

Corporate Governance Guidelines



Heiwa Real Estate Co., Ltd. (the “Company”) has established these Guidelines to indicate the basic concept and framework regarding corporate governance based on the objectives of the principles of the Corporate Governance Code in order to achieve the Company Group’s sustainable growth and the enhancement of corporate value in the medium and long term.

In addition, the figures shown in brackets [] in each item of these Guidelines state each principle of the Corporate Governance Code to which it corresponds.

Chapter 1: General Provisions

1. Basic Concept regarding Corporate Governance [3-1(ii)]

The Company considers the enhancement of corporate governance to be an important business issue and, in addition to responding to the trust of shareholders and other stakeholders, strengthens corporate governance as a whole group for fair and efficient business management.

2. Basic Policies regarding Corporate Governance [3-1(ii)]

The Company has set forth the basic policies regarding corporate governance based on the purport of the individual principles of the Corporate Governance Code, as follows.

(i) The Company secures the rights of all the shareholders and substantial equality and ensures the establishment of the environment for shareholders’ appropriate exercise of their rights. [Basic Principle 1]

(ii) The Company recognizes that it is essential to cooperate with shareholders, employees, customers, suppliers, creditors, local communities and other stakeholders to achieve sustainable growth and the enhancement of corporate value in the medium and long term, and endeavors to create a corporate culture and climate that respect the rights and positions of stakeholders and wholesome ethics for business activities. [Basic Principle 2]

(iii) The Company conducts the proper disclosure of the financial and non-financial information required under laws and also actively discloses information not required under laws that it considers conducive to investment judgment by shareholders and investors. [Basic Principle 3]

(iv) The Company recognizes the Board of Directors’ fiduciary duty to the shareholders and endeavors to enhance the effectiveness of the supervisory function of the Board of Directors to improve the environment and profitability, both of which support appropriate risk-taking for the realization of sustainable growth and the enhancement of corporate value in the medium and long term. [Basic Principle 4]

(v) The Company will actively engage in constructive dialog with shareholders and investors to ensure sustainable growth and the enhancement of corporate value in the medium and long term. The Board of Directors pays attention to the opinions of shareholders and investors through such dialog, reflects them in business management and provides a clear explanation of its management policy to shareholders and investors, thereby securing the understanding and trust of the shareholders and other stakeholders for appropriate cooperation with them. [Basic Principle 5]

Chapter 2: Relationships with Shareholders

1. General Shareholders' Meeting

- (i) The Company endeavors to issue a notice concerning the convocation of the general shareholders' meeting at least three (3) weeks prior to the date of the general shareholders' meeting, and to disclose the agenda to be submitted to the general shareholders' meeting on the website and other media before the date of issue of the notice above so that the shareholders can secure adequate time for consideration of the agenda. [1-2②]
- (ii) The Company plans a schedule for the general shareholders' meeting and other relevant events so as to secure adequate and constructive dialog with shareholders and provide accurate information for such dialog, and holds the general shareholders' meeting before the day on which many companies hold shareholders' meetings so that as many shareholders as possible can attend the general shareholders' meeting. [1-2③]
- (iii) The Company endeavors to ensure an environment in which all the shareholders, including those not present at the general shareholders' meeting, can properly exercise their voting rights by using the electronic voting platforms and the notice of convocation translated into English, among other actions. [1-2④]
- (iv) The Company analyzes the main causes for approval and opposition expressed at the general shareholders' meeting to grasp the shareholders' intentions indicated at the general shareholders' meeting and reflect them in the business management. For an agenda opposed by multiple shareholders, the causes are analyzed and dialog is held with the shareholders. [1-1①]

2. Capital Policy, etc.

(i) Basic Policies for the Capital Policy

The Company recognizes that shareholders' equity is an important base for supporting appropriate risk-taking for the achievement of sustainable growth and the enhancement of corporate value in the medium and long term, and aims to increase the return on equity (ROE). [1-3]

With regard to any capital policy that might cause a change in controlling rights or a large-scale dilution of shares or otherwise prejudice the benefits of shareholders, the Board of Directors sufficiently examines and discusses them before decision-making and promptly announces and provides a full explanation of the necessity, rationality, etc. of the said capital policy to the shareholders. [1-6]

(ii) Shareholder Returns Policy

The Company will return profits to shareholders based on the assumption that its businesses, particularly the redevelopment and building leasing 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 will aim for a consolidated total shareholder return ratio of 70% from fiscal 2020 to 2023

by drawing from returns on business investments while placing importance on the cost of capital and capital efficiency.

