ANNUAL REPORT 2022

Year Ended March 31, 2022

HEIWA REAL ESTATE

Contents

Part 1 Company Overview

1. History

July 1947	The Company was established in July 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

August 2021	Opened KABUTO ONE
April 2022	The Company's shares were listed on the Prime Market of the Tokyo Stock Exchange and the Premier Market of the Nagoya Stock Exchange following the respective market reorganizations of each exchange

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.

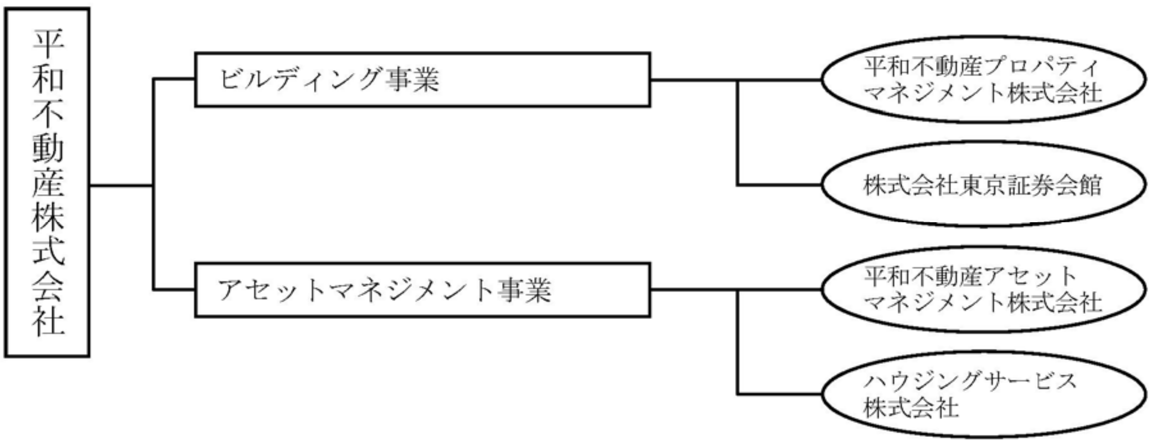
(1) Building Business

Heiwa Real Estate Co., Ltd., and The Tokyo Shoken Building Incorporated develop, lease, manage and sell stock exchange buildings, office buildings, commercial facilities, and residential buildings. Heiwa Real Estate Property Management Co., Ltd., provides property management services.

(2) Asset Management Business

Heiwa Real Estate Co., Ltd., and Heiwa Real Estate Asset Management Co., Ltd., manage the properties of Heiwa Real Estate REIT, Inc. Housing Service Co., Ltd. provides real estate agency services.

The details above are shown in the following diagram.



平和不動産株式会社	Heiwa Real Estate Co., Ltd.
ビルディング事業	Building Business
アセットマネジメント事業	Asset Management Business
平和不動産プロパティマネジメント株式会社	Heiwa Real Estate Property Management Co., Ltd.
株式会社東京証券会館	The Tokyo Shoken Building Incorporated
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.

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 transferred 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 March 31, 2021. This transfer is in line with the Company’s portfolio strategy in its current medium-term management plan of acquiring new properties to lease as a means to expand its portfolio, and generating earnings from the sale of properties in the process of replacing portfolio properties.

Secondly, the Company transferred 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 is developing 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 now handles the development, leasing, management, and sales of stock exchange buildings, office buildings, commercial facilities, and residential buildings, while the Asset Management

Business segment mainly manages the properties of Heiwa Real Estate REIT, Inc., and provides real estate brokerage services through 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	Building Business	100.0	Consigned to manage the Company's leased buildings Rents offices from the Company Officers hold concurrent positions
Housing Service Co., Ltd.	Chuo-ku, Osaka	95	Asset Management Business	100.0	Officers hold concurrent positions
Heiwa Real Estate Asset Management Co., Ltd.	Chuo-ku, Tokyo	295	Asset Management Business	100.0	Rents offices from the Company Officers hold concurrent positions
The Tokyo Shoken Building Incorporated	Chuo-ku, Tokyo	100	Building Business	100.0	Rents stores to the Company Officers hold concurrent positions

(Notes) 1. The Company absorbed previously consolidated subsidiaries LA3 Inc. and Kabutocho 12 Inc. through a merger effective from March 1, 2022.

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, 2022)

Segment	Number of employees
Building Business	133
Asset Management Business	80
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.

3. The number of employees was compiled based on the Company's reportable segments following the reorganization of the segments effective from April 1, 2021.

(2) Employees of the Company

(As of March 31, 2022)

Number of employees	Average age of employees	Average years of employment	Average annual salary (thousands of yen)
91	43.2	15.9	10,672

Segment	Number of employees
Building Business	64
Asset Management Business	—
Company-wide non-segment	27
Total	91

(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.
4. The number of employees was compiled based on the Company's reportable segments following the reorganization of the segments effective from April 1, 2021.

(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, 2022.

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 geopolitical risks and the global spread of the COVID-19 pandemic on the domestic and global economy will need to be closely monitored going forward.

Management will also need to pay close attention to various factors affecting the Group's operating environment, including the impact of the growing shift to telecommuting and other changing office practices on the office building leasing market, and the impact of domestic and foreign interest rate fluctuations on the real estate investment market.

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

With a view to create sustainable and diverse urban areas, 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" through urban redevelopment projects, including the opening of the KABUTO ONE building, construction of the Kitoki building, and the execution of the Kabutocho 12 Project (tentative name).

2) Redevelopment of commercial areas in Sapporo

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

(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.

(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 through the transition to a company with a nomination committee, etc. having a majority of its Board of Directors comprised of external directors, and reducing cross-shareholdings. 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 Sustainable Development Goals. To more effectively execute sustainable management, the Company, led by its Sustainability Committee, implements a PDCA cycle to monitor sustainability-related activities, including environmental initiatives related to climate change, and has related matters of importance reported to the Board of Directors. 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 Consolidated dividend payout ratio	Around 70% from fiscal 2020 to 2023 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 2021, ended March 31, 2022, economic conditions in Japan remained severe amid the worldwide COVID-19 pandemic. Looking ahead, the economy is expected to recover due to various measures implemented by the government. Nevertheless, the impact of geopolitical risks and the global spread of the COVID-19 pandemic on the domestic and global economy will need to be closely monitored going forward.

Conditions in Japan's real estate industry were mixed. In the office building leasing market, vacancy rates increased and rental rates declined as occupants tended to consolidate and reduce their office spaces amid changing office practices, such as the growing shift to telecommuting, in response to the pandemic. In the real estate investment market, however, property acquisitions continued to be brisk as investors demonstrated strong interest in Japanese real estate amid favorable financing conditions, including low interest rates.

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.

Furthermore, in accordance with its strategy to practice sustainability management, and as initiatives to help build a low-carbon economy, the Company revised its medium- and long-term goals for reducing greenhouse gas (GHG) emissions. Specifically, it set a new target to reduce the Group's total GHG emissions (Scope 1 and 2) by 50% by fiscal 2030, compared with the fiscal 2018 result. The Company also endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which issues guidelines for businesses to disclose relevant climate-related risks and opportunities, and intends to improve its information disclosure going forward. By enhancing its low-carbon initiatives, Heiwa Real Estate will work to continuously increase its value and develop sustainable communities as a company that contributes to the revitalization of urban areas.

Among consolidated financial results in the fiscal year under review, operating revenue totaled ¥57,818 million, an increase of ¥22,769 million (65.0%) year on year. Operating income was ¥12,615 million, up ¥1,386 million (12.3%), and ordinary income came to ¥11,572 million, an increase of ¥1,327 million (13.0%). Net income attributable to owners of parent amounted to ¥8,705 million, an increase of ¥1,586 million (22.3%) compared with the previous fiscal year, a record-high for the Group.

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

Firstly, the Company transferred its 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 designated for sale, and the acquisition and sale of properties designated as fixed assets. This change was made in consideration of future business development plans following a decision to transfer two leased properties from fixed assets to real estate for sale effective from March 31, 2021. This transfer is in line with the Company's portfolio strategy in its current medium-term management plan of acquiring new properties to lease as a means to expand its portfolio, and generating earnings from the sale of properties in the process of replacing portfolio properties.

Secondly, the Company transferred 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 is developing 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 now handles the development, leasing, management, and sales of stock exchange buildings, office buildings, commercial facilities, and residential buildings, while the Asset Management Business segment mainly manages the properties of Heiwa Real Estate REIT, Inc., and provides real estate brokerage services through Housing Service Co., Ltd.

Segment results in the previous fiscal year have been adjusted to reflect these changes to the reportable business segments.

In addition, effective from April 1, 2021, the Company adopted the Accounting Standard for Revenue Recognition (Statement No. 29) issued by the Accounting Standards Board of Japan on March 31, 2020.

