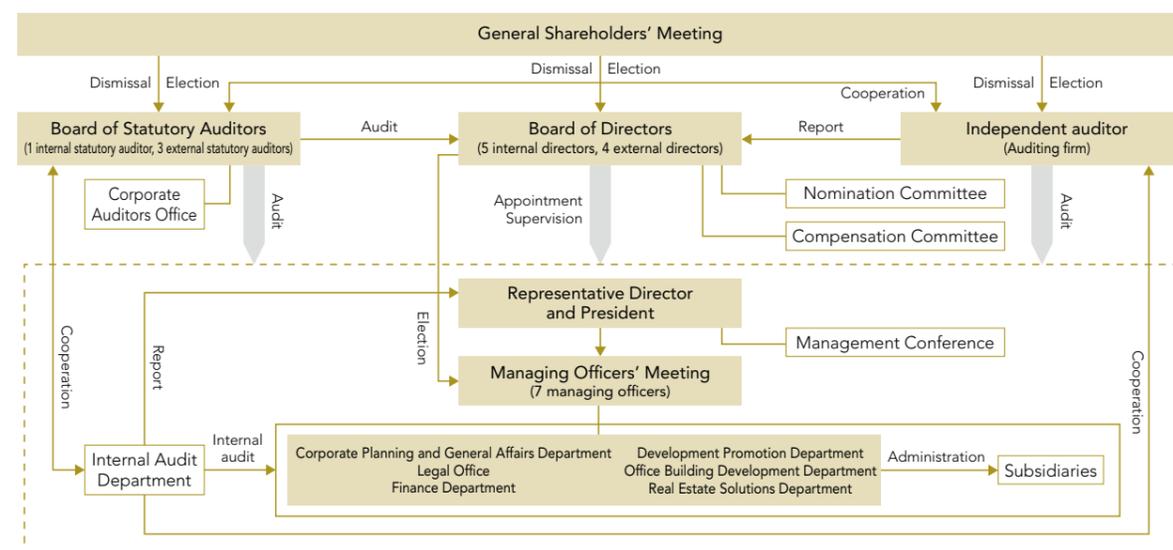


Basic Approach

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, 2019)



Board of Directors

- The main roles of the Board of Directors are to establish the Company's management philosophy and set strategic directions. In deciding management plans and strategies, the Board of Directors conducts sound discussions, and based on the direction of those discussions, it decides and supervises the execution of important matters.
- The board 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.). The execution of other business is delegated to directors serving as executive officers, or to executive officers.
- The board consists of nine directors, including four external directors, all of whom are independent external directors.

Compensation Committee

- Heiwa Real Estate has a discretionary Compensation Committee under the Board of Directors. It is chaired by an external director and consists of a majority of external directors to ensure the objectivity and transparency of director compensation.
- Director compensation consists of fixed base salary, bonuses and performance-linked stock compensation under a system that motivates directors to improve business performance, enhance corporate value over the medium to long term and share it with shareholders, and helps Heiwa Real Estate secure outstanding people.
- The committee determines the basic policy for director compensation, total amount of compensation, and compensation for individual directors. It also addresses inquiries from and presents opinions to the Board of Directors regarding matters pertaining to director compensation that the Board of Directors submits to the General Shareholders' Meeting.

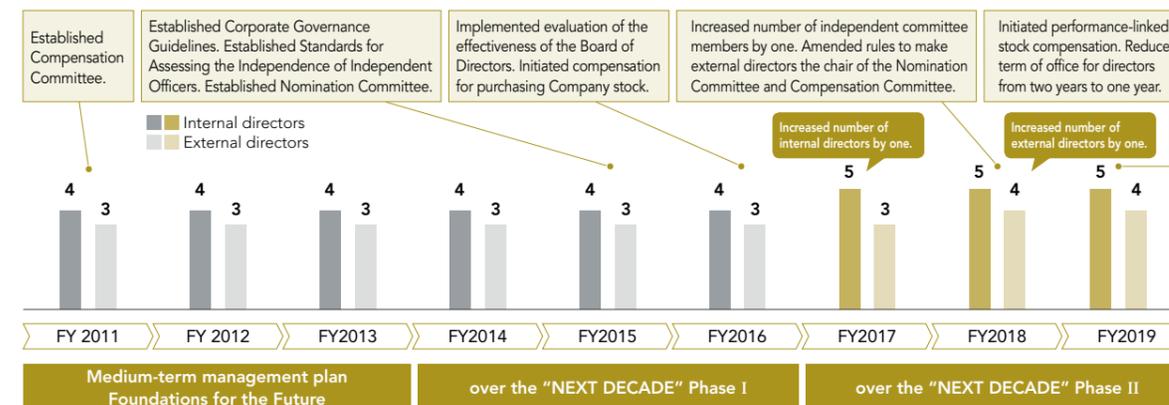
Nomination Committee

- Heiwa Real Estate has a discretionary Nomination Committee under the Board of Directors. It is chaired by an external director and consists of a majority of external directors 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. In addition, the Nomination Committee makes decisions regarding the dismissal of senior management in the event of material infringement of laws and regulations in the execution of duties. Based on the opinions of the Nomination Committee, the Board of Directors determines the specifics of the agenda for election or dismissal of the relevant individuals 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 makes appropriate decisions from an independent and objective standpoint conscious of its fiduciary duties to shareholders in performing its roles and responsibilities, which include auditing the execution of duties by directors, selection and dismissal of the independent auditor and exercising its authority in matters pertaining to statutory auditor compensation.
- The board has formulated evaluation standards for and has appropriately selected its independent auditor by testing and confirming its level of independence and expertise.
- The board consists of four statutory auditors, two of whom are full-time statutory auditors and three of whom are external statutory auditors.

Initiatives to Strengthen Corporate Governance



Reasons for Selection of External Directors and Meeting Attendance

Name	Independent officer	Reasons for selection	Attendance at Board of Directors' Meetings (FY 2018)
Motoya Aizawa	○	Mr. Aizawa has served as the president and CEO of a securities company and has experience as a corporate manager. Based on his deep knowledge of securities and finance, and his experience in corporate management, the Company determined that he could play an appropriate role in strengthening the supervisory function of the Board of Directors from an independent and objective standpoint and contribute to management as a director.	12 of 12 meetings (100%)
Kunitaro Saida	○	Following a career as a superintendent public prosecutor in the respective High Public Prosecutors Offices of Takamatsu, Hiroshima, and Osaka, Mr. Saida engaged in corporate legal affairs as an attorney. Based on his expert knowledge and experience in the legal profession, the Company determined that he could play an appropriate role in strengthening the supervisory function of the Board of Directors from an independent and objective standpoint and contribute to management as a director.	12 of 12 meetings (100%)
Kiichiro Masui	○	Based on his position as Chairman of the Board of The Japan Securities Research Institute and his specialized knowledge and experience in the financial and securities markets, the Company determined that he could play an appropriate role in strengthening the supervisory function of the Board of Directors from an independent and objective standpoint, and also expects him to help improve the corporate value of the Company.	12 of 12 meetings (100%)
Junji Ota	○	Mr. Ota has served as a director of Nippon Steel Corporation, and has a track record as a corporate manager. Based on his deep knowledge of and experience in corporate management, the Company determined that he could play an appropriate role in strengthening the supervisory function of the Board of Directors from an independent and objective standpoint and contribute to management as a director.	9 of 9 meetings* (100%)

\* Mr. Ota's record of attendance at Board of Directors meetings commenced with his appointment as director in June 2018.

Introduction of Performance-linked Stock Compensation Plan for Directors and Executive Officers

As per a resolution of the 99th Ordinary General Shareholders' Meeting held on June 26, 2019, the Company decided to introduce a performance-linked stock compensation plan for directors (excluding external directors and non-residents of Japan) and executive officers (excluding non-residents of Japan) and established a trust to provide up to 75,000 shares and ¥150 million over three fiscal years. The aim of this plan is to clearly link the compensation of directors and executive officers with the Company's performance and share price, and to motivate them to work toward improving the Company's performance over the medium to long term and increase corporate value, while placing them in the same position as other shareholders with respect to the benefits of share price increases and the risk of share price decreases.

Composition of Director and Executive Officer Compensation

Fixed compensation	Base salary
Short-term incentive	Bonuses
Medium- to long-term incentive	Performance-linked stock compensation

Method for Calculating Performance-linked Stock Compensation

Points are awarded each fiscal year according to factors including management rank and performance, based on the Company's Stock Compensation Rules. The Company will provide shares equivalent to the number of points and monetary compensation corresponding to the Company's market capitalization.

(Point conversion formula)

$$\text{Points awarded} = \text{Fixed portion management rank points}^1 + \text{Performance-linked portion management rank points}^1 \times \text{Performance-linked coefficient}^2 + \text{Performance-linked portion management rank points}^2 \times \text{Performance-linked coefficient}^2$$

- Fixed portion management rank points and performance-linked portion management rank points are calculated by dividing the standard amount of stock compensation per management rank by the average cost of acquiring the Company's shares by the trust.
- The performance-linked coefficient ranges from 0% to 150% depending on the rate of achievement of targets for consolidated operating income and growth in total shareholder return in each fiscal year.