3. Basic Policies regarding cross-shareholdings and the exercise of the voting rights relative to such cross-shareholdings [1-4]

(i) The Company holds shares of other companies as cross-shareholdings if it is considered beneficial to business development in the medium and long term in order to strengthen business relations, facilitate financial activities and solidify business alliances, among other purposes.

(ii) The Company has the Board of Directors examine every year whether cross-shareholdings are appropriate or not by taking into comprehensive consideration whether cross-shareholdings meet the purpose of strengthening business relationships, facilitating financial activities and solidifying business alliances, which are considered to be beneficial for business development in the medium and long term, as well as the benefits and capital costs of individual cross-shareholders. If the Company decides, as a result of such examination, that validity is not recognized in cross-shareholdings, the Company will reduce them through selling in consideration of share prices and the market trends.

(iii) The Company makes a judgment on the exercise of the voting rights of cross-shareholdings for each agenda item in light of the sustainable growth of the issuing company, the enhancement of corporate value in the medium and long term and the increase in shareholders' value by checking whether antisocial behavior is undertaken, whether material misconduct occurs and whether serious concern about corporate governance arises. The Company also makes a judgment on the approval or disapproval of an agenda item that could have an impact on the corporate value and shareholders' value by fully investigating the reason and purpose, etc.

4. Related Party Transactions [1-7]

(i) The Company's directors and executive officers obtain approval based on prior deliberations at the Board of Directors' meeting before transactions involving a conflict of interest and competing transactions stipulated by the Companies Act of Japan so as not to prejudice the benefit of the Company and the common benefit of the shareholders.

(ii) In addition, the importance of related party transactions other than those described above is confirmed according to the accounting standards for the disclosure of related parties and other standards, and any transactions that should be disclosed are reported to the Board of Directors and disclosed.

Chapter 3: Relationships with Stakeholders

1. Management Policy and Management Strategy [3-1(i)]

The Company's management policy is to provide safe and comfortable offices and living spaces, thereby contributing to people and the city. On that basis, the Company established a new medium-term management plan, Challenge & Progress, spanning from fiscal 2020 to 2023. The plan is designed to increase corporate value and help make society more sustainable through solutions for environmental issues and challenges faced by communities. The plan also calls on Heiwa Real Estate to interact with all stakeholders in order to raise their level of satisfaction with the Company's efforts to contribute to revitalizing districts.

2. Code of Conduct and Standards of Behavior [2-2]

(i) The Company aims to become an enterprise with high ethical principles that the community can rely on, and has established the "Code of Conduct" as the basic policy for the Company Group's corporate behavior.

(ii) At the Board of Directors' meeting, the Company adopted the "Standards of Behavior for Heiwa Real Estate Group" that set forth the matters to be observed by the Company Group's officers and employees in faithful and fair behavior in compliance with the Code of Conduct and social norms, and endeavors to ensure compliance with the said Standards.

3. Effort related to Sustainability

(i) The Company recognizes that responding to sustainability issues is an important management issue that not only results in reduction of risk but also profit opportunities, and is actively and positively working on this. [2-3①]

(ii) Through its activities as a company that contributes to revitalizing districts, the Company will contribute to the realization of a sustainable society through solving environmental and social issues and interaction with each stakeholder to raise the level of satisfaction. [4-2②]

(iii) The Company has established the Sustainability Committee, which consists of the executive officer, president and CEO as the chairperson, executive officers, managing officers and the heads of each department as the committee members, with the aim of smoothly promoting measures for the practice of sustainability management. [4-2②]

(iv) The Sustainability Committee monitors the PDCA cycle regarding measures and enhances the effectiveness of sustainability management. [4-2②]

(v) The Board of Directors will proactively and positively work with issues related to sustainability by receiving reports on monitoring by the Sustainability Committee. [4-2②]

4. Ensuring Internal Diversity, including Promoting the Active Participation of Women

(i) Based on the recognition that the existence of diverse perspectives and values that reflect different experiences, skills, and attributes within the Company can be a strength in ensuring the sustainable

growth of the Company, Heiwa Real Estate Co., Ltd. strives to ensure diversity, including promoting the active participation of women within the Company. [2-4]

