ANNUAL REPORT 2021

Year Ended March 31, 2021

HEIWA REAL ESTATE

Contents

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 comprised 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 city of Nagareyama's Heiwadai district
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 city of Abiko's Fusaheiwadai district
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.)
February 1986	Completed construction of the Yokohama Heiwa Building
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
October 2011	Completed construction of the Heiwa Real Estate Kitahama Building
January 2012	Completed construction of the Ichibancho Heiwa Building
January 2013	Made The Tokyo Shoken Building Incorporated a consolidated subsidiary
February 2015	Completed construction of the Kitahama 1-Chome Heiwa Building
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

2. Overview of Business Activities

The Heiwa Real Estate Group (hereafter, "the Group") is comprised of Heiwa Real Estate Co., Ltd. (hereafter, "the Company"), which files consolidated financial statements as the parent company, and its four 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. Effective from April 1, 2020, the Company's reportable segments were changed as follows: the Leasing Business segment was renamed as the Building Business segment, and the Real Estate Solutions Business segment was renamed as the Asset Management Business segment. This change was limited to reportable segment names only, and had no effect on segment reporting.

(1) Building Business

The Company develops, leases, manages and operates stock exchange buildings, office buildings, commercial facilities, and residential buildings. The Tokyo Shoken Building Incorporated owns and leases real estate, and manages halls, conference facilities, and restaurants.

(2) Asset Management Business

The Company develops, sells, operates, and manages revenue-generating real estate, develops and sells residential properties, and provides real estate agency services.

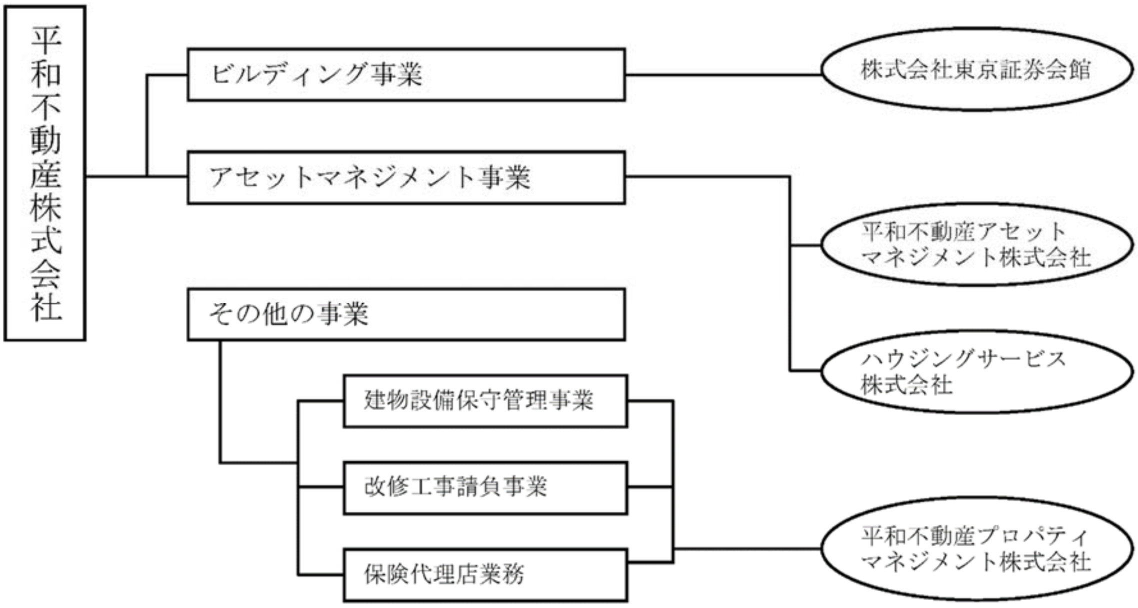
Heiwa Real Estate Asset Management Co., Ltd. manages the properties of Heiwa Real Estate REIT, Inc.

Housing Service Co., Ltd. also provides real estate agency services.

(3) Other Businesses

Heiwa Real Estate Property Management Co., Ltd. provides building facility maintenance and management, repair work contracting, and insurance services.

The details above are shown in the following diagram.



(上図内テキスト)

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
その他の事業	Other Businesses
建物設備保守管理事業	Building facility maintenance and management
改修工事請負事業	Repair work contracting
保険代理店業務	Insurance services
株式会社東京証券会館	The Tokyo Shoken Building Incorporated
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.
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.

The Company’s Board of Directors resolved, in a meeting held on April 30, 2021, to change its reportable segments from the current fiscal year, effective retroactively from April 1, 2021.

Firstly, the Company will transfer the Real Estate Investment Department from the Asset Management Business segment to the Building Business segment. The Real Estate Investment Department handles the development, sale, and investment in real estate for sale, and the acquisition and sale of fixed assets. This change was made in consideration of future business development plans following a decision to transfer two properties for lease from fixed assets to real estate for sale effective from April 1, 2021. This reassignment is in line with the Company’s portfolio strategy in its current medium-term management plan of acquiring new properties for lease as a means to expand the portfolio, and generating earnings from the sale of properties in the process of replacing portfolio properties.

Secondly, the Company will transfer its subsidiary, Heiwa Real Estate Property Management Co., Ltd. (renamed from Heiwa Service Co., Ltd., effective from March 1, 2021), from the Other Businesses segment to the Building Business segment, effective from April 1, 2021. This change was made because the subsidiary will develop comprehensive property management services while expanding its current building facility maintenance and management business.

As a result of these two changes, the Building Business segment will handle the development, leasing, management, operations, and sales of stock exchange buildings, office buildings, commercial facilities, and residential buildings, while the Asset Management Business segment will mainly manage the properties through Heiwa Real Estate REIT, Inc., and provide real estate brokerage services though Housing Service Co., Ltd..

3. Overview of Subsidiaries and Affiliates

Company name	Location	Common stock (millions of yen)	Main business activities[2]	The Company's voting rights and ownership (%)	Related activities
Consolidated subsidiaries					
Heiwa Real Estate Property Management Co., Ltd.[1]	Chuo-ku, Tokyo	134	Other Businesses	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

(Notes) 1. Heiwa Real Estate Property Management Co., Ltd. was renamed from Heiwa Service Co., Ltd., effective from March 1, 2021.

2. The main business activities correspond to the business segment names. As stated in 2. Overview of Business Activities above, the main operations of Heiwa Real Estate Property Management Co., Ltd. were transferred to the Building Business effective from April 1, 2021.

4. Employee Data

(1) Employees of the Group

(As of March 31, 2021)

Segment	Number of employees
Building Business	72
Asset Management Business	90
Other Businesses	51
Group-wide non-segment	27
Total	240

(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 administrative divisions.

(2) Employees of the Company

(As of March 31, 2021)

Number of employees	Average age of employees	Average years of employment	Average annual salary (thousands of yen)
102	42.5	14.8	10,126

Segment	Number of employees
Building Business	59
Asset Management Business	16
Company-wide non-segment	27
Total	102

(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 administrative divisions.

(3) Labor Unions

Employees of The Tokyo Shoken Building Incorporated, a consolidated subsidiary, have formed a labor union, and this company and the labor union have been maintaining a constructive relationship. There are no matters deserving special mention.

Part 2 Business Overview

1. Management Policies, Operating Environment, and Issues to Address

Forward-looking statements in this report were based on judgements made as of March 31, 2021.

Management Policies, Operating Environment, and Issues to Address

The Japanese economy is expected to recover due to various measures implemented by the government, but the impact of the COVID-19 pandemic on the domestic and global economy will need to be closely monitored going forward. In Japan's real estate industry, the Company must pay close attention to the impact of recent trends on demand for leased offices in the office building leasing market, including increasingly diverse working conditions and lifestyles. In Japan's real estate investment market, investors are expected to continue actively investing in real estate as the government maintains its easy monetary policy.

In this operating environment, the Group will execute the following business strategies of its medium-term management plan, Challenge & Progress, spanning from fiscal 2020 to fiscal 2023.

The Heiwa Real Estate Group's Vision

As a group of companies that contribute to the revitalization of districts, the Heiwa Real Estate Group will work to raise its value and help build a sustainable society by engaging with stakeholders to raise their satisfaction and providing solutions to environmental problems and issues facing society.

Building a sustainable society as a group of companies that contribute to the revitalization of districts

Through its efforts to revitalize Tokyo's Nihonbashi Kabutocho and Kayabacho districts, redevelop areas of Sapporo, and manage real estate assets, the Group will help build a more sustainable society and maintain safe and secure districts that are environmentally friendly and prepared for disasters.

Increasing shareholder value as a listed real estate company

The Company will aim to increase shareholder value by generating returns for shareholders and raising capital efficiency, making maximum use of the sources of the Group's value while adding value to its real estate properties.

Challenge & Progress medium-term management plan spanning from fiscal 2020 to fiscal 2023

During the three-year period of the plan, the Company will continue revitalizing Tokyo's Nihonbashi Kabutocho and Kayabacho districts, redevelop commercial areas in Sapporo, and shift to a business model designed to create added value through external and internal growth. At the same time, it will take on challenges and promote progress as a company that contributes to the revitalization of districts through sustainability initiatives that offer solutions to issues facing society today.

Strategies for each business from fiscal 2020 to fiscal 2023

(1) Redevelopment Business

1) Revitalization of Tokyo's Nihonbashi Kabutocho and Kayabacho districts

The Company will work to foster prosperity in the Nihonbashi Kabutocho and Kayabacho districts it is redeveloping and contribute to the Tokyo Metropolitan Government's vision to make Tokyo a "global financial city" by initiating new urban redevelopment projects, including the KABUTO ONE building, with a view to create sustainable and diverse urban areas.

2) Redevelopment of commercial areas in Sapporo

The Company will promote full-fledged redevelopment of commercial areas in Sapporo through its Dogin Building redevelopment project and participation in a city-led project to redevelop Sapporo Station's South Exit area (surrounding the Sapporo Ekimae Godo Building).

(2) Building Business

1) Pursuit of external and internal growth

The Company will acquire new properties for lease as a means to expand its portfolio, and generate earnings from the sale of real estate in the process of replacing portfolio properties. It also aims to increase the profitability of the portfolio by increasing rent amounts based on trends in the office building leasing market.

2) Sustainable building management focusing on improving environmental performance and disaster preparedness

The Company will enhance the environmental performance and disaster preparedness of its buildings through investment in facilities and solutions-oriented building management with a view to reduce CO_2 emissions over the long term.

(3) Asset Management Business

1) Expansion of asset management revenues

The Company will aim to increase the Group's revenues from asset management fees by facilitating the growth of Heiwa Real Estate REIT, Inc.

2) Earnings from the sale of portfolio properties

The Company will work to secure earnings by selling revenue-generating properties, maximizing the value of those properties through real estate development, lease-ups, renovations, and other initiatives, and by developing residential properties for its HF Residence series.

(4) Corporate Management

1) Capital policy focused on capital costs and capital efficiency

The Company works to lower capital costs and improve capital efficiency as a matter of policy, and has set targets for key performance indicators (KPIs) to achieve those goals. Specifically, it is targeting return on equity (ROE) of 6% or higher and a consolidated total shareholder return ratio of around 70% between fiscal 2020 and 2023, and a consolidated dividend payout ratio of around 50% by fiscal 2023.

2) Measures for strengthening corporate governance

The Company intends to further strengthen its corporate governance by reducing cross-shareholdings and continually revamping its compensation system for directors and officers. It will also strive to ensure strict compliance by raising awareness of compliance-related issues among officers and employees.

3) Sustainable management practices

The Company aims to contribute to the growth and sustainability of society by providing relevant solutions through its business activities and implementing measures to help achieve the UN Sustainability Development Goals. To more effectively execute these actions, the Company established its Sustainability Committee and has assigned management and executives to monitor related activities by implementing a PDCA cycle. In addition, the Company is taking steps to improve the health of employees, facilitate better internal communication, and make its organizations more dynamic with the goal of enhancing its corporate value.

Numerical targets

(1) KPIs

The Company has set a target for ROE as a means to control capital costs, and maintains a sufficient level of internal reserves for shareholder returns based on current investment returns in the real estate market.

Profit targets	Earnings per share	Minimum ¥200 by fiscal 2023
	Consolidated operating income	Minimum ¥12 billion* by fiscal 2023
Capital efficiency	ROE	Minimum 6% from fiscal 2020 to 2023
Shareholder returns	Consolidated total shareholder return ratio	Around 70% from fiscal 2020 to 2023
	Consolidated dividend payout ratio	Around 50% by fiscal 2023

(Note) In addition to the targets above, the Company is aiming for a net debt-to-equity ratio, an indicator of financial soundness, of 1.8 or lower.

