of approximately 2.0
3. The Company conducted a 2-for-1 stock split of its common shares on July 1, 2025.

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 2025 is presented as follows.

1) Financial position and operating results

In the fiscal year ended March 31, 2026, the Japanese economy continued to recover moderately, although the impact of U.S. trade policies persisted. At the same time, developments such as the situation in the Middle East, fluctuations in financial and capital markets, and trends in U.S. trade policies need to be closely monitored.

In the real estate industry, strong demand for expansion in the office building leasing market for purposes such as business expansion, talent acquisition, workplace improvement, and operational efficiency was observed, resulting in an increase in average rents. In the real estate investment market, despite the Bank of Japan's policy rate hike, active investment by both domestic and overseas investors continued due to strong investor appetite supported by factors such as rising rents.

Under this operating environment, the Company's consolidated financial results were as follows: Net sales totaled ¥50,855 million (a year-on-year increase of 20.9%). Operating profit was ¥15,109 million (a year-on-year increase of 14.5%), while ordinary profit was ¥12,980 million (a year-on-year increase of 11.4%). Profit attributable to owners of parent amounted to ¥11,032 million (a year-on-year increase of 15.3%).

Consolidated financial results by business segment are as follows.

(Millions of yen)

Segment	Fiscal 2024		Fiscal 2025		Difference	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
Building Business	37,997	13,010	46,236	14,657	8,239	1,646
Asset Management Business	4,078	2,355	4,619	2,737	540	381
Adjustments	—	(2,169)	—	(2,284)	—	(114)
Total	42,075	13,196	50,855	15,109	8,779	1,913

Net sales from major tenants and their percentage of net sales in fiscal 2024 and 2025 are as follows.

Tenant	Fiscal 2024		Fiscal 2025	
	Net sales (millions of yen)	Percentage of net sales	Net sales (millions of yen)	Percentage of net sales
HEIWA REAL ESTATE REIT, Inc.	8,727	20.7	15,909	31.3

(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 was ¥28,932 million (a year-on-year increase of 5.1%), primarily due to revenue contributions from Caption by Hyatt Kabutocho Tokyo (in Chuo-ku, Tokyo), which opened in the current fiscal year, and Mercure Tokyo Hibiya (in Chiyoda-ku, Tokyo), as well as to an increase in leasing revenue owing to rent revisions. Revenue from sales of properties amounted to ¥15,675 million (a year-on-year increase of 74.8%), reflecting a year-on-year increase in proceeds from the sales of properties designated as real estate for sale. These results, combined with other net sales in this segment, brought total net sales to ¥46,236 million (a year-on-year increase of 21.7%). Segment operating profit was ¥14,657 million (a year-on-year increase of 12.7%).

Breakdown of net sales (Millions of yen)

Classification	Fiscal 2024		Fiscal 2025	
	Area (m^2)	Amount	Area (m^2)	Amount
Leasing revenue	Leased land area 3,335.24 Leased floor space 353,508.53	27,517	Leased land area 3,313.02 Leased floor space 358,396.64	28,932
Revenue from sales of properties	—	8,965	—	15,675
Other	—	1,514	—	1,628
Total	—	37,997	—	46,236

(ii) Asset Management Business

In the Asset Management Business segment, asset management revenue was ¥3,152 million (a year-on-year increase of 13.3%), and brokerage commissions amounted to ¥1,466 million (a year-on-year increase of 13.1%). As a result, segment net sales came to ¥4,619 million (a year-on-year increase of 13.3%). Segment operating profit totaled ¥2,737 million (a year-on-year increase of 16.2%).

Breakdown of net sales (Millions of yen)

Classification	Fiscal 2024	Fiscal 2025	Difference
Asset management revenue	2,781	3,152	370
Brokerage commissions	1,296	1,466	169
Total	4,078	4,619	540

2) Cash flows

As of March 31, 2026, consolidated cash and cash equivalents amounted to ¥24,425 million, down ¥815 million compared with March 31, 2025.

Fiscal 2025 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 ¥14,852 million, compared with ¥16,048 million in the previous fiscal year. Main inflows included profit before income taxes of ¥15,898 million, while main outflows included an increase in inventories of ¥1,115 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥26,470 million, compared with ¥24,839 million in the previous fiscal year. Main outflows included ¥20,777 million for the purchase of property, plant and equipment, and ¥7,000 million in payments for acquisition of investment securities.

Cash flows from financing activities

Net cash provided by financing activities came to ¥10,802 million, compared with ¥7,716 million in the previous fiscal year. Main outflows included ¥19,053 million for repayments of long-term borrowings, ¥6,050 million for dividends paid, and ¥4,259 million for redemption of bonds, while main inflows included ¥38,971 million in proceeds from long-term borrowings.

(Reference) Results for cash flow-related indicators

Indicator	As of March 31, 2022	As of March 31, 2023	As of March 31, 2024	As of March 31, 2025	As of March 31, 2026
Equity ratio	31.7%	30.0%	30.9%	28.1%	28.1%
Market cap-to-assets ratio	38.4%	34.0%	36.0%	37.4%	35.3%
Debt repayment period (years)	6.0	9.5	11.8	15.8	18.4
Interest coverage ratio (times)	24.2	16.2	11.8	8.5	5.9
Net D/E ratio	1.5	1.7	1.6	1.9	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, long-term non-recourse loans payable, and long-term accounts payable–other, as stated in the consolidated balance sheets. Interest expenses used for the calculations are recorded in the consolidated statements of income.
3. Net cash provided by operating activities used for the calculations is 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, 2026.

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

The Group has set forth the Heiwa Real Estate Group Purpose, "Enriching everyone's future with *Bazukuri* that draws people in." In line with the Heiwa Real Estate Group Long-term Vision, "WAY 2040," the Heiwa Real Estate Group has been implementing the medium-term management plan, "WAY 2040 Stage 1." 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 2025, we focused on external growth by advancing the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project (Sapporo City, Hokkaido) and the SAPPORO ONE Project (Odori-nishi 4 South, Type 1 District Redevelopment Project) (Sapporo City, Hokkaido), generating hotel revenue from Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), which opened in the current fiscal year, and "Mercure Tokyo Hibiya" (Chiyoda-ku, Tokyo), and achieving internal growth through rent revisions. Among consolidated financial results, operating profit increased by ¥1,913 million to ¥15,109 million. Profit attributable to owners of parent increased by ¥1,466 million to ¥11,032 million, mainly reflecting the recording of a gain on sale of investment securities following a reduction of cross-shareholdings.