(ii) In order to increase corporate value over the medium to long term, we strive to provide workplace environments where a diverse pool of talent, including both new graduates and mid-career recruits, can maximize their abilities and actively participate regardless of their nationality or gender. We evaluate employees according to their individual abilities, not personal attributes, when deciding promotions to managerial roles and our basic policy is to be inclusive of diversity. [2-4①]

(iii) We recognize that diversity in perspectives and values is important to achieve new growth. We work to ensure diversity in our workforce, offer fair opportunities for skills development and career promotion to all employees, and aim to develop self-directed employees with growth mindsets and strong motivation. [2-4①]

5. Fulfilment of Function as an Asset Owner of Corporate Pension [2-6]

The Company adopts a defined-benefit corporate pension plan. Given that the management of the reserve for corporate pension at the entrusted management agency will have an impact on the stable asset building of the employees and the financial position of the Company, the Company appropriately operates and manages the corporate pension by assigning human resources with the necessary experience and quality and cultivating human resources so that the persons in charge of corporate pension of the Company are able to conduct appropriate activities such as the monitoring of the management agency.

Chapter 4: Corporate Governance System

1. Organizational Structure and the Corporate Governance System [4-10]

The Company had adopted the scheme of a company with nomination committee, etc. aiming at reinforcement of supervisory function of Board of Directors by separation of supervision and business execution, clarification of authorities and responsibilities in business execution, promotion of agile management, improvement of transparency and objectivity by statutory Nomination, Audit and Compensation committees, and construction of governance system in accordance with the global perspective.

2. Board of Directors

(1) Role of the Board of Directors and Scope of Delegation to the Top Management [4-1①]

- (i) The Board of Directors decides on basic policies of management and supervises business execution by directors and executive officers.
- (ii) The Board of Directors passes resolutions on the matters specified under laws and regulations and the Regulations of the Board of Directors' meetings and delegates the execution of other business to the executive officers.

(2) Concepts regarding the Structure of the Board of Directors, etc., Balance, Diversity and Scale [4-11①]

- (i) The number of members of the Board of Directors is limited to eleven (11) as stipulated in the Articles of Incorporation, and a majority of these are independent external directors. [4-8]
- (ii) When appointing directors, in addition to considering diversity of gender and size, the Company will appoint directors in consideration of appropriate combination according to the business environment and business characteristics, after identifying required skills, etc. regarding the knowledge, experience, abilities, etc. that directors should have in light of the Company's management strategy. In addition, the Company has set a rule that external directors shall include those who have management experience at other companies. [3-1(iv), 4-10①, 4-11①]

(3) Directors Concurrently Serving as Officers of Other Listed Companies [4-11②]

- (i) The Company limits the number of instances of concurrent service by directors as officers of other listed companies to a reasonable extent to secure the time and labor necessary for the proper performance of the roles and duties required of them.
- (ii) The Company discloses the state of the directors concurrently serving as officers of other listed companies.

(4) Evaluation of the Board of Directors [4-11③]

The Company conducts a self-evaluation of the Board of Directors each year, and based on the results of the evaluation, a discussion is held on improvement at the Board of Directors' meeting for enhancing the effectiveness of the Board of Directors.

(5) Policies for Diligent Study, Research and Training of Directors [4-14②]

- (i) The Company provides explanations about the management strategies and business description and situations to external directors upon their assumption of office and upon their request thereafter to improve their understanding of the Company's business operations.
- (ii) The Company has established a system for providing support, including financial aid, from time to time to the directors in receipt of external training as needed for the acquisition of the knowledge required of the management supervisor and the necessary expertise to increase the understanding of the roles and duties expected of the individual directors.

3. Standards for Assessing the Independence of External Directors [4-9]

The Company stipulates the “Standards for Assessing the Independence of Independent Officers” as set forth in Attachment 1 hereto to ensure the independence and neutrality of external directors.

4. Nomination Committee (Policies and Procedures for the Election and Dismissal of the Senior Top Management and Nomination of Directors)

- (i) The Nomination Committee is composed of three (3) or more committee members chosen by the Board of Directors, and from the viewpoint of ensuring independence and objectivity, the chairperson of the Committee shall be an external director. [3-1 (iv)]
- (ii) The Nomination Committee decides on the content of proposals related to election and dismissal of directors to be submitted to the general shareholders' meeting, and formulates the standards for election and dismissal of directors. [3-1 (iv)]
- (iii) The Nomination Committee expresses opinions regarding the matters relating to the election and dismissal of executive officers and the succession plan for the representative executive officer, president and CEO upon consultation with the Board of Directors or with the representative executive officer, president and CEO. [4-1③]
- (iv) If there is a serious violation of a law, material misconduct or a marked lack of eligibility in the execution of duties by the senior top management, the Board of Directors passes a resolution on dismissal. [3-1(iv)]
- (v) The Company will disclose the reasons for the election and dismissal of the senior top management and the election, dismissal and appointment of the individual candidates for directors upon the election, dismissal and appointment thereof. [3-1(v)]

5. Audit Committee

- (i) The Audit Committee is composed of three (3) or more committee members chosen by the Board of Directors, and from the viewpoint of ensuring independence and objectivity, the chairperson of the Committee shall be an external director. Furthermore, from the perspective of enhancing the audit function, a statutory Audit Committee member will be selected.
- (ii) The Audit Committee audits business execution by directors and executive officers, prepares audit

reports, and decides on the content of proposals related to appointment, dismissal and non-reappointment of independent auditors.

(iii) The Audit Committee formulates the judgment standards for the evaluation of independent auditors and appropriately selects independent auditors by verifying and confirming their independence and expertise, among other aspects. [3-2①]

(iv) The Audit Committee ensures that audits are conducted in such a way that the audit time of independent auditors under the audit plan is appropriate in order to secure audits by independent auditors of high quality. [3-2②(i)]

6. Compensation Committee

(i) The Compensation Committee is composed of three (3) or more committee members chosen by the Board of Directors, and from the viewpoint of ensuring independence and objectivity, the chairperson of the Committee shall be an external director.

(ii) The Compensation Committee decides on policy related to decisions on the content of compensation, etc. for directors and executive officers individually, and decides on the content of compensation, etc. for directors and executive officers individually.

7. Independent External Directors' Meeting

(i) The Company has set up an Independent External Directors' Meeting for independent external directors to exchange information and share awareness, and to build an appropriate management structure for the Group through such activities. [4-8-1]

(ii) The Independent External Directors' Meeting is composed of all independent external directors, and appoints the first independent external director to communicate and coordinate with management and cooperate with the Audit Committee members or the Audit Committee. [4-8②]

8. Internal Control, etc. [4-3]

(i) The Board of Directors specifies the basic policies for the establishment of the internal control system and supervises the establishment of the system for compliance and risk management, among other aspects, and the administration thereof in order to ensure an environment that supports risk-taking by the senior top management. [4-3]

(ii) The Company assigns the executive officer, president and CEO as officers of primary responsibility for risk management, and has established the Risk Management Committee that consists of executive officers, managing officers and general managers and endeavors to appropriately grasp the overall risk of the Company Group and deal with any risks that are emerged. [4-3]

(iii) The Company has ensured collaboration with the Internal Audit Office, the directors and/or the Audit Committee by establishing a mechanism for the Internal Audit Office to appropriately and directly report to these in order to fulfill the functions of the Board of Directors and the Audit Committee. [4-13③]

9. Internal Reporting System

- (i) The Company has established the internal reporting system (compliance hotline) according to the Internal Reporting Regulations to ensure the conveyance of information on illegal or improper acts, etc. and also establishes the provisions for the internal reporting system under the basic policies for the establishment of the internal control system subject to a resolution of the Board of Directors. [2-5]
- (ii) The Company reports to the Board of Directors on the state of the improvement of the internal control system including the internal reporting system, subject to the supervision of the Board of Directors. [2-5]
- (iii) Under the Company's internal reporting system, corporate attorneys that are independent from the top management or the Internal Audit Office serve as the window. [2-5①]
- (iv) The Company provides for provisions to prevent any disadvantage to informants under the Internal Reporting Regulations and has established a system for the anonymous treatment of and prohibition of the disadvantageous treatment of informants. [2-5①]

Chapter 5: Proper Information Disclosure and Dialog with Shareholders

1. Policies for Dialog with Shareholders

- (i) The Company announces the “Policies for the Establishment/Improvement of and Initiatives for the System to Promote Constructive Dialog with Shareholders” approved by the Board of Directors as set forth in Attachment 2 hereto. [5-1]
- (ii) The department in charge of IR ensures information control to prevent the leakage of unannounced important insider information outside the Company through dialog according to the regulations for the control of insider information and the prevention of insider trading. [5-1v)]
- (iii) To promote sustainable growth and enhance the corporate value in the medium and long term, the Company sets and publishes medium- and long-term goals for capital efficiency, etc. after accurately grasping the capital cost when the Company formulates management strategies and management plans and works to achieve the goals and explains its efforts to that end to shareholders and others. [5-2]
- (iv) From the perspective of sustainable growth and enhancement of corporate value in the medium and long term, the Company has set up its basic policy to carry out appropriate business portfolio management in order to optimize the business portfolio and create synergies. [5-2①]

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Revised December 24, 2021

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(Attachment 1)

Standards for Assessing the Independence of External Directors

The Company judges that external directors are independent when they do not meet the standards set forth in Paragraph 2 below as well as the standards of independence specified by the financial instruments exchanges.

1. Policies for Election of External Directors

In the election of external directors, the Company considers it desirable that the Company has no personal relations, capital relations, business relations or any other interests with the external directors. Meanwhile, the Company also emphasizes a clear understanding of the Company's business and the expectation of useful roles for the Company's business expansion.

2. Standards of Independence of External Directors

- (1) Persons who execute the business of the Company's major suppliers *Notes 1 and 2
- (2) Persons who execute the business of companies whose major supplier is the Company *Note 3
- (3) Persons who execute the business of the Company's principal creditors *Note 4
- (4) Attorneys, certified public accountants, licensed tax accountants, consultants or any other experts who receive a large amount of money and other properties in addition to the executive compensation from the Company *Note 5
- (5) Persons who execute the business of entities that receive a large amount of donations from the Company *Note 6
- (6) Persons who execute the business of the Company's major shareholders *Note 7
- (7) Close relatives of those who fall under Items (1) to (6) above *Note 8
- (8) Those who fall under Items (1) to (7) above for the past three (3) years

(Notes) 1. "Persons who execute the business" shall refer to the executive directors, executive officers and managing officers.

2. "The Company's major suppliers" shall refer to an entity that pays the Company an amount equivalent to more than 2% of the Company's consolidated operating revenue for the most recent fiscal year.

3. "Companies whose major supplier is the Company" shall refer to an entity that receives from the Company the payment of an amount equivalent to more than 2% of the entity's consolidated operating revenue for the most recent fiscal year.

4. "Principal creditors" shall refer to an entity that provides the Company with loans in an amount equivalent to more than 2% of the Company's consolidated total assets for the most recent fiscal year.

5. "A large amount of money and other properties" shall refer to the payment of more than 10 million

yen annually.

6. “A large amount of donations” shall refer to donations of more than 10 million yen annually.
7. “Major shareholders” shall refer to the shareholders who own the shares equivalent to 10% or more of the total number of shares issued for the most recent fiscal year.
8. “Close relatives” shall refer to relatives within the second degree of relationship.

Policies for the Establishment/Improvement of and Initiatives for the System to Promote Constructive Dialog with Shareholders

1. Basic Policies for Dialog

The Company actively promotes constructive dialog with shareholders and investors to achieve sustainable growth and the enhancement of corporate value in the medium and long term. Through such dialog, the Company makes efforts to pay attention to the opinions of shareholders and investors, reflect them in business management and provide clear explanations of its management policy to shareholders and investors, thereby securing the understanding and trust of the shareholders and other stakeholders for appropriate cooperation with them.

2. Establishment of the System to Promote Constructive Dialog

(1) System for IR

The Company assigns the executive officer, president and CEO as officers of primary responsibility for dialog with shareholders and investors, the department in charge of IR conducts proper and timely information disclosure in cooperation with the relevant departments for constructive dialog with shareholders and investors.

(2) System for Control of Insider Information

- (i) The regulations for the control of insider information and the prevention of insider trading are established and applied comprehensively.
- (ii) To prevent the provision of insider information, multiple personnel in charge meet shareholders and investors.

(3) System for Achieving Fair Information Disclosure

The Company makes efforts to achieve appropriate and fair information disclosure to shareholders and investors by developing and operating regulations on the publication of important information to comply with the Fair Disclosure Rules.

3. Initiatives to Promote Constructive Dialog

- (i) Financial results briefings are held twice per year: at the time of the settlement of accounts for the second quarter and at the fiscal year end.
- (ii) Non-financial information is actively disclosed via the website.
- (iii) Efforts are made to report to the top management on opinions and other feedback obtained through dialog with shareholders and investors for the improvement of business management.