* Breakdown of the consolidated operating income target by business segment

・Building Business: ¥11.8 billion

・Asset Management Business: ¥1.8 billion

・Intercompany eliminations and other adjustments: −¥1.6 billion

(2) Investment Plan for Fiscal 2020 to 2023

Business	Investment amount
Redevelopment Business	Approx. ¥32 billion Breakdown: Approx. ¥22 billion for redevelopment projects in Tokyo's Nihonbashi Kabutocho and Kayabacho districts Approx. ¥10 billion for redevelopment projects in Sapporo
Building Business	Approx. ¥60 billion for property acquisitions Approx. ¥20 billion in returns from replacing portfolio properties Approx. ¥34 billion in returns from selling currently owned properties

The targeted and planned amounts for the KPIs and investment plans, above, are as of the time this report was submitted. The Company makes no guarantee that these targets and plans will be achieved, and results could differ substantially. These targets and investment plans 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 the fiscal year under review is presented as follows.

1) Financial position and operating results

In fiscal 2020, ended March 31, 2021, economic conditions in Japan remained severe as a result of the worldwide COVID-19 pandemic. Although economic activity is expected to resume following various measures implemented by the government, the effectiveness of those measures is not entirely clear. The impact of the COVID-19 situation on the domestic and global economy will need to be closely monitored going forward.

In Japan’s real estate industry, vacancy rates increased in the office building leasing market as companies adopted remote work practices in response to the COVID-19 situation. In the real estate investment market, demand was bullish and properties continued to be actively acquired as investors demonstrated strong interest in investing in Japanese real estate amid favorable financing conditions and a relatively insignificant effect from the pandemic. Nevertheless, the impact of the COVID-19 situation on Japan’s real estate market will need to be continually monitored.

In that business environment, the Heiwa Real Estate Group worked to increase its corporate value under its medium-term management plan, Challenge & Progress, which was announced on April 30, 2020, by promoting redevelopment projects and pursuing external growth in its Building Business and Asset Management Business. The Group also took steps to prevent the further spread of coronavirus infections by having its employees telecommute and use online meeting systems, and by digitalizing in-house work procedures.

Among consolidated financial results in the fiscal year under review, operating revenue totaled ¥35,048 million, a decrease of ¥11,590 million (24.9%) year on year. Operating income was ¥11,228 million, up ¥324 million (3.0%), ordinary income came to ¥10,244 million, an increase of ¥238 million (2.4%), and net income attributable to owners of parent amounted to ¥7,118 million, an increase of ¥72 million (1.0%) compared with the previous fiscal year, a record-high for the Group.

Effective from April 1, 2020, the Company’s reportable segments were changed as follows: the Leasing Business segment was renamed as the Building Business segment, and the Real Estate Solutions Business segment was renamed as the Asset Management Business segment. This change was limited to reportable segment names, and had no effect on segment reporting.

Consolidated financial results by business segment are shown in the following table.

Consolidated Financial Results by Segment (Millions of yen)

Segment	Fiscal 2019		Fiscal 2020		Difference	
	Operating revenue	Operating income	Operating revenue	Operating income	Operating revenue	Operating income
Building Business	22,508	9,080	21,713	8,573	(794)	(507)
Asset Management Business	22,136	3,128	11,969	3,937	(10,166)	809
Other Businesses	1,995	180	1,365	84	(630)	(95)
Adjustments	—	(1,485)	—	(1,367)	—	118
Total	46,639	10,903	35,048	11,228	(11,590)	324

Operating revenue from major tenants and their percentage of total operating revenue in fiscal 2019 and 2020 are as follows.

Tenant	Fiscal 2019		Fiscal 2020	
	Operating revenue (millions of yen)	Percentage of total operating revenue	Operating revenue (millions of yen)	Percentage of total operating revenue
Asil Sapporo GK	12,000	25.7	—	—
Nippon Open Ended Real Estate Investment Corporation	—	—	8,160	23.3

(Note) Only tenants that account for 10% or more of total operating revenue are reported as major tenants.

(1) Building Business

In the Building Business segment, revenue from building leasing increased by ¥550 million (2.7%) year on year to ¥21,110 million. This was mainly due to the contribution of leasing revenue from Solala Plaza (Sendai-shi, Miyagi), acquired in the previous fiscal year, and the Kabutocho Heiwa Building No. 7 (Chuo-ku, Tokyo), Shimbashi Square Building (Minato-ku, Tokyo), and Heiwa Real Estate Nihonbashi Building (Chuo-ku, Tokyo), which were acquired in the fiscal year under review. This contribution offset decreases in revenues from other operations caused by the impact of COVID-19. By property type, the total amount of leasing revenue was comprised of ¥3,317 million from stock exchange buildings, ¥14,617 million from office buildings, and ¥3,175 million from commercial facilities. Combined with operating revenue from other types of Company-owned properties, total operating revenue in the Building Business segment amounted to ¥21,713 million, down ¥794 million (3.5%) year on year. Operating income totaled ¥8,573 million, a decrease of ¥507 million (5.6%), largely as a result of increases in operating asset management expenses and property taxes.

As of March 31, 2021, the overall vacancy rate of leased buildings of the Building Business segment was 1.96%. Excluding buildings for which leases have been suspended due to redevelopment in the Nihonbashi Kabutocho and Kayabacho districts, the vacancy rate would be 1.50%.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2019		Fiscal 2020	
	Area (m^2)	Amount	Area (m^2)	Amount
Leasing revenue from land	Leased land area 3,380.75	111	Leased land area 3,380.75	107
Leasing revenue from buildings	Leased floor space 402,575.70 Subleased floor space 163.96	20,560	Leased floor space 413,058.42 Subleased floor space 23.74	21,110
Operating revenue from leased assets	—	1,080	—	—
Other	—	756	—	495
Total	—	22,508	—	21,713

(2) Asset Management Business

In the Asset Management Business segment, although management fees increased by ¥147 million (12.3%) to ¥1,343 million, operating revenue from developed real estate decreased by ¥9,890 million (54.8%) to ¥8,160 million, mainly due to decreased sales of inventories (real estate properties). Combined with the results for leasing revenue from developed real estate and brokerage commissions, operating revenue amounted to ¥11,969 million, a decrease of ¥10,166 million (45.9%) compared with the same period of the previous fiscal year. On the other hand, operating income increased by ¥809 million (25.9%) year on year to ¥3,937 million, largely due to increased sales of inventories.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2019	Fiscal 2020	Difference
Management fees	1,196	1,343	147
Operating revenue from developed real estate	18,050	8,160	(9,890)
Leasing revenue from developed real estate	2,058	1,778	(280)
Brokerage commissions	831	688	(143)
Total	22,136	11,969	(10,166)

(3) Other Businesses

In the Other Businesses segment, operating revenue decreased by ¥630 million (31.6%) to ¥1,365 million, and operating income fell by ¥95 million (52.9%) to ¥84 million year on year.

2) Cash flows

As of March 31, 2021, cash and cash equivalents amounted to ¥29,585 million, an increase of ¥2,419 million compared with March 31, 2020.

Fiscal 2020 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 came to ¥8,292 million, compared with ¥28,680 million in the previous fiscal year. Main inflows were income before income taxes of ¥10,216 million and depreciation of ¥5,077 million. Main outflows were ¥4,006 million in income taxes paid, ¥1,320 million in interest paid, a decrease in accrued consumption taxes of ¥1,320 million, and an increase in operating investments of ¥1,199 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥30,200 million, compared with ¥11,427 million in the previous fiscal year. Main outflows included ¥26,894 million for the purchase of tangible fixed assets and ¥4,231 million for the purchase of intangible fixed assets.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥24,327 million, compared with net cash used in financing activities of ¥1,829 million in the previous fiscal year. Main inflows were an increase in short-term loans payable of ¥3,000 million, proceeds from long-term loans payable of ¥27,150 million, and proceeds from the issuance of bonds totaling ¥7,000 million. Main outflows included repayment of long-term loans payable of ¥6,307 million, redemption of bonds totaling ¥2,092 million, purchase of treasury shares of ¥2,015 million, and payment of dividends amounting to ¥2,366 million.

(Reference) Results for cash flow-related indicators

Indicator	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Equity-assets ratio	33.3%	34.9%	32.5%	31.6%	31.1%
Market cap-to-assets ratio	21.4%	27.2%	24.6%	31.2%	33.7%
Debt repayment period (years)	7.5	11.6	—	6.5	26.0
Interest coverage ratio (times)	14.5	10.4	—	22.8	6.2
Net debt-to-equity ratio	1.4	1.4	1.6	1.5	1.6

Notes: 1. The following formulas for calculating the indicators shown above are based on consolidated financial results.

Equity-to-assets 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 debt-to-equity ratio = (interest-bearing liabilities – cash and deposits + marketable securities) ÷ net assets

2. Interest-bearing liabilities are comprised of short-term loans payable, current portion of bonds, current portion of long-term loans, bonds, long-term loans payable, and a portion of long-term accounts payable, as stated in the consolidated balance sheets. Interest expenses used for the calculations are recorded in the consolidated statements of profit and loss.
3. Net cash provided by operating activities used for the calculations are recorded in the consolidated statements of cash flows.
4. No figures were recorded for the debt repayment period and the interest coverage ratio as of March 31, 2019, because cash flows from operating activities were negative in the fiscal year ended March 31, 2019.

3) Production, orders, and operating revenues

Results related to production, orders, and operating revenues for each segment are presented above in Part 2 Business Overview, 2. Management's Analysis of Financial Position, Operating Results, and Cash Flows, (1) Overview of financial results, 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 judgements made as of March 31, 2021.

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

The Group is striving to increase its corporate value based on the business strategies of its medium-term management plan, Challenge & Progress, which was announced on April 30, 2020. Specifically, it is carrying out redevelopment projects and taking steps to realize external growth in its Building Business and Asset Management Business. In the fiscal year under review, the Group worked towards external growth through the acquisitions of the Kabutocho Heiwa Building No. 7 (Chuo-ku, Tokyo), Shimbashi Square Building (Minato-ku, Tokyo), and Heiwa Real Estate Nihonbashi Building (Chuo-ku, Tokyo). It also worked towards internal growth by increasing rent amounts in lease agreements. Consolidated financial results in the fiscal year under review were impacted by the COVID-19 pandemic, and the Building Business segment posted a decline in revenues from the sale of properties. These factors, however, were more than offset by increased sales of inventories in the Asset Management Business segment. As a result, operating income grew by ¥324 million to ¥11,228 million, and net income attributable to owners of parent increased by ¥72 million to ¥7,118 million, a record-high for the Group.

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, 2020, and March 31, 2021 were as follows:

(Millions of yen)

	March 31, 2020	March 31, 2021	Difference
Total assets	339,545	381,353	41,807
Total liabilities	232,243	262,713	30,469
Net assets	107,302	118,639	11,337
Interest-bearing liabilities	186,977	215,727	28,749

Note: Interest-bearing liabilities are comprised of short-term loans payable, current portion of bonds payable, current portion of long-term loans, bonds payable, long-term loans payable, and a portion of long-term accounts payable.

Total assets

As of March 31, 2021, total assets amounted to ¥381,353 million, an increase of ¥41,807 million compared with March 31, 2020. Among the main factors underlying this result, while marketable securities decreased by ¥12,986 million, tangible fixed assets increased by ¥16,389 million and intangible fixed assets increased by ¥4,090 million, primarily due to the acquisitions of the Kabutocho Heiwa Building No. 7 (Chuo-ku, Tokyo), Shimbashi Square Building (Minato-ku, Tokyo), and Heiwa Real Estate Nihonbashi Building (Chuo-ku, Tokyo), as well as to construction cost outlays for KABUTO ONE (Chuo-ku, Tokyo). Furthermore, cash and deposits grew by ¥13,919 million, investment securities rose by ¥12,513 million, and real estate for sale increased by ¥5,602 million.

In the consolidated balance sheets, the combined balance of lease property and real estate of which a portion was leased was ¥264,488 million as of March 31, 2021, an increase of ¥20,439 million compared with April 1, 2020, and, as of those respective dates, had a market value of ¥376,897 million, an increase of ¥13,352 million.

Total liabilities

As of March 31, 2021, total liabilities amounted to ¥262,713 million, an increase of ¥30,469 million compared with March 31, 2020. Among the main factors underlying this result, interest-bearing liabilities grew by ¥28,749 million and deferred tax liabilities increased by ¥5,114 million, which more than offset decreases in accrued corporation and other taxes of ¥2,171 million and accrued consumption tax of ¥1,320 million.