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

Total assets, total liabilities, and net assets as of March 31, 2025, and March 31, 2026, were as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026	Difference
Total assets	419,541	451,838	32,297
Total liabilities	301,541	325,075	23,533
Net assets	117,999	126,763	8,764
Interest-bearing liabilities	254,072	272,683	18,610

(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, long-term non-recourse loans payable, and long-term accounts payable–other.

Total assets

As of March 31, 2026, total assets amounted to ¥451,838 million, an increase of ¥32,297 million compared with March 31, 2025. This increase was mainly attributable to increases of ¥6,750 million in buildings and structures and ¥2,358 million in construction in progress, primarily due to the payment of a participation fee for the Sapporo redevelopment project and construction cost outlays for Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo), as well as increases of ¥8,614 million in investment securities and ¥5,186 million in securities, mainly reflecting higher market values.

In the consolidated balance sheets, the combined balance of leased property and real estate that includes the portion used as lease property was ¥286,607 million as of March 31, 2026, a decrease of ¥24,709 million compared with April 1, 2025. As of March 31, 2026, the market value of the Company's holdings was ¥423,118 million, a decrease of ¥16,683 million from April 1, 2025.

Total liabilities

As of March 31, 2026, total liabilities amounted to ¥325,075 million, an increase of ¥23,533 million compared with March 31, 2025. Among the main factors underlying this result, interest-bearing liabilities rose by ¥18,610 million.

As of March 31, 2026, the balance of interest-bearing liabilities was ¥272,683 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, 2026, net assets stood at ¥126,763 million, an increase of ¥8,764 million compared with March 31, 2025. This mainly reflected an increase in valuation difference on available-for-sale securities of ¥5,260 million.

In the fiscal year ended March 31, 2026, in addition to flexibly implementing share buybacks totaling ¥999 million, the Company cancelled 6.7 million treasury shares. Additionally, 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, 2026, Building Business segment assets amounted to ¥376,177 million, an increase of ¥18,128 million compared with March 31, 2025. This mainly reflected payment of participation fees for the Sapporo redevelopment project and construction cost outlays for Caption by Hyatt Kabutocho Tokyo (Chuo-ku, Tokyo). Asset Management Business segment assets totaled ¥28,026 million, an increase of ¥4,845 million compared with March 31, 2025. This was largely due to an increase 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, 2025	As of March 31, 2026	Difference
Building Business	358,049	376,177	18,128
Asset Management Business	23,181	28,026	4,845
Adjustments	38,310	47,634	9,324
Amount in consolidated financial statements	419,541	451,838	32,297

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 2025 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, 2026, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥272,683 million; net interest-bearing liabilities, which exclude securities and cash and deposits from interest-bearing liabilities, amounted to ¥241,567 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 dividend payout 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 ¥6,551 million for fiscal 2025, which included a special dividend of ¥1,000 million. As a result, the consolidated dividend payout ratio stood at 59.2%.

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 2024			Fiscal 2025		
	Net sales	Segment profit (loss)	Depreciation	Net sales	Segment profit (loss)	Depreciation
Leasing revenue	27,517	8,664	5,551	28,932	8,884	5,735
Revenue from sales of properties	8,965	4,519	—	15,675	5,967	—
Other	1,514	(173)	4	1,628	(193)	5
Total	37,997	13,010	5,556	46,236	14,657	5,740

(Note) Leasing revenue includes sales and expenses associated with restaurant operations. In fiscal 2024, these operations contributed ¥558 million to net sales, increased segment profit by ¥9 million, and accounted for ¥29 million in depreciation. In fiscal 2025, they contributed ¥589 million to net sales, increased segment profit by ¥27 million, and accounted for ¥25 million in depreciation.

2. Asset Management Business

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

Classification	Fiscal 2024			Fiscal 2025		
	Net sales	Segment profit	Depreciation	Net sales	Segment profit	Depreciation
Asset management revenue	2,781	2,038	13	3,152	2,344	13
Brokerage commissions	1,296	316	2	1,466	392	2
Total	4,078	2,355	16	4,619	2,737	16

Part 3 Financial Reporting

Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Assets		
Current assets		
Cash and deposits (Notes 10 and 12)	19,343	19,931
Trade accounts receivable (Notes 6, 12, and 20)	2,291	2,114
Securities (Notes 10, 12, and 13)	5,997	11,183
Real estate for sale (Note 6)	29,821	55,822
Real estate for sale in process (Note 6)	32	245
Operating investments in capital (Notes 12 and 13)	1,173	2,299
Other	1,376	1,776
Allowance for doubtful accounts	(0)	(0)
Total current assets	60,036	93,373
Non-current assets		
Property, plant and equipment		
Buildings and structures (Note 6)	172,277	181,899
Accumulated depreciation	(92,957)	(95,829)
Buildings and structures, net (Note 6)	79,319	86,069
Machinery, equipment and vehicles	2,063	2,104
Accumulated depreciation	(1,691)	(1,661)
Machinery, equipment and vehicles, net (Note 6)	371	443
Tools, furniture and fixtures	2,851	3,617
Accumulated depreciation	(2,047)	(2,330)
Tools, furniture and fixtures, net (Note 6)	804	1,287
Land (Note 6)	170,597	150,627
Construction in progress	31,257	33,616
Total property, plant and equipment	282,350	272,043
Intangible assets		
Leasehold interests in land (Note 6)	30,374	30,374
Goodwill (Notes 10 and 21)	602	560
Other	187	179
Total intangible assets	31,164	31,113
Investments and other assets		
Investment securities (Notes 6, 12, and 13)	37,027	45,641
Deferred tax assets (Note 17)	243	228
Other	8,391	9,155
Total investments and other assets	45,662	55,026
Total non-current assets	359,177	358,184
Deferred assets		
Bond issuance costs	326	280
Total deferred assets	326	280
Total assets	419,541	451,838

