ANNUAL REPORT 2023

Year Ended March 31, 2023

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 five 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., The Tokyo Shoken Building Incorporated, and Tokyo Hibiya Hotel Corporation develop, lease, manage and sell stock exchange buildings, office buildings, commercial facilities, and residential buildings.

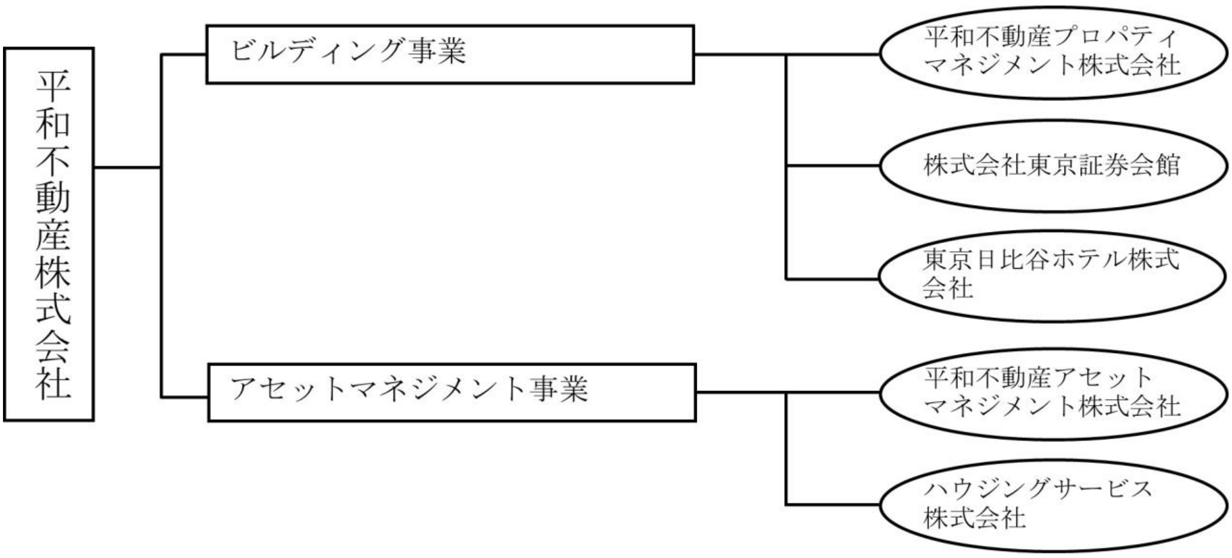
Heiwa Real Estate Property Management Co., Ltd., provides property management services.

(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
東京日比谷ホテル株式会社	Tokyo Hibiya Hotel Corporation
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.

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
Tokyo Hibiya Hotel Corporation	Chiyoda-ku, Tokyo	10	Building Business	100.0	Rents hotels from the Company

1. The main business activities correspond to the business segment names.

4 Employee Data

(1) Employees of the Group

(As of March 31, 2023)

Segment	Number of employees
Building Business	140
Asset Management Business	87
Group-wide non-segment	26
Total	253

(Notes) 1. Number of employees refers to full-time employees, excluding employees transferred to organizations outside the Group and including personnel transferred to the Group from other organizations.
2. Group-wide non-segment refers to employees of administrative divisions.

(2) Employees of the Company

(As of March 31, 2023)

Number of employees	Average age of employees	Average years of employment	Average annual salary (thousands of yen)
96	42.7	14.9	10,877

Segment	Number of employees
Building Business	70
Asset Management Business	－
Group-wide non-segment	26
Total	96

(Notes) 1. Number of employees refers to full-time employees, excluding employees transferred to organizations outside the Company and including personnel transferred to the Company from other organizations.

2. Average annual salary includes bonuses and additional wages.

3. Company-wide non-segment refers to employees of administrative divisions.

(3) Labor Unions

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

(4) Percentages of female employees holding management positions and male employees who have taken childcare leave

Reported by the Company

Percentage of female employees holding management positions (Note 1)	10.8%
Percentage of male employees who have taken childcare leave (Note 2)	75.0%

(Notes) 1. The percentage of female employees holding management positions was calculated as of March 31, 2023, pursuant to provisions in the Act on Promotion of Female Participation and Advancement in the Workplace (Act No. 64 of 2015), and in accordance with Paragraph 19-1-1 of the Ministry of Health, Labour and Welfare's Ordinance on the Action Plans for Business Owners (Ordinance No. 162 of 2015) based on this act.