As of March 31, 2021, the balance of interest-bearing liabilities was ¥215,727 million, and the net debt-to-equity ratio stood at 1.6. The Company has set a net debt-to-equity ratio target of 1.8 in its medium-term management plan, Challenge & Progress, and will aim to keep the ratio within this range.

Net assets

As of March 31, 2021, net assets stood at ¥118,639 million, an increase of ¥11,337 million compared with March 31, 2020. Among the main factors underlying this result, unrealized gain on securities increased by ¥8,602 million and retained earnings were up by ¥4,743 million, offsetting a decrease in purchase of treasury shares, of ¥2,008 million.

The Company implemented concrete measures to raise capital efficiency and return stable profits to shareholders, including an acquisition of 625,900 of its treasury shares in the fiscal year under review.

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, 2021, Building Business segment assets amounted to ¥280,919 million, up ¥25,910 million compared with a year earlier. This increase was mainly due to the acquisitions of the Kabutocho Heiwa Building No. 7 (Chuo-ku, Tokyo), Shimbashi Square Building (Minato-ku, Tokyo), and Heiwa Real Estate Nihonbashi Building (Chuo-ku, Tokyo), as well as to construction cost outlays for KABUTO ONE (Chuo-ku, Tokyo). Asset Management Business segment assets stood at ¥53,080 million, an increase of ¥10,549 million, year on year. This mainly reflected an increase in inventories and a higher market value of owned investment units of Heiwa Real Estate REIT, Inc.

Segment assets (Millions of yen)

	March 31, 2020	March 31, 2021	Difference
Building Business	255,008	280,919	25,910
Asset Management Business	42,531	53,080	10,549
Other Businesses	1,599	1,552	(46)
Adjustments	40,407	45,801	5,394
Amount in consolidated financial statements	339,545	381,353	41,807

Analysis of business results

Business results for each segment are presented above in Part 2 Business Overview, 2. Management's Analysis of Financial Position, Operating Results, and Cash Flows, (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 in the fiscal year under review is presented above in Part 2 Business Overview, 2. Management's Analysis of Financial Position, Operating Results, and Cash Flows, (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 investment 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 debt-to-equity ratio as an indicator of financial discipline. As of March 31, 2021, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥215,727 million, net interest-bearing liabilities, which exclude marketable securities and cash and deposits from interest-bearing liabilities, amounted to ¥186,025 million, and the net debt-to-equity ratio came to 1.6.

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 will aim for a consolidated total shareholder return ratio of 70% from fiscal 2020 to 2023, taking into account returns on business investments while focusing on capital cost and capital efficiency. In accordance with this policy, the Company expects to pay dividends totaling ¥2,877 million for fiscal 2020 and acquired a total of ¥1,999 million in treasury shares during the same year. As a result, the consolidated total shareholder return ratio is expected to reach 68.5%.

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 the 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.

Information concerning the impact of the COVID-19 pandemic is presented in Part 3 Financial Reporting, Consolidated Financial Statements, 6. Notes to Consolidated Financial Statements, Note 6 Additional Information.

Part 3 Financial Reporting

Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Assets		
Current assets		
Cash and deposits (Note 13)	15,766	29,685
Accounts receivable–trade (Note 13)	1,121	1,633
Marketable securities (Notes 13 and 14)	13,002	16
Real estate for sale	24,659	30,261
Real estate for sale in process	785	834
Other inventories	2	1
Operating investment (Notes 13 and 14)	485	1,684
Other	3,192	3,850
Allowance for doubtful accounts	(2)	(26)
Total current assets	59,013	67,942
Fixed assets		
Tangible fixed assets		
Buildings and structures (Note 7)	160,947	163,896
Accumulated depreciation	(85,764)	(89,763)
Buildings and structures, net	75,182	74,133
Machinery, equipment and vehicles	2,211	2,236
Accumulated depreciation	(1,845)	(1,909)
Machinery, equipment and vehicles, net	366	327
Tools, furniture and fixtures	1,680	1,913
Accumulated depreciation	(1,445)	(1,523)
Tools, furniture and fixtures, net	235	389
Land (Note 7)	144,010	154,043
Construction in progress	2,552	9,843
Total tangible fixed assets	222,347	238,737
Intangible fixed assets		
Leasehold rights	22,518	26,618
Other	107	97
Total intangible fixed assets	22,625	26,716
Investments and other assets		
Investment securities (Notes 7, 13 and 14)	30,751	43,265
Long-term loans to employees	2	0
Deferred tax assets (Note 18)	189	155
Other	4,374	4,310
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	35,317	47,732
Total fixed assets	280,291	313,185
Deferred assets		
Bond issuance cost	240	224
Total deferred assets	240	224
Total assets	339,545	381,353

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Liabilities		
Current liabilities		
Accounts payable–trade (Note 13)	2,236	1,818
Current portion of bonds payable (Notes 13 and 24)	2,092	1,891
Short-term loans payable (Notes 13 and 24)	6,250	9,250
Current portion of long-term loans	5,736	26,961
Income taxes payable (Note 18)	2,509	337
Accrued consumption taxes	1,397	77
Accrued bonuses for directors	68	86
Accrued bonuses	211	213
Assets retirement obligations (Note 19)	21	1
Other (Note 24)	1,727	1,753
Total current liabilities	22,251	42,391
Long-term liabilities		
Bonds payable (Notes 13 and 24)	23,107	28,216
Long-term loans payable (Notes 13, 15 and 24)	145,791	145,408
Long-term accounts payable (Notes 13 and 24)	4,004	4,000
Leasehold and guarantee deposits received (Note 13)	22,188	22,829
Deferred tax liabilities (Note 18)	6,264	11,378
Deferred tax liabilities for land revaluation (Note 7)	7,663	7,663
Provision for share-based remuneration	24	47
Retirement benefit liability (Note 16)	292	115
Assets retirement obligations (Note 19)	655	662
Other (Note 24)	1	0
Total long-term liabilities	209,992	220,322
Total liabilities	232,243	262,713
Net assets		
Shareholders' equity		
Common stock	21,492	21,492
Capital surplus	19,720	19,720
Retained earnings	39,996	44,740
Treasury shares	(2,487)	(4,496)
Total shareholders' equity	78,722	81,457
Accumulated other comprehensive income		
Unrealized gain on securities	11,584	20,187
Land revaluation surplus (Note 7)	16,995	16,995
Total accumulated other comprehensive income	28,579	37,182
Total net assets	107,302	118,639
Total liabilities and net assets	339,545	381,353

See notes to consolidated financial statements.

2． Consolidated Statements of Income

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Operating revenue (Note 21)	46,639	35,048
Operating costs (Note 8)	31,548	19,687
Gross profit	15,091	15,361
Selling, general and administrative expenses		
Salaries and allowances	1,391	1,397
Provision of accrued bonuses for directors	68	87
Provision of accrued bonuses	132	137
Provision for share-based remuneration	29	26
Retirement benefit costs	63	33
Commission fee	532	496
Other	1,970	1,953
Total selling, general and administrative expenses	4,187	4,132
Operating income (Note 21)	10,903	11,228
Non-operating income		
Interest income	14	10
Dividends earned	471	445
Miscellaneous non-operating income	23	65
Total non-operating income	509	522
Non-operating expenses		
Interest expenses	1,256	1,331
Amortization of bond issuance cost	64	54
Miscellaneous non-operating expenses	86	120
Total non-operating expenses	1,407	1,506
Ordinary income	10,006	10,244
Extraordinary income		
Gain on sales of fixed assets (Note 8)	256	—
Total extraordinary income	256	—
Extraordinary loss		
Loss on sales of fixed assets (Note 8)	—	1
Loss on disposal of fixed assets (Note 8)	18	18
Loss on valuation of investment securities	85	—
Loss resulting from fraudulent transactions (Note 8)	177	—
Impairment loss (Note 8)	8	8
Total extraordinary loss	289	27
Income before income taxes	9,972	10,216
Income taxes - current	3,146	1,745
Income taxes - deferred	(219)	1,351
Total income taxes (Note 18)	2,926	3,097
Net income	7,046	7,118
Net income attributable to owners of parent	7,046	7,118

See notes to consolidated financial statements.

３．Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Net income	7,046	7,118
Other comprehensive income (Note 9)		
Unrealized gain on securities	(3,647)	8,602
Total other comprehensive income	(3,647)	8,602
Comprehensive income (Note 9)	3,398	15,721
Comprehensive income attributable to:		
Owners of parent	3,398	15,721

See notes to consolidated financial statements.

４. Consolidated Statements of Changes in Net Assets

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	21,492	19,720	38,665	(3,030)	76,848
Change during the period					
Distribution of surplus			(2,034)		(2,034)
Net income attributable to owners of parent			7,046		7,046
Acquisition of treasury shares				(2,101)	(2,101)
Disposal of treasury shares		0		5	5
Cancellation of treasury shares		(2,638)		2,638	—
Transfer from retained earnings to capital surplus		2,638	(2,638)		—
Net loss from mergers with non-consolidated subsidiaries			(1,042)		(1,042)
Net changes of items other than shareholders' equity					
Total change during the period	—	—	1,330	542	1,873
Balance at the end of the period	21,492	19,720	39,996	(2,487)	78,722

	Accumulated other comprehensive income			Total net assets
	Unrealized gain (loss) on securities	Land revaluation surplus	Total accumulated other comprehensive income	
Balance at the beginning of the period	15,231	16,995	32,227	109,075
Change during the period				
Distribution of surplus				(2,034)
Net income attributable to owners of parent				7,046
Acquisition of treasury shares				(2,101)
Disposal of treasury shares				5
Cancellation of treasury shares				—
Transfer from retained earnings to capital surplus				—
Net loss from mergers with non-consolidated subsidiaries				(1,042)
Net changes of items other than shareholders' equity	(3,647)	—	(3,647)	(3,647)
Total change during the period	(3,647)	—	(3,647)	(1,773)
Balance at the end of the period	11,584	16,995	28,579	107,302

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	21,492	19,720	39,996	(2,487)	78,722
Change during the period					
Distribution of surplus			(2,375)		(2,375)
Net income attributable to owners of parent			7,118		7,118
Acquisition of treasury shares				(2,011)	(2,011)
Disposal of treasury shares		0		2	2
Cancellation of treasury shares		—		—	—
Transfer from retained earnings to capital surplus		—	—		—
Net loss from mergers with non-consolidated subsidiaries			—		—
Net changes of items other than shareholders' equity					
Total change during the period	—	0	4,743	(2,008)	2,735
Balance at the end of the period	21,492	19,720	44,740	(4,496)	81,457

	Accumulated other comprehensive income			Total net assets
	Unrealized gain on securities	Land revaluation surplus	Total accumulated other comprehensive income	
Balance at the beginning of the period	11,584	16,995	28,579	107,302
Change during the period				
Distribution of surplus				(2,375)
Net income attributable to owners of parent				7,118
Acquisition of treasury shares				(2,011)
Disposal of treasury shares				2
Cancellation of treasury shares				—
Transfer from retained earnings to capital surplus				—
Net loss from mergers with non-consolidated subsidiaries				—
Net changes of items other than shareholders' equity	8,602	—	8,602	8,602
Total change during the period	8,602	—	8,602	11,337
Balance at the end of the period	20,187	16,995	37,182	118,639

See notes to consolidated financial statements.

５． Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Cash flows from operating activities		
Income before income taxes	9,972	10,216
Depreciation	4,814	5,077
Loss on disposal of fixed assets	18	18
Impairment loss	8	8
Loss (gain) on valuation of investment securities	85	—
Loss resulting from fraudulent transactions	177	—
Increase (decrease) in allowance for doubtful accounts	(4)	24
Increase (decrease) in accrued bonuses	(3)	2
Increase (decrease) in retirement benefit liability	33	(176)
Interest and dividends income	(485)	(456)
Interest expenses	1,256	1,331
Amortization of bond issuance cost	64	54
Loss (gain) on sales of fixed assets	(256)	1
Decrease (increase) in notes and accounts receivable – trade	(56)	(512)
Decrease (increase) in inventories	12,881	(410)
Decrease (increase) in operating investments	14	(1,199)
Decrease (increase) in prepaid expenses	0	6
Decrease (increase) in accounts receivable – other	333	(758)
Increase (decrease) in notes and accounts payable – trade	17	(188)
Increase (decrease) in advances received	174	49
Increase (decrease) in accrued consumption taxes	1,323	(1,320)
Increase (decrease) in deposits received	(124)	(14)
Increase (decrease) in leasehold and guarantee deposits received	803	609
Other	(291)	793
Subtotal	30,756	13,157
Interest and dividend income received	479	462
Interest paid	(1,261)	(1,320)
Income taxes paid	(1,293)	(4,006)
Net cash provided by operating activities	28,680	8,292

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Cash flows from investing activities		
Decrease (increase) in time deposits	(500)	500
Proceeds from sales and redemption of securities	130	1,003
Purchase of investment securities	(285)	(296)
Proceeds from sales and redemption of investment securities	78	97
Purchase of tangible fixed assets	(11,751)	(26,894)
Proceeds from sales of tangible fixed assets	590	4
Purchase of intangible fixed assets	(54)	(4,231)
Purchase of long-term prepaid expenses	(16)	(180)
Payments for guarantee deposits	(162)	(198)
Proceeds from collection of guarantee deposits	520	14
Payments for assets retirement obligations	(77)	(20)
Other	100	1
Net cash used in investing activities	(11,427)	(30,200)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(5,000)	3,000
Proceeds from long-term loans payable	22,600	27,150
Repayment of long-term loans payable	(14,470)	(6,307)
Proceeds from issuance of bonds	—	7,000
Redemption of bonds	(4,824)	(2,092)
Proceeds from increased long-term accounts payable	4,000	—
Purchase of treasury shares	(2,105)	(2,015)
Payment of dividends	(2,027)	(2,366)
Other	(1)	(40)
Net cash provided by (used in) financing activities	(1,829)	24,327
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	15,423	2,419
Balance of cash and cash equivalents at beginning of period	11,710	27,166
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	32	—
Balance of cash and cash equivalents at end of period (Note 11)	27,166	29,585

See notes to consolidated financial statements.

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: 4

Names of consolidated subsidiaries:

Heiwa Real Estate Property Management Co., Ltd. (renamed from Heiwa Service Co., Ltd., effective from March 1, 2021)
Housing Service Co., Ltd.
HEIWA REAL ESTATE Asset Management CO., LTD.
The Tokyo Shoken Building Incorporated

(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)

All non-consolidated subsidiaries are small-scale businesses and their aggregated total assets, net sales, net income/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 or affiliates not accounted for using the equity method

The Company has no major non-consolidated subsidiaries or affiliates to report.

(2) Reason for exclusion from application of equity method accounting

A non-consolidated subsidiary or affiliate not accounted for using the equity method is excluded from the scope of application of equity method accounting because its net income/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 is insignificant as a whole.

3. Accounting policy

(1) Method and basis of valuation of significant assets

1) Marketable 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. Securities with market quotations

Market value method based on the market price at the end of the consolidated fiscal year is used (differences in valuation are included directly in net assets, and costs of securities sold are calculated using the moving-average method).

b. Securities without market quotations

Securities without market quotations are mainly valued at cost determined using the moving-average method.

2) Inventory

Inventories are valued at cost determined by the specific identification method (the value on 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) Tangible fixed assets (excluding lease assets)

Depreciation of tangible fixed assets is computed using the declining balance method, except for the Tokyo Stock Exchange Building, two other buildings, 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, for which the straight-line method is used.

Depreciation of consolidated subsidiaries' tangible fixed assets is computed using the straight-line method.

The principal useful lives of tangible fixed assets are as follows:

Buildings and structures: 2 – 55 years

Machinery, equipment, and vehicles: 2 – 23 years

Tools, furniture and fixtures: 2 – 20 years

2) Intangible fixed assets (excluding lease assets)

Amortization of intangible fixed assets is computed using the straight-line method. The cost of software for internal use is amortized using the straight-line method based on the expected useful life of the software (five years).

3) Lease assets

Lease 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 cost

Bond issuance cost is amortized using the straight-line method over the period until bond redemption.

(4) Basis of accounting for significant accruals and reserves

1) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover losses on bad debts at an amount estimated based on the historical write-off ratio for general accounts receivables. For doubtful accounts receivable, the allowance is determined at the amount estimated to be uncollectible on an individual basis.

2) Accrued bonuses for directors

The accrual for bonuses to directors is calculated based on the estimated payments.

3) Accrued bonuses

The accrual for bonuses to employees is calculated based on the estimated payments.

4) Provision for share-based remuneration

The provision for share-based remuneration was calculated based on the expected amount of stock compensation obligations as of the end of the fiscal year under review in order to provide the Company's stock as compensation to directors and executive officers in accordance with its share-based remuneration rules.

(5) Accounting for retirement benefits

Retirement benefit liability is calculated at an amount equal to the projected benefit obligation as of the end of the current consolidated fiscal year minus the fair value of pension assets. Retirement benefit liability is not calculated at any consolidated subsidiary that has a defined contribution plan.

(6) Method of significant hedge accounting

1) Method of 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 loans payable

3) Policy of hedging transactions

Interest rate swap transactions are conducted to reduce the exposure to fluctuations in the interest rates of loans payable.

4) Method of assessing hedge effectiveness

The assessment of hedge effectiveness on the closing date is omitted because interest rate swaps meet the requirements for receiving special treatment.

(7) 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.

(8) Other important matters for the preparation of consolidated financial statements

Accounting for consumption taxes

Profit and loss accounts are stated net of consumption tax. Where consumption taxes paid are not fully credited against consumption taxes received, as a general rule, the non-credited portion is charged as an expense in the consolidated period under review in which the consumption taxes are paid.

Note 3 － Significant Accounting Estimates

1. Impairment of fixed assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year under review

(Millions of yen)

	Fiscal 2020
Tangible fixed assets (Mainly in the Building Business segment)	238,737
Leasehold rights among intangible fixed assets (Mainly in the Building Business segment)	26,618
Impairment loss	8

(2) Information on the details of the significant accounting estimates for identified items

In principle, individual assets that generate cash flow independently from other asset groups are recognized as the minimum unit for indications of impairment.

Indications of impairment include recurring operating losses, significant deteriorating of the business environment, and significant declines in market value. If indications of impairment are deemed to exist, the Company will decide whether to recognize an impairment loss.

If the Company decides that recognizing an impairment loss is necessary, it 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.

The Group sets market values based on the real estate appraisal value determined by external real estate appraisers (hereafter, “externally appraised real estate value”). Recoverable amounts are estimated based on the externally appraised real estate value and the asset group’s operating results and forecast, which includes the assumption that future results will improve after the impact of the COVID-19 pandemic subsides.

Due to the impact of the COVID-19 pandemic, the operating results of certain assets worsened markedly, specifically four hotels (some of which also have office space) located in Sapporo, Tokyo, and Osaka with a combined book value of ¥18,700 million. Therefore, the Company determined that there were indications of impairment and examined whether an impairment loss should be recorded. It decided not to record an impairment loss in the fiscal year under review, however, because the externally appraised real estate value exceeded the book value.

In addition, when multiple assets held for the Company’s real estate redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho districts) and Sapporo are integrated in development plans, the Company groups these assets together from the time that is deemed feasible based on negotiations with landowners.

The impact of the COVID-19 pandemic and the feasibility of development projects in the future remain uncertain. Due to these and other factors, the Company may need to recognize impairment losses in the future, which could impact its consolidated financial results.

2. Valuation of real estate for sale

(1) Amounts recorded in the consolidated financial statements for the fiscal year under review.

(Millions of yen)

	Fiscal 2020
Real estate for sale (Mainly in the Building Business segment and Asset Management Business segment)	30,261
Real estate for sale in process (Mainly in the Asset Management Business segment)	834
Loss on revaluation of inventories (recorded in cost of sales)	48

(2) Information on the details of the significant accounting estimates for identified items

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 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.

To estimate the expected sales price, the Group takes into account the externally appraised real estate value, its rental rates and forecast yields, and the impact of falling demand in the future, among other factors.

As of March 31, 2021, the Group had estimated the expected sales prices of its residential buildings based on its rental rates and forecast yields, and assumed no major fluctuations in rental rates and forecast yields in the real estate market going forward. This assumption could change in the future, however, as falling demand in the real estate market could lead to a decline in expected sales prices of properties. In that event, the Company may record a loss on revaluation of inventories, which could impact its consolidated financial results.

Note 4 ― Unapplied Accounting Standards

- Accounting Standard for Revenue Recognition (revised ASBJ Statement No. 29, issued on March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (revised ASBJ Guidance No. 30, issued on March 26, 2021)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (revised ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition, entitled Revenue from Contracts with Customers, and issued it as International Financial Reporting Standards (IFRS) 15 and Topic 606, respectively, in May 2014. Based on the fact that IFRS 15 was in effect from fiscal years beginning on or after January 1, 2018, and Topic 606 was in effect from fiscal years beginning on or after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) also developed a comprehensive accounting standard for revenue recognition, and issued it along with its implementation guidance.

As a basic policy when developing the accounting standard for revenue recognition, the ASBJ maintained consistency with IFRS 15 to enable international comparisons of financial statements. Therefore, the ASBJ set accounting standards starting from the basic principles of IFRS 15, and added alternative accounting treatments of certain items for which business practices differ in Japan within a scope that would not hinder international comparisons.

(2) Scheduled date of application

The Company applied the accounting standards, etc. from April 1, 2021.

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

The application of the Accounting Standard for Revenue Recognition, etc. will have no impact on retained earnings at the beginning of the next fiscal year.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, issued on July 4, 2019)
- Accounting Standard for Measurement of Inventories (revised ASBJ Statement No. 9, issued on July 4, 2019)
- Accounting Standard for Financial Instruments (revised ASBJ Statement No. 10, issued on July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, issued on July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (revised ASBJ Guidance No. 19, issued on March 31, 2020)

(1) Overview

The IASB and the FASB have developed almost identical guidance on measurements of fair value, both entitled Fair Value Measurement, and issued them as IFRS 13 and Topic 820 (an amendment of the FASB Accounting Standards Codification), respectively. Accordingly, the ASBJ also worked to make Japanese accounting standards consistent with international accounting standards, primarily with respect to the guidance and disclosure of the fair value of financial instruments. Consequently, it issued the Accounting Standard for Fair Value Measurement and other accounting standards.

As a basic policy when developing the accounting standard for fair value measurement, the ASBJ integrated practically all elements of IFRS 13 and adopted the same measurement methods in order to improve the comparability of financial statements disclosed by companies in Japan with those of companies in other countries. The ASBJ also established additional accounting treatments of certain items for which business practices differ in Japan within a scope that would not significantly hinder international comparisons of financial statements.

(2) Scheduled date of application

The Company applied the accounting standards, etc. from April 1, 2021.

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

The application of the Accounting Standard for Fair Value Measurement, etc. will have no impact on the consolidated financial statements.

Note 5 ― Changes in Presentation Methods

Application of the Accounting Standard for Disclosure of Accounting Estimates

The Company applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, issued on March 31, 2020) from the fiscal year ended March 31, 2021, and included notes on significant accounting estimates in the notes to consolidated financial statements. Pursuant to transitional treatment as stipulated in the proviso of Paragraph 11 of the accounting standard, information regarding the previous fiscal year was not included.

Note 6 ― Additional Information

1. Performance-linked stock compensation plan for directors and executive officers

Pursuant to a resolution of the 99th Ordinary General Shareholders' Meeting held on June 26, 2019, the Company adopted 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 comprised of common stock for the plan.

(1) Overview of the compensation system

The trust was established using funds provided by the Company, and acquires company stock to be used as compensation for directors and executive officers under the plan. Through the trust, company stock or a cash amount equivalent to the value of the stock is delivered to the directors and officers in an amount commensurate with the number of points each has earned under the stock compensation plan, based on stock compensation rules set by the Company's Board of Directors. As a rule, directors and officers 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 ¥139 million as of March 31, 2020, and ¥137 million as of March 31, 2021, and the amount of stock totaled 60,200 shares as of March 31, 2020, and 59,300 shares as of March 31, 2021.

2. Accounting estimates related to the impact of the COVID-19 pandemic

While the impact of the COVID-19 pandemic on consolidated profit and loss has been limited, the Group's management assumes that the pandemic will continue having a certain degree of impact on accounting estimates, such as the impairment of fixed assets and recoverability of deferred tax assets, based on information available at the time of preparing the consolidated financial statements.

3. Purpose of owning certain assets

An amount of ¥5,239 million previously included under fixed assets as either land, buildings and structures, leasehold rights, or other, was transferred to the line item real estate for sale in the consolidated balance sheets as of March 31, 2021, due to changes in the purpose of ownership.