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Liabilities		
Current liabilities		
Trade accounts payable (Note 12)	1,698	1,871
Current portion of bonds payable (Notes 12 and 24)	4,259	714
Short-term borrowings (Notes 12 and 24)	800	800
Current portion of long-term borrowings (Notes 12 and 24)	18,695	30,269
Income taxes payable (Note 17)	2,560	2,644
Accrued consumption taxes	123	104
Provision for bonuses for directors (and other officers)	126	148
Provision for bonuses	301	353
Asset retirement obligations (Note 18)	—	11
Other (Notes 6, 20, and 24)	3,841	5,054
Total current liabilities	32,407	41,972
Non-current liabilities		
Bonds payable (Notes 12 and 24)	23,605	22,890
Long-term borrowings (Notes 12, 14, and 24)	198,320	206,665
Long-term non-recourse loans payable (Notes 12 and 24)	—	3,210
Long-term accounts payable – other (Notes 12 and 24)	8,133	7,760
Leasehold and guarantee deposits received (Note 12)	23,206	23,952
Deferred tax liabilities (Note 17)	7,368	9,952
Deferred tax liabilities for land revaluation (Note 6)	7,333	7,368
Provision for share awards	310	441
Retirement benefit liability (Note 15)	180	190
Asset retirement obligations (Note 18)	675	671
Total non-current liabilities	269,134	283,103
Total liabilities	301,541	325,075
Net assets		
Shareholders' equity		
Share capital	21,492	21,492
Capital surplus	19,720	19,720
Retained earnings	64,580	57,720
Treasury shares	(19,043)	(9,016)
Total shareholders' equity	86,749	89,916
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,265	20,526
Deferred gains or losses on hedges	54	311
Revaluation reserve for land (Note 6)	15,928	16,008
Total accumulated other comprehensive income	31,249	36,846
Total net assets	117,999	126,763
Total liabilities and net assets	419,541	451,838

2. Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Net sales (Notes 7, 20, and 21)	42,075	50,855
Cost of sales	23,028	29,536
Gross profit	19,046	21,319
Selling, general and administrative expenses		
Salaries and allowances	1,618	1,758
Provision for bonuses for directors (and other officers)	126	150
Provision for bonuses	202	231
Provision for share awards	100	180
Retirement benefit expenses	103	69
Commission expenses	915	996
Other	2,783	2,822
Total selling, general and administrative expenses	5,850	6,209
Operating profit (Note 21)	13,196	15,109
Non-operating income		
Interest income	18	79
Dividend income	529	636
Miscellaneous income	26	26
Total non-operating income	575	742
Non-operating expenses		
Interest expenses	1,891	2,510
Amortization of bond issuance costs	52	44
Miscellaneous losses	176	316
Total non-operating expenses	2,120	2,872
Ordinary profit	11,651	12,980
Extraordinary income		
Gain on sale of non-current assets (Notes 7 and 19)	—	40
Gain on sale of investment securities	799	2,690
Subsidy income	—	85
Compensation income (Note 7)	—	73
Tax refund (Notes 7 and 19)	—	359
Total extraordinary income	799	3,248
Extraordinary losses		
Loss on retirement of non-current assets (Note 8)	16	5
Loss on tax purpose reduction entry of non-current assets	—	145
Tax refund expenses (Note 7)	—	179
Total extraordinary losses	16	330
Profit before income taxes	12,434	15,898
Income taxes – current	4,361	4,771
Income taxes – deferred	(1,493)	94
Total income taxes (Note 17)	2,868	4,865
Profit	9,565	11,032
Profit attributable to owners of parent	9,565	11,032

3. Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Profit	9,565	11,032
Other comprehensive income (Note 8)		
Valuation difference on available-for-sale securities	(2,073)	5,260
Deferred gains or losses on hedges	60	257
Revaluation reserve for land	(147)	0
Total other comprehensive income	(2,160)	5,518
Comprehensive income (Note 8)	7,405	16,551
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,405	16,551

4. Consolidated Statements of Changes in Equity

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
Cancellation of treasury shares		—		—	—
Transfer from retained earnings to capital surplus		—	—	—	—
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
Cancellation of treasury shares					—
Transfer from retained earnings to capital surplus					—
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

Year ended March 31, 2026

(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	64,580	(19,043)	86,749
Changes during period					
Dividends of surplus			(6,073)		(6,073)
Profit attributable to owners of parent			11,032		11,032
Purchase of treasury shares				(1,757)	(1,757)
Disposal of treasury shares		0		44	44
Cancellation of treasury shares		(11,740)		11,740	—
Transfer from retained earnings to capital surplus		11,740	(11,740)		—
Reversal of revaluation reserve for land			(78)		(78)
Net changes in items other than shareholders' equity					
Total changes during period	—	(0)	(6,859)	10,027	3,167
Balance at end of period	21,492	19,720	57,720	(9,016)	89,916

	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	15,265	54	15,928	31,249	117,999
Changes during period					
Dividends of surplus					(6,073)
Profit attributable to owners of parent					11,032
Purchase of treasury shares					(1,757)
Disposal of treasury shares					44
Cancellation of treasury shares					—
Transfer from retained earnings to capital surplus					—
Reversal of revaluation reserve for land					(78)
Net changes in items other than shareholders' equity	5,260	257	79	5,596	5,596
Total changes during period	5,260	257	79	5,596	8,764
Balance at end of period	20,526	311	16,008	36,846	126,763

5. Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Cash flows from operating activities		
Profit before income taxes	12,434	15,898
Depreciation	5,636	5,825
Loss on retirement of non-current assets	16	5
Amortization of goodwill	42	42
Increase (decrease) in allowance for doubtful accounts	0	0
Increase (decrease) in provision for bonuses	29	52
Increase (decrease) in retirement benefit liability	54	9
Interest and dividend income	(548)	(715)
Interest expenses	1,891	2,510
Amortization of bond issuance costs	52	44
Loss (gain) on sale of investment securities	(799)	(2,690)
Loss (gain) on sale of non-current assets	—	(40)
Decrease (increase) in trade receivables	(176)	177
Decrease (increase) in inventories	3,584	(1,115)
Decrease (increase) in operating investments in capital	(621)	(1,125)
Decrease (increase) in prepaid expenses	20	(7)
Decrease (increase) in accounts receivable – other	(1,020)	(410)
Increase (decrease) in trade payables	(105)	481
Increase (decrease) in advances received	1,394	1,050
Increase (decrease) in accrued consumption taxes	(1,615)	(19)
Increase (decrease) in deposits received	117	27
Increase (decrease) in leasehold and guarantee deposits received	(909)	683
Other, net	1,355	646
Subtotal	20,832	21,330
Interest and dividends received	548	712
Interest paid	(1,864)	(2,486)
Income taxes paid	(3,467)	(4,703)
Net cash provided by (used in) operating activities	16,048	14,852

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Cash flows from investing activities		
Decrease (increase) in time deposits	—	(1,400)
Purchase of securities	—	(7,000)
Proceeds from sale and redemption of securities	2,005	2,000
Purchase of investment securities	(1,908)	(2,207)
Proceeds from sale and redemption of investment securities	1,039	3,756
Purchase of property, plant and equipment	(23,717)	(20,777)
Proceeds from sale of property, plant and equipment	—	46
Purchase of intangible assets	(900)	(65)
Purchase of long-term prepaid expenses	(1,408)	(417)
Payments of guarantee deposits	(248)	(632)
Proceeds from refund of guarantee deposits	288	222
Other, net	10	5
Net cash provided by (used in) investing activities	(24,839)	(26,470)
Cash flows from financing activities		
Proceeds from long-term borrowings	43,639	38,971
Repayments of long-term borrowings	(17,008)	(19,053)
Proceeds from long-term non-recourse loans payable	—	3,210
Redemption of bonds	(3,624)	(4,259)
Repayments of long-term accounts payable	(258)	(258)
Purchase of treasury shares	(9,058)	(1,756)
Dividends paid	(5,974)	(6,050)
Other, net	(0)	(1)
Net cash provided by (used in) financing activities	7,716	10,802
Effect of exchange rate change on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	(1,074)	(815)
Cash and cash equivalents at beginning of period	26,316	25,241
Cash and cash equivalents at end of period	25,241	24,425

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: 7

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.
CANVASS1 LLC

CANVASS1 LLC was included in the scope of consolidation as a result of the investment made by the Company in the fiscal year ended March 31, 2026.

(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, affiliates and other entities not accounted for using the equity method

The Company has no major non-consolidated subsidiaries and affiliates 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 a consolidated subsidiary CANVASS1 LLC ends on the last day of January, while the accounting year of consolidated subsidiaries Tokyo Hibiya Hotel Corporation and Tokyo Nihonbashi Kabutocho Hotel Co., Ltd. ends on the last day of February.

These closing dates are used for the preparation of the consolidated financial statements; however, if any significant transactions occur between these closing dates and the end of the consolidated fiscal year on March 31, adjustments for the consolidated financial statements will be made 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 and the declining-balance 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 (5 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 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, 2026 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, 2026 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

Management fees included in asset management revenue

The Company generates management fees included in asset management revenue 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 cumulative changes in cash flows of the hedged items and those of the hedging instruments, based on the ratio of such changes.

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, 2026.

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, 2026.

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Property, plant and equipment	282,350	272,043
Leasehold interests in land and goodwill among intangible assets	30,977	30,934

(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, 2026

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 deterioration 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, construction cost outlays, and other factors.

In addition, for its real estate redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho district), 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, 2026; however, if those assumptions change due to changes in redevelopment projects or market conditions, the Group’s performance could be affected, including the recognition of impairment losses.

2. Valuation of real estate for sale

(1) Amounts recorded in the consolidated financial statements for the fiscal year ended March 31, 2026

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Real estate for sale	29,821	55,822
Real estate for sale in process	32	245

(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, 2026

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 expected yields, and the impact of falling demand in the future, among other factors.

As of March 31, 2026, the Group had estimated the expected sales prices of its residential buildings based on its rental rates and expected yields, and assumed no major fluctuations in rental rates and expected 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, 2026, 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, including the recognition of a loss on revaluation of inventories.

Note 4 － Accounting Standards Not Yet Adopted

(Accounting Standard for Lease Transactions and related pronouncements)

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

(Accounting Standard for Subsequent Events and related pronouncements)

- Accounting Standard for Subsequent Events (ASBJ Statement No. 41) issued on January 9, 2026
- Implementation Guidance on Accounting Standard for Subsequent Events (ASBJ Guidance No. 35) issued on January 9, 2026

(1) Overview

The Accounting Standard for Subsequent Events and related pronouncements have been developed as a prioritized initiative to establish a comprehensive accounting standard addressing the definition, accounting treatment, and disclosure of subsequent events. As a basic policy, the accounting guidance set out in Practical Guideline No. 1 "Audit Considerations Relating to Subsequent Events" of the Auditing Standards Committee Statement No. 560 issued by the Japanese Institute of Certified Public Accountants has, in principle, been retained and transferred to the Accounting Standards Board of Japan. The accounting standard and related pronouncements set out the accounting treatment and disclosure requirements for subsequent events, including revisions to wording, clarifications regarding the evaluation period of subsequent events, and a new requirement to include a note on the approval of the publication of financial statements.

(2) Scheduled date of application

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

Note 5 － Additional Information

Performance-based stock compensation plan for directors and executive officers

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

(1) Overview of the ownership plan

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

(2) Company stock held in the trust

Company stock held in the trust is calculated based on the book value of the stock (excluding incidental expenses) and is included in treasury shares under net assets. The book value of the applicable treasury shares amounted to ¥304 million as of March 31, 2025, and ¥1,010 million as of March 31, 2026, and the amount of treasury shares totaled 98,700 shares as of March 31, 2025, and 494,200 shares as of March 31, 2026.

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 ¥291 million as of March 31, 2025, and ¥290 million as of March 31, 2026, and the amount of treasury shares totaled 69,300 shares as of March 31, 2025, and 138,200 shares as of March 31, 2026.

Note 6 － Consolidated Balance Sheets

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Receivables from contracts with customers (Note 1)	539	532
Contract assets (Note 1)	519	561
Contract liabilities (Note 2)	192	200

(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, 2025		As of March 31, 2026	
Housing loans for employees of Heiwa Real Estate Co., Ltd.	69	Housing loans for employees of Heiwa Real Estate Co., Ltd.	63

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, 2025, and March 31, 2026, the difference between the amounts has not been stated.

4. Investment securities in non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Investment securities	－	240

5. Assets included under investment securities are as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Investment units of HEIWA REAL ESTATE REIT, Inc.	19,984 (157,979 units)	23,630 (165,479 units)

6. 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, 2025	As of March 31, 2026
Real estate for sale	10	52
Buildings and structures	243	334
Machinery, equipment and vehicles	—	1
Total	253	388

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Transferred from non-current assets to real estate for sale	12,233	25,116
Transferred from real estate for sale to non-current assets	—	16

8. Assets corresponding to non-recourse liabilities are as follows:

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Real estate for sale	—	4,723

Note 7 － Consolidated Statements of Income

1. Revenue from contracts with customers

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

(Millions of yen)

Year ended March 31, 2025	Year ended March 31, 2026
17,649	25,990

2. Details of gain on sale of non-current assets are as follows:

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Buildings, structures and other assets	－	19
Land	－	20
Total	－	40

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

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Buildings and structures	14	4
Other	2	0
Total	16	5

4. Compensation income

Compensation income represents compensation received for damage to equipment.

5. Tax refund

Tax refund represents the refund of property taxes paid in prior fiscal years.

6. Tax refund expenses

Tax refund expenses represent expenses incurred in connection with the refund of property taxes paid in prior fiscal years.

Note 8 － Consolidated Statements of Comprehensive Income

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

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Valuation difference on available-for-sale securities:		
Amount incurred for the fiscal year	(1,898)	10,377
Reclassification adjustment	(800)	(2,695)
Before income taxes and tax effect adjustment	(2,698)	7,682
Income taxes and tax benefit (expense)	625	(2,421)
Valuation difference on available-for-sale securities	(2,073)	5,260
Deferred gains or losses on hedges:		
Amount incurred for the fiscal year	88	375
Before income taxes and tax effect adjustment	88	375
Income taxes and tax benefit (expense)	(27)	(118)
Deferred gains or losses on hedges	60	257
Revaluation reserve for land:		
Income taxes and tax benefit (expense)	(147)	0
Total other comprehensive income	(2,160)	5,518

Note 9 － Consolidated Statements of Changes in Equity

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 ended 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.

Year ended March 31, 2026

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 (Notes 1, 2, and 3)	38,859,996	38,859,996	6,700,000	71,019,992
Total	38,859,996	38,859,996	6,700,000	71,019,992
Treasury shares				
Common shares (Notes 1, 4, 5, and 6)	5,471,774	6,202,318	6,724,358	4,949,734
Total	5,471,774	6,202,318	6,724,358	4,949,734

(Notes)
1. The Company conducted a 2-for-1 stock split for the Company's common shares on July 1, 2025.
2. The increase of 38,859,996 common shares of shares issued represents an increase of 38,859,996 shares due to the stock split.
3. The decrease of 6,700,000 common shares of shares issued represents a decrease of 6,700,000 shares (after the stock split) due to the cancellation of treasury shares.
4. The increase of 6,202,318 common shares of treasury shares composed of 5,468,144 shares, which is an increase as a result of the stock split, 406,300 shares (after the stock split) acquired by the Company pursuant to a resolution of the Board of Directors, 325,000 shares (after the stock split) acquired through the trust for the Company's stock compensation plan for directors and executive officers, and 2,874 odd-lot shares (674 odd-lot shares before the stock split and 2,200 odd-lot shares after the stock split) acquired.
5. The decrease of 6,724,358 common shares of treasury shares composed of 6,700,000 shares (after the stock split) of the cancellation of treasury shares, 19,800 shares (after the stock split) provided to and 4,200 shares (before the stock split) sold by the trust for the Company's stock compensation plan for directors and executive officers, 100 shares (after the stock split) provided to and 200 shares (100 shares before the stock split and 100 shares after the stock split) sold by the trust for the Company's stock compensation plan for employees, and 58 odd-lot shares (4 odd-lot shares before the stock split and 54 odd-lot shares after the stock split)sold.
6. The total number of common shares of treasury shares as of March 31, 2026, included 632,400 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 16, 2025	Common shares	3,657	109.0	March 31, 2025	June 2, 2025
Meeting of Board of Directors held on October 31, 2025	Common shares	2,415	36.0	September 30, 2025	December 1, 2025

(Notes) 1. The Company conducted a 2-for-1 stock split for the Company's common shares on July 1, 2025. The dividend per share amount approved at the Board of Directors' meeting held on May 16, 2025 shows the amount before the stock split.

2. The total amount of dividends approved at the Board of Directors' meeting held on May 16, 2025, 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.

3. The dividend per share amount approved at the Board of Directors' meeting held on May 16, 2025, included a special dividend of ¥30 per share.

4. The total amount of dividends approved at the Board of Directors' meeting held on October 31, 2025, included ¥11 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 on the fiscal year ended March 31, 2026, and an effective date falling on the fiscal year ending March 31, 2027

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 to be held on May 15, 2026	Common shares	4,135	Retained earnings	62.0	March 31, 2026	June 3, 2026

(Notes) 1. The total amount of dividends included ¥39 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 included a special dividend of ¥15 per share.

Note 10 － Consolidated Statements of Cash Flows

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

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Cash and deposits	19,343	19,931
Securities	5,997	11,183
Time deposits with terms of more than 3 months	(100)	(1,500)
Bonds with redemption periods of more than 3 months	－	(5,190)
Cash and cash equivalents	25,241	24,425

Note 11 － Lease Transactions

1. Finance lease transactions

(As lessee)

Finance lease transactions not involving transfer of ownership

Not applicable

2. Operating lease transactions

(As lessor)

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Due within 1 year	5,729	5,492
Due after 1 year	10,686	7,777
Total	16,416	13,269

Note 12 － Financial Instruments

1. Items related to financial instruments

(1) Measures and policies concerning financial instruments

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

(2) Details of financial instruments and related risks

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

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 20 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 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, 2025

	Amount on the consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) 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 non-recourse loans payable	—	—	—
(4) Long-term accounts payable – other	8,391	7,812	(579)
(5) 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) 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.

As of March 31, 2026

	Amount on the consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Securities and investment securities	56,171	56,179	7
Total assets	56,171	56,179	7
(1) Bonds payable	23,605	21,888	(1,716)
(2) Long-term borrowings	236,934	228,481	(8,452)
(3) Long-term non-recourse loans payable	3,210	3,210	—
(4) Long-term accounts payable – other	8,133	7,207	(926)
(5) Leasehold and guarantee deposits received	23,952	23,066	(885)
Total liabilities	295,835	283,854	(11,981)
Derivatives (Note 4)	455	455	—

(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) 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, 2026
Stocks without quoted market prices	368

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 ¥2,584 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 securities with maturity dates expected to be redeemed after the balance sheet date

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	—	—	—
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	—	—

As of March 31, 2026

	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	19,931	—	—	—
Trade accounts receivable	2,114	—	—	—
Securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	—	—	—	—
(2) Bonds payable	190	100	—	—
(3) Other	11,000	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	—	—	—	—
Total	33,236	100	—	—

(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, 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 non-recourse loans payable	—	—	—	—	—	—
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

As of March 31, 2026

	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	714	714	5,714	714	8,914	6,832
Long-term borrowings	30,269	32,302	23,849	21,497	31,074	97,940
Long-term non-recourse loans payable	—	—	—	—	3,210	—
Long-term accounts payable – other	373	515	543	543	543	5,615
Total	32,156	33,533	30,106	22,755	43,742	110,388

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, 2025

Classification	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
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

As of March 31, 2026

Classification	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Stocks	19,908	—	—	19,908
Investment trusts	24,979	—	—	24,979
Derivatives				
Interest rate-related derivatives	—	455	—	455
Total assets	44,887	455	—	45,342

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

As of March 31, 2025

Classification	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
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 non-recourse loans payable	—	—	—	—
Long-term accounts payable – other	—	7,812	—	7,812
Leasehold and guarantee deposits received	—	22,543	—	22,543
Total liabilities	—	268,953	—	268,953

As of March 31, 2026

Classification	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity bonds				
National and municipal bonds	—	—	—	—
Bonds payable	—	287	—	287
Other	—	11,003	—	11,003
Total assets	—	11,291	—	11,291
Bonds payable	—	21,888	—	21,888
Long-term borrowings	—	228,481	—	228,481
Long-term non-recourse loans payable	—	3,210	—	3,210
Long-term accounts payable – other	—	7,207	—	7,207
Leasehold and guarantee deposits received	—	23,066	—	23,066
Total liabilities	—	283,854	—	283,854

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

Securities and investment securities

Quoted market prices are used to measure fair values of stocks and investment trusts. 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, long-term non-recourse loans payable, 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, long-term non-recourse loans payable, and long-term accounts payable – other," above.)

Note 13 － Securities

1. Held-to-maturity bonds

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

As of March 31, 2026

	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	－	－	－
	(3) Other	6,495	6,505	10
	Subtotal	6,495	6,505	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	290	287	(2)
	(3) Other	4,498	4,498	(0)
	Subtotal	4,788	4,785	(2)
Total		11,283	11,291	7

2. Available-for-sale securities

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.

As of March 31, 2026

	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	19,908	4,812	15,095
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	24,497	9,559	14,938
	Subtotal	44,405	14,372	30,033
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	481	499	(17)
	Subtotal	481	499	(17)
Total		44,887	14,871	30,016

(Note) Stocks without quoted market prices (totaling ¥368 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 ¥2,584 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, 2025

Not applicable

Year ended March 31, 2026

Not applicable

4. Available-for-sale securities sold

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	—

Year ended March 31, 2026

Category	Sale amount (millions of yen)	Gain on sale recorded (millions of yen)	Loss on sale recorded (millions of yen)
(1) Stocks	3,487	2,690	—
(2) Bonds			
1) National and municipal bonds	—	—	—
2) Bonds payable	—	—	—
3) Other	—	—	—
(3) Other	—	—	—
Total	3,487	2,690	—

5. Impairment losses on securities

Year ended March 31, 2025

Not applicable

Year ended March 31, 2026

Not applicable

Note 14 － Derivatives

1. Derivatives for which hedge accounting is not applied

Not applicable

2. Derivatives for which hedge accounting is applied

Interest rate related derivatives

As of March 31, 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 swaps 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, 2026

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	7,199	6,747	455
Special treatment of interest rate swaps	Interest rate swaps: Receiving floating rate/paying fixed rate	Long-term borrowings	36,183	31,471	(Note)

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

Note 15 － Retirement Benefits

1. Overview of retirement benefit plans in place

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

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

2. Defined benefit plan

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

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Balance at the beginning of the fiscal year	126	180
Retirement benefit expenses	143	78
Retirement benefits paid	(56)	(34)
Contributions to the plan	(32)	(33)
Balance at the end of the fiscal year	180	190

(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, 2025	As of March 31, 2026
Benefit obligation	1,356	1,411
Pension assets	(1,176)	(1,220)
Net balance of liabilities and assets recorded in the consolidated balance sheets	180	190
Retirement benefit liability	180	190
Net balance of liabilities and assets recorded in the consolidated balance sheets	180	190

(3) Retirement benefit expenses

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Retirement benefit expenses calculated using simplified accounting methods	143	78

3. Defined contribution plan

The required contributions for the defined contribution plans of consolidated subsidiaries amounted to ¥30 million in the fiscal year ended March 31, 2025, and ¥30 million in the fiscal year ended March 31, 2026.