2. The percentage of male employees who have taken childcare leave was calculated over the Company's fiscal year, pursuant to provisions in the Act on the Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave (Act No. 76 of 1991), and in accordance with Paragraph 71-4-1 of the Ministry of Health, Labour and Welfare's ordinance on the enforcement of this act (Ordinance No. 25 of 1991).

3. Employees employed directly by the Company, including those seconded by the Company to other companies, were included in calculations of the percentages of female employees holding management positions and male employees who have taken childcare leave. Employees seconded by other companies to the Company were not included in these calculations.

4. The Company has not disclosed differences in the salaries of male and female employees during the fiscal year under review, and therefore, not included such data in this report, pursuant to provisions in the Act on Promotion of Female Participation and Advancement in the Workplace, and in accordance with Paragraph 19-1-1 of the Ministry of Health, Labour and Welfare's Ordinance on the Action Plans for Business Owners based on this act.

Part 2 Business Overview

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

Details of the Group's management policies, operating environment, and issues to address are as follows.

Forward-looking statements in this report were based on judgements made as of March 31, 2023.

Management Policies, Operating Environment, and Issues to Address

The Japanese economy is expected to pick up gradually due to various measures implemented by the government, but the impact of global inflation and monetary tightening on economic conditions around the world will need to be closely monitored going forward. Management will also need to continue paying close attention to various factors affecting the Group's operating environment, including interest rate fluctuations and the impact of the growing shift to telecommuting and other changing workplace practices on the office building leasing market.

In view of these circumstances, the Group will strive to increase its corporate value under its medium-term management plan, Challenge & Progress, which was announced on April 30, 2020. Specifically, it will continue revitalizing Tokyo's Nihonbashi Kabutocho and Kayabacho districts, proceed with redevelopment projects in the city of Sapporo, and take steps to realize external growth in its Building Business and Asset Management Business segments.

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. Towards these ends, the Company has completed the KABUTO ONE building and the Kitoki building and has commenced construction of the Caption by Hyatt Kabutocho Tokyo.

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 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 has been further strengthening its corporate governance by establishing several relevant committees, including a nominating committee, designing organizations to facilitate agile management, having most 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	Around 70% from fiscal 2020 to 2023
	Consolidated dividend payout ratio	Around 50% by fiscal 2023

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

* Breakdown of the consolidated operating income target by business segment

・Building Business: ¥11.8 billion

・Asset Management Business: ¥1.8 billion

・Intercompany eliminations and other adjustments: —¥1.6 billion

(2) Investment Plan for Fiscal 2020 to 2023

<table>
<tr><th>Business</th><th>Investment amount</th></tr>
<tr><td>Redevelopment Business</td><td>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</td></tr>
<tr><td>Building Business</td><td>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</td></tr>
</table>

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 2022, ended March 31, 2023, the Japanese economy showed signs of a moderate recovery following various measures implemented by the government for co-existing with COVID-19. Nevertheless, volatility and risks in financial and capital markets, economic downturns in other countries, and rising prices of commodities caused by the prolonged conflict in Ukraine will need to be closely monitored going forward.

Against this backdrop, conditions in Japan's real estate industry were mixed. In the office building leasing market, vacancy rates increased as occupants tended to reduce their office spaces amid changing workplace practices, such as the growing shift to telecommuting. In the real estate investment market, however, strong interest in Japanese real estate among investors remained stable despite expectations for financing conditions to be impacted by interest rates hikes going forward.

In that operating environment, the Company's consolidated revenue and income declined, for the most part, compared with the previous fiscal year. Operating revenue totaled ¥44,522 million, a decrease of ¥13,295 million (23.0%). Operating income was ¥10,784 million, a decrease of ¥1,830 million (14.5%), and ordinary income came to ¥9,647 million, a decrease of ¥1,925 million (16.6%). On the other hand, net income attributable to owners of parent increased by ¥432 million (5.0%) to ¥9,137 million.

Consolidated financial results by business segment are as follows.

Consolidated Financial Results by Segment (Millions of yen)

Segment	Fiscal 2021		Fiscal 2022		Difference	
	Operating revenue	Operating income	Operating revenue	Operating income	Operating revenue	Operating income
Building Business	54,433	12,399	40,848	10,572	(13,585)	(1,827)
Asset Management Business	3,384	1,977	3,674	2,071	289	93
Adjustments	—	(1,762)	—	(1,859)	—	(97)
Total	57,818	12,615	44,522	10,784	(13,295)	(1,830)

Operating revenue from major tenants and their percentage of total operating revenue in fiscal 2021 and 2022 are as follows.