Consolidated Financial Results by Segment (Millions of yen)

Segment	Fiscal 2020		Fiscal 2021		Difference	
	Operating revenue	Operating income	Operating revenue	Operating income	Operating revenue	Operating income
Building Business	32,306	10,975	54,433	12,399	22,127	1,423
Asset Management Business	2,742	1,621	3,384	1,977	641	356
Adjustments	—	(1,368)	—	(1,762)	—	(393)
Total	35,048	11,228	57,818	12,615	22,769	1,386

Operating revenue from major tenants and their percentage of total operating revenue in fiscal 2020 and 2021 are as follows.

Tenant	Fiscal 2020		Fiscal 2021	
	Operating revenue (millions of yen)	Percentage of total operating revenue	Operating revenue (millions of yen)	Percentage of total operating revenue
Nippon Open Ended Real Estate Investment Corporation	8,160	23.3	—	—
Ginza Project Inc. (special-purpose company)	—	—	18,000	31.1
Heiwa Real Estate REIT, Inc.	—	—	11,430	19.8

(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, leasing revenue increased by ¥3,486 million (15.4%) year on year to ¥26,111 million, mainly due to contributions from the Kabutocho Heiwa Building No. 7 (Chuo-ku, Tokyo), which was acquired in the previous fiscal year, Shimbashi Square Building (Minato-ku, Tokyo), Heiwa Real Estate Nihonbashi Building (Chuo-ku, Tokyo), Kabutocho Heiwa Dia Building (Chuo-ku, Tokyo), which was acquired in the fiscal year under review, and KABUTO ONE (Chuo-ku, Tokyo), which opened in the fiscal year under review. Penalties for tenant contract cancellations also contributed to this result. Revenue from sales of properties grew by ¥18,610 million (228.1%) to ¥26,770 million, due to a substantial amount of sales of real estate that had been designated for sale. These results combined with other revenues in this segment brought total operating revenue to ¥54,433 million, an increase of ¥22,127 million (68.5%) year on year. Segment operating income totaled ¥12,399 million, up ¥1,423 million (13.0%) compared with the same period of the previous fiscal year.

As of March 31, 2022, the vacancy rate of buildings leased by the Heiwa Real Estate Group (excluding buildings for which leases have been suspended due to redevelopment) was 4.46%.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2020		Fiscal 2021	
	Area (m^2)	Amount	Area (m^2)	Amount
Leasing revenue	Leased land area 3,380.75	22,624	Leased land area 3,380.75	26,111
	Leased floor space 422,893.12		Leased floor space 425,431.57	
Revenue from sales of properties	—	8,160	—	26,770
Other	—	1,521	—	1,552
Total	—	32,306	—	54,433

(2) Asset Management Business

In the Asset Management Business segment, asset management revenue increased by ¥121 million (5.9%) year on year to ¥2,192 million, and brokerage commissions rose ¥520 million (77.5%) to ¥1,191 million. As a result, operating revenue totaled ¥3,384 million, up ¥641 million (23.4%) year on year. Segment operating income amounted to ¥1,977 million, an increase of ¥356 million (22.0%) compared with the previous fiscal year.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2020	Fiscal 2021	Difference
Asset management revenue	2,071	2,192	121
Brokerage commissions	671	1,191	520
Total	2,742	3,384	641

2) Cash flows

As of March 31, 2022, cash and cash equivalents amounted to ¥28,111 million, a decrease of ¥1,474 million compared with March 31, 2021.

Fiscal 2021 consolidated results for each category of cash flows and main factors underlying the results are as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥34,189 million, compared with ¥8,292 million in the previous fiscal year. Main inflows included income before income taxes of ¥12,544 million and a decrease in inventories of ¥18,578 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥20,705 million, compared with ¥30,200 million in the previous fiscal year. Main outflows included ¥18,218 million for the purchase of tangible fixed assets and ¥2,156 million for the purchase of intangible fixed assets.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥15,490 million, compared with net cash provided by financing activities of ¥24,327 million in the previous fiscal year. Main outflows included a decrease in short-term loans payable of ¥5,450 million, repayment of long-term loans payable of ¥27,159 million, redemption of bonds totaling ¥1,891 million, purchase of treasury shares of ¥2,820 million, and payment of dividends amounting to ¥3,176 million. Main inflows included proceeds from long-term loans payable of ¥25,010 million.

(Reference) Results for cash flow-related indicators

Indicator	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Equity-assets ratio	34.9%	32.5%	31.6%	31.1%	31.7%
Market cap-to-assets ratio	27.2%	24.6%	31.2%	33.7%	38.4%
Debt repayment period (years)	11.6	—	6.5	26.0	6.0
Interest coverage ratio (times)	10.4	—	22.8	6.2	24.2
Net debt-to-equity ratio	1.4	1.6	1.5	1.6	1.5

(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 long-term accounts payable, as stated in the consolidated balance sheets. Interest expenses used for the calculations are recorded in the consolidated statements of income.

3. Net cash provided by operating activities used for the calculations 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, 2022.

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 strove to realize external growth through the opening of the KABUTO ONE building (Chuo-ku, Tokyo) and acquisition of the Kabutocho Heiwa Dia Building (Chuo-ku, Tokyo), and worked towards internal growth by increasing rent amounts in leasing agreements. Among consolidated financial results, operating income rose by ¥1,386 million to ¥12,615 million, marking a third consecutive year-on-year increase. Higher income from sale of properties and penalties for tenant contract cancellations in the Building Business segment contributed to the result. Net income attributable to owners of parent grew by ¥1,586 million to ¥8,705 million, a record-high amount and the fifth consecutive year-on-year increase. This mainly reflected the contribution from the sell-off of investment securities, specifically cross-shareholdings.

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

Total assets, total liabilities, and net assets as of March 31, 2021, and March 31, 2022 were as follows:

(Millions of yen)

	March 31, 2021	March 31, 2022	Difference
Total assets	381,353	376,210	(5,143)
Total liabilities	262,713	256,931	(5,782)
Net assets	118,639	119,278	638
Interest-bearing liabilities	215,727	206,236	(9,490)

(Note) 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 long-term accounts payable.

Total assets

As of March 31, 2022, total assets amounted to ¥376,210 million, a decrease of ¥5,143 million compared with March 31, 2021. Among the factors underlying this result, real estate for sale decreased by ¥10,638 million and investment securities decreased by ¥4,199 million. These and other items more than offset increases in assets, including an increase in tangible fixed assets of ¥10,641 million, which reflected the acquisition of the Kabutocho Heiwa Dia Building (Chuo-ku, Tokyo), construction cost outlays for KABUTO ONE (Chuo-ku, Tokyo), and the consolidation of LA3 Inc. and Kabutocho 12 Inc., which had previously been non-consolidated subsidiaries.

In the consolidated balance sheets, the combined balance of leased property and real estate of which a portion was leased was ¥276,714 million as of March 31, 2022, an increase of ¥12,225 million compared with April 1, 2021, and, as of those respective dates, had a market value of ¥388,980 million, an increase of ¥12,083 million.

Total liabilities

As of March 31, 2022, total liabilities amounted to ¥256,931 million, a decrease of ¥5,782 million compared with March 31, 2021. The main factor underly this result was a decrease in interest-bearing liabilities of ¥9,490 million, which offset an increase in income taxes payable of ¥2,962 million, among other items.

As of March 31, 2022, the balance of interest-bearing liabilities was ¥206,236 million, and the net debt-to-equity ratio stood at 1.5. 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, 2022, net assets stood at ¥119,278 million, an increase of ¥638 million compared with March 31, 2021. This was mainly the result of an increase in retained earnings of ¥5,517 million, which more than offset decreases due to purchase of treasury shares of ¥2,810 million, and unrealized gain on securities of ¥2,119 million.

The Company implemented concrete measures to raise capital efficiency and return stable profits to shareholders, including an acquisition of 636,600 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, 2022, Building Business segment assets amounted to ¥310,089 million, down ¥960 million compared with a year earlier. This decrease was mainly due to a decrease in real estate for sale, which resulted from sell-offs of properties, as well as a decrease in real estate for sale in process. These and other items offset an increase in tangible fixed assets, which reflected the acquisition of the Kabutocho Heiwa Dia Building (Chuo-ku, Tokyo), construction cost outlays for KABUTO ONE (Chuo-ku, Tokyo), and the consolidation of LA3 Inc. and Kabutocho 12 Inc., which had previously been non-consolidated subsidiaries.

Asset Management Business segment assets totaled ¥24,854 million, up ¥785 million compared with a year earlier. This was mainly due to an increase in investment securities, which resulted from acquisitions of investment units of Heiwa Real Estate REIT, Inc.