Note 16 － Stock Options

Not applicable

Note 17 － Tax Effect Accounting

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

(Millions of yen)

	As of March 31, 2025	As of March 31, 2026
Deferred tax assets		
Provision for bonuses	96	115
Accrued enterprise taxes	158	181
Inventory depreciation	195	266
Accounts receivable – other	38	38
Loss on building reconstruction	533	533
Impairment losses	386	311
Provision for share awards	58	96
Retirement benefit liability	60	59
Loss carryforwards	71	16
Asset retirement obligations	218	219
Asset adjustment account	225	167
Compensation income	414	295
Other	461	545
Subtotal	2,918	2,847
Valuation allowance	(33)	(29)
Total deferred tax assets	2,885	2,817
Deferred tax liabilities		
Reserve for tax purpose reduction entry	(775)	(759)
Valuation difference on available-for-sale securities	(7,045)	(9,467)
Difference in valuation of non-current assets	(2,077)	(2,092)
Retirement expenses for asset retirement obligations	(79)	(70)
Other	(32)	(152)
Total deferred tax liabilities	(10,010)	(12,541)
Net amount of deferred tax assets (liabilities)	(7,125)	(9,724)

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, 2025	As of March 31, 2026
The statutory effective tax rate	30.6%	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 5% or less of the statutory effective tax rate.
(Adjustment)		
Items that are not permanently deductible, such as entertainment expenses	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	

Note 18 － 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 0.3% and 2.3% over expected period of use estimated between 16 and 50 years.

3. Changes in the asset retirement obligations

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Beginning balance	683	675
Adjustment due to passage of time	7	7
Other increase (decrease)	(15)	－
Ending balance	675	682

Note 19 － 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, 2025	Year ended March 31, 2026
Lease property, etc.		
Amount in the consolidated balance sheets		
Beginning balance	253,661	223,404
Increase (decrease)	(30,256)	(16,394)
Ending balance	223,404	207,010
Market value at fiscal year end	315,718	297,670
Real estate that includes the portion used as lease property, etc.		
Amount in the consolidated balance sheets		
Beginning balance	50,826	87,911
Increase (decrease)	37,085	(8,315)
Ending balance	87,911	79,596
Market value at fiscal year end	124,083	125,447

(Notes) 1. The amount in the consolidated balance sheets is equal to the acquisition cost minus the accumulated depreciation and impairment losses.

2. 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). The net increase in the fiscal year ended March 31, 2026, was mainly due to the progress and completion of construction (¥10,050 million) as well as the acquisition of real estate (¥535 million), while the net decrease was mainly due to the transfer of properties to real estate for sale (¥25,102 million).

3. The market values of principal properties as of March 31, 2026, 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, 2025	Year ended March 31, 2026
Lease property, etc.		
Leasing revenue	18,417	18,120
Leasing expenses	10,331	9,923
Net	8,086	8,196
Other gain (loss)	(12)	218
Real estate that includes the portion used as lease property, etc.		
Leasing revenue	4,896	4,958
Leasing expenses	3,953	4,035
Net	943	922
Other gain (loss)	(1)	10

(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 gain (loss) was mainly composed of a gain on sale of non-current assets, a loss on retirement of non-current assets and tax refund.

Note 20 － Revenue Recognition

1. Revenues from contracts with customers

The Company disaggregates its operating revenue based on operating segments and further disaggregates each segment by categories of goods and services.

(Millions of yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Building Business		
Leasing revenue	27,517	28,932
Revenue from sales of properties	8,965	15,675
Other	1,514	1,628
Total	37,997	46,236
Asset Management Business		
Asset management revenue	2,781	3,152
Brokerage commissions	1,296	1,466
Total	4,078	4,619
Amount in consolidated financial statements	42,075	50,855
Revenue from contracts with customers	17,649	25,990
Revenue from other sources (Note)	24,426	24,864

(Note) Revenue from other sources includes leasing revenue calculated based on the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13).

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 31,2025	Year ended March 31, 2026
Receivables from contracts with customers (Beginning balance)	281	539
Receivables from contracts with customers (Ending balance)	539	532
Contract assets (Beginning balance)	510	519
Contract assets (Ending balance)	519	561
Contract liabilities (Beginning balance)	44	192
Contract liabilities (Ending balance)	192	200

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 21 － Segment and Other Information

Segment information

1. Reportable segments overview

The reportable segments of the Company are the business units for which 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, 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.

Year ended March 31, 2026

(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	46,236	4,619	50,855	—	50,855
Intersegment sales and transfers	50	—	50	(50)	—
Total	46,286	4,619	50,905	(50)	50,855
Segment profit	14,657	2,737	17,394	(2,284)	15,109
Segment assets	376,177	28,026	404,204	47,634	451,838
Other items					
Depreciation (Note 3)	5,740	16	5,757	68	5,825
Increase in property, plant and equipment and intangible assets (Note 3)	20,586	14	20,600	11	20,612

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

(1) The negative adjustments to segment profit of ¥2,284 million mainly include corporate expenses amounting to ¥2,284 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥47,634 million mainly include unallocated corporate assets amounting to ¥51,288 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, 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

Year ended March 31, 2026

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.	15,909	Building Business Asset Management Business

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

Year ended March 31, 2025

Not applicable

Year ended March 31, 2026

Not applicable

Amortization and Unamortized Balance of Goodwill by Reportable Segment

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

Year ended March 31, 2026

(Millions of yen)

	Building Business	Asset Management Business	Intersegment eliminations	Total
Amortization for the period	42	—	—	42
Balance at end of period	560	—	—	560

Information on Gain on Negative Goodwill by Reportable Segment

Year ended March 31, 2025

Not applicable

Year ended March 31, 2026

Not applicable

Information on Related Parties

Year ended March 31, 2025

Not applicable

Year ended March 31, 2026

Not applicable

Note 22 — Per Share Information

(Yen)

	Year ended March 31, 2025	Year ended March 31, 2026
Net assets per share	1,767.08	1,918.61
Earnings per share	141.55	165.63

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

2. The Company conducted a 2-for-1 stock split for the Company's common shares on July 1, 2025. Net assets per share and earnings per share were calculated, assuming that the stock split was conducted at the beginning of the previous fiscal year.

3. To calculate net assets per share and earnings per share, the Company's stock 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 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 336,000 shares in the fiscal year ended March 31, 2025 and 632,000 shares in the fiscal year ended March 31, 2026, 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 336,000 shares in the fiscal year ended March 31, 2025 and 449,000 shares in in the fiscal year ended March 31, 2026.