Tenant	Fiscal 2021		Fiscal 2022	
	Operating revenue (millions of yen)	Percentage of total operating revenue	Operating revenue (millions of yen)	Percentage of total operating revenue
Ginza Project Inc. (special purpose company)	18,000	31.1	—	—
Heiwa Real Estate REIT, Inc.	11,430	19.8	13,365	30.0

(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, although KABUTO ONE (Chuo-ku, Tokyo) contributed to leasing revenue following its opening in the previous fiscal year, leasing revenue as a whole decreased ¥980 million (3.8%) year on year to ¥25,130 million, mainly because some building tenants moved out and prior contributions from penalties for tenant contract cancellations were absent in the period under review. Revenue from sales and acquisitions of properties fell by ¥12,705 million (47.5%) to ¥14,065 million, largely due to decreased sales of inventories. These results combined with other revenues in this segment brought total operating revenue to ¥40,848 million, a decrease of ¥13,585 million (25.0%) year on year. Segment operating income totaled ¥10,572 million, down ¥1,827 million (14.7%) compared with the same period of the previous fiscal year.

As of March 31, 2023, the vacancy rate of buildings leased by the Heiwa Real Estate Group (excluding buildings for which leases have been suspended due to redevelopment) was 4.53%.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2021		Fiscal 2022	
	Area (m^2)	Amount	Area (m^2)	Amount
Leasing revenue	Leased land area 3,380.75	26,111	Leased land area 3,380.75	25,130
	Leased floor space 425,431.57		Leased floor space 434,916.94	
Revenue from sales of properties	—	26,770	—	14,065
Other	—	1,552	—	1,652
Total	—	54,433	—	40,848

(2) Asset Management Business

In the Asset Management Business segment, asset management revenue totaled ¥2,482 million, an increase of ¥290 million (13.2%), while brokerage commissions amounted to ¥1,191 million, in line with the amount in the previous fiscal year. As a result, segment operating revenue came to ¥3,674 million, an increase of ¥289 million (8.6%). Segment operating income amounted to ¥2,071 million, an increase of ¥93 million (4.7%) year on year.

Breakdown of operating revenue (Millions of yen)

Classification	Fiscal 2021	Fiscal 2022	Difference
Asset management revenue	2,192	2,482	290
Brokerage commissions	1,191	1,191	(0)
Total	3,384	3,674	289

2) Cash flows

As of March 31, 2023, cash and cash equivalents amounted to ¥25,807 million, a decrease of ¥2,303 million compared with March 31, 2022.

Fiscal 2022 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 ¥23,952 million, compared with ¥34,189 million in the previous fiscal year. Major inflows included income before income taxes of ¥13,260 million and a decrease in inventories of ¥11,012 million.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥40,250 million, compared with ¥20,705 million in the previous fiscal year. Major outflows included ¥38,239 million for the purchase of tangible fixed assets and ¥2,374 million for the purchase of intangible fixed assets.

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥13,994 million, compared with net cash used totaling ¥15,490 million in the previous fiscal year. This was mainly due to inflows of ¥29,860 million in proceeds from long-term loans payable and ¥7,790 million in proceeds from issuance of bonds. Major outflows included ¥13,472 million for the repayment of long-term loans payable, ¥4,368 million for the redemption of bonds, ¥2,704 million for the purchase of treasury shares, and ¥3,761 million for the payment of dividends.

(Reference) Results for cash flow-related indicators

Indicator	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Equity-assets ratio	32.5%	31.6%	31.1%	31.7%	30.0%
Market cap-to-assets ratio	24.6%	31.2%	33.7%	38.4%	34.0%
Debt repayment period (years)	—	6.5	26.0	6.0	9.5
Interest coverage ratio (times)	—	22.8	6.2	24.2	16.2
Net debt-to-equity ratio	1.6	1.5	1.6	1.5	1.7

(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, 2023.

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 has striven to realize external growth through the acquisitions of the Higashi-Yaesu City Building (Chuo-ku, Tokyo), Daiei Building (Nagoya, Aichi), and Addit Sakura-dori building (Nagoya, Aichi), and worked towards internal growth by increasing rent amounts in leasing agreements. Among consolidated financial results, operating income decreased by ¥1,830 million to ¥10,784 million, mainly because of tenants moving out and a year-on-year decrease in the amount of penalties for tenant contract cancellations recorded in the Building Business segment. Net income attributable to owners of parent increased by ¥432 million to ¥9,137 million, which 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, 2022, and March 31, 2023 were as follows:

(Millions of yen)

	March 31, 2022	March 31, 2023	Difference
Total assets	376,210	398,333	22,123
Total liabilities	256,931	279,009	22,078
Net assets	119,278	119,324	45
Interest-bearing liabilities	206,236	226,895	20,659

(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, 2023, total assets amounted to ¥398,333 million, an increase of ¥22,123 million compared with March 31, 2022. Among the factors underlying this result, tangible fixed assets rose by ¥30,147 million, largely due to the acquisitions of the Higashi-Yaesu City Building (Chuo-ku, Tokyo), Daiei Building (Nagoya, Aichi), and Addit Sakura-dori building (Nagoya, Aichi). These and other items more than offset a decrease in real estate for sale of ¥5,469 million and a decrease in investment securities of ¥4,433 million.

In the consolidated balance sheets, the combined balance of leased property and real estate of which a portion was leased was ¥308,650 million as of March 31, 2023, an increase of ¥31,936 million compared with April 1, 2022, and, as of those respective dates, had a market value of ¥420,185 million, an increase of ¥31,204 million.

Total liabilities

As of March 31, 2023, total liabilities amounted to ¥279,009 million, an increase of ¥22,078 million compared with March 31, 2022. This mainly reflected an increase in interest-bearing liabilities of ¥20,659 million.

As of March 31, 2023, the balance of interest-bearing liabilities was ¥226,895 million, and the net debt-to-equity ratio stood at 1.7. 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, 2023, net assets stood at ¥119,324 million, an increase of ¥45 million compared with March 31, 2022. This mainly reflected an increase in retained earnings of ¥6,040 million, which more than offset the Company's purchase of treasury shares totaling ¥2,691 million, a decrease of unrealized gain on securities amounting to ¥2,624 million, and a decline in revaluation reserve for land of ¥678 million.

The Company implemented concrete measures to raise capital efficiency and return stable profits to shareholders, including an acquisition of 646,100 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, 2023, Building Business segment assets amounted to ¥337,439 million, an increase of ¥27,350 million compared with the previous year. This mainly reflected an increase in tangible fixed assets resulting from the acquisitions of the Higashi-Yaesu City Building (Chuo-ku, Tokyo), Daiei Building (Nagoya, Aichi), and Addit Sakura-dori building (Nagoya, Aichi), in spite of a decrease in real estate for sale following sell-offs of properties. Asset Management Business segment assets totaled ¥25,264 million, up ¥409 million compared with the previous year. This was largely due to an increase in the market value of investment units of Heiwa Real Estate REIT, Inc., held by the Company.

Segment assets (Millions of yen)

	March 31, 2022	March 31, 2023	Difference
Building Business	310,089	337,439	27,350
Asset Management Business	24,854	25,264	409
Adjustments	41,265	35,629	(5,636)
Amount in consolidated financial statements	376,210	398,333	22,123

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, 2023, interest-bearing liabilities, which include loans and corporate bonds, stood at ¥226,895 million, net interest-bearing liabilities, which exclude marketable securities and cash and deposits from interest-bearing liabilities, amounted to ¥198,987 million, and the net debt-to-equity ratio came to 1.7.

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 paid dividends totaling ¥3,740 million for fiscal 2022 and acquired a total of ¥2,499 million in treasury shares during the same year. As a result, the consolidated total shareholder return ratio stood at 68.3%.

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 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.

Additional information

1. Building Business

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

Classification	Fiscal 2021			Fiscal 2022		
	Operating revenue	Segment income (loss)	Depreciation	Operating revenue	Segment income (loss)	Depreciation
Leasing revenue	26,111	10,083	5,344	25,130	7,549	5,600
Revenue from sales of properties	26,770	2,511	—	14,065	3,140	—
Other	1,552	(195)	4	1,652	(118)	4
Total	54,433	12,399	5,349	40,848	10,572	5,605

(Note) Leasing revenue includes sales and expenses associated with the operations of restaurants. These operations contributed ¥117 million to operating revenue, reduced segment incomed by ¥130 million, and accounted for ¥37 million in depreciation in fