

Creating World-Class Neighborhoods

Heiwa Real Estate Co., Ltd. Corporate Report 2018



Creating World-Class Neighborhoods

Heiwa Real Estate Co., Ltd. was founded as the owner of buildings for stock exchanges, which play a central role in Japan's financial market, and has subsequently been deeply involved in businesses rooted in districts that are the center of financial markets throughout Japan.

Competition among cities has intensified as people, economies and information have become borderless.

Heiwa Real Estate will contribute to establishing Tokyo's position as a global financial city in Asia by promoting the redevelopment of Nihonbashi Kabutocho and Kayabacho, where the Company was founded and home to Japan's largest stock exchange.

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Disclaimer

Information in this report other than statements of historical fact are forecasts and forward-looking statements that are based on judgments by the management of Heiwa Real Estate in light of available information. Actual results may differ materially from these forecasts due to various factors. Heiwa Real Estate assumes no responsibility for the use of information contained in this report.

History of Heiwa Real Estate

Heiwa Real Estate was founded in 1947 as the owner of buildings for stock exchanges in Tokyo, Osaka, Nagoya and elsewhere, which Nihonbashi Kabutocho and Kayabacho, where the Company was founded, have developed as the home of the securities industry. As the social change, including the closure of the trading floor and relocations of securities firms.

Meanwhile, there are strong calls to improve the functions of Tokyo as a global financial city, and community expectations for the revitalization. In this business environment, the Company aims to enhance its presence in the community and create the foundation for further growth and starting with the redevelopment of Nihonbashi Kabutocho and Kayabacho.

play a central role in Japan's financial markets.

environment changed with the development of information and communications, these districts have likewise witnessed significant of the districts are rising.

an increase in corporate value by moving on to the next stage, "Aim to be a company that contributes to revitalizing districts,"



1940 1950 1960 1970 1980 1990 2000 2010

Established as a company that owns stock exchange buildings

- 1947 Heiwa Real Estate established
- 1949 Began leasing to the respective stock exchanges **1**

Redeveloped stock exchange buildings into office buildings, backed by expanding demand for office space accompanying rapid economic growth.

- 1958 Completed construction of Fukuoka Shoken Building
- 1962 Completed construction of Kyoto Shoken Building
- 1965 Entered the residential land sales business
- 1977 Entered the detached house sales business
- 1980 Entered the condominium sales business

Expanded business by developing buildings for lease other than stock exchanges

- 1984 Completed construction of the stock trading floor building (currently Arrows) within the Tokyo Stock Exchange Building complex **2**
- 1986 Completed construction of Yokohama Heiwa Building
- 1987 Completed construction of Osaka Heiwa Building
Entered the real estate brokerage business
- 1988 Completed construction of the main building of the Tokyo Stock Exchange Building complex **2**
- 1992 Completed construction of Kayabacho Heiwa Building
- 1993 Completed construction of Daimaru Kyoto Store (West) Kyodo Building
- 1994 Completed construction of Daimaru Kyoto Store (North) Kyodo Building
- 1995 Started sales of the FLARGE series of condominiums

Further increased assets by acquiring large office buildings

- 2000 Acquired Mita Heiwa Building **3**
- 2001 Acquired Uchisaiwaicho Heiwa Building **4**
- 2002 Acquired Dogin Building

Aggressively redeveloped properties in Osaka and Nagoya

- 2004 Completed construction of Nagoya Heiwa Building
- 2004 Completed construction of the Osaka Securities Exchange Building **5**
- 2007 Completed construction of the Nagoya Stock Exchange Building **6**
- 2008 Completed construction of Hotel Brighton City Osaka Kitahama
- 2009 Initiated full-scale participation in the REIT business (made the current Heiwa Real Estate Asset Management Co., Ltd. a consolidated subsidiary)

- 2010 Completed construction of CentRise Sakae **7**
- 2012 Completed construction of Ichibancho Heiwa Building **8**

Aim to be a company that contributes to revitalizing districts through the redevelopment of Kabutocho

- 2013 Made The Tokyo Shoken Building Incorporated a consolidated subsidiary
- 2014 Announced the Revitalization Vision for Nihonbashi Kabutocho
- 2015 Completed construction of Kitahama 1-Chome Heiwa Building
Completed construction of Maruzen Nagoya Honten Building
- 2017 Acquired Kabutocho Heiwa Building No. 6
- 2018 Nihonbashi Kabutocho Section 7 Development Plan (tentative name), a National Strategic Special Zone Approved by the Prime Minister



Former Tokyo Stock Exchange Building



Tokyo Stock Exchange Building (Chuo-ku, Tokyo)



Mita Heiwa Building (Minato-ku, Tokyo)



Uchisaiwaicho Heiwa Building (Chiyoda-ku, Tokyo)



Osaka Securities Exchange Building (Osaka City)



Nagoya Stock Exchange Building (Nagoya City)



CentRise Sakae (Nagoya City)



Ichibancho Heiwa Building (Sendai City)

We will contribute to the creation of a global financial city by revitalizing districts.

Heiwa Real Estate was founded as a company that owns and leases stock exchange buildings, and currently owns the Tokyo Stock Exchange Supporting Japan's financial infrastructure, we redeveloped the Osaka Securities Exchange Building, the Nagoya Stock Exchange Building Nihonbashi Kabutocho and Kayabacho Revitalization Project.

We are leveraging the features of Nihonbashi Kabutocho, which is home to a securities market, to revitalize this district over the medium contributing to the future of Nihonbashi Kabutocho and Kayabacho.

Building, the Osaka Securities Exchange Building, the Nagoya Stock Exchange Building, and the Fukuoka Shoken Building. by establishing relationships of trust with various stakeholders to obtain their cooperation. We have also launched the first phase of the and long term. In doing so, we will contribute to the "Global Financial City: Tokyo" vision as we fulfill our social responsibility of

Ownership of Stock Exchange Buildings throughout Japan



Tokyo Stock Exchange Building (Tokyo)



Osaka Securities Exchange Building (Osaka)



Nagoya Stock Exchange Building (Nagoya)

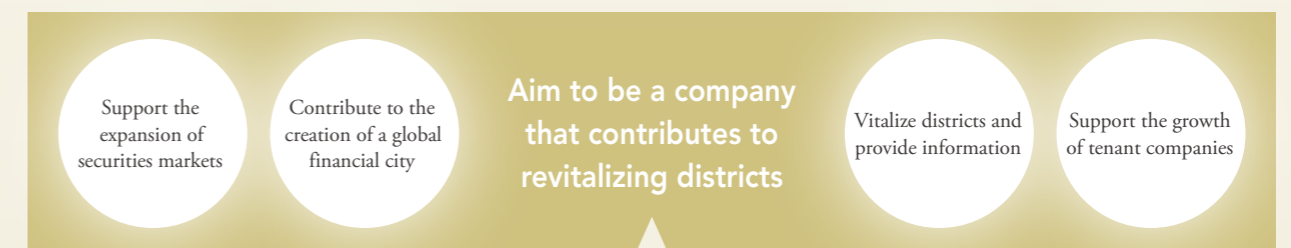


Fukuoka Shoken Building (Fukuoka)

A Building Leasing Business in Japan's Major Cities



Review of Operations by Business



Nihonbashi Kabutocho and Kayabacho Revitalization Project

Leasing Business

Develop, lease, manage and operate office buildings and other properties

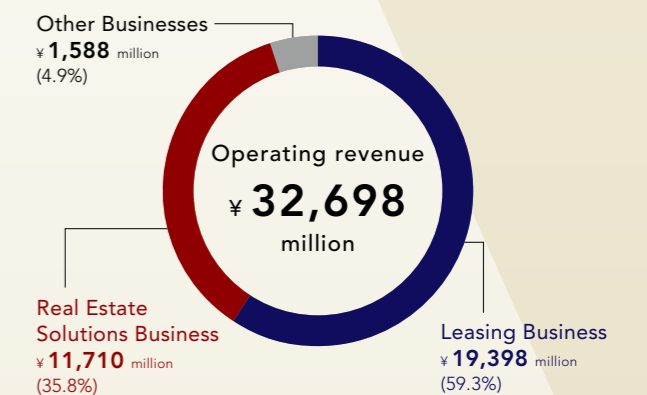
Real Estate Solutions Business

Develop, sell, operate and manage income-generating properties

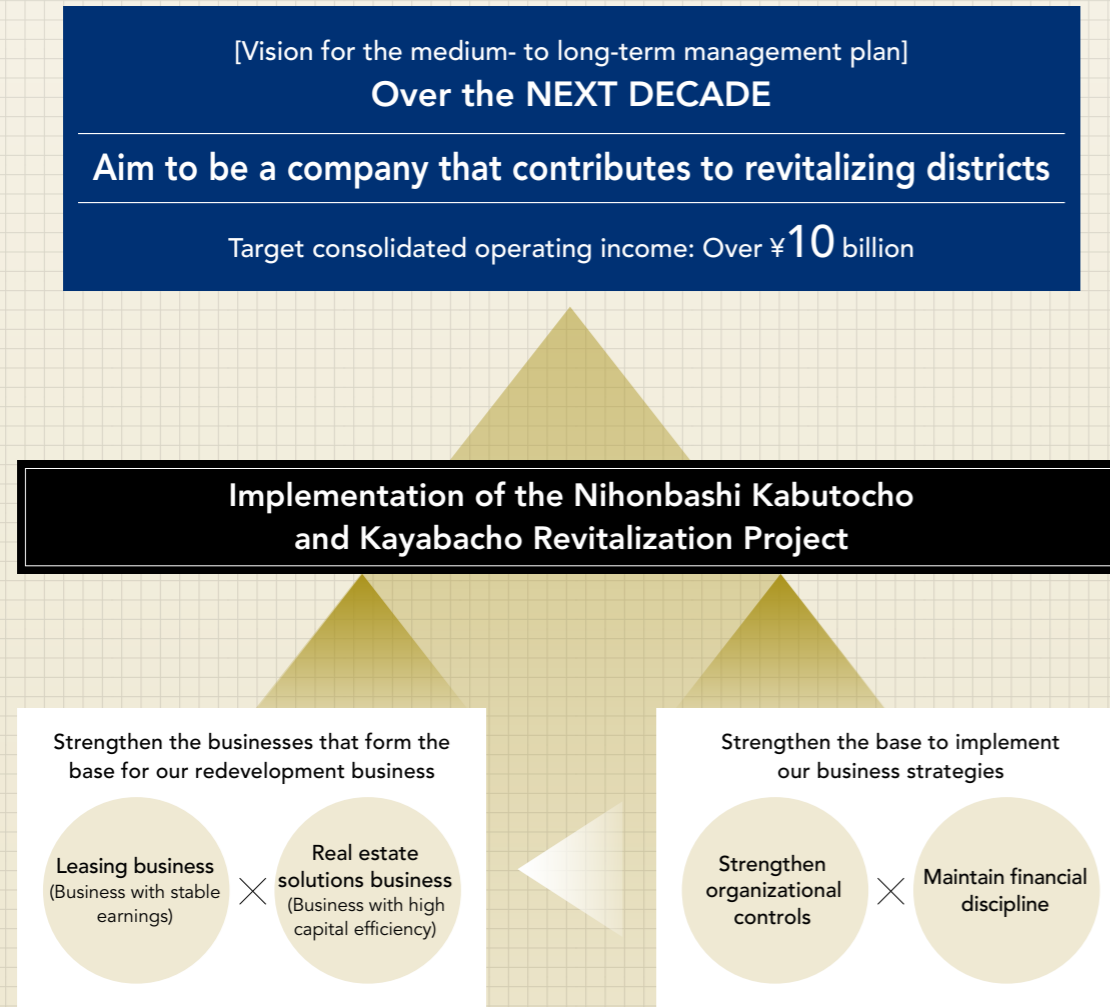
Summary of Results for FY 2017

Operating revenue	¥ 32,698 million	-21.7% YoY
Operating income	¥ 9,432 million	-2.5% YoY
Net income attributable to owners of parent	¥ 5,288 million	+17.1% YoY

Operating Revenue by Segment

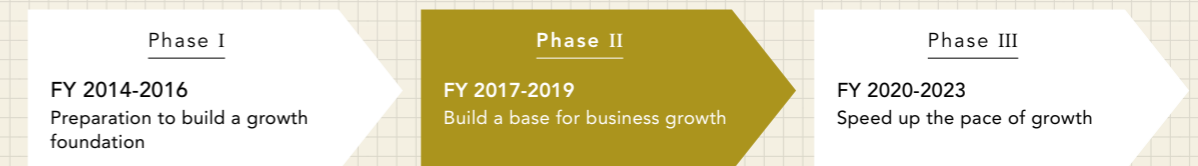


Aim to be a company that “contributes to revitalizing districts,” beginning with the redevelopment of the Nihonbashi Kabutocho and Kayabacho areas.
Achieve consolidated operating income of over ¥10 billion toward the end of the NEXT DECADE (FY 2023).



Phase II Positioning

In the three years of Phase II, aiming to continuously increase corporate value by building a base for business growth, mainly by steadily implementing the Nihonbashi Kabutocho and Kayabacho Revitalization Project.



Key Strategies

- Key Strategy 1 The Nihonbashi Kabutocho and Kayabacho Revitalization Project**
Start and steadily implement the first stage of the project, the Nihonbashi Kabutocho 7 Development Plan (tentative name) and the Nihonbashi Kayabacho 1-6 Development Plan (tentative name).
- Key Strategy 2 Strengthening of the Building Leasing Business**
Enhance the revenue base to form a base for the redevelopment project by renewing and increasing assets for the Leasing Business and by implementing measures to improve profitability.
- Key Strategy 3 Expansion and diversification of the Real Estate Solutions Business**
Support Heiwa Real Estate REIT Inc. as its sponsor to increase its assets and improve their quality, and steadily expand revenue from the fee businesses. Aim to diversify revenue-generating opportunities in the Real Estate Solutions Business, including selling properties after maximizing their value by developing income-generating properties, leasing-up, conducting renewal construction, etc.
- Key Strategy 4 Strengthening the Structure for Implementing Strategies and Providing Shareholders with Stable Returns**
Formulate an organizational framework suitable for executing the key strategies, as well as strive to enhance financial strength, while keeping management efficiency in mind. Aim to raise ROE and maintain the D/E ratio at an appropriate level. Also, provide shareholders with stable returns, mainly through dividends.

Targets (Consolidated)

Targets for FY 2019	
Operating income	¥9.0 billion* (Breakdown) Leasing Business: ¥7.4 billion/Real Estate Solutions Business: ¥3.0 billion
Ordinary income	¥8.0 billion
Net debt-to-equity (D/E) ratio	1.5 times or lower

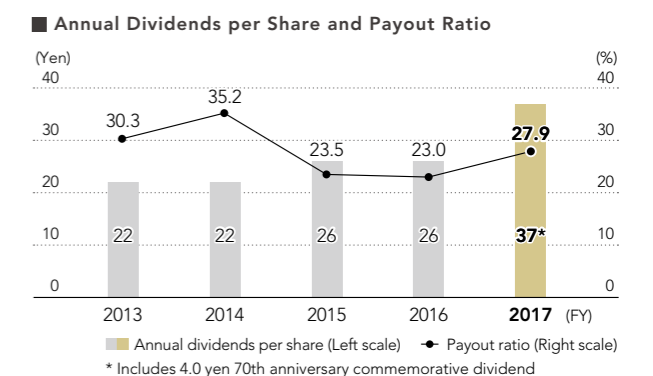
* Operating income includes corporate expenses that belong to the administration division and are not allocated to any of the reportable segments.

Investment Plan

Business	Investment amount
The Nihonbashi Kabutocho and Kayabacho Revitalization Project	Approx. ¥15.0 billion
Leasing Business	Approx. ¥24.0 billion (Approx. ¥7.0 billion recovered by renewing the portfolio)
Real Estate Solutions Business	Approx. ¥42.0 billion (Approx. ¥54.0 billion recovered)

Shareholder Returns

We will provide stable shareholder returns mainly through dividends. Our medium- to long-term target for the consolidated payout ratio is 30%, with due regard for the internal reserves required to increase corporate value.