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

	Year ended March 31, 2025	Year ended March 31, 2026
Profit attributable to owners of parent (millions of yen)	9,565	11,032
Amount not attributable to common shareholders (millions of yen)	—	—
Profit attributable to common shareholders of parent (millions of yen)	9,565	11,032
Average number of shares outstanding during the period (thousands of shares)	67,578	66,610

Note 23 — Significant Subsequent Events

Not applicable.

Note 24 － 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.	30th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	June 30, 2015	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	1,207 (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	605 (605)	－	0.52% annually	Unsecured bond	March 31, 2026
Heiwa Real Estate Co., Ltd.	37th Unsecured Bond (limited to authorized institutional investors)	December 8, 2017	975 (75)	900 (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	1,050 (75)	975 (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	2,928 (165)	2,763 (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	2,241 (124)	2,116 (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	1,800 (100)	1,700 (100)	1.541% annually	Unsecured bond	February 25, 2031
Heiwa Real Estate Co., Ltd.	44th Unsecured Bond (limited to authorized institutional investors)	March 19, 2024	3,325 (175)	3,150 (175)	1.12% annually	Unsecured bond	March 17, 2034
Total	－	－	27,864 (4,259)	23,605 (714)	－	－	－

(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, 2026

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)
714	714	5,714	714	8,914

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	1.2	—
Current portion of long-term borrowings	18,695	30,269	0.8	—
Current portion of lease liabilities	—	—	—	—
Long-term borrowings (excluding current portion)	198,320	206,665	1.2	2027-2046
Long-term non-recourse loans payable	—	3,210	1.7	2030
Lease liabilities (excluding current portion)	—	—	—	—
Other interest-bearing liabilities				
Current portion of long-term accounts payable	258	373	0.7	—
Long-term accounts payable (excluding current portion)	8,133	7,760	0.9	2027-2043
Total	226,208	249,078	—	—

(Notes) 1. The average interest rate is the weighted-average interest rate for the respective item in the table as of March 31, 2026.

2. The payment period and amounts of long-term borrowings (excluding current portion), long-term non-recourse loans payable, and long-term accounts payable (excluding current portion) within five years from March 31, 2026, 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	32,202	23,849	21,497	31,074
Long-term non-recourse loans payable	—	—	—	3,210
Long-term accounts payable – other	515	543	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, 2025, and March 31, 2026, have been omitted because the amounts are less than one percent of total balance of liabilities and net assets as of April 1, 2025, and March 31, 2026.

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, 2026 and 2025, 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, 2026 and 2025, 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 of public interest entities 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 valuation of property and other assets in the Building Business	
The key audit matter	**How the matter was addressed in our audit**
Property and other assets in the Building Business consisting of property, plant and equipment of ¥272,043 million and intangible assets (leasehold interests in land and goodwill) of ¥30,934 million (collectively, the "Property and Other Assets") were recognized in the consolidated statement of financial position of Heiwa Real Estate Co., Ltd. as of March 31, 2026, representing approximately 67.1% of total consolidated assets. The principal components comprise stock exchanges, office buildings, and hotels in Japan, as well as Property and Other Assets held by Heiwa Real Estate Co., Ltd. and its consolidated subsidiaries for multiple redevelopment projects in the Nihonbashi Kabutocho/Kayabacho and Sapporo areas. As described in Note 3 "Significant Accounting Estimates, 1. Impairment of non-current Assets" to the consolidated financial statements, management identifies impairment indicators at the smallest unit that generates cash flows largely independent of those from other assets or asset groups. Such units are generally defined on an individual asset basis; however, for redevelopment projects, multiple related assets are grouped as a single asset group. Impairment indicators include continued losses from operating activities, significant deterioration in the business environment, and a significant decline in market value. When impairment indicators are identified, management determines whether an impairment loss should be recognized. The identification of impairment indicators and the judgment as to whether an impairment loss should be recognized for the valuation of Property and Other Assets involve a high degree of estimation uncertainty and rely heavily on management's subjective judgment, as they are subject to various risks arising from economic conditions, trends in the real estate market, and other factors. In particular, with respect to redevelopment projects, the assessment is based on redevelopment project plans prepared by	The primary procedures we performed to assess the appropriateness of the valuation of Property and Other Assets in the Building Business included the following: **(1) Internal control testing** We tested the design and operating effectiveness of internal controls relevant to the identification of impairment indicators and management's judgment as to whether an impairment loss should be recognized for Property and Other Assets. **(2) Assessment of the appropriateness of management's judgment as to whether there was an impairment indicator** ● We assessed the accuracy and completeness of the underlying documents used by management to identify impairment indicators and inspected the minutes of Board of Directors meetings and Executive Committee meetings, and approval documents. ● For redevelopment projects, we assessed the consistency of the unit for asset grouping with the latest business plans and other relevant documents prepared by management and evaluated whether the asset grouping had been applied consistently. ● We conducted site visits to assess the progress of redevelopment projects for which construction work had commenced. **(3) Assessment of the appropriateness of management's judgment as to whether an impairment loss should be recognized** ● We assessed whether the need to recognize an impairment loss had been evaluated for all assets and asset groups identified as having impairment indicators. ● We inspected the underlying information used by management in estimating future rent levels and assessed its consistency by comparing it with comparable cases. ● We assessed the reasonableness of estimated

management. However, as redevelopment projects generally extend over a long period, management is required to make more complex judgments regarding future rent levels, occupancy rates, operating expenses, construction costs, and other factors that form the basis for undiscounted future cash flows. We, therefore, determined that the appropriateness of the identification of impairment indicators and the judgment as to whether an impairment loss 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.	construction costs by inspecting cost estimates and supporting documentation, as well as documents evidencing the status of negotiations. ● We assessed the consistency of the discount rates by comparing them with publicly available external information. ● We involved real estate valuation specialists to assess the appropriateness of the future rent levels, discount rates, and market values estimated for redevelopment projects.

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 48 million yen and 1 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/ Hiroyuki Itoh

Designated Engagement Partner

Certified Public Accountant

/S/ Hirofumi Hanyu

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

July 15, 2026

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.