Segment assets (Millions of yen)

	March 31, 2021	March 31, 2022	Difference
Building Business	311,050	310,089	(960)
Asset Management Business	24,069	24,854	785
Adjustments	46,234	41,265	(4,968)
Amount in consolidated financial statements	381,353	376,210	(5,143)

Analysis of operating results

Operating 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, 2022, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥206,236 million, net interest-bearing liabilities, which exclude marketable securities and cash and deposits from interest-bearing liabilities, amounted to ¥178,009 million, and the net debt-to-equity ratio came to 1.5.

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 ¥3,489 million for fiscal 2021 and acquired a total of ¥2,499 million in treasury shares during the same year. As a result, the consolidated total shareholder return ratio is expected to reach 68.8%.

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 5 Additional Information.

Additional information

1. Building Business

Breakdown of operating revenue, segment income, and depreciation (Millions of yen)

Classification	Fiscal 2020			Fiscal 2021		
	Operating revenue	Segment income (loss)	Depreciation	Operating revenue	Segment income (loss)	Depreciation
Leasing revenue	22,624	9,086	5,017	26,111	10,083	5,344
Revenue from sales of properties	8,160	2,155	—	26,770	2,511	—
Other	1,521	(265)	4	1,552	(195)	4
Total	32,306	10,975	5,021	54,433	12,399	5,349

(Note) Leasing revenue includes sales and expenses associated with the operations of restaurants. These operations contributed ¥83 million to operating revenue, reduced segment incomed by ¥67 million, and accounted for ¥17 million in depreciation in fiscal 2020, and contributed ¥117 million to operating revenue, reduced segment incomed by ¥130 million, and accounted for ¥37 million in depreciation in fiscal 2021.

2. Asset Management Business

Breakdown of operating revenue, segment income, and depreciation (Millions of yen)

Classification	Fiscal 2020			Fiscal 2021		
	Operating revenue	Segment income	Depreciation	Operating revenue	Segment income	Depreciation
Asset management revenue	2,071	1,502	7	2,192	1,606	8
Brokerage commissions	671	118	8	1,191	371	7
Total	2,742	1,621	15	3,384	1,977	16

Part 3 Financial Reporting

Consolidated Financial Statements

1．Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Assets		
Current assets		
Cash and deposits (Note 13)	29,685	23,211
Accounts receivable–trade (Note 7, 13 and 21)	1,633	1,809
Marketable securities (Notes 13 and 14)	16	5,014
Real estate for sale (Note 7)	30,261	19,623
Real estate for sale in process (Note 7)	834	251
Other inventories	1	—
Operating investment (Notes 13 and 14)	1,684	1,624
Other	3,850	2,038
Allowance for doubtful accounts	(26)	(25)
Total current assets	67,942	53,548
Fixed assets		
Tangible fixed assets		
Buildings and structures (Note 7)	163,896	172,795
Accumulated depreciation	(89,763)	(89,847)
Buildings and structures, net (Note 7)	74,133	82,947
Machinery, equipment and vehicles	2,236	2,279
Accumulated depreciation	(1,909)	(1,787)
Machinery, equipment and vehicles, net (Note 7)	327	492
Tools, furniture and fixtures	1,913	2,087
Accumulated depreciation	(1,523)	(1,527)
Tools, furniture and fixtures, net (Note 7)	389	560
Land (Note 7)	154,043	163,624
Construction in progress (Note 7)	9,843	1,754
Total tangible fixed assets	238,737	249,379
Intangible fixed assets		
Leasehold rights (Note 7)	26,618	28,560
Other	97	251
Total intangible fixed assets	26,716	28,811
Investments and other assets		
Investment securities (Notes 7, 13 and 14)	43,265	39,066
Long-term loans to employees	0	—
Deferred tax assets (Note 18)	155	156
Other	4,310	5,079
Allowance for doubtful accounts	(0)	—
Total investments and other assets	47,732	44,301
Total fixed assets	313,185	322,492
Deferred assets		
Bond-issuing cost	224	169
Total deferred assets	224	169
Total assets	381,353	376,210

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Liabilities		
Current liabilities		
Accounts payable–trade (Note 13)	1,818	3,367
Current portion of bonds payable (Notes 13 and 25)	1,891	4,327
Short-term loans payable (Notes 13 and 25)	9,250	3,800
Current portion of long-term loans	26,961	13,077
Income taxes payable (Note 18)	337	3,300
Accrued consumption taxes	77	96
Accrued bonuses for directors	86	118
Accrued bonuses	213	250
Asset retirement obligations (Note 19)	1	—
Other (Note 7, 21 and 25)	1,753	2,372
Total current liabilities	42,391	30,710
Long-term liabilities		
Bonds payable (Notes 13 and 25)	28,216	23,889
Long-term loans payable (Notes 13, 15 and 25)	145,408	157,143
Long-term accounts payable (Notes 13 and 25)	4,000	4,000
Leasehold and guarantee deposits received (Note 13)	22,829	22,514
Deferred tax liabilities (Note 18)	11,378	10,170
Deferred tax liabilities for land revaluation (Note 7)	7,663	7,613
Provision for share-based remuneration	47	101
Retirement benefit liability (Note 16)	115	119
Asset retirement obligations (Note 19)	662	669
Other (Note 25)	0	—
Total long-term liabilities	220,322	226,221
Total liabilities	262,713	256,931
Net assets		
Shareholders' equity		
Common stock	21,492	21,492
Capital surplus	19,720	19,720
Retained earnings	44,740	50,258
Treasury shares	(4,496)	(7,306)
Total shareholders' equity	81,457	84,165
Accumulated other comprehensive income		
Unrealized gain on securities	20,187	18,068
Land revaluation surplus (Note 7)	16,995	17,045
Total accumulated other comprehensive income	37,182	35,113
Total net assets	118,639	119,278
Total liabilities and net assets	381,353	376,210

See notes to consolidated financial statements.

２． Consolidated Statements of Income

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Operating revenue (Note 8, 21 and 22)	35,048	57,818
Operating costs (Note 8)	19,687	40,126
Gross profit	15,361	17,691
Selling, general and administrative expenses		
Salaries and allowances	1,397	1,547
Provision of accrued bonuses for directors	87	121
Provision of accrued bonuses	137	169
Provision for share-based remuneration	26	53
Retirement benefit costs	33	88
Commission fee	496	725
Other	1,953	2,371
Total selling, general and administrative expenses	4,132	5,076
Operating income (Note 22)	11,228	12,615
Non-operating income		
Interest income	10	5
Dividends earned	445	534
Miscellaneous non-operating income	65	45
Total non-operating income	522	585
Non-operating expenses		
Interest expenses	1,331	1,414
Amortization of bond issuance cost	54	56
Miscellaneous non-operating expenses	120	158
Total non-operating expenses	1,506	1,628
Ordinary income	10,244	11,572
Extraordinary income		
Gain on sales of fixed assets (Note 8)	—	344
Gain on sales of investment securities	—	761
Total extraordinary income	—	1,106
Extraordinary loss		
Loss on sales of fixed assets (Note 8)	1	—
Loss on disposal of fixed assets (Note 8)	18	49
Loss on building reconstruction (Note 8)	—	82
Impairment loss (Note 8 and 22)	8	2
Total extraordinary loss	27	133
Income before income taxes	10,216	12,544
Income taxes - current	1,745	4,113
Income taxes - deferred	1,351	(274)
Total income taxes (Note 18)	3,097	3,839
Net income	7,118	8,705
Net income attributable to owners of parent	7,118	8,705

See notes to consolidated financial statements.

３． Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Net income	7,118	8,705
Other comprehensive income (Note 9)		
Unrealized gain on securities	8,602	(2,119)
Land revaluation surplus	—	49
Total other comprehensive income	8,602	(2,069)
Comprehensive income (Note 9)	15,721	6,635
Comprehensive income attributable to:		
Owners of parent	15,721	6,635

See notes to consolidated financial statements.

４．Consolidated Statements of Changes in Net Assets

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
Changes in scope of consolidation			—		—
Acquisition of treasury shares				(2,011)	(2,011)
Disposal of treasury shares		0		2	2
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
Changes in scope of consolidation				—
Acquisition of treasury shares				(2,011)
Disposal of treasury shares				2
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

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

(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	44,740	(4,496)	81,457
Change during the period					
Distribution of surplus			(3,189)		(3,189)
Net income attributable to owners of parent			8,705		8,705
Changes in scope of consolidation			2		2
Acquisition of treasury shares				(2,810)	(2,810)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total change during the period	—	0	5,517	(2,810)	2,708
Balance at the end of the period	21,492	19,720	50,258	(7,306)	84,165

	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	20,187	16,995	37,182	118,639
Change during the period				
Distribution of surplus				(3,189)
Net income attributable to owners of parent				8,705
Changes in scope of consolidation				2
Acquisition of treasury shares				(2,810)
Disposal of treasury shares				0
Net changes of items other than shareholders' equity	(2,119)	49	(2,069)	(2,069)
Total change during the period	(2,119)	49	(2,069)	638
Balance at the end of the period	18,068	17,045	35,113	119,278

See notes to consolidated financial statements.