Note 7 － Consolidated Balance Sheets

1. Guarantee liabilities

The Company-guaranteed loans owed by employees to financial institutions are as follows:

(Millions of yen)

Fiscal 2019 (As of March 31, 2020)		Fiscal 2020 (As of March 31, 2021)	
Housing loans for employees of Heiwa Real Estate Co., Ltd.	223	Housing loans for employees of Heiwa Real Estate Co., Ltd.	157

2. 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 “land revaluation surplus” 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, Paragraph 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, 2020, and March 31, 2021, the difference between the amounts has not been stated.

3. Items relevant to non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Investment securities	2,569	2,512

4. Assets included under investment securities are as follows:

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Investment units of Heiwa Real Estate REIT, Inc.	13,973 (139,179 units)	21,628 (139,179 units)

5. Amount of reduction entry associated with state subsidies, etc.

The following is the amount of reduction entry deducted from acquisition costs resulting from the receipt of state subsidies, etc.

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Buildings and structures	288	288

Note 8 — Consolidated Statements of Income

1. Ending balances of inventories indicate an amount after write-down due to deteriorating profitability, and the loss on revaluation of inventories stated below is included in the cost of sales.

(Millions of yen)

Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
285	48

2. Details of gain on sales of fixed assets are as follows:

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Buildings and structures, etc.	88	—
Land	167	—
Total	256	—

3. Details of loss on sales of fixed assets are as follows:

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Buildings and structures, etc.	—	0
Land	—	0
Total	—	1

4. Details of loss on disposal of fixed assets are as follows:

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Buildings and structures	17	17
Other	1	1
Total	18	18

5. Loss resulting from fraudulent transactions

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Based on the findings of an investigation report submitted by an internal investigation committee set up by the Company, as disclosed in a news release on December 12, 2019, an extraordinary loss was recorded in fiscal 2019 to reflect the amount of the impact of fraudulent transactions conducted by former employees of the Company on net assets and other financial results.

The investigation report also determined that the fraudulent transactions resulted in a loss included in cost of sales in fiscal 2019.

The amounts for each of these items are as follows.

Operating costs	¥116 million
Loss resulting from fraudulent transactions	177
Total	294

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

6. Impairment loss

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Location	Principal use	Category	Impairment loss
Abiko City, Chiba	Parking lot	Land	¥8 million

The Group recorded an impairment loss on the asset group above. Upon the calculation of the impairment loss, the Group groups assets based on the minimum unit generating cash flows in a manner largely independent of cash flows provided by other assets or asset groups.

The book values of real properties for lease with declines in profitability were written down to a recoverable amount. The Group recorded the amount written off as impairment loss in extraordinary loss (¥8 million).

The recoverable amount of the above asset group is determined by net sales value. For the net sales value, the Group uses the indices which are considered as reflecting appropriate market prices.

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Location	Principal use	Category	Impairment loss
Abiko City, Chiba	Parking lot	Land	¥8 million

The Group recorded an impairment loss on the asset group above. Upon the calculation of the impairment loss, the Group groups assets based on the minimum unit generating cash flows in a manner largely independent of cash flows provided by other assets or asset groups.

The book values of real properties for lease with declines in profitability were written down to a recoverable amount. The Group recorded the amount written off as impairment loss in extraordinary loss (¥8 million).

The recoverable amount of the above asset group is determined by net sales value. For the net sales value, the Group uses the indices which are considered as reflecting appropriate market prices.

Note 9 ― Consolidated Statements of Comprehensive Income

Reclassification adjustment and tax effect related to other comprehensive income

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Unrealized gain (loss) on securities:		
Unrealized gain (loss) on securities in the fiscal year	(5,256)	12,399
Reclassification adjustment	—	—
Before tax effect adjustment	(5,256)	12,399
Tax benefit (expense)	1,609	(3,796)
Unrealized gain (loss) on securities	(3,647)	8,602
Total other comprehensive income	(3,647)	8,602

Note 10 ― Consolidated Statements of Changes in Net Assets

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

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 (Note 1)	40,059,996	—	1,200,000	38,859,996
Total	40,059,996	—	1,200,000	38,859,996
Treasury shares				
Common shares (Notes 2, 3, 4)	1,378,119	865,869	1,202,530	1,041,458
Total	1,378,119	865,869	1,202,530	1,041,458

(Notes) 1. The 1,200,000 common shares issued that decreased were canceled treasury shares, pursuant to a resolution of the Board of Directors.

2. The 865,869 common shares of treasury shares that increased were comprised of 800,000 shares acquired by the Company pursuant to a resolution of the Board of Directors, 62,600 shares acquired for the trust for the Company's stock compensation plan for directors and executive officers, and 3,269 fractional shares acquired.

3. The 1,202,530 common shares of treasury shares that decreased were comprised of 1,200,000 shares of canceled treasury shares pursuant to a resolution of the Board of Directors, 2,400 shares provided to the trust for the Company's stock compensation plan for directors and executive officers, and 130 fractional shares sold.

4. The total number of common shares of treasury shares as of March 31, 2020, included 60,200 shares held in the trust for the Company's stock compensation plan for directors and executive officers.

2. Dividends

(1) Payments of dividends

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting held on June 26, 2019	Common shares	1,083	28.0	March 31, 2019	June 27, 2019
October 31, 2019 Meeting of Board of Directors	Common shares	951	25.0	September 30, 2019	December 2, 2019

(Note) The total amount of dividends resolved by the Board of Directors on October 31, 2019, included ¥1 million in dividends for the Company's stock held in the trust for its stock compensation plan for directors and executive officers.

(2) Dividends with a record date falling in the consolidated fiscal year ended March 31, 2020 and an effective date falling in the consolidated fiscal year ended March 31, 2021

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting held on June 24, 2020	Common shares	1,174	Retained earnings	31.0	March 31, 2020	June 25, 2020

(Note) The total amount of dividends included ¥1 million in dividends for the Company's stock held in the trust for its stock compensation plan for directors and executive officers.

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

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, 3)	1,041,458	629,569	1,160	1,669,867
Total	1,041,458	629,569	1,160	1,669,867

(Notes) 1. The 629,569 common shares of treasury shares that increased were comprised of 625,900 shares acquired by the Company pursuant to a resolution of the Board of Directors and 3,669 fractional shares acquired.

2. The 1,160 common shares of treasury shares that decreased were comprised of 900 shares provided to the trust for the Company's stock compensation plan for directors and executive officers, and 260 fractional shares sold.

3. The total number of common shares of treasury shares as of March 31, 2021, included 59,300 shares held in the trust for the Company's stock compensation plan for directors and executive officers.

2. Dividends

(1) Payments of dividends

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting held on June 24, 2020	Common shares	1,174	31.0	March 31, 2020	June 25, 2020
October 30, 2020 Meeting of Board of Directors	Common shares	1,200	32.0	September 30, 2020	December 1, 2020

(Notes) 1. The total amount of dividends resolved at the Ordinary General Shareholders' Meeting held on June 24, 2020, included ¥1 million in dividends for the Company's stock held in the trust for its stock compensation plan for directors and executive officers.

2. The total amount of dividends resolved by the Board of Directors on October 30, 2020, included ¥1 million in dividends for the Company's stock held in the trust for its stock compensation plan for directors and executive officers.

(2) Dividends with a record date falling in the consolidated fiscal year ended March 31, 2021 and an effective date falling in the consolidated fiscal year ended March 31, 2022

The following resolution is scheduled.

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting held on June 24, 2021	Common shares	1,676	Retained earnings	45.0	March 31, 2021	June 25, 2021

(Note) The total amount of dividends includes ¥2 million in dividends for the Company's stock held in the trust for its stock compensation plan for directors and executive officers.

Note 11 — Consolidated Statements of Cash Flows

Reconciliation of the balance of cash and cash equivalents at the end of the period and account items on the consolidated balance sheet

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Cash and deposits	15,766	29,685
Marketable securities	13,002	16
Time deposits with terms of more than 3 months	(600)	(100)
Bonds with redemption periods of more than 3 months	(1,002)	(16)
Cash and cash equivalents	27,166	29,585

Note 12 — Lease Transactions

1. Finance lease transactions

(As lessee)

Finance lease transactions not involving transfer of ownership

1) Types of leased assets

・Tangible fixed assets

Office equipment (devices, and fixtures)

2) Leased assets depreciation method

Included in 3. Accounting Policy, (2) Depreciation method for significant depreciable assets, under Basis of presenting consolidated financial statements.

2. Operating lease transactions

(As lessor)

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

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Due within 1 year	3,483	3,347
Due after 1 year	10,992	8.928
Total	14,475	12,275

Note 13 － Financial Instruments

1. Items related to financial instruments

(1) Measures and policies concerning financial instruments

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

(2) Details of financial instruments and related risks

Accounts receivables-trade as operating receivables expose the Company to credit risk of building tenants and other clients.

Marketable securities and investment securities, which are mainly comprised of shares of companies with which the Company has business relationships, expose the Company to the risk of market price fluctuations.

Accounts payable-trade 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 mainly for the purpose of procuring funds needed for capital investment, with the repayment and redemption dates extending no more than 19 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 the effectiveness of hedging, please refer to Note 2 "Significant Accounting Policies 3. Accounting Policy, (6) Method of significant hedge accounting."

(3) Financial instrument-related risk management

1) Management of credit risk (including risk relating to non-performance of contract by a counterparty)

With respect to operating receivables, relevant departments of the Company regularly monitor the status of major counterparties, manage due dates and balances for each counterparty, quickly identify concerns regarding collection due to worsening financial conditions or other factors, and take steps to mitigate a damage. Consolidated subsidiaries manage these risks in the same way in accordance with the Company's credit management rules.

2) Management of market risks (including risk relating to fluctuating exchange rates and interest rates)

The Company uses interest rate swaps to mitigate the risk of fluctuating interest payments on loans.

The Company regularly checks the market price of marketable securities and investment securities along with the financial status of their issuers, which are the Company's business partners. The Company also continually reviews its holdings of securities other than held-to-maturity bonds, taking into consideration market conditions and its relationships with business partners.

3) Management of fund procurement-related liquidity risk (including risk of being unable to pay by due dates)

The Company manages liquidity risk by having departments in charge prepare and update on the 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

The fair value of financial instruments is based on market prices. If no market price is available, the fair value is based on the value that is calculated in a reasonable manner. The determination of such value contains variable factors, and the adoption of different assumptions may cause value to change. In addition, the contract amounts of derivatives, shown in Note 15 "Derivatives", do not represent derivative-related market risks.

2. Items related to the fair value of financial instruments

The amount recorded in the consolidated balance sheet, fair value, and their differences are presented as follows.

Items for which determining fair value is extremely difficult are not included (refer to Note 2, below).

Fiscal 2019 (As of March 31, 2020)

	Amount on consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	15,766	15,766	—
(2) Accounts receivable–trade	1,121	1,121	—
(3) Marketable securities and investment securities	40,396	40,395	(0)
Assets	57,283	57,283	(0)
(1) Accounts payable−trade	2,236	2,236	—
(2) Bonds payable	25,199	25,215	15
(3) Short-term loans payable	6,250	6,250	—
(4) Long-term loans payable	151,528	153,112	1,583
(5) Long-term accounts payable	4,004	3,973	(31)
Liabilities	189,218	190,786	1,568
Derivatives	—	—	—

Fiscal 2020 (As of March 31, 2021)

	Amount on consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	29,685	29,685	—
(2) Accounts receivable–trade	1,633	1,633	—
(3) Marketable securities and investment securities	39,929	39,930	0
Assets	71,249	71,249	0
(1) Accounts payable−trade	1,818	1,818	—
(2) Bonds payable	30,107	30,123	16
(3) Short-term loans payable	9,250	9,250	—
(4) Long-term loans payable	172,370	172,296	(74)
(5) Long-term accounts payable	4,000	3,915	(84)
Liabilities	217,545	217,403	(142)
Derivatives	—	—	—

(Notes) 1. Methods of calculating the fair value of financial instruments and matters related to marketable securities and derivatives

Assets

(1) Cash and deposits, (2) Accounts receivable–trade

These items are recorded at their book value because their fair value is similar to their book value since they are settled over short periods of time.

(3) Marketable securities and investment securities

The fair value of these securities is measured at their stock market price, while the fair value of bonds is based on their stock market price or the price offered by financial institutions. For information concerning the specific purposes of holding marketable securities, please refer to Note 14 “Marketable Securities.”

Liabilities

(1) Accounts payable—trade

Accounts payable—trade are recorded at their book value because their fair value is similar to their book value since they are settled over short periods of time.

(2) Bonds payable

The fair value of bonds payable is calculated by discounting the total amount of principle and interest at an interest rate estimated in consideration of the remaining period of the bonds and their credit risk.

(3) Short-term loans payable

Short-term loans payable are recorded at their book value because their fair value is similar to their book value since they are settled over short periods of time.

(4) Long-term loans payable, (5) Long-term accounts payable

When these items have fixed interest rates, fair value is calculated by discounting the total amount of principle and interest at an interest rate that would assumingly be applied in the case of a similar loan. When these items have variable interest rates, they are recorded at their book value because their fair value is similar to their book value since they reflect market interest rates over short periods of time. Among items with variable interest rates, those subject to special treatment of interest rate swaps are calculated by discounting the total amount of principle and interest treated together with the interest rate swaps at an interest rate reasonably estimated based on the scenario of a similar loan.

(6) Derivatives

The fair value of derivatives subject to special treatment of interest rate swaps is included in the fair value of long-term loans payable since they are treated together with long-term loans payable designated as hedged items (refer to (4), above).

2. Financial instruments for which determining fair value is extremely difficult

(Millions of yen)

Financial instrument	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
(1) Unlisted stocks (Note 1)	3,358	3,352
(2) Operating investments (Note 2)	485	1,684
(3) Leasehold and guarantee deposits received (Note 3)	22,188	22,829

(Notes) 1. Unlisted stocks are not included in the tables above under (3) Marketable securities and investment securities, because they have no market prices and determining their fair value is extremely difficult.

2. The fair value of operating investments is not disclosed because they have no market prices and determining their fair value is extremely difficult.

3. Leasehold and guarantee deposits received deposited by lessees of leased properties is not subject to disclosure of fair value since reasonably estimating cash flows is extremely difficult because they have no market prices, the duration of deposits between the time a tenant moves in and moves out is difficult to calculate, and the duration of other deposits is also difficult to calculate.

3. Amounts of monetary claims and marketable securities with maturity dates expected to be redeemed after the balance sheet date

Fiscal 2019 (As of March 31, 2020)

	Within one year (millions of yen)	Within one to five years (millions of yen)	Within five to 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	15,766	—	—	—
Accounts receivable–trade	1,121	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	2	36	—	—
(2) Bonds payable	—	—	—	—
(3) Other	1,000	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	12,000	—	—	—
Total	29,890	36	—	—

Fiscal 2020 (As of March 31, 2021)

	Within one year (millions of yen)	Within one to five years (millions of yen)	Within five to 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	29,685	—	—	—
Accounts receivable–trade	1,633	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	16	20	—	—
(2) Bonds payable	—	—	—	—
(3) Other	—	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	—	—	—	—
Total	31,335	20	—	—

4. Amounts of bonds payable, long-term loans payable, and other interest-bearing liabilities scheduled for repayment after the balance sheet date

Fiscal 2019 (As of March 31, 2020)

	Within one year (millions of yen)	Within one to two years (millions of yen)	Within two to three years (millions of yen)	Within three to four years (millions of yen)	Within four to five years (millions of yen)	Over five years (millions of yen)
Short-term loans payable	6,250	—	—	—	—	—
Bonds payable	2,092	1,891	4,327	3,259	3,060	10,570
Long-term loans payable	5,736	25,779	10,836	11,960	12,191	85,022
Long-term accounts payable	—	—	—	—	258	3,741
Total	14,078	27,670	15,163	15,219	15,509	99,334

Fiscal 2020 (As of March 31, 2021)

	Within one year (millions of yen)	Within one to two years (millions of yen)	Within two to three years (millions of yen)	Within three to four years (millions of yen)	Within four to five years (millions of yen)	Over five years (millions of yen)
Short-term loans payable	9,250	—	—	—	—	—
Bonds payable	1,891	4,327	3,259	3,060	3,695	13,875
Long-term loans payable	26,961	12,090	13,214	13,445	13,671	92,985
Long-term accounts payable	—	—	—	258	258	3,483
Total	38,102	16,417	16,473	16,763	17,624	110,344

Note 14 ― Marketable Securities

1. Held-to-maturity bonds

Fiscal 2019 (As of March 31, 2020)

	Category	Amount in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
Held-to-maturity bonds with fair value exceeding the amount stated in the consolidated balance sheets	(1) National and municipal bonds	39	40	0
	(2) Bonds payable	—	—	—
	(3) Other	—	—	—
	Subtotal	39	40	0
Held-to-maturity bonds with fair value not exceeding the amount stated in the consolidated balance sheets	(1) National and municipal bonds	—	—	—
	(2) Bonds payable	—	—	—
	(3) Other	1,000	999	(0)
	Subtotal	1,000	999	(0)
Total		1,039	1,039	(0)

Fiscal 2020 (As of March 31, 2021)

	Category	Amount in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
Held-to-maturity bonds with fair value exceeding the amount stated in the consolidated balance sheets	(1) National and municipal bonds	36	37	0
	(2) Bonds payable	—	—	—
	(3) Other	—	—	—
	Subtotal	36	37	0
Held-to-maturity bonds with fair value not exceeding the amount stated in the consolidated balance sheets	(1) National and municipal bonds	—	—	—
	(2) Bonds payable	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		36	37	0

2. Available-for-sale securities

Fiscal 2019 (As of March 31, 2020)

	Category	Amount in consolidated balance sheets (millions of yen)	Purchase amount (millions of yen)	Difference (millions of yen)
Available-for-sale securities of which the amount stated in the consolidated balance sheets exceeds the acquisition cost	(1) Stocks	11,703	3,459	8,244
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	14,286	5,301	8,985
	Subtotal	25,990	8,760	17,230
Available-for-sale securities of which the amount stated in the consolidated balance sheets does not exceed the acquisition cost	(1) Stocks	1,272	1,759	(486)
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	12,093	12,098	(5)
	Subtotal	13,366	13,858	(492)
Total		39,356	22,618	16,737

(Note) Unlisted stocks (totaling ¥3,358 million in the consolidated balance sheets) and operating investments (totaling ¥485 million in the consolidated balance sheets) are not included in available-for-sale securities, above, because they have no market prices and determining their fair value is extremely difficult.

Fiscal 2020 (As of March 31, 2021)

	Category	Amount in consolidated balance sheets (millions of yen)	Purchase amount (millions of yen)	Difference (millions of yen)
Available-for-sale securities of which the amount stated in the consolidated balance sheets exceeds the acquisition cost	(1) Stocks	16,583	4,011	12,571
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	22,267	5,535	16,731
	Subtotal	38,850	9,547	29,303
Available-for-sale securities of which the amount stated in the consolidated balance sheets does not exceed the acquisition cost	(1) Stocks	1,041	1,207	(165)
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	0	0	(0)
	Subtotal	1,042	1,208	(165)
Total		39,893	10,755	29,137

(Note) Unlisted stocks (totaling ¥3,352 million in the consolidated balance sheets) and operating investments (totaling ¥1,684 million in the consolidated balance sheets) are not included in available-for-sale securities, above, because they have no market prices and determining their fair value is extremely difficult since.

3. Held-to-maturity bonds sold

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Not applicable

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

4. Available-for-sale securities sold

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Not applicable

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

5. Impairment loss on marketable securities

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

In fiscal 2019, the Company recorded an impairment loss on marketable securities (stocks under available-for-sale securities) totaling ¥85 million.

When the value of stocks for which determining fair value is extremely difficult substantially has declined due to worsening financial conditions or other factors, the Company decides whether to record an impairment loss after judging the recoverability of individual stocks.

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

Note 15 ― Derivatives

1. Derivatives for which hedge accounting is not applied

Not applicable

2. Derivative for which hedge accounting is applied

Interest rate-related derivatives

Fiscal 2019 (As of March 31, 2020)

Hedge accounting method	Type of instrument	Main hedged items	Contract amount (millions of yen)	Contract amount over one year (millions of yen)	Fair value (millions of yen)
Special treatment of interest rate swaps	Interest rate swaps: Receivable floating rate/payable fixed rate	Long-term loans payable	30,833	28,779	(Note)

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

Fiscal 2020 (As of March 31, 2021)

Hedge accounting method	Type of instrument	Main hedged items	Contract amount (millions of yen)	Contract amount over one year (millions of yen)	Fair value (millions of yen)
Special treatment of interest rate swaps	Interest rate swaps: Receivable floating rate/payable fixed rate	Long-term loans payable	37,254	34,723	(Note)

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

Note 16 － Retirement Benefits

1. Overview of retirement benefit plans in place

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

Simplified accounting methods are used to calculate retirement benefit liability and retirement benefit costs 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)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Balance at the beginning of the fiscal year	258	292
Retirement benefit costs	74	10
Retirement benefits paid	(3)	(153)
Contributions to the plan	(37)	(34)
Balance at the end of the fiscal year	292	115

(2) Reconciliation between net liability recorded in the consolidated balances sheets and the balances of benefit obligation and pension assets at the end of the period.

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Benefit obligation	1,432	1,301
Pension assets	(1,140)	(1,185)
Net balance of liabilities and assets recorded in the consolidated balance sheets	292	115
Retirement benefit liability	292	115
Net balance of liabilities and assets recorded in the consolidated balance sheets	292	115

(3) Retirement benefit costs

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Retirement benefit costs calculated using simplified accounting methods	74	10

3. Defined contribution plan

The required contributions for the defined contribution plans of consolidated subsidiaries amounted to ¥27 million in the fiscal year ended March 31, 2020 and ¥27 million in the fiscal year ended March 31, 2021.

Note 17 － Stock Options

Not applicable

Note 18 ― Income Taxes

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

(Millions of yen)

	Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
Deferred tax assets		
Accrued bonuses	68	69
Accrued enterprise taxes	161	59
Inventory depreciation	189	198
Accounts receivable—other	127	60
Reconstruction-related loss	531	531
Impairment loss	1,555	327
Provision for retirement benefits	96	39
Loss carryforwards	13	—
Assets retirement obligations	211	199
Other	278	313
Deferred tax assets subtotal	3,234	1,799
Valuation allowance	(1,106)	(1,030)
Deferred tax assets total	2,127	768
Deferred tax liabilities		
Reserve for fixed assets reduction	(1,028)	(1,007)
Unrealized gain (loss) on securities	(5,130)	(8,927)
Difference in valuation of fixed assets	(1,916)	(1,942)
Retirement expenses for assets retirement obligations	(127)	(114)
Total deferred tax liabilities	(8,202)	(11,992)
Net balance of deferred tax assets and (liabilities)	(6,075)	(11,223)

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

Fiscal 2019 (As of March 31, 2020)	Fiscal 2020 (As of March 31, 2021)
This information has been omitted because the difference between the effective statutory tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting was less than 5% of the effective statutory tax rate.	This information has been omitted because the difference between the effective statutory tax rate and the tax burden rate of corporate and other taxes after the application of tax effect accounting was less than 5% of the effective statutory tax rate.

Note 19 — Assets Retirement Obligations

Assets retirement obligations recorded in the consolidated balance sheets

1. Summary of the assets retirement obligations

The obligations are for the removal of asbestos from buildings used as operating assets.

2. Method for calculating the amount of the assets retirement obligations

The amount of the assets retirement obligations are calculated at discount rates between 0.0% and 2.3% over expected building usage periods estimated between less than one year to 50 years.

3. Changes in the assets retirement obligations

(Millions of yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Beginning balance	695	677
Adjustment due to passing of time	5	6
Reduction due to fulfillment of assets retirement obligations	(77)	(20)
Other increases (decreases)	53	—
Ending balance	677	664

Note 20 — Lease Property, etc.

The Company and some consolidated subsidiaries own lease properties such as office buildings, and commercial facilities in Tokyo and other areas for the purpose of earning leasing revenue. Some lease office buildings used by the Company and consolidated subsidiaries are presented as the real estate that includes the portion used as lease property, etc.

The amounts of such lease property, etc. and real estate that includes the portion used as lease property, etc. in the consolidated balance sheet, increase and decrease during the period, and their market values are as follows:

(Millions of yen)

		Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Lease property, etc.			
Amount on consolidated balance sheet			
	Beginning balance	216,665	224,652
	Increase (decrease)	7,986	20,456
	Ending balance	224,652	245,108
Market value at fiscal-year end		331,826	345,311
Real estate that includes the portion used as lease property, etc.			
Amount on consolidated balance sheet			
	Beginning balance	19,565	19,396
	Increase (decrease)	(168)	(16)
	Ending balance	19,396	19,380
Market value at fiscal-year end		31,719	31,586

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

2. The net increase in lease property, etc., in fiscal 2019 was mainly due to acquisition of real estate totaling ¥8,092 million. The net increase in fiscal 2020 was mainly due to acquisitions of real estate totaling ¥20,817 million and an increase in construction in progress amounting to ¥7,130 million, which offset a decrease due to transfer to real estate for sale amounting to ¥5,229 million.