The Next-Generation Heiwa Real Estate: Taking on the Challenge of Becoming a Company That Contributes to Revitalizing Districts

Hiroyuki Iwakuma Representative Director and President

Heiwa Real Estate's Roles

Heiwa Real Estate was founded in 1947 as the owner of buildings for stock exchanges in Tokyo, Osaka, Nagoya and elsewhere, which play a central role in Japan's financial markets. The Company celebrated its 70th anniversary in July 2017. In my current and former jobs, I have spent a total of more than 40 years in Nihonbashi Kabutocho and Kayabacho, which is the district where Heiwa Real Estate was established, and have watched this neighborhood evolve. The basic mission of a real estate company is to provide an environment of convenience, comfort and safety that allows tenant companies and people to connect and demonstrate their capabilities, and have an affluent life. In other words, developing infrastructure is thought to be the livelihood of real estate companies. Therefore, I have come to believe that since we operate in the Nihonbashi

Kabutocho and Kayabacho areas, we must also focus on enhancing Tokyo's international competitiveness.

We announced our Revitalization Vision for Nihonbashi Kabutocho in 2014, and began creating a district where people connect, and where investment and growth are born. The Company has been located in Nihonbashi Kabutocho and Kayabacho since its establishment, enabling us to inherit and develop the unique qualities of this district. Our goal is "the classic look and feel" of Kabutocho, which is taking shape throughout the district in tandem with the Tokyo Metropolitan Government's ongoing "Global Financial City: Tokyo" vision. Redevelopment of Nihonbashi Kabutocho and Kayabacho is one component of this vision, and helps us fulfill our role of contributing to improving the infrastructure of Tokyo's financial district.

Medium- to Long-term Management Plan Roadmap

We are advancing to our next phase: "Aim to be a company that contributes to revitalizing districts." Our objective is to increase our presence in society and build the foundation for further growth and increased corporate value. We also plan to employ the expertise we acquire through the redevelopment of Nihonbashi Kabutocho and Kayabacho in revitalizing other urban districts.

We achieved all of our numerical targets for Phase I (FY 2014 to FY 2016) of our medium- to long-term management plan. We made preparations for building the foundation for growth in ways such as strengthening of the Building Leasing Business, expansion of the fee businesses and enhancing our financial soundness. We made steady progress toward the plan target of consolidated operating income of approximately ¥10 billion.

Phase II from FY 2017 to FY 2019 involves building the foundation for business growth, and the full-scale start of the redevelopment of Nihonbashi Kabutocho and Kayabacho. Through steady progress of the Nihonbashi Kabutocho and Kayabacho Revitalization Project, strengthening of our Building Leasing Business and other initiatives, we aim to achieve sustained growth in corporate value. The revitalization project is a challenging initiative, and the entire Company is pushing forward together in the spirit of creating the next-generation Heiwa Real Estate. We are fortunate that the efforts of our predecessors have given Heiwa Real Estate a stable financial base, but we need to consider our future operating environment and the new initiatives it will require.

Key Strategies: The Nihonbashi Kabutocho and Kayabacho Revitalization Project

We plan to appropriately redevelop this district in two medium-scale stages rather than in a single redevelopment project. As the owner of the Tokyo Stock Exchange Building, our strength is in the relationships of trust we have established with the community, including local companies and governments, through 70 years in the business of leasing buildings in securities and financial districts.

I believe the relationships of trust that all of our employees have established with our customers have provided a solid base for our new initiatives. Heiwa Real Estate will be redeveloping this district for 10 to 20 years, so I want the

employees who are responsible for the Company's next generation to lead this project with a sense of ownership.

The development will provide functions that support the "Global Financial City: Tokyo" vision, including the dissemination of financial information, human resource development, and the promotion of dialogue and exchanges among investors and companies. Creating infrastructure for studying and teaching investment will support the growth of individuals, companies and society. In 2016, we also led the establishment of The Consortium for Japan International Asset Management Center Promotion (JIAM), which has visited approximately 200 investment companies from Europe, North America and Asia. Response to these initiatives to promote and attract entrepreneurship in Tokyo is steadily growing.

Moreover, business is not our only concern. We create space and promote drivers and mechanisms that generate and sustain activity with the goal of contributing to the vitality of the entire community.

Objective: Sustained Growth in Corporate Value

Given intensifying competition among the world's cities, we need to create value unique to Heiwa Real Estate and enhance our social presence as a facilitator of Japan's financial districts. While maintaining steady growth, we will continue to evolve by enhancing our development, proposal and planning capabilities in order to take on various new challenges. In addition, I would like Heiwa Real Estate to position itself to contribute significantly to revitalization as part of the "Global Financial City: Tokyo" vision and in other urban districts, and to be a company that contributes more than ever to revitalizing districts.

I hope you will share our enthusiasm as we take on the challenge of creating the next-generation Heiwa Real Estate. We are counting on your continued support.

Hiroyuki Iwakuma

Representative Director and President

The Nihonbashi Kabutocho and Kayabacho Revitalization Project

Nihonbashi Kabutocho

Japan's Financial and Economic Heart

Nihonbashi Kabutocho is home to the Tokyo Stock Exchange and the center of securities markets in Japan. Along with Wall Street in New York City and the City in London, it is one of the world's leading securities districts. The three major securities markets in Japan are Kabutocho, where the Tokyo Stock Exchange is located, Kitahama, where the Osaka securities Exchange is located, and Isemachi, where the Nagoya Stock Exchange is located.



The History of Nihonbashi Kabutocho and Kayabacho

Meiji Era (1870s)

From a Banking to a Securities and Financial District

Eiichi Shibusawa led the opening of Japan's first modern bank, First National Bank, in Kabutocho in 1873. Kabutocho subsequently developed as a center of the Japanese economy with the establishment of a stock exchange, which then became the Tokyo Stock Exchange, and numerous companies in the district.

Taisho Era to about 1945

Reconstruction after the Great Kanto Earthquake and World War II

The construction of a new Tokyo Stock Exchange (the predecessor of the current building) began at the end of 1923 following the Great Kanto Earthquake. The stock trading floor was completed in 1927 and the main building in 1931. The building became a familiar landmark of Kabutocho.

Post War (from 1945)

A Securities District Once Again

Japan's securities markets resumed with the approval of the GHQ in 1949. As a securities district, Kabutocho became synonymous with the country's financial markets and economy due to the development of the Japanese economy and the boom in its securities markets.

The Present

Changes in Kabutocho

The trading floor of the Tokyo Stock Exchange, which had been active for many years, closed in 1999 due to factors including the introduction of electronic trading and the increase in Internet transactions. The district changed significantly as securities companies moved elsewhere.

Recreating the Classic Look and Feel of Kabutocho

We are implementing the Nihonbashi Kabutocho and Kayabacho Revitalization Project while preserving the district's history as the birthplace of Japan's financial markets. Aligned with the Tokyo Metropolitan Government's "Global Financial City: Tokyo" vision, we are creating a new Kabutocho as a district where people connect, and where investment and growth are born.

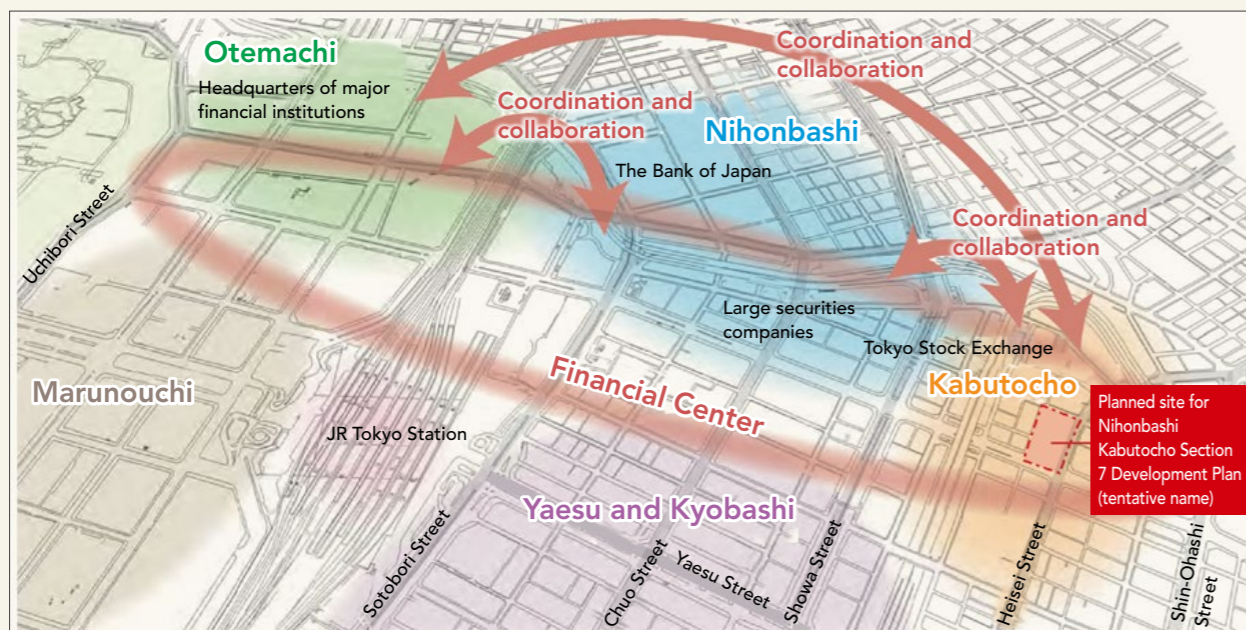
The Nihonbashi Kabutocho and Kayabacho Revitalization Concept