５．Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Income before income taxes	10,216	12,544
Depreciation	5,077	5,418
Loss on disposal of fixed assets	18	49
Impairment loss	8	2
Increase (decrease) in allowance for doubtful accounts	24	(1)
Increase (decrease) in accrued bonuses	2	36
Increase (decrease) in retirement benefit liability	(176)	4
Interest and dividends income	(456)	(540)
Interest expenses	1,331	1,414
Amortization of bond issuance cost	54	56
Loss (gain) on sale of investment securities	—	(761)
Loss (gain) on sales of fixed assets	1	(344)
Decrease (increase) in notes and accounts receivable – trade	(512)	(175)
Decrease (increase) in inventories	(410)	18,578
Decrease (increase) in operating investments	(1,199)	60
Decrease (increase) in prepaid expenses	6	(25)
Decrease (increase) in accounts receivable – other	(758)	(895)
Increase (decrease) in notes and accounts payable – trade	(188)	274
Increase (decrease) in advances received	49	(66)
Increase (decrease) in accrued consumption taxes	(1,320)	19
Increase (decrease) in deposits received	(14)	633
Increase (decrease) in leasehold and guarantee deposits received	609	(281)
Other	793	144
Subtotal	13,157	36,144
Interest and dividend income received	462	540
Interest paid	(1,320)	(1,407)
Income taxes paid	(4,006)	(1,088)
Net cash provided by operating activities	8,292	34,189

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Cash flows from investing activities		
Decrease (increase) in time deposits	500	—
Purchase of marketable securities	—	(2,000)
Proceeds from sales and redemption of securities	1,003	2,016
Purchase of investment securities	(296)	(1,632)
Proceeds from sales and redemption of investment securities	97	986
Purchase of tangible fixed assets	(26,894)	(18,218)
Proceeds from sales of tangible fixed assets	4	984
Purchase of intangible fixed assets	(4,231)	(2,156)
Purchase of long-term prepaid expenses	(180)	(498)
Payments for guarantee deposits	(198)	(237)
Proceeds from collection of guarantee deposits	14	42
Payments for asset retirement obligations	(20)	(1)
Other	1	11
Net cash used in investing activities	(30,200)	(20,705)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	3,000	(5,450)
Proceeds from long-term loans payable	27,150	25,010
Repayment of long-term loans payable	(6,307)	(27,159)
Proceeds from issuance of bonds	7,000	—
Redemption of bonds	(2,092)	(1,891)
Purchase of treasury shares	(2,015)	(2,820)
Payment of dividends	(2,366)	(3,176)
Other	(40)	(2)
Net cash provided by (used in) financing activities	24,327	(15,490)
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	2,419	(2,006)
Balance of cash and cash equivalents at beginning of period	27,166	29,585
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	532
Balance of cash and cash equivalents at end of period (Note 11)	29,585	28,111

See notes to consolidated financial statements.

６．Notes to Consolidated Financial Statements

Note 1 ー 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 ー Significant Accounting Policies

1. Scope of consolidation

(1) Consolidated subsidiaries: 4

Names of consolidated subsidiaries:

Heiwa Real Estate Property Management Co., Ltd.
Housing Service Co., Ltd.
HEIWA REAL ESTATE Asset Management CO., LTD.
The Tokyo Shoken Building Incorporated

(2) Changes in the scope of consolidation

Previously non-consolidated subsidiaries LA3 Inc. and Kabutocho 12 Inc. had been included in the scope of consolidation during the third quarter of the fiscal year under review because their qualitative importance increased; however, both subsidiaries were dissolved following their absorption by the Company through a merger during the fourth quarter, and, therefore, have been excluded from the scope of consolidation in the fiscal year under review.

(3) 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) Securities

Held-to-maturity bonds

Held-to-maturity bonds are valued at cost, with cost being determined using the amortized cost method (straight-line method).

Available-for-sale securities

a) Investments other than stocks without quoted market prices

The market value method is used for investments other than stocks without quoted market prices (differences in valuation are included directly in net assets, and costs of securities sold are calculated using the moving-average method).

b) Stocks without quoted market prices

They are mainly valued at cost determined using the moving-average method.

2) 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 – 65 years

Machinery, equipment, and vehicles 2 – 30 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, and as compensation to employees in accordance with share-based remuneration rules concerning the trust for the Company's stock compensation plan for employees.

(5) Accounting for retirement benefits

In order to provide the retirement benefits of employees and pension recipients, retirement benefit liability is calculated at an amount equal to the projected benefit obligation as of the end of the fiscal year under review minus the fair value of pension assets. Retirement benefit liability is not calculated at any consolidated subsidiary that has a defined contribution retirement plan.

(6) Basis for calculating significant revenues and expenses

Details about the primary performance obligations of the Heiwa Real Estate Group's main businesses that generate revenue from contracts with customers, and the points in time when such performance obligations are generally satisfied (the points in time when revenues are generally recognized) are as follows.

1) Building Business

Revenue from sales of properties

The Company generates revenue from sales of properties by increasing the value of properties it has acquired through redevelopment, lease-ups, and renovations, and then selling them for higher prices than their acquisition prices. The Company has performance obligations to deliver properties based on real estate sales agreements.

These performance obligations are satisfied at the time of delivering a property, and revenue is recognized once the property is delivered.

2) Asset Management Business

Asset management revenue from management fees

The Company generates asset management revenue from management fees obtained through asset management services provided to Heiwa Real Estate REIT, Inc. Based on property lease agreements, the Company has performance obligations to manage properties, handle leasing and financing, and acquire and transfer ownership of properties.

Its performance obligations to manage properties and handle leasing and financing are satisfied by providing these services over their specified periods of time, and revenue is recognized in proportion to the degree these performance obligations are satisfied.

Its performance obligations to acquire and transfer ownership of properties are satisfied once an acquisition or transfer of a property has been completed, and revenue is recognized at either of those points in time.

(7) Method of significant hedge accounting

1) Method of hedge accounting

The 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.

(8) 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.

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

Accounting for consumption taxes

In principle, non-deductible consumption taxes were charged as expenses in the fiscal year under review.

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	Fiscal 2021
Tangible fixed assets (Mainly in the Building Business segment)	238,737	249,379
Leasehold rights among intangible fixed assets (In the Building Business segment)	26,618	28,560
Impairment loss	8	2

(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 recording an impairment loss is deemed necessary, the Company will compare the undiscounted future cash flow with the book value, and if the undiscounted future cash flow is less than the book value, the Company will reduce the book value to a recoverable amount (either the net sales price or the value in use, whichever is higher), and record the reduced book value as an impairment loss.

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 prolonged impact of the COVID-19 pandemic, the operating results of certain assets worsened markedly, specifically five hotels (some of which also have office space) located in Sapporo, Tokyo, and Osaka with a combined book value of ¥23,154 million. Therefore, as in the previous fiscal year, 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 sum of the undiscounted future cash flow as well as the externally appraised real estate value exceeded the book value.

In addition, for its real estate redevelopment projects in Tokyo (Nihonbashi Kabutocho and Kayabacho districts) and Sapporo, the Company groups together multiple assets from the time when redevelopment plans are 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	Fiscal 2021
Real estate for sale (In the Building Business segment)	30,261	19,623
Real estate for sale in process (In the Building Business segment)	834	251
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 building construction costs and the expected amount of selling expenses. If the net sales price is less than the book value, the difference is recorded in cost of sales as a loss on revaluation of inventories.

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, 2022, 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 — Changes in accounting policies

1. Adoption of accounting standard related to revenue recognition

Effective from April 1, 2021, the Company adopted the Accounting Standard for Revenue Recognition (Statement No. 29) issued by the Accounting Standards Board of Japan on March 31, 2020. Accordingly, the Company recognizes the fees it expects to receive for promised goods or services as revenues at the time when those goods or services have been delivered.

Due to this change, the Company has changed its method for recognizing revenue received from building tenants for utilities fees. Specifically, this revenue had previously been deducted from operating costs, but after determining the roles (principal or agent) involved in providing goods or services to customers, this revenue in the gross amount
is now included in operating revenue.

With the adoption of the Accounting Standard for Revenue Recognition, the Company began applying a new accounting policy from April 1, 2021. If this new accounting policy was applied retroactively before April 1, 2021, in accordance with the transitional treatment stipulated in Paragraph 84 of the standard, cumulative effects would be added or deducted from retained earnings as of April 1, 2021, with the balance used for the new policy starting from that date. The Company, however, having applied the method stated in Paragraph 86 of the standard, did not apply this new accounting policy retroactively to revenue amounts in contracts for which almost all of those amounts prior to April 1, 2021, had been recognized in accordance with the previous accounting treatment.