3. The market values of principal properties at the end of the current consolidated fiscal year 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)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Lease property, etc.		
Leasing revenue	18,344	18,865
Leasing expenses	9,634	10,215
Net	8,710	8,649
Other profit (loss)	150	(17)
Real estate that includes the portion used as lease property, etc.		
Leasing revenue	2,652	2,552
Leasing expenses	1,435	1,367
Net	1,217	1,184
Other loss	(4)	(5)

(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 other duties, etc.) were included in the leasing expenses.

2. The amounts of other profit (loss) were mainly net balances of gain on sales of fixed assets, a loss on disposal of fixed assets, and an impairment loss.

Note 21 ― Segment and Other Information

【Segment Information】

1. Outline of reportable segments

The reportable segments of the Company are the business units for which the Company is able to obtain the respective financial information separately 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 handles the development, leasing, management, and operations of stock exchange buildings, office buildings, commercial facilities, and residential buildings. The Asset Management Business segment develops, sells, operates, and manages revenue-generating real restate, develops and sells residential properties, and provides real estate brokerage services.

Effective from April 1, 2020, the Company's reportable segments were changed as follows: the Leasing Business segment was renamed as the Building Business segment, and the Real Estate Solutions Business segment was renamed as the Asset Management Business segment. This change was limited to reportable segment names only, and had no effect on segment reporting. The new segment names were used for segment-related results in the fiscal year prior to the change.

2. Methods of calculating the amounts of operating revenue, income/loss, assets, liabilities, and other items by reportable segments

The accounting methods for the reportable segments are the same as those described in the Note 2 "Significant Accounging Policies."

The amount of income of each reportable segment is based on operating income. Inter-segment revenue is based on prevailing market prices.

3. Information on operating revenue, income/loss, assets, liabilities, and other items by reportable segments

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Amount in consolidated financial statements (Note 3)
	Building Business	Asset Management Business	Total				
Operating revenue							
Operating revenue from external customers	22,508	22,136	44,644	1,995	46,639	—	46,639
Inter-segment revenue and transfer	57	—	57	1,613	1,670	(1,670)	—
Total	22,565	22,136	44,701	3,608	48,309	(1,670)	46,639
Segment income	9,080	3,128	12,208	180	12,389	(1,485)	10,903
Segment assets	255,008	42,531	297,539	1,599	299,138	40,407	339,545
Other items							
Depreciation (Note 4)	4,781	13	4,795	4	4,799	14	4,814
Increase in tangible and intangible fixed assets (Note 4)	13,425	21	13,446	2	13,449	(29)	13,419

(Notes) 1. "Others" means business segments which are not included in the reportable segments and includes management and repair work contracting of buildings, facilities, etc., and insurance agency business.

2. Details of adjustments are as follows:

(1) The negative adjustments to segment income of ¥1,485 million mainly include corporate expenses amounting to ¥1,484 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥40,407 million mainly include corporate assets amounting to ¥43,454 million, which primarily consist of cash and deposits, marketable securities, and investment securities that belong to the administration division.

(3) The negative adjustments to increases in tangible and intangible fixed assets mainly represent the elimination of intersegment transactions of ¥31 million.

3. Segment income is adjusted with operating income in the consolidated statements of profit and loss.

4. The depreciation and increase in tangible and intangible fixed assets in the other items include the amortization of and an increase in long-term prepaid expenses.

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustments (Note 2)	Amount in consolidated financial statements (Note 3)
	Building Business	Asset Management Business	Total				
Operating revenue							
Operating revenue from external customers	21,713	11,969	33,683	1,365	35,048	—	35,048
Inter-segment revenue and transfer	59	—	59	1,644	1,704	(1,704)	—
Total	21,773	11,969	33,743	3,009	36,753	(1,704)	35,048
Segment income	8,573	3,937	12,510	84	12,595	(1,367)	11,228
Segment assets	280,919	53,080	333,999	1,552	335,551	45,801	381,353
Other items							
Depreciation (Note 4)	5,045	18	5,063	4	5,068	9	5,077
Increase in tangible and intangible fixed assets (Note 4)	29,825	1,025	30,851	2	30,854	17	30,872

(Notes) 1. "Others" means business segments which are not included in the reportable segments and includes management and repair work contracting of buildings, facilities, etc., and insurance agency business.

2. Details of adjustments are as follows:

(1) The negative adjustments to segment income of ¥1,367 million mainly include corporate expenses amounting to ¥1,368 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥45,801 million mainly include corporate assets amounting to ¥57,485 million, which primarily consist of cash and deposits, marketable securities, and investment securities that belong to the administration division.

(3) The negative adjustments to increases in tangible and intangible fixed assets mainly represent the elimination of intersegment transactions of ¥29 million.

3. Segment income is adjusted with operating income in the consolidated statements of profit and loss.

4. The depreciation and increase in tangible and intangible fixed assets in the other items include the amortization of and an increase in long-term prepaid expenses.

【Related Information】

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

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) Operating revenue

There are no applicable details to report because the Company receives no operating revenue from tenants or other clients outside Japan.

(2) Tangible fixed assets

There are no applicable details to report because the Company possesses no tangible fixed assets outside Japan.

3. Information by major tenants

(Millions of yen)

Name of tenant	Operating revenue	Applicable business segment
Asil Sapporo GK	12,000	Asset Management Business

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

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) Operating revenue

There are no applicable details to report because the Company receives no operating revenue from tenants or other clients outside Japan.

(2) Tangible fixed assets

There are no applicable details to report because the Company possesses no tangible fixed assets outside Japan.

3. Information by major tenants

(Millions of yen)

Name of tenant	Operating revenue	Applicable business segment
Nippon Open Ended Real Estate Investment Corporation	8,160	Asset Management Business

【Information Regarding Impairment Loss of Fixed Assets by Reportable Segment】

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Building Business	Asset Management Business	Others	Inter-segment eliminations	Total
Impairment loss	3	5	—	—	8

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Building Business	Asset Management Business	Others	Inter-segment eliminations	Total
Impairment loss	3	5	—	—	8

【Amortization and Unamortized Balance of Goodwill by Reportable Segment】

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Not applicable

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

【Information on Gain on Negative Goodwill by Reportable Segment】

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Not applicable

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

【Information on Related Parties】

Fiscal 2019 (From April 1, 2019 to March 31, 2020)

Not applicable

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

Not applicable

Note 22 － Per Share Information

(Yen)

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Net assets per share	2,837.29	3,190.09
Earnings per share	184.82	189.76

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

2. To calculate net assets per share and earnings per share, the Company's stock held in the trust for its stock compensation plan for directors and officers is included in treasury shares subtracted from calculations of the total number of shares issued as of the end of the period and the average number of shares outstanding during the period. 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 60,000 shares in fiscal 2019 and 59,000 shares in fiscal 2020, 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 41,000 shares in fiscal 2019 and 59,000 shares in fiscal 2020.

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

	Fiscal 2019 (From April 1, 2019 to March 31, 2020)	Fiscal 2020 (From April 1, 2020 to March 31, 2021)
Net income attributable to owners of parent (millions of yen)	7,046	7,118
Amount not attributable to common shareholders (millions of yen)	—	—
Net income attributable to common shareholders of the parent (millions of yen)	7,046	7,118
Average number of shares outstanding during the period (thousands of shares)	38,124	37,514

Note 23 ― Significant Subsequent Events

1. Acquisition of the Company's treasury shares

At a meeting held on April 30, 2021, the Company's Board of Directors resolved to acquire its treasury shares in accordance with the provisions of Article 156 of the Companies Act of Japan, applicable pursuant to Article 165, Paragraph 3, of the said act.

1. Reasons for acquisition of treasury shares
   To improve capital efficiency and increase shareholder returns

2. Terms and conditions for the acquisition
   (1) Type of shares to be acquired: Common stock of the Company
   (2) Maximum number of shares to be acquired: 600,000 shares
       (equivalent to 1.61% of outstanding shares, excluding treasury shares)
   (3) Maximum aggregate amount of acquisition cost: ¥2 billion
   (4) Period of acquisition: From May 20 to December 31, 2021
   (5) Method of acquisition: Purchase of shares through the Tokyo Stock Exchange

2. Establishment of an employee stock ownership plan

The Company's Board of Directors resolved, in a meeting held on May 18, 2021, to establish an employee stock ownership plan (hereinafter, "the Plan") as an incentive plan for its employees, conclude a trust agreement with Resona Bank, Limited, and set up a trust for the Plan (hereinafter, "the Trust") based on that agreement.

1. Purpose of establishing the Plan
   The establishment of the Plan was part of the Company's initiatives to provide incentives to employees, with the goal of raising employees' morale and motivation to contribute to improving the Company's medium- and long-term performance and to raising corporate value.

2. Details of the trust agreement

(1) Name of the Plan:	Heiwa Real Estate Employee Stock Ownership Plan
(2) Entrustor:	Heiwa Real Estate Co., Ltd.
(3) Trustee:	Resona Bank, Limited (to be changed to Custody Bank of Japan, Ltd.)
(4) Beneficiaries:	Employees who meet beneficiary requirements stipulated in the Company's Stock Compensation Rules
(5) Trust administrator:	To be selected from the Company's employees
(6) Trust agreement date:	May 19, 2021
(7) Date of entrusting funds:	May 19, 2021
(8) Period of the Trust:	Effective from May 19, 2021, until the Trust is terminated (continuing as long as the Plan is in place without any specified date of expiry)

3. Details of the Company's shares to be acquired at the time of establishing the Trust

(1) Type of shares to be acquired:	Common stock
(2) Amount of funds for acquiring the shares:	¥300 million
(3) Method of acquiring the shares:	Stock market purchases
(4) Planned period of share acquisitions:	May 19 to June 30, 2021

In accordance with 3., above, the Company acquired 71,100 of its treasury shares on May 26, 2021.

3. Change to reportable segments

The Company's Board of Directors resolved, in a meeting held on April 30, 2021, to changes its reportable segments from the current fiscal year, effective retroactively from April 1, 2021.

Firstly, the Company will transfer the Real Estate Investment Department from the Asset Management Business segment to the Building Business segment. The Real Estate Investment Department handles the development, sale, and investment in real estate for sale, and the acquisition and sale of fixed assets. This change was made in consideration of future business development plans following a decision to reassign two properties for lease from fixed assets to real estate for sale effective from April 1, 2021. This reassignment is in line with the Company's portfolio strategy in its current medium-term management plan of acquiring new properties for lease as a means to expand the portfolio, and generating earnings from the sale of properties in the process of replacing portfolio properties.

Secondly, the Company will transfer its subsidiary, Heiwa Real Estate Property Management Co., Ltd. (renamed from Heiwa Service Co., Ltd., effective from March 1, 2021), from the Other Businesses segment to the Building Business segment, effective from April 1, 2021. This change was made because the subsidiary will develop comprehensive property management services while expanding its current building facility maintenance and management business.

As a result of these two changes, the Building Business segment will handle the development, leasing, management, operations, and sales of stock exchange buildings, office buildings, commercial facilities, and residential buildings, while the Asset Management Business segment will mainly manage the properties of Heiwa Real Estate REIT, Inc., and provide real estate brokerage services.

In accordance with these changes, results for segment operating revenue, income/loss, assets, liabilities, and other items in the fiscal year under review have been changed as follows.

Information on operating revenue, income/loss, assets, liabilities, and other items by reportable segments

Fiscal 2020 (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segments			Adjustments (Note 1)	Amount in consolidated financial statements (Note 2)
	Building Business	Asset Management Business	Total		
Operating revenue					
Operating revenue from external customers	32,306	2,742	35,048	—	35,048
Inter-segment revenue and transfer	37	—	37	(37)	—
Total	32,343	2,742	35,086	(37)	35,048
Segment income	10,975	1,621	12,595	(1,368)	11,228
Segment assets	311,050	24,069	335,119	46,234	381,353
Other items					
Depreciation (Note 3)	5,021	15	5,037	40	5,077
Increase in tangible and intangible fixed assets (Note 3)	30,821	3	30,824	47	30,872

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

(1) The negative adjustments to segment income of ¥1,368 million mainly include corporate expenses amounting to ¥1,368 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥46,234 million mainly include corporate assets amounting to ¥57,485 million, which primarily consist of cash and deposits, marketable securities, and investment securities that belong to the administration division.

(3) Adjustments to increases in tangible and intangible fixed assets are increases in corporate assets that have not been allocated to the reportable segments.

2. Segment income is adjusted with operating income in the consolidated statements of profit and loss.

3. The depreciation and increase in tangible and intangible fixed assets in the other items include the amortization of and an increase in long-term prepaid expenses.