A district where people connect, and where investment and growth are born

Since the Meiji era, Kabutocho has been an entrepreneurial district for investment and securities, a district where innovation has been in step with the times, where investors have gathered and where a broad array of information has been exchanged. This historical background and other factors were the basis for our concept of a district where people connect, and where investment and growth are born. Our goal is revitalization that is unique to Kabutocho by harmonizing Kabutocho's potential with neighboring districts.

The Role of Nihonbashi Kabutocho and Kayabacho in the "Global Financial City: Tokyo" Vision

The Nihonbashi Kabutocho and Kayabacho redevelopment proposal we presented to the relevant authorities is based on the three finance- and securities-related concepts outlined below. Our staged development plan will promote coordination and collaboration among Otemachi, which is headquarters to many major financial institutions, and Nihonbashi, the home of The Bank of Japan, as it works to add finance-related functions. The plan looks to the future as a means to support the fulfillment of the "Global Financial City: Tokyo" vision in the district.



Financial Function Development Concepts

Support for development of entrepreneurial financial start-ups focusing on asset management

The center for dialogue and exchange between investors and companies

Attracting highly skilled financial professionals mainly from abroad

Initiatives to Add Appeal to Nihonbashi Kabutocho and Kayabacho

The planned district revitalization covers a total area of approximately 100,000 m². The Nihonbashi Kabutocho Section 7 Development Plan (tentative name) is certified as a project in a National Strategic Special Zone. We will also develop three office buildings as a new financial center for the district called FinGATE. This is one initiative in support of the "Global Financial City: Tokyo" vision. We will revitalize Nihonbashi Kabutocho and Kayabacho to support the growth of start-ups such as fintech companies.

Kazuo Yamada
Director and
Managing Executive Officer



Nihonbashi Kabutocho Section 7 Development Plan (tentative name)

A leading redevelopment project



Exterior image

Participating companies	Heiwa Real Estate Co., Ltd. Yamatane Corporation Chibagin Securities Co., Ltd. Kabutocho Heiwa Building No. 3 Co., Ltd.
Primary uses	Offices, retail stores, financial related facilities
Gross floor area	Approx. 3,350 m ²
Planned floor-area ratio	1,000%
Total floor area	Approx. 38,000 m ²
Number of stories/Height	15 above ground and 2 underground/ Approx. 90 m
Scheduled construction period	From FY 2018 to FY 2020

Note: The above data are subject to change.

FinGATE

New financial center in the district



FinGATE KABUTO



FinGATE KAYABA



FinGATE BASE

Leasing Business

The Leasing Business focuses on stock exchange buildings and office buildings in Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Sendai and other major cities in Japan.

Stock Exchange Buildings



Tokyo Stock Exchange Building (Chuo-ku, Tokyo)



Osaka Securities Exchange Building (Osaka City)



Nagoya Stock Exchange Building (Nagoya City)



Fukuoka Shoken Building (Fukuoka City)

Office Buildings and Commercial Facilities



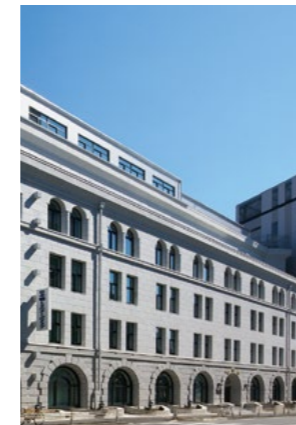
Uchisaiwaicho Heiwa Building (Chiyoda-ku, Tokyo)



Mita Heiwa Building (Minato-ku, Tokyo)



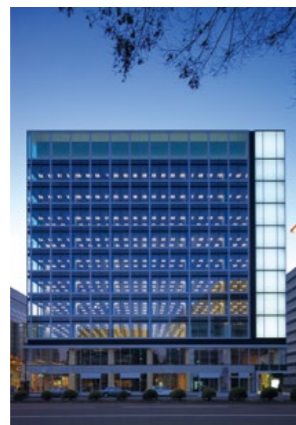
Kabutocho Heiwa Building No. 6 (Chuo-ku, Tokyo)



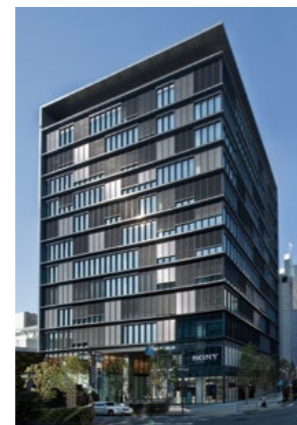
Nishokan Building (Chuo-ku, Tokyo)



Dogin Building (Sapporo City)



Ichibancho Heiwa Building (Sendai City)



CentRise Sakae (Nagoya City)



Hotel Brighton City Osaka Kitahama (Osaka City)

FY 2017 Results

Main Points

Operating revenue ¥19,398 million
(4.3% YoY increase of ¥802 million)

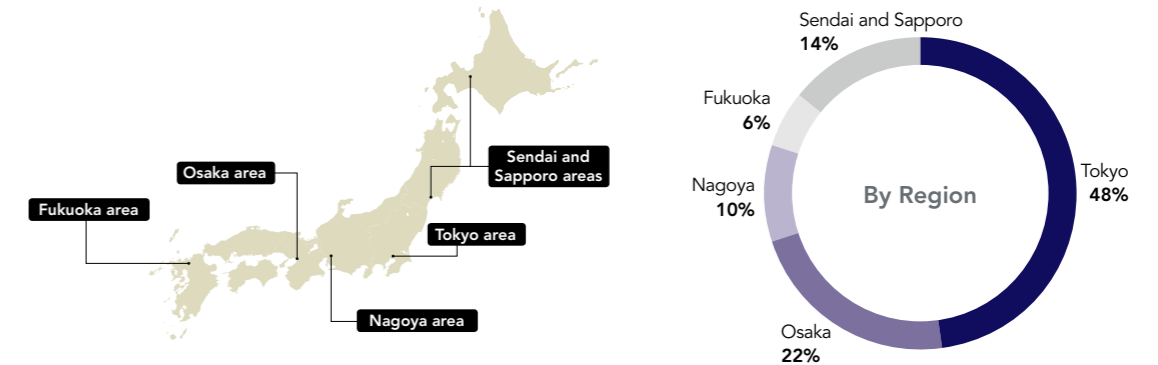
Operating income ¥7,566 million
(12.2% YoY increase of ¥821 million)

- Contribution of Osaka Midosuji Building
- Full-year operation of Kabutocho Heiwa Building No. 6 (acquired in the previous fiscal year)

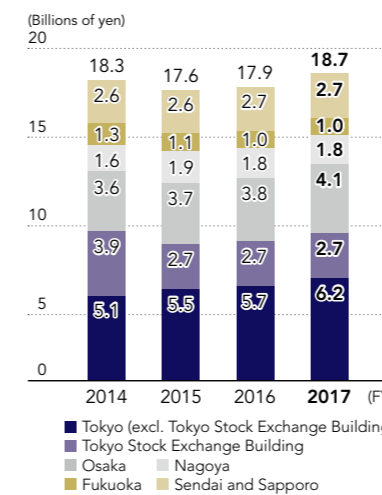


Osaka Midosuji Building (Osaka City)

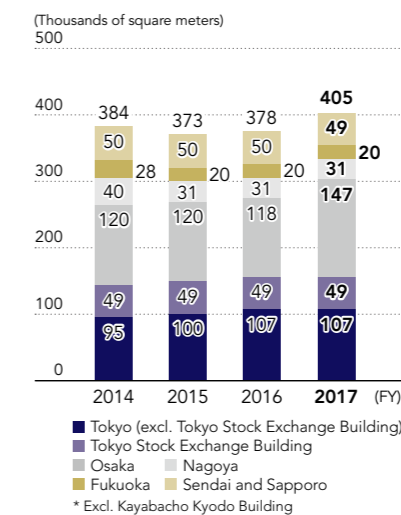
Operating Revenue from Building Leasing (¥18.7 billion) by Region (FY 2017)



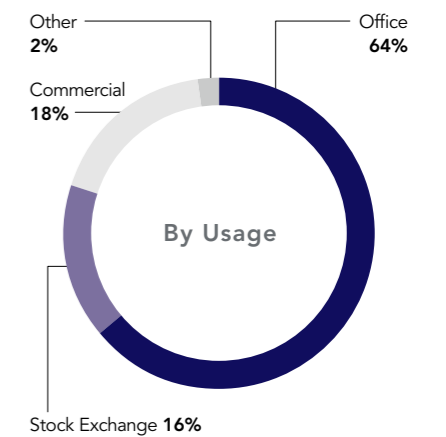
Operating Revenue from Building Leasing (excluding building sales)



Gross Leasable Space



Operating Revenue from Building Leasing (¥18.7 billion) by Usage (FY 2017)



Strategies for the Future



Kiyoyuki Tsuchimoto
Director and Managing Senior Executive Officer

Strengthening the Building Leasing Business

We will upgrade our portfolio by concentrating it in the three central wards of Tokyo and near Company branches in other areas. This will increase profitability and strengthen the earnings base that will support redevelopment.

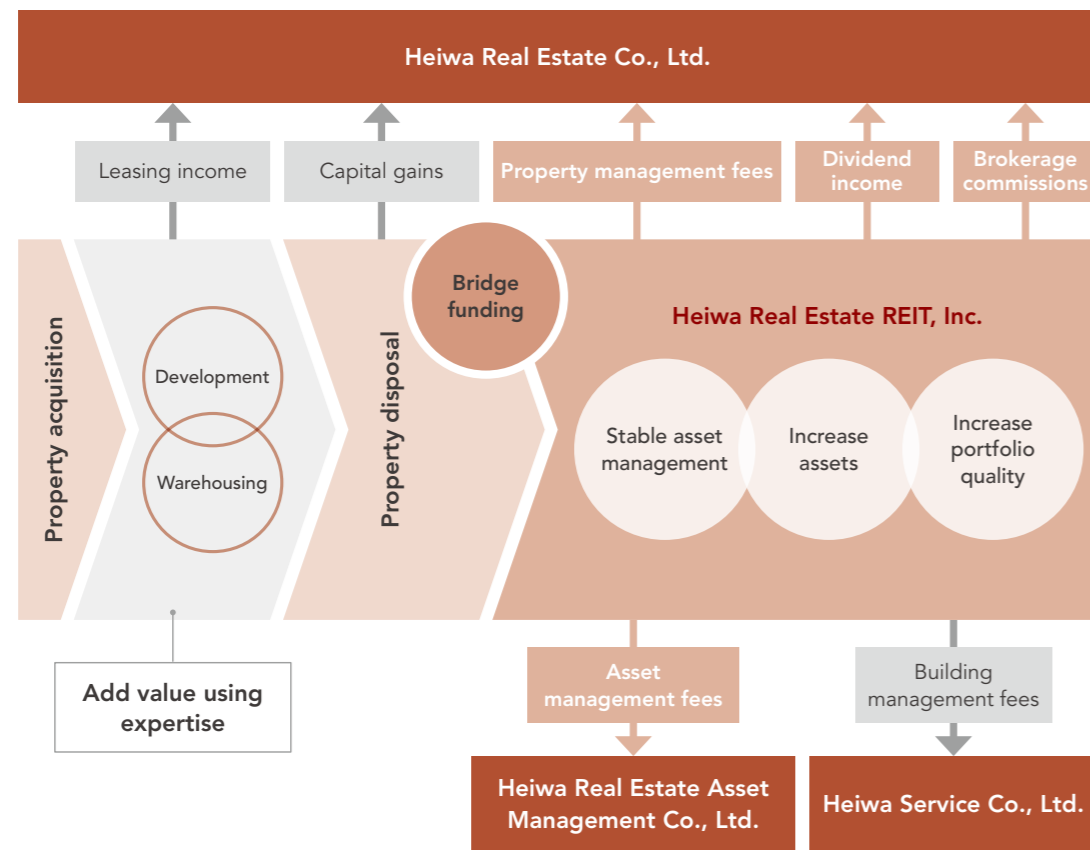
1. Renew the portfolio to improve asset quality.
2. Expand earnings by acquiring assets in the Leasing Business.
3. Structure an earnings base that will support redevelopment.

Real Estate Solutions Business

The Real Estate Solutions Business generates earnings by developing office buildings, housing and other properties, and by acquiring, investing in, managing, and improving the value of real estate. It enhances the overall earnings power of the Heiwa Real Estate Group by collaborating with other Group companies such as Heiwa Real Estate Asset Management Co., Ltd., which manages the assets of Heiwa Real Estate REIT, Inc., and in other ways that include providing Heiwa Real Estate REIT with warehousing functions.

Structuring a Value Chain with Heiwa Real Estate REIT

As the sponsor of Heiwa Real Estate REIT, the Company supports its growth, generating earnings in the process to strengthen the earning power of the entire Group. We will generate earnings in a value chain that links the various types of value available from real estate.



Housing Development

We develop carefully selected condominiums for sale and condominiums for lease for supply to REITs.



FY 2017 Results

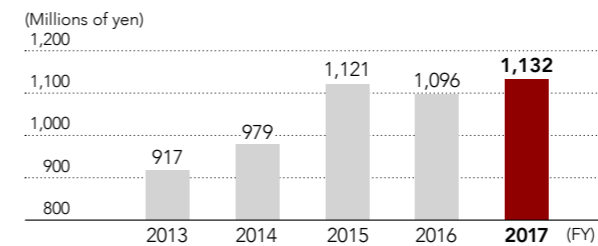
Main Points

Operating revenue ¥11,710 million
 (45.1% YoY decrease of ¥9,634 million)

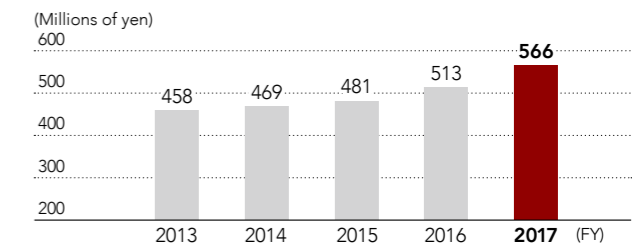
Operating income ¥3,022 million
 (26.1% YoY decrease of ¥1,065 million)

- HF Tabata Residence and HF Ryogoku Residence sold to Heiwa Real Estate REIT
- Asset management fees of Heiwa Real Estate Asset Management remained stable

Asset Management Fee Income from Heiwa Real Estate REIT



Dividend Income from Heiwa Real Estate REIT



Sale of Properties

	Ginza 8166 Building	LA01 Building	HF Tabata Residence	HF Ryogoku Residence	ORE Meieki Higashi Building
Location	Ginza, Chuo-ku	Shibuya, Shibuya-ku	Tabata-shinmachi, Kita-ku	Midori, Sumida-ku	Nakamura-ku, Nagoya City
Total floor area (No. of units)	1,198.44 m ²	388.19 m ²	2,511.94 m ² (56 units)	2,734.45 m ² (66 units)	4,227.29 m ²
Completed	February 2004	October 2016	December 2015	March 2017	October 1995
Acquired	August 2015	January 2017	Same as above	Same as above	September 2017
Sold	August 2017	May 2017	August 2017	December 2017	December 2017

Strategies for the Future

Expansion and Diversification of the Real Estate Solutions Business

As the sponsor of Heiwa Real Estate REIT, we will steadily expand the fee business in ways such as increasing the scale and quality of assets under management. Another objective is to diversify revenue-generating opportunities through Real Estate Solutions Business operations such as selling income-generating properties after maximizing their value through development and renovation, and lease up.