As a result of these changes, operating revenue and cost of sales each increased by ¥1,141 million in the fiscal year under review. There was no impact, however, on results for operating income, ordinary income, income before income taxes, or retained earnings.

In addition, in accordance with the transitional treatment subject to Paragraph 89-3 of the Accounting Standard for Revenue Recognition, a note regarding revenue recognition for the previous fiscal year was not presented.

2. Adoption of accounting standard related to fair value measurement

Effective from April 1, 2021, the Company adopted the Accounting Standard for Fair Value Measurement (Statement No. 30) issued by the Accounting Standards Board of Japan on July 4, 2019. Accordingly, the Company began applying a new accounting policy based on this standard in accordance with the transitional treatment stipulated in Paragraph 19 of the standard, as well as Paragraph 44-2 of the Accounting Standard for Financial Instruments (Statement No. 10), also issued by the board on July 4, 2019. These changes had no impact on the Company's consolidated financial statements for the fiscal year under review.

In addition, items falling under different levels of the fair value of financial instruments have been presented in Note 12 ― "Financial Instruments." In accordance with the transitional treatment stipulated in Paragraph 7-4 of the revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Guidance No. 19), also issued by the board on July 4, 2019, this note for the previous fiscal year was not presented.

Note 5 ― Unapplied Accounting Standards

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, issued on June 17, 2021)

(1) Overview

A revised version of the Implementation Guidance on Accounting Standard for Fair Value Measurement (Guidance No. 31) was issued by the Accounting Standards Board of Japan on June 17, 2021, over one year after the issuance of the Accounting Standard for Fair Value Measurement on July 4, 2019, because a certain amount of time was deemed necessary to consult with relevant parties about how to estimate the fair value of investment trusts, and some consideration was needed for notes on the fair value of investment in partnerships for which the net amount of equity stakes are recorded in balance sheets.

(2) Scheduled date of application

The Company applied the accounting standards, etc. from April 1, 2022.

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

The impact of applying the Implementation Guidance on Accounting Standard for Fair Value Measurement on the consolidated financial statements was being assessed at the time of issuing this report.

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 based on share-based remuneration 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 ¥137 million as of March 31, 2021, and ¥137 million as of March 31, 2022, and the amount of stock totaled 59,300 shares as of March 31, 2021, and 59,300 shares as of March 31, 2022.

2. Establishment of an employee stock ownership plan

Following a resolution by its Board of Directors on May 18, 2021, the Company established an employee stock ownership plan as an incentive plan for its employees.

1) Overview of the ownership plan

The plan provides employees with the Company's stock or a cash amount equivalent to the market value of the stock commensurate with a number of points awarded based on share-based remuneration rules concerning the trust for the Company's stock compensation plan for employees set by the Board of Directors. The shares for the plan are acquired by a trust that has been set up using funds contributed by the Company.

2) Company stock held in the trust

Company stock held in the trust is calculated based on the book value of the stock (excluding incidental expenses) and is included in treasury shares under net assets. As of March 31, 2022, the book value of the applicable treasury shares amounted to ¥298 million, and the amount of stock totaled 71,100 shares.

3. 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.

Note 7 — Consolidated Balance Sheets

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

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)
Receivables from contracts with customers (Note 1)	197
Contract assets (Note 1)	465
Contract liabilities (Note 2)	25

(Notes) 1. Receivables from contracts with customers and contract assets are included in “accounts receivable–trade.”
2. Contract liabilities are included in “other” under “current liabilities.”

2. Guarantees liabilities

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

(Millions of yen)

Fiscal 2020 (As of March 31, 2021)		Fiscal 2021 (As of March 31, 2022)	
Housing loans for employees of Heiwa Real Estate Co., Ltd.	157	Housing loans for employees of Heiwa Real Estate Co., Ltd.	142

3. Pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 of March 31, 2001), the Company revalued its land held for business. Corporation taxes equivalent to net unrealized gains are reported as “deferred tax liabilities for land revaluation” in liabilities, and net unrealized gains, net of deferred taxes, are reported as “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, 2021, and March 31, 2022, the difference between the amounts has not been stated.

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

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Investment securities	2,512	—

5. Assets included under investment securities are as follows:

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Investment units of Heiwa Real Estate REIT, Inc.	21,628 (139,179 units)	22,047 (147,179 units)

6. 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 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Real estate for sale	—	48
Buildings and structures	288	239
Total	288	288

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

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Transferred from fixed assets to real estate for sale	5,239	7,355

Note 8 ― Consolidated Statements of Income

1. Revenues from contracts with customers

Revenues from contracts with customers and revenues other than those from contracts with customers are not recorded separately under operating revenue. Revenues from contracts with customers are shown as follows.

(Millions of yen)

Fiscal 2021 (From April 1, 2021 to March 31, 2022)
32,087

2. 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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
48	—

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

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Buildings and structures, etc.	—	139
Land	—	204
Total	—	344

4. Details of losses on sales of fixed assets are as follows:

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Buildings and structures, etc.	0	—
Land	0	—
Total	1	—

5. Details of losses on disposal of fixed assets are as follows:

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Buildings and structures	17	45
Other	1	3
Total	18	49

6. Loss on building reconstruction are construction costs associated with KABUTO ONE

7. Impairment losses

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

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

The Group recorded impairment losses on the asset group above. Upon the calculation of the impairment losses, 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 losses in extraordinary losses (¥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 2021 (From April 1, 2021 to March 31, 2022)

Location	Principal use	Category	Impairment losses
Abiko City, Chiba	Sports facilities	Land	¥2 million

The Group recorded an impairment loss on the asset group above. Upon the calculation of the impairment losses, 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 with declines in profitability were written down to a recoverable amount. The Group recorded the amount written off as impairment losses in extraordinary losses (¥2 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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Unrealized gain on securities:		
Unrealized gain on securities in the fiscal year	12,399	(2,289)
Reclassification adjustment	—	(764)
Before tax effect adjustment	12,399	(3,054)
Tax benefit (expense)	(3,796)	935
Unrealized gain on securities	8,602	(2,119)
Land revaluation surplus:		
Tax benefit (expense)	—	49
Total other comprehensive income	8,602	(2,069)

Note 10 － Consolidated Statements of Changes in Net Assets

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 odd-lot 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 odd-lot 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 as trust assets in the trust for the Company's stock compensation plan for directors and executive officers.

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

(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

(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 included ¥2 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers.

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

1. Type and number of shares issued and treasury stock

(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)	1,669,867	710,670	118	2,380,419
Total	1,669,867	710,670	118	2,380,419

(Notes) 1. The increase of 710,670 common shares of treasury shares were comprised of 636,600 shares acquired by the Company pursuant to a resolution of the Board of Directors, 71,100 shares acquired for the trust for the Company's stock compensation plan for employees, and 2,970 odd-lot shares acquired.

2. The decrease of 118 common shares of treasury shares was due to the sale of odd-lot shares.

3. The total number of common shares of treasury shares as of March 31, 2022, included 130,400 shares held in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

2. Dividends

(1) Payments of dividends

(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, 2021	Common shares	1,676	45.0	March 31, 2021	June 25, 2021
Meeting of Board of Directors held on October 29, 2021	Common shares	1,512	41.0	September 30, 2021	December 1, 2021

(Notes) 1. The total amount of dividends resolved at the Ordinary General Shareholders' Meeting held on June 24, 2021, included ¥2 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers.

2. The total amount of dividends resolved at the Board of Directors meeting held on October 29, 2021, included ¥5 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

(2) Dividends with a record date falling in the consolidated fiscal year ended March 31, 2022 and an effective date falling in the consolidated fiscal year ending March 31, 2023

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 to be held on June 24, 2022	Common shares	1,976	Retained earnings	54.0	March 31, 2022	June 27, 2022

(Note) The total amount of dividends included ¥7 million in dividends for the Company's stock held as trust assets in the trust for the Company's stock compensation plan for directors and executive officers, and the trust for the Company's stock compensation plan for employees.

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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Cash and deposits	29,685	23,211
Marketable securities	16	5,014
Time deposits with terms of more than 3 months	(100)	(100)
Bonds with redemption periods of more than 3 months	(16)	(14)
Cash and cash equivalents	29,585	28,111

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 Note 2 “Significant Accounting Policies 3. Accounting Policy, (2) Depreciation method for significant depreciable assets.”

2. Operating lease transactions

(As lessor)

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

(Millions of yen)

	Fiscal 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Due within 1 year	3,347	4,852
Due after 1 year	8,928	12,254
Total	12,275	17,106

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 18 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, (7) Method of significant hedge accounting.”

(3) Financial instrument-related risk management

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

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

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

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

The Company regularly checks the market price of 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

Variable factors are considered when calculating the fair value of financial instruments, and therefore, the amount of fair value could change due to adoption of different assumptions. In addition, the contract amounts of derivatives, shown in Note 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.

Fiscal 2020 (As of March 31, 2021)

	Amount on consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
(1) Marketable securities and investment securities	39,929	39,930	0
Assets	39,929	39,930	0
(1) Bonds payable	30,107	30,123	16
(2) Long-term loans payable	172,370	172,296	(74)
(3) Long-term accounts payable	4,000	3,915	(84)
Liabilities	206,477	206,335	(142)
Derivatives	—	—	—

(Notes) 1. In the table above, cash was not included, and deposits, accounts receivable–trade, and short-term loans payable were also not included because their fair value approximates their book value since they are settled over short periods of time.

2. Amounts recorded in the consolidated balance sheets include the following financial instruments for which determining fair value is extremely difficult.

(Millions of yen)

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

(Notes) 1. Unlisted stocks are not included in the table above under (1) 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.

Fiscal 2021 (As of March 31, 2022)

	Amount on consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
(1) Marketable securities and investment securities	43,081	43,081	(0)
Assets	43,081	43,081	(0)
(1) Bonds payable	28,216	28,114	(101)
(2) Long-term loans payable	170,220	169,629	(590)
(3) Long-term accounts payable	4,000	3,904	(95)
(4) Leasehold and guarantee deposits received	22,514	22,116	(397)
Liabilities	224,950	223,765	(1,185)
Derivatives	—	—	—

(Notes) 1. In the table above, cash was not included, and deposits, accounts receivable–trade, accounts payable–trade, and short-term loans payable were also not included because their fair value approximates their book value since they are settled over short periods of time.

2. Unlisted stocks are not included in (1) Marketable securities and investment securities in the table above. The amount of this financial instrument in the consolidated balance sheets is shown below.

(Millions of yen)

Financial instrument	Fiscal 2021 (As of March 31, 2022)
Unlisted stocks	720

3. The table above does not include investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥1,902 million in the consolidated balance sheets).

(Note) 1. Amounts of monetary claims and marketable securities with maturity dates expected to be redeemed after the balance sheet date

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	—	—

Fiscal 2021 (As of March 31, 2022)

	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	23,211	—	—	—
Accounts receivable–trade	1,809	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	14	5	—	—
(2) Bonds payable	—	—	—	—
(3) Other	4,999	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	—	—	—	—
Total	30,035	5	—	—

(Note) 2. Amounts of bonds payable, long-term loans payable, and other interest-bearing liabilities scheduled for repayment after the balance sheet date

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

Fiscal 2021 (As of March 31, 2022)

	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	3,800	—	—	—	—	—
Bonds payable	4,327	3,259	3,060	3,695	150	13,725
Long-term loans payable	13,077	14,201	14,431	14,658	24,653	89,198
Long-term accounts payable	—	—	258	258	258	3,225
Total	21,204	17,460	17,749	18,611	25,061	106,149

3. Items related to different levels of the fair value of financial instruments

The fair value of financial instruments is classified according to the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1: Fair values determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Fair values determined based on inputs other than Level 1 inputs that are observable, either directly or indirectly
Level 3: Fair values determined based on significant unobservable inputs

When multiple inputs that have material impacts on fair value calculations are used, the fair value falls under the lowest level in which the respective inputs correspond to the fair value calculations.

(1) Financial instruments recorded at fair value in the consolidated balance sheets

Fiscal 2021 (As of March 31, 2022)

Items	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities Available-for-sale securities Stocks	15,394	—	—	15,394
Total assets	15,394	—	—	15,394

(Note) The fair value of investment trusts is not included in the table above. The amount for investment trusts recorded in the consolidated balance sheets was ¥22,667 million.

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

Fiscal 2021 (As of March 31, 2022)

Items	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Held-to-maturity bonds				
National and municipal bonds	20	—	—	20
Other	—	4,999	—	4,999
Total assets	20	4,999	—	5,019
Bonds payable	—	28,114	—	28,114
Long-term loans payable	—	169,629	—	169,629
Long-term accounts payable	—	3,904	—	3,904
Leasehold and guarantee deposits received	—	22,116	—	22,116
Total liabilities	—	223,765	—	223,765

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

Marketable securities and investment securities

Quoted market prices of stocks and other securities are used to measure the fair value of marketable securities and investment securities. They are classified as a Level 1 in calculation of fair value since they are stocks and bonds traded in an active market. The fair value of commercial paper, which is included in "other" under "held-to-maturity bonds" in the table above, is measured using market prices provided by financial institutions dealing in such instruments. Commercial paper is classified as Level 2 in calculation of fair value because the relatively low frequency in which it trades on the market means it cannot be regarded as having quoted market prices in active markets.

Bonds payable

Bonds payable are classified as Level 2, and their fair value is calculated by discounting the total amount of the principal and interest at an interest rate that reflects their remaining maturity and credit risk.

Long-term loans payable and long-term accounts payable

Long-term loans payable and long-term accounts payable with fixed interest rates are classified as Level 2, and their fair value is calculated by discounting the total amount of principal and interest at an interest rate estimated based on the scenario of a similar loan or account. Those with variable interest rates are classified as Level 2, and their fair value is based on their book value, which are assumed to be similar since variable interest rates reflect market interest rates over the short term. Among long-term loans payable and long-term accounts payable with variable interest rates, those subject to special treatment of interest rate swaps are calculated by discounting the total amount of principal and interest treated together with the interest rate swaps at an interest rate reasonably estimated based on the scenario of a similar loan.

Leasehold and guarantee deposits received

Leasehold and guarantee deposits received are classified as Level 2, and their fair value is calculated by discounting the current amount of deposits at an interest rate that reflects the remaining period of redemption and credit risk.

Derivatives

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 the explanation under “Long-term loans payable and long-term accounts payable,” above.)

Note 14 — Securities

1. Held-to-maturity bonds

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 recorded 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 recorded in the consolidated balance sheets	(1) National and municipal bonds	—	—	—
	(2) Bonds payable	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		36	37	0

Fiscal 2021 (As of March 31, 2022)

	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 recorded in the consolidated balance sheets	(1) National and municipal bonds	20	20	0
	(2) Bonds payable	—	—	—
	(3) Other	—	—	—
	Subtotal	20	20	0
Held-to-maturity bonds with fair value not exceeding the amount recorded in the consolidated balance sheets	(1) National and municipal bonds	—	—	—
	(2) Bonds payable	—	—	—
	(3) Other	4,999	4,999	(0)
	Subtotal	4,999	4,999	(0)
Total		5,020	5,019	(0)

2. Available-for-sale securities

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 recorded 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 recorded 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 on the above, because they have no market prices and determining their fair value is extremely difficult.

Fiscal 2021 (As of March 31, 2022)

	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	14,467	3,986	10,480
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	22,666	6,823	15,843
	Subtotal	37,133	10,810	26,323
Available-for-sale securities of which the amount stated in the consolidated balance sheets does not exceed the acquisition cost	(1) Stocks	927	1,167	(240)
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	0	0	(0)
	Subtotal	927	1,168	(240)
Total		38,061	11,978	26,083

(Note) Stocks without quoted market prices (totaling ¥720 million in the consolidated balance sheets) and investment in partnerships for which the net amount of equity stakes is recorded in the consolidated balance sheets (totaling ¥1,902 million in the consolidated balance sheets) are not included in available-for-sale securities shown in the tables above.

3. Held-to-maturity bonds sold

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

Not applicable

4. Available-for-sale securities sold

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

Category	Sale amount (millions of yen)	Gain on sale recorded (millions of yen)	Loss on sale recorded (millions of yen)
(1) Stocks	828	761	—
(2) Bonds			
1) National and municipal bonds	—	—	—
2) Bonds payable	—	—	—
3) Other	—	—	—
(3) Other	—	—	—
Total	828	761	—

5. Impairment losses on marketable securities

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

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 2020 (As of March 31, 2021)

Hedge accounting method	Type of transaction	Major 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.

Fiscal 2021 (As of March 31, 2022)

Hedge accounting method	Type of transaction	Major 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	40,076	36,022	(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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Balance at the beginning of the fiscal year	292	115
Retirement benefit costs	10	105
Retirement benefits paid	(153)	(67)
Contributions to the plan	(34)	(33)
Balance at the end of the fiscal year	115	119

(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 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Benefit obligation	1,301	1,285
Pension assets	(1,185)	(1,166)
Net balance of liabilities and assets recorded in the consolidated balance sheets	115	119
Retirement benefit liability	115	119
Net balance of liabilities and assets recorded in the consolidated balance sheets	115	119

(3) Retirement benefit costs

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Retirement benefit costs calculated using simplified accounting methods	10	105

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, 2021 and ¥28 million in the fiscal year ended March 31, 2022.