Note 24 ー Consolidated Supplemental Schedules

1. Schedule of Bonds Payable

Issuing company	Bond name	Date of issuance	Balance at the beginning of the period (millions of yen)	Balance at the end of the period (millions of yen)	Coupon	Securitization	Redemption date
Heiwa Real Estate Co., Ltd.	19th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 28, 2012	1,250 (100)	1,150 (100)	0.85% annually	Unsecured bond	September 30, 2022
Heiwa Real Estate Co., Ltd.	21st Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2013	675 (50)	625 (50)	0.97% annually	Unsecured bond	September 29, 2023
Heiwa Real Estate Co., Ltd.	22nd Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	March 25, 2014	800 (200)	600 (200)	0.88% annually	Unsecured bond	March 25, 2024
Heiwa Real Estate Co., Ltd.	23rd Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	March 31, 2014	980 (70)	910 (70)	0.89% annually	Unsecured bond	March 29, 2024
Heiwa Real Estate Co., Ltd.	24th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 25, 2014	750	750	1.03% annually	Unsecured bond	September 25, 2024
Heiwa Real Estate Co., Ltd.	25th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 25, 2014	337 (75)	262 (75)	0.81% annually	Unsecured bond	September 25, 2024
Heiwa Real Estate Co., Ltd.	26th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2014	1,087 (75)	1,012 (75)	0.79% annually	Unsecured bond	September 30, 2024
Heiwa Real Estate Co., Ltd.	27th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2014	500	500 (500)	0.60% annually	Unsecured bond	September 30, 2021
Heiwa Real Estate Co., Ltd.	28th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	December 30, 2014	1,500 (100)	1,400 (100)	0.65% annually	Unsecured bond	December 30, 2022
Heiwa Real Estate Co., Ltd.	30th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	June 30, 2015	2,557 (165)	2,392 (165)	0.76% annually	Unsecured bond	June 30, 2025
Heiwa Real Estate Co., Ltd.	31st Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2015	701 (701)	—	0.33% annually	Unsecured bond	September 30, 2020
Heiwa Real Estate Co., Ltd.	32nd Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2015	1,782 (115)	1,667 (115)	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	880 (55)	825 (55)	0.52% annually	Unsecured bond	March 31, 2026

Issuing company	Bond name	Date of issuance	Balance at the beginning of the period (millions of yen)	Balance at the end of the period (millions of yen)	Coupon	Securitization	Redemption date
Heiwa Real Estate Co., Ltd.	34th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	March 31, 2016	1,092 (102)	990 (102)	0.19% annually	Unsecured bond	March 31, 2023
Heiwa Real Estate Co., Ltd.	35th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2016	1,531 (134)	1,397 (134)	0.11% annually	Unsecured bond	September 29, 2023
Heiwa Real Estate Co., Ltd.	36th Unsecured Bond (limited to authorized institutional investors)	March 31, 2017	1,000	1,000	0.42% annually	Unsecured bond	March 31, 2025
Heiwa Real Estate Co., Ltd.	37th Unsecured Bond (limited to authorized institutional investors)	December 8, 2017	1,350 (75)	1,275 (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	1,425 (75)	1,350 (75)	0.76% annually	Unsecured bond	January 31, 2034
Heiwa Real Estate Co., Ltd.	40th Unsecured Bond	January 21, 2021	—	7,000	0.78% annually	Unsecured bond	January 21, 2031
Total	—	—	25,199 (2,092)	30,107 (1,891)	—	—	—

(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, 2021

Within one year (millions of yen)	Within one to two years (millions of yen)	Within two to three years (millions of yen)	Within three to four years (millions of yen)	Within four to five years (millions of yen)
1,891	4,327	3,259	3,060	3,695

2. Schedule of Borrowings

Item	Balance as of April 1, 2020 (millions of yen)	Balance as of March 31, 2021 (millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	6,250	9,250	0.3	—
Long-term loans payable within one year	5,736	26,961	0.6	—
Lease obligations payable within one year	0	0	—	—
Long-term loans payable (excluding those payable within one year)	145,791	145,408	0.7	2022–2037
Lease obligations (excluding those payable within one year)	1	0	—	2022
Other interest-bearing liabilities Long-term accounts payable	4,000	4,000	0.5	2024–2039
Total	161,780	185,621	—	—

(Notes) 1. The average interest rate is the weighted average interest rate for the respective item in the table as of March 31, 2021.

2. The average interest rate for lease obligations is not shown because lease obligations are recorded at an amount before subtracting the interest included in total lease payments are recorded in the consolidated balance sheets.

3. The payment period of long-term loans payable (excluding those payable within one year), lease obligations (excluding those payable within one year), and long-term accounts payable within five years from March 31, 2021 are shown below.

	Within one to two years (millions of yen)	Within two to three years (millions of yen)	Within three to four years (millions of yen)	Within four to five years (millions of yen)
Long-term loans payable	12,090	13,214	13,445	13,671
Lease obligations	0	—	—	—
Long-term accounts payable	—	—	258	258

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 assets retirement obligations as of April 1, 2020, and March 31, 2021, have been omitted because the amounts are less than one percent of total balance of liabilities and net assets at the beginning and end of the fiscal year under review.

Independent auditor's report

To the Board of Directors of Heiwa Real Estate Co., Ltd.:

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 sheet as at March 31, 2021, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the year 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets which are partly used as a hotel

The key audit matter

Tangible fixed assets of ¥238,737 million and Leasehold rights among intangible fixed assets of ¥26,618 million were recognized in the consolidated balance sheet of Heiwa Real Estate Co., Ltd. (the "Company") and its consolidated subsidiaries for the current fiscal year. Of these assets, 4 properties located in Tokyo, Osaka and Sapporo totaled ¥18,700 million, which were partly used as a hotel.

As described in Note 3, "Significant accounting estimates, Impairment of fixed assets" to the consolidated financial statements, whenever there is an impairment indicator for fixed assets, they need to be tested for impairment. The impairment indicators include recurring operating losses, a significant decline in market value, significant deterioration of the business environment, and a change in usage. If the recognition of impairment losses are deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as impairment losses.

The Company obtains external real estate appraisals, etc. of principal assets held by it. Based on them, the Company identifies an impairment indicator and examines whether impairment losses should be recognized.

Domestic and inbound demand declined across the hotel industry due to the impact of the spread of COVID-19. As a result, the hotel occupancy in properties which were partly used as a hotel decreased, and the business environment deteriorated significantly.

In this regard, assumptions about rent negotiations with tenants and the impact of the spread of COVID-19 on the future operating profit and loss and cash flows involve a high degree of management's subjective judgment, and therefore the recoverable amount may not be properly measured. As a result, the impairment loss to be recognized may not be recognized.

We, therefore, determined that our assessment of the

How the matter was addressed in our audit

The primary procedures we performed to assess the appropriateness of the Company's judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets which are partly used as a hotel included the following:

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls to identify an impairment indicator for fixed assets and determine whether impairment losses should be recognized.

The tested internal controls included the procedure to confirm materials which the Company submitted to external real estate appraisers when requesting them to perform a real estate appraisal.

(2) Assessment of appropriateness of the Company's judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets

To assess the appropriateness of the Company's judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets, we:

- inspected the board minutes, the minutes of the executive officers, the future plan and the requests for approval, which the Company prepared, as well as the relevant materials, inquired of management and the head of the department in charge, and evaluated the consistency with the economic condition, the hotel market, the trends in land prices issued by external organizations in order to understand the Company's recognition of the present situation and the future prospects about the impact of the spread of COVID-19;
- evaluated the accuracy and reasonableness of the data on actual operating profit and loss and cash flows for the Company's each property and the forecast of future plans by inspecting relevant documents about occupancy rates, average unit prices of guest rooms for each property, etc. as well as negotiation records

appropriateness of the Company′s judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets which are partly used as a hotel was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	with tenants, and comparing them with materials received from tenants; ● compared materials which the Company submitted to external real estate appraisers when requesting them to perform a real estate appraisal with the data on actual operating profit and loss and cash flows for the Company's each property and the forecast of future plans to assess the consistency; ● inquired of external real estate appraisers commissioned by the Company and the head of the department in charge about the results of the real estate appraisals and the underlying basis for the establishment of future cash flows, discount rates and as necessary, had our property valuation specialists evaluate the appropriateness of valuation methods and the reasonableness of discount rates; and ● assessed whether the results of the real estate appraisals of assets held by the Company were appropriately reflected in the Company's judgment concerning the identification of an impairment indicator for and the recognition of impairment losses on fixed assets.

Appropriateness of the Company’s judgment concerning the identification of an impairment indicator for fixed assets held for redevelopment projects	
The key audit matter	**How the matter was addressed in our audit**
Tangible fixed assets of ¥238,737 million and Leasehold rights among intangible fixed assets of ¥26,618 million were recognized in the consolidated balance sheet of Heiwa Real Estate Co., Ltd. (the “Company”) and its consolidated subsidiaries for the current fiscal year. These assets included those held by the Company and its consolidated subsidiaries for multiple real estate redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho districts) and Sapporo. As described in Note 3, “Significant accounting estimates, Impairment of fixed assets” to the consolidated financial statements, for redevelopment projects, in order to identify an impairment indicator for fixed assets, relevant assets are grouped for each block to be revitalized, and then the feasibility and reasonableness of the project as well as the progress are assessed. As a result, if there is an impairment indicator for these assets, they need to be tested for impairment. In redevelopment projects, there is a high degree of uncertainty about the recovery of investment due to the large amount of investment, the long development period and the possibility of changes in development plans, and therefore if business risks become obvious, the materiality in amount is likely to increase. In this regard, in order to identify an impairment indicator for fixed assets held for redevelopment projects, it is necessary to comprehensively evaluate the status of negotiations with other landowners of the blocks to be revitalized and negotiations for eviction with tenants of existing buildings as well as assumptions such as tenants’ rent and occupancy rates after development. However, these assumptions involve a high degree of management’s subjective judgment, and therefore impairment indicators may not be identified appropriately. As a result, impairment losses to be recognized may not be recognized. We, therefore, determined that our assessment of the appropriateness of the Company’s judgment concerning the identification of an impairment	The primary procedures we performed to assess the appropriateness of the Company’s judgment concerning the identification of an impairment indicator for fixed assets held for redevelopment projects included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company’s internal controls to identify an impairment indicator for fixed assets. The tested internal controls included the procedure to internally inspect and approve development plans prepared by the Company. (2) Assessment of the appropriateness of the Company’s judgment concerning the identification of an impairment indicator for fixed assets To assess the appropriateness of the Company’s judgment concerning the identification of an impairment indicator for fixed assets, we: ● inspected the board minutes, the minutes of the executive officers, the development plan and the requests for approval, which the Company prepared, as well as the relevant materials, inquired of management and the head of the department in charge, and evaluated the consistency with the management environment, the real estate rental market, the trends in land prices issued by external organizations in order to agree the blocks to be revitalized, the details of projects and the progress of projects; ● evaluated the consistency between grouping units of assets and development plans prepared by the Company; ● examined the feasibility of projects by inquiring of the head of the department in charge about the status of negotiations with other landowners and negotiations for eviction with tenants of existing buildings, inspecting negotiation records with other landowners and tenants of existing buildings and other relevant documents, and then evaluating the consistency between these documents and the results of queries;

indicator for fixed assets held for redevelopment projects was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	● examined the reasonableness of the underlying construction cost and tenants' rent and occupancy rate after development by inspecting the concluded construction contract, lease contract and other relevant documents, and comparing with similar projects in cases where a specific development plan was prepared; ● agreed the progress of projects which were already under construction by observing the construction sites and inspecting the development plans and other materials; and ● assessed whether impairment indicators for fixed assets of the Company were identified appropriately based on the feasibility and reasonableness of projects as well as the progress.

Other Matter

We draw attention to the fact that we have not audited the accompanying consolidated financial statements of the Company as at and for the year ended March 31, 2020, and accordingly, we do not express an opinion on them. However, the consolidated financial statements of the Company as at and for the year ended March 31, 2020, which were prepared pursuant to Article 193-2(1) of the Financial Instruments and Exchange Act of Japan, were audited by another auditor who expressed an unmodified opinionon those statements on June 23, 2020.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors 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.

Corporate auditors and the board of corporate auditors are responsible for overseeing the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors 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 corporate auditors and the board of corporate auditors 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, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors , 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Yohei Morimoto
Designated Engagement Partner
Certified Public Accountant

/S/ Hirofumi Hanyu
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
December 24, 2021

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.