1. As the sponsor of Heiwa Real Estate REIT, we will expand the fee businesses to steadily increase earnings.
2. A goal of the Real Estate Solutions Business is to diversify earnings opportunities.

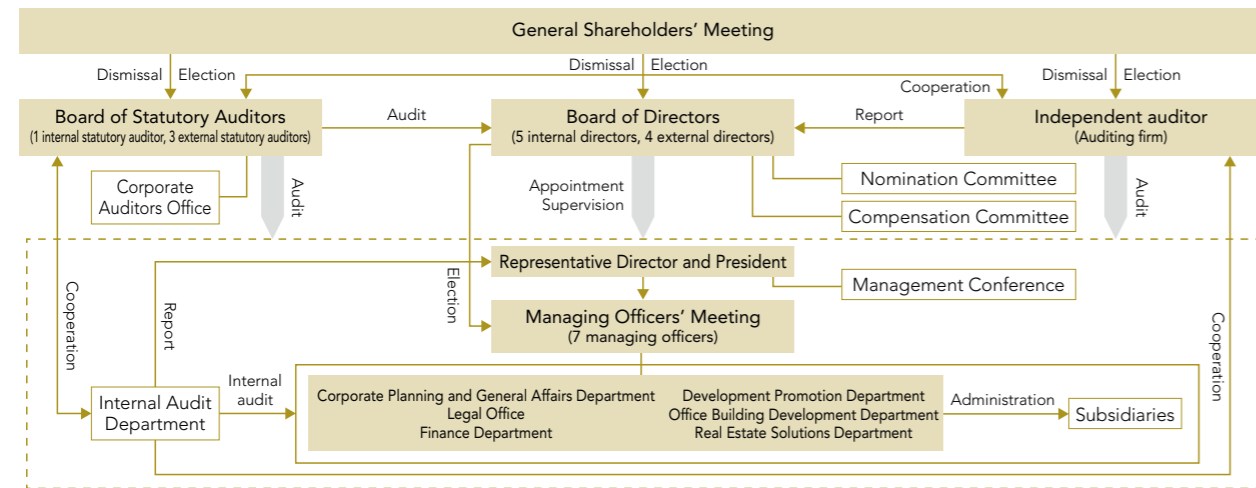
Shinichi Hayashi
 Director and
 Managing Officer



Basic Approach

Heiwa Real Estate considers the enhancement of corporate governance an important business issue. We strengthen Group corporate governance to earn the trust of shareholders and other stakeholders and to manage our businesses fairly and efficiently.

Corporate Governance System (As of June 26, 2018)



Board of Directors

- The Board of Directors makes decisions on matters specified by laws and regulations and the Regulations of the Board of Directors' Meetings (development of medium- to long-term management plans, disposal of important assets, etc.), and makes decisions on and supervises the execution of business.
- The Board of Directors consists of nine directors, including four external directors, of whom four are independent external directors.

Compensation Committee

- Heiwa Real Estate has a Compensation Committee consisting of a majority of external directors with the discretion to ensure the objectivity and transparency of director compensation.
- The committee determines the basic policy for director compensation, total amount of compensation, and compensation for individual directors. It addresses inquiries from and presents opinions to the Board of Directors.
- Director compensation consists of fixed basic compensation, Company stock and performance-based bonuses under a system that motivates directors to improve business performance and enhance corporate value over the medium and long term and helps Heiwa Real Estate secure outstanding people.

Nomination Committee

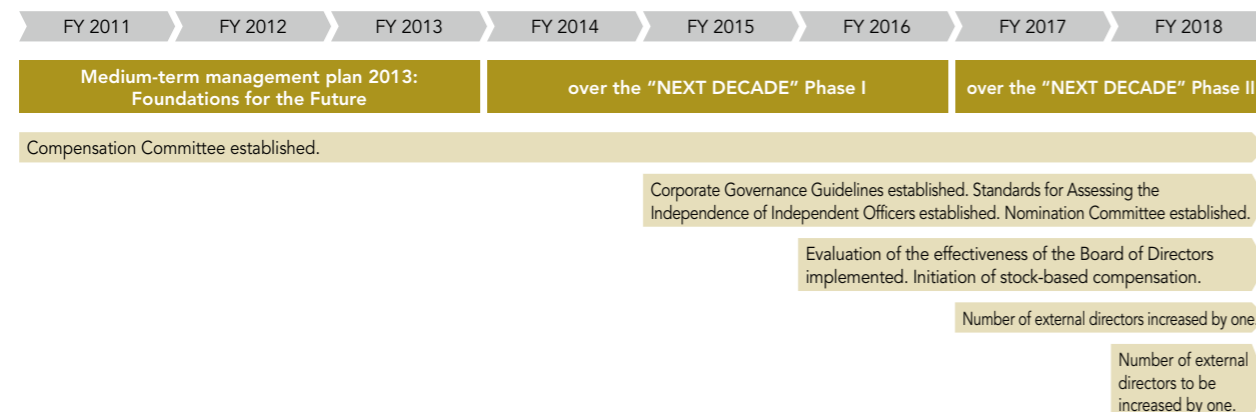
- Heiwa Real Estate has a Nomination Committee consisting of a majority of external directors with the discretion to ensure the objectivity and transparency of personnel affairs associated with directors and statutory auditors.

- The committee selects director and statutory auditor candidates of good character with sufficient ability and discernment to properly perform the duties required of the respective positions. It addresses inquiries from and presents opinions to the Board of Directors. Based on these opinions, the Board of Directors determines the specifics of the agenda for the election of director and statutory auditor candidates to be submitted to the General Shareholders' Meeting, subject to the consent of the Board of Statutory Auditors in the case of statutory auditor candidates.

Board of Statutory Auditors

- The Board of Statutory Auditors consists of four statutory auditors, including one internal statutory auditor and three external statutory auditors. Board members exchange opinions on audits, and full-time statutory auditors attend the Managing Officers' Meeting to reinforce management oversight.
- The Board of Statutory Auditors cooperates with external directors through discussions at Board of Directors' meetings. In addition, statutory auditors and external directors cooperate as necessary. The Board of Statutory Auditors also formulates the standards for evaluating independent auditors and appropriately selects independent auditors by verifying and confirming their independence and expertise, among other aspects, and ensures that audits are of high quality and conducted with appropriate timing.

Initiatives to Strengthen Corporate Governance



Environmental Initiatives

To address environmental concerns (reduce energy use) our initiatives focus on resources (reducing costs).

The trend toward buildings with higher environmental performance has been gaining momentum because of their large energy requirements. We consider the environment as well as the urban landscape when constructing and renovating buildings. Our approach helps to reduce the life cycle cost of buildings through long-term use and to preserve historical value.

The SMBC Sustainable Building Assessment Loan Program¹ and DBJ Green Building Certification² (As of June 30, 2018)

	Tokyo Stock Exchange Building	Osaka Securities Exchange Building	CentRise Sakae	Heiwa Real Estate Kitahama Building	Ichibancho Heiwa Building	Nisshokan Building	Kitahama 1-Chome Heiwa Building
SMBC Assessment	Gold	—	Platinum	Silver	Platinum	—	Platinum
DBJ Assessment	Gold	Gold	Gold	—	Gold	Gold	Gold

1. SMBC Sustainable Building Assessment Loan Program: An evaluation of environmental performance based on a set of criteria independently developed by Sumitomo Mitsui Banking Corporation and Woonerf Inc. (formerly CSR Design & Landscape Corporation).

2. DBJ Green Building Certification: A program for identifying and certifying green buildings, which are highly sought after in today's real estate market, based on a comprehensive assessment system that includes consideration of the societal needs of various stakeholders surrounding the property in addition to the property's environmental performance.

Community Initiatives

Kabuto Live! A Community Information Source

Kabuto Live! (URL: <https://kabuto-live.com/>) is the community website we operate for Nihonbashi Kabutocho and Kayabacho. Through it, we help vitalize the community by providing information on the culture of the Nihonbashi Kabutocho and Kayabacho financial district, neighborhood events and other topics. Kabuto Live! contributes to the district's vibrancy, and informs people about subjects including asset formation and about business matching and other events.



Participation in the Sanno Festival

We participate in the Sanno Festival, one of the three major festivals of Tokyo since the Edo era, by collaborating with the neighborhood association in carrying a mikoshi (portable shrine) through the streets of Nihonbashi Kabutocho.

The participation of numerous local companies has vitalized Nihonbashi Kabutocho and Kayabacho. We will continue to deepen interaction with local residents by actively participating in community events.



Contributions to the Community

Gift of Boulevard Trees to Chuo-ku

We gifted boulevard trees (20 dogwood trees) to the district from 1-9 to 2-4 Nihonbashi Kayabacho, Chuo-ku, Tokyo, which was targeted by the landscape improvement and boulevard tree planting project that the Chuo-ku government promoted for 2017.



Placement and Exhibition of the Red Stone from Sado in Connection with Eiichi Shibusawa

In 1888, when Eiichi Shibusawa, who is known as the father of capitalism in Japan, built his Kabutocho house in the place where the Nisshokan Building, in which our headquarters resides, is currently located, he placed the Red Stone from Sado there as a lucky stone to wish for the development of Japan's economy. As one of the activities to mark the 70th anniversary project, we exhibited the Red Stone from Sado in the Nihonbashi Kabutocho district for the first time in 110 years.



Consolidated Financial Highlights

(Millions of yen)
Negative numbers in parentheses

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Fiscal year (April 1 to March 31):					
Operating revenue	43,284	34,347	37,010	41,747	32,698
Operating income	8,055	8,548	8,267	9,673	9,432
Ordinary income	5,644	6,568	6,708	8,431	8,395
Net income attributable to owners of parent ¹	2,901	2,495	4,408	4,514	5,288
Depreciation	5,326	4,989	5,028	4,878	4,661
Cash flows from operating activities	13,824	12,557	9,954	20,980	13,482
Cash flows from investing activities	(6,388)	(15,160)	(2,600)	(13,017)	(17,265)
Cash flows from financing activities	(18,026)	(8,923)	(3,218)	(4,222)	(2,499)
Balance of cash and cash equivalents at end of period	22,903	11,242	15,377	19,117	12,784
As of March 31:					
Net assets	85,990	92,298	94,827	97,524	104,900
Total assets	296,834	297,736	294,021	293,025	302,795
Interest-bearing liabilities	170,335	162,490	160,232	157,051	155,786
Equity ratio (%)	29.0	31.0	32.3	33.3	34.6
Performance indicators:					
Dividends per share ² (Yen)	22.00	22.00	26.00	26.00	37.00
Earnings per share (EPS) (Yen)	72.72	62.53	110.50	113.17	132.57
Book value per share (BPS) (Yen)	2,154.94	2,313.34	2,377.02	2,444.84	2,630.07
Price-earnings ratio (PER) (Times)	22.66	27.00	12.67	13.91	15.46
Price-book ratio (PBR) (Times)	0.76	0.73	0.59	0.64	0.78
Payout ratio (%)	30.3	35.2	23.5	23.0	27.9
EBITDA ³	13,648	13,883	13,641	14,920	14,476
D/E ratio ³ (Times)	1.98	1.76	1.69	1.61	1.49
Net D/E ratio ³ (Times)	1.71	1.64	1.53	1.41	1.36
Ratio of EBITDA to net interest-bearing liabilities (Times)	10.79	10.89	10.61	9.24	9.84
Return on assets (ROA) ³ (%)	2.6	2.9	2.8	3.3	3.2
Return on equity (ROE) ³ (%)	3.4	2.8	4.7	4.7	5.2
Number of employees ⁴	285	281	281	224	233

1. Due to the revision of the Accounting Standard for Business Combinations and other revisions, the line item name used in the consolidated financial statements has been amended. The amended name was applied from FY 2015.

2. Annual dividends per share for FY 2017 included a 4.0 yen commemorative dividend celebrating the 70th anniversary of the Company's founding.

3. Financial indicators are calculated as follows:

EBITDA: Operating income + Financial income + Depreciation

D/E ratio: Interest-bearing liabilities + Net assets

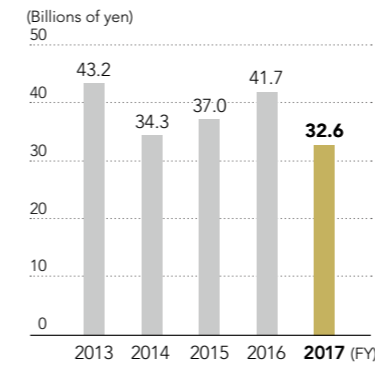
Net D/E ratio: (Interest-bearing liabilities - cash and deposits - marketable securities) + Net assets

ROA: Operating income + Total assets (average of total assets at beginning and end of period) x 100

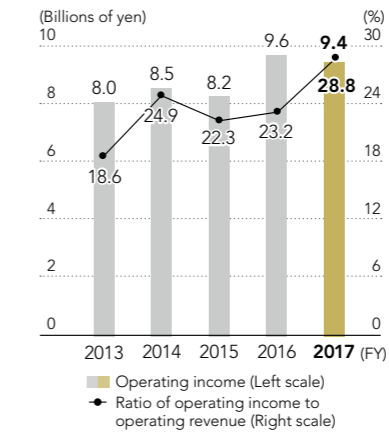
ROE: Net income + Equity (average of equity at beginning and end of period) x 100

4. The decrease in the number of employees in FY 2016 is mainly due to the exclusion of Heiwa Health Care Co., Ltd. from the scope of consolidation because the Heiwa Real Estate Group sold its entire stake in this company.

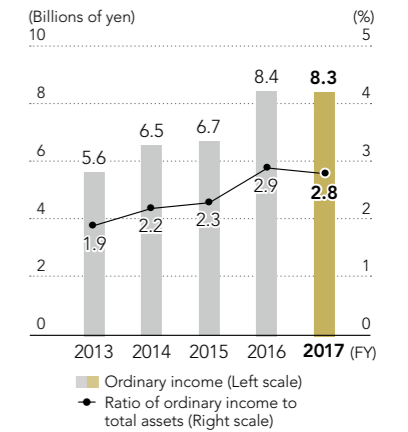
Operating Revenue



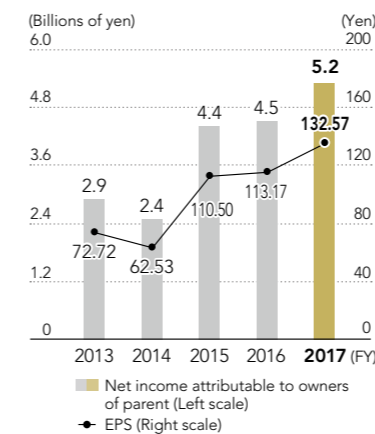
Operating Income and Ratio of Operating Income to Operating Revenue



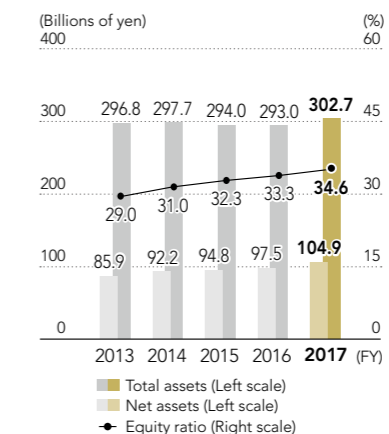
Ordinary Income and Ratio of Ordinary Income to Total Assets



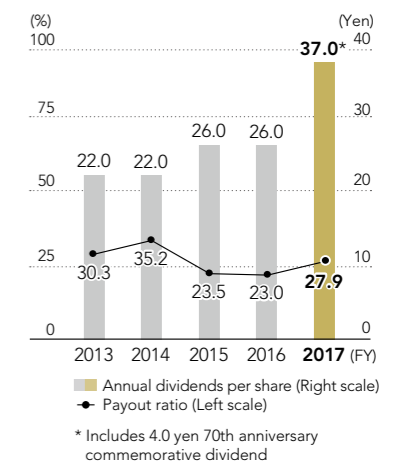
Net Income Attributable to Owners of Parent and EPS



Total Assets, Net Assets and Equity Ratio

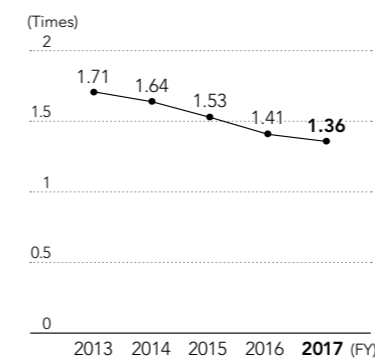


Annual Dividends per Share and Payout Ratio

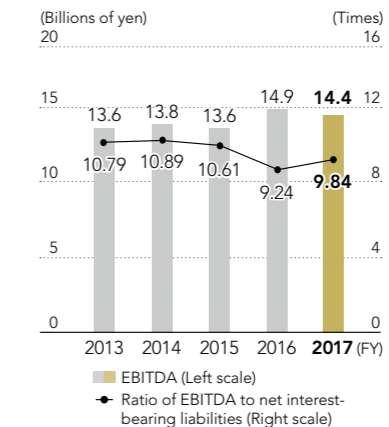


* Includes 4.0 yen 70th anniversary commemorative dividend

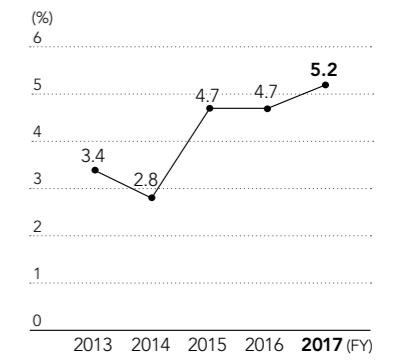
Net D/E Ratio



EBITDA and Ratio of EBITDA to Net Interest-bearing Liabilities



ROE





1 **Hiroyuki Iwakuma** Representative Director and President
 2 **Kiyoyuki Tsuchimoto** Director
 3 **Kazuo Yamada** Director
 4 **Norio Iwasaki** Director
 5 **Shinichi Hayashi** Director

6 **Motoya Aizawa** External Director
 1965: Joined Nippon Kangyo Securities Co., Ltd. (current Mizuho Securities Co., Ltd.)
 1973: Managing Director of Aizawa Securities Co., Ltd.
 1979: President and CEO of Aizawa Securities Co., Ltd.
 2008: Chairman and President of Aizawa Securities Co., Ltd.
 2010: External Director of the Company (current position)
 2011: President and CEO of Aizawa Securities Co., Ltd.
 2018: Chairman of Aizawa Securities Co., Ltd. (current position)

7 **Kunitaro Saida** External Director
 1969: Appointed public prosecutor
 2005: Superintendent public prosecutor of Osaka High Public Prosecutor's Office
 2006: Registered and commenced practice as attorney (current position)
 2007: External Statutory Auditor of Nichirei Corporation (current position)
 2008: External Director of Sumitomo Osaka Cement Co., Ltd. (current position)
 2010: External Director of the Company (current position)
 2014: External Director of Canon Inc. (current position)

8 **Kiichiro Masui** External Director
 1973: Entered the Ministry of Finance
 2003: Director-General of the Planning and Coordination Bureau of the Financial Services Agency
 2013: Chairman of the Japan Investor Protection Fund
 2014: Chairman of the Board of the Japan Securities Research Institute (current position)
 2016: Outside Director of Japan Credit Rating Agency, Ltd. (current position)
 2017: External Director of the Company (current position)

9 **Junji Ota** External Director
 1971: Joined Nippon Steel Corporation (current Nippon Steel & Sumitomo Metal Corporation)
 2005: Managing Director, Member of the Board of Nippon Steel Corporation (current Nippon Steel & Sumitomo Metal Corporation)
 2008: Senior Auditor of Nippon Steel Corporation (current Nippon Steel & Sumitomo Metal Corporation)
 2011: Chairman of Japan Audit & Supervisory Board Member Association
 2012: External Auditor of Enterprise Turnaround Initiative Corporation of Japan (current Regional Economy Vitalization Corporation of Japan) (current position)
 2016: Public Governor, Chair of Self-regulation Board & Vice-Chairman of Japan Securities Dealers Association (current position)
 2018: External Director of the Company (current position)

10 **Naoto Kato** Statutory Auditor (Full-time)

11 **Masayuki Hirose** External Statutory Auditor (Full-time)
 1979: Joined Tokyo Stock Exchange
 2009: Director of Japan Exchange Group, Inc. Statutory Corporate Auditor of Tokyo Stock Exchange, Inc.
 2013: Director of Japan Exchange Group, Inc. (Statutory Corporate Auditor)
 2014: Chairperson of Japan Audit & Supervisory Board Members Association
 2017: External Statutory Auditor of the Company (current position)

12 **Chikami Tsubaki** External Statutory Auditor
 1970: Joined Ebara - Inflico Co., Ltd. (current Ebara Corporation)
 1979: Registered and commenced practice as Certified Public Accountant (current position)
 1999: Representative Partner of Asahi & Co. (current KPMG Azsa LLC)
 2014: External Statutory Auditor of the Company (current position)
 2016: Outside Director of Seiko Epson Corporation (Audit Committee Member) (current position)

13 **Jun Sekine** External Statutory Auditor
 1978: Joined The Bank of Japan
 2007: Director-General, Research and Statistics Department, The Bank of Japan
 2008: Joined Okasan Securities Co., Ltd. Director, Okasan Securities Co., Ltd.
 2017: Executive Officer, Okasan Securities Group Inc.; Managing Executive Officer, Okasan Securities Co., Ltd.
 2018: External Statutory Auditor of the Company (current position)

Corporate Profile

Company name: Heiwa Real Estate Co., Ltd.
 Date of establishment: July 1947
 Head office: 1-10, Nihonbashi Kabutocho, Chuo-ku, Tokyo 103-8222, Japan
 Branches: Osaka Branch, Nagoya Branch, Fukuoka Branch, Sapporo Branch
 Representative: Hiroyuki Iwakuma, Representative Director and President
 Capital: ¥21,492 million
 Number of employees (consolidated): 233

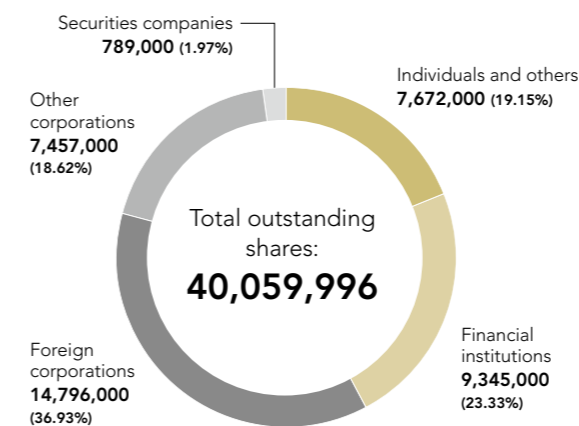
Group Companies

Heiwa Service Co., Ltd.
 Housing Service Co., Ltd.
 Heiwa Real Estate Asset Management Co., Ltd.
 The Tokyo Shoken Building Incorporated

Status of Shares

Total authorized shares: 110,000,000
 Total outstanding shares: 40,059,996
 Number of shareholders: 19,211

Distribution of Shares by Shareholder Type



Major Shareholders (Top 10)

Name	Number of shares (Thousands)	Percentage of total equity (%)*
Mitsubishi Estate Co., Ltd.	4,274	10.72
Japan Trustee Services Bank, Ltd. (Trust Account)	1,954	4.90
Misaki Engagement Master Fund	1,552	3.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,541	3.86
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,211	3.04
DFA International Small Cap Value Portfolio	989	2.48
BNP Paribas Securities Services Luxembourg/JASDEC/Securities-AIFM	856	2.15
Government of Norway	763	1.91
Japan Trustee Services Bank, Ltd. (Trust Account 5)	665	1.67
The Bank of New York Mellon 140042	657	1.65

* Percentage of total equity was calculated after deducting the number of shares held by the Company as treasury stock (174,783) from total outstanding shares.

Share Price and Trading Volume