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 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
Deferred tax assets		
Accrued bonuses	69	78
Accrued enterprise taxes	59	200
Inventory depreciation	198	94
Accounts receivable—other	60	43
Loss on building reconstruction	531	517
Impairment losses	327	327
Provision for share-based remuneration	14	18
Retirement benefit liability	39	39
Loss carryforward	—	27
Asset retirement obligations	199	209
Other	298	452
Subtotal	1,799	2,010
Valuation allowance	(1,030)	(974)
Total deferred tax assets	768	1,035
Deferred tax liabilities		
Reserve for reduction entry	(1,007)	(987)
Unrealized gain (loss) on securities	(8,927)	(7,992)
Difference in valuation of fixed assets	(1,942)	(1,961)
Retirement expenses for asset retirement obligations	(114)	(104)
Other	—	(3)
Total deferred tax liabilities	(11,992)	(11,050)
Net amount of deferred tax assets (liabilities)	(11,223)	(10,014)

Changes in Presentation Methods

"Provision for share-based remuneration" which was included in "other" under "deferred tax assets" in the previous fiscal year is presented as a separate item in this fiscal year since its materiality is increased. Relevant results in the previous fiscal year were updated to reflect this change in the presentation method.

As a result, the amount of ¥313 million for "other" under "deferred tax assets" in the previous fiscal year was reclassified to the amounts of ¥14 million for "provision for share-based remuneration" and ¥298 million for "other" were presented in the fiscal year under review.

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 2020 (As of March 31, 2021)	Fiscal 2021 (As of March 31, 2022)
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 — Asset Retirement Obligations

Asset retirement obligations recorded in the consolidated balance sheets

1. Summary of the asset retirement obligations

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

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

   The amount of asset retirement obligations is calculated at discount rates between 0.0% and 2.3% over expected period of use estimated between 2 and 50 years.

3. Changes in the asset retirement obligations

(Millions of yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Beginning balance	677	664
Adjustment due to passage of time	6	6
Reduction due to fulfillment of asset retirement obligations	(20)	(1)
Ending balance	664	669

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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Lease property, etc.			
Amount on the consolidated balance sheet			
	Beginning balance	224,652	245,108
	Increase (decrease)	20,456	7,377
	Ending balance	245,108	252,485
Market value at fiscal-year end		345,311	349,750
Real estate that includes the portion used as lease property, etc.			
Amount on the consolidated balance sheet			
	Beginning balance	19,396	19,380
	Increase (decrease)	(16)	4,847
	Ending balance	19,380	24,228
Market value at fiscal-year end		31,586	39,230

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

2. The net increase in lease property, etc., in fiscal 2020 was mainly due to acquisitions of real estate totaling ¥20,817 million and outlays for construction in progress amounting to ¥7,130 million, which offset a transfer of ¥5,229 million to real estate for sale. In fiscal 2021, the net increase was mainly due to acquisitions of real estate amounting to ¥16,094 million and increased assets of ¥4,783 million resulting from the consolidation of LA3 Inc. and Kabutocho 12 Inc. These items offset a transfer of ¥7,316 million to real estate for sale.

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 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Lease property, etc.		
Leasing revenue	18,865	21,921
Leasing expenses	10,215	12,224
Net	8,649	9,697
Other profit (loss)	(17)	227
Real estate that includes the portion used as lease property, etc.		
Leasing revenue	2,552	3,017
Leasing expenses	1,367	1,666
Net	1,184	1,350
Other profit (loss)	(5)	(2)

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

2. The amounts of “other profit (loss)” were comprised of a gain on sales of fixed assets, a reconstruction-related loss, a loss on disposal of fixed assets, and impairment losses.

Note 21 ― Revenue Recognition

1. Revenues from contracts with customers

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segments		Total
	Building Business	Asset Management Business	
Revenue from sales of properties	26,770	—	26,770
Management fee included in the asset management revenue	—	1,377	1,377
Other	2,747	1,191	3,939
Revenues from contracts with customers	29,517	2,569	32,087
Other revenue (Note)	24,916	815	25,731
Operating revenue from external customers	54,433	3,384	57,818

(Note) Other revenue includes leasing revenue calculated based on accounting standards related to leasing transactions.

2. Basis for understanding revenues from contracts with customers

The basis for understanding revenues from contracts with customers is explained in Note 2 ― “Significant Accounting Policies,” (6) “Basis for calculating significant revenues and expenses.”

3. Satisfaction of performance obligations in accordance with contracts with customers and cash flows generated from such contracts, and the timing and amounts of revenue expected to be recognized in the current fiscal year from contracts with customers in effect during the fiscal year under review

(1) Balance of contract assets and contract liabilities

(Millions of yen)

	Fiscal 2021
Receivables from contracts with customers as of April 1, 2021 (Beginning balance)	238
Receivables from contracts with customers as of March 31, 2022 (Ending balance)	197
Contract assets as of April 1, 2021 (Beginning balance)	435
Contract assets as of March 31, 2022 (Ending balance)	465
Contract liabilities as of April 1, 2021 (Beginning balance)	32
Contract liabilities as of March 31, 2022 (Ending balance)	25

Contract assets are the Group's right to consideration in exchange for services that have yet to be billed, and are recognized as revenue over the course of satisfaction of its performance obligations. Contract assets are transferred to receivables from contracts with customers at the time when the Group's right to consideration becomes unconditional.

Contract liabilities are mainly advances received from customers and are reversed upon the recognition of revenue.

(2) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations have not been described because the Group applied a practical expedient since it has no significant contracts with an initially expected contract period extending beyond one year. Furthermore, transaction prices did not comprise any material amounts among considerations arising from contracts with customers.

Note 22 — Segment and Other Information

Segment Information

1. Reportable segments overview

The reportable segments of the Company are the business units for which the separate financial information is available in order for the Board of Directors to conduct periodic reviews to determine the distribution of management resources and evaluate their business results.

The Company's two reportable segments are the Building Business segment and Asset Management Business segment.

The Building Business segment deals with the development, leasing, management, and sale of stock exchange buildings, office buildings, commercial facilities, and residential buildings. The Asset Management Business segment manages the properties of Heiwa Real Estate REIT, Inc., and provides real estate brokerage services through Housing Service Co., Ltd.

The Company's Board of Directors resolved, in the meeting held on April 30, 2021, to change its reportable segments from the current fiscal year, and such change is applied retroactively from April 1, 2021.

The Company plans to expand its portfolio by obtaining new properties for lease and acquiring profits from sales of properties in the process of replacing portfolios as business strategies in its mid-term management plan. Under such a policy, the Company transferred two properties for lease from fixed assets to real estate for sale effective from March 31, 2021 and proceeds its portfolio strategy.

In consideration of future business development plans, 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 deals with the development, sale, and investment in real estate for sale, and the acquisition and sale of fixed assets.

In addition, the Company transferred 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 is developing comprehensive property management services while expanding its current building facility maintenance and management business.

Segment results in the previous fiscal year have been adjusted to reflect these changes to the reportable business segments.

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 Accounting Policies.”

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

As stated in the Changes to Accounting Policies section, the Company adopted the Accounting Standard for Revenue Recognition effective from April 1, 2021. Accordingly, the method for calculating business segment profits and losses have been changed to reflect changes in accounting treatment methods related to revenue recognition.

Compared with the previous methods, operating revenue in the Building Business segment increased by ¥1,141 million for the fiscal year under review as a result of applying these changes, while segment profits have not been affected.

3. 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 unallocated 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 adjusted amounts of increases in tangible and intangible fixed assets are the amount of increase of the unallocated corporate assets that have not been assigned to the reportable segments.

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

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

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segments			Adjustments (Note 1)	Amount in consolidated financial statement (Note 2)
	Building Business	Asset Management Business	Total		
Operating revenue					
Operating revenue from external customers	54,433	3,384	57,818	—	57,818
Inter-segment revenue and transfer	27	—	27	(27)	—
Total	54,461	3,384	57,845	(27)	57,818
Segment income	12,399	1,977	14,377	(1,762)	12,615
Segment assets	310,089	24,854	334,944	41,265	376,210
Other items					
Depreciation (Note 3)	5,349	16	5,365	52	5,418
Increase in tangible and intangible fixed assets (Note 3)	26,331	68	26,399	29	26,429

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

(1) The negative adjustments to segment income of ¥1,762 million mainly include corporate expenses amounting to ¥1,767 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥41,265 million, mainly include unallocated corporate assets amounting to ¥43,069 million, which primarily consist of cash and deposits, marketable securities, and investment securities that belong to the administration division.

(3) The adjusted amounts of increases in tangible and intangible fixed assets are the amount of increase of the unallocated corporate assets that have not been assigned to the reportable segments.

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

3. The depreciation and increases 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 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	Building Business

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

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
Ginza Project Inc. (special purpose company)	18,000	Building Business
Heiwa Real Estate REIT, Inc.	11,430	Building Business Asset Management Business

Information Regarding Impairment Losses of Fixed Assets by Reportable Segment

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

(Millions of yen)

	Building Business	Asset Management Business	Inter-segment eliminations	Total
Impairment losses	8	—	—	8

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Building Business	Asset Management Business	Inter-segment eliminations	Total
Impairment losses	2	—	—	2

Amortization and Unamortized Balance of Goodwill by Reportable Segment

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

Not applicable

Information on Gain on Negative Goodwill by Reportable Segment

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

Not applicable

Information on Related Parties

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

Not applicable

Fiscal 2021 (From April 1, 2021 to March 31, 2022)

Not applicable

Note 23 — Per Share Information

(Yen)

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Net assets per share	3,190.09	3,269.74
Earnings per share	189.76	236.74

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

2. To calculate net assets per share and earnings per share in fiscal 2020, the Company's stock held in the trust for its stock compensation plan for directors and officers was included in the amount of treasury shares subtracted from calculations of the total number of shares issued as of March 31, 2021, and the average number of shares outstanding during fiscal 2020. To calculate net assets per share and earnings per share in fiscal 2021, the Company's stock held in the trust for its stock compensation plan for directors and executive officers as well as the trust for its employee stock ownership plan were included in the amount of treasury shares subtracted from calculations of the total number of shares issued as of March 31, 2022, and the average number of shares outstanding during fiscal 2021. 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 59,000 shares in fiscal 2020 and 130,000 shares in fiscal 2021, 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 59,000 shares in fiscal 2020 and 124,000 shares in fiscal 2021.

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

	Fiscal 2020 (From April 1, 2020 to March 31, 2021)	Fiscal 2021 (From April 1, 2021 to March 31, 2022)
Net income attributable to owners of parent (millions of yen)	7,118	8,705
Amount not attributable to common shareholders (millions of yen)	—	—
Net income attributable to common shareholders of the parent (millions of yen)	7,118	8,705
Average number of shares outstanding during the period (thousands of shares)	37,514	36,769

Note 24 — Significant Subsequent Events

Acquisition of the Company's treasury shares

At a meeting held on April 28, 2022, 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: 750,000 shares

   (equivalent to 2.05% of outstanding shares, excluding treasury shares)

   (3) Maximum aggregate amount for shares to be acquired: ¥2,500 million

   (4) Period of acquisition: From May 2 to August 31, 2022

   (5) Method of acquisition: Purchase of shares through the Tokyo Stock Exchange

Note 25 ― 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	Security	Redemption date
Heiwa Real Estate Co., Ltd.	19th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 28, 2012	1,150 (100)	1,050 (1,050)	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	625 (50)	575 (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	600 (200)	400 (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	910 (70)	840 (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	262 (75)	187 (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	1,012 (75)	937 (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)	―	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	1,400 (100)	1,300 (1,300)	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	2,392 (165)	2,227 (165)	0.76% annually	Unsecured bond	June 30, 2025
Heiwa Real Estate Co., Ltd.	32nd Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2015	1,667 (115)	1,552 (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	825 (55)	770 (55)	0.52% annually	Unsecured bond	March 31, 2026
Heiwa Real Estate Co., Ltd.	34th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	March 31, 2016	990 (102)	888 (888)	0.19% annually	Unsecured bond	March 31, 2023

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	Security	Redemption date
Heiwa Real Estate Co., Ltd.	35th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	September 30, 2016	1,397 (134)	1,263 (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	1,275 (75)	1,200 (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	1,350 (75)	1,275 (75)	0.76% annually	Unsecured bond	January 31, 2034
Heiwa Real Estate Co., Ltd.	40th Unsecured Bond	January 21, 2021	7,000	7,000	0.78% annually	Unsecured bond	January 21, 2031
Total	—	—	30,107 (1,891)	28,216 (4,327)	—	—	—

(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, 2022

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)
4,327	3,259	3,060	3,695	150

2. Schedule of Borrowings

Item	Balance as of April 1, 2021 (millions of yen)	Balance as of March 31, 2022 (millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	9,250	3,800	0.3	—
Long-term loans payable within one year	26,961	13,077	0.9	—
Lease obligations payable within one year	0	0	—	—
Long-term loans payable (excluding those payable within one year)	145,408	157,143	0.7	2023–2037
Lease obligations (excluding those payable within one year)	0	—	—	—
Other interest-bearing liabilities				
Long-term accounts payable	4,000	4,000	0.5	2024–2039
Total	185,621	178,020	—	—

(Notes) 1. The average interest rate is the weighted average interest rate for the respective item in the table as of March 31, 2022.

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 and amounts of long-term loans payable (excluding those payable within one year) and long-term accounts payable within five years from March 31, 2022 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	14,201	14,431	14,658	24,653
Long-term accounts payable	—	258	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 asset retirement obligations as of April 1, 2021, and March 31, 2022, 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 sheets as at March 31, 2022 and 2021, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements 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 as to whether impairment losses should be recognized on fixed assets used as a hotel	
The key audit matter	**How the matter was addressed in our audit**
Tangible fixed assets of ¥249,379 million and Leasehold rights among intangible fixed assets of ¥28,560 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, 5 properties located in Sapporo, Tokyo and Osaka totaled ¥23,154 million, part of which were fixed assets 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. Domestic and inbound demand declined across the hotel industry due to the prolonged impact of COVID-19. As a result, a sign of impairment was identified following the previous fiscal year, such as a decrease in the hotel capacity in properties which were partly used as a hotel. Accordingly, the Company performed an impairment test during the current fiscal year; however, it determined that the recognition of an impairment loss was not necessary as the undiscounted future cash flows arising from individual properties exceeded their carrying amount. The Company obtained real estate appraisal reports and other documents prepared by external experts and considered them in judging whether an impairment loss should be recognized. The estimates of undiscounted future cash flows involve a high degree of uncertainty and management's subjective judgment, because they are based on future plans for individual properties and include key assumptions such as the level of rental rate in the future real estate market, rent negotiations with tenants and demand forecasts reflecting the alleviation of COVID-19 impact. Therefore, the undiscounted future cash flows may not be properly measured, and the resulting impairment losses may not be recognized. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether impairment losses should be recognized 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 primary procedures we performed to assess the appropriateness of the Company's judgment as to whether impairment losses should be recognized 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 relevant to determining impairment losses on fixed assets to be recognized. (2) Assessment of appropriateness of the Company's judgment concerning the recognition of impairment losses on fixed assets To assess the appropriateness of the Company's judgment concerning 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 and inquired of management and the head of the department in charge in order to understand the Company's recognition of the present situation and the future prospects about the impact of COVID-19; ● assessed the accuracy and reasonableness of forecast such as future plans including the future cash flows arising from the Company's individual properties by comparing them with the actual data such as occupancy rates and average unit prices of guest rooms for each property and materials obtained from tenants, and inspecting relevant materials such as negotiation records with tenants, as well as assessed the consistency of the forecasts with the management environment, the real estate rental market, the trends in land prices issued by external organizations; ● 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;

the current fiscal year, and accordingly, a key audit matter.	● 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 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 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 ¥249,379 million and Leasehold rights among intangible fixed assets of ¥28,560 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 fixed assets 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 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. The impairment indicators include recurring operating losses, a significant decline in market value, significant deterioration of the business environment, and a change in usage. 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 order to identify an impairment indicator for fixed assets held for redevelopment projects, it is necessary to evaluate development plans, which management prepared by summing up various assumptions about projected negotiations with other landowners of the blocks to be revitalized and those for eviction with tenants of existing buildings, development costs including the future construction cost, as well as tenants' rent and occupancy rates after development. These assumptions involve a high degree of future uncertainties and management's subjective judgment. Therefore, the impairment indicators may not be properly identified, and the resulting impairment losses may not be recognized. We, therefore, determined that our assessment of the appropriateness of the Company's judgment	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. (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, and inquired of management and the head of the department in charge, to confirm the blocks to be revitalized, the details of projects and the progress of projects; ● evaluated the consistency between grouping units of assets and the latest development plans prepared by the Company; ● examined the feasibility of development plans by inquiring of the head of the department in charge about the prospects 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; ● assessed the underlying construction cost and tenants' rent and occupancy rate after development by inspecting the concluded construction and lease contracts and other relevant documents and compared with similar projects in cases where a specific development plan was prepared, as well as

concerning the identification of an impairment 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.	assessed the consistency with the management environment, the real estate rental market, the trends in land prices issued by external organizations; ● 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 of development plans as well as the progress.

Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. 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 reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and 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
July 15, 2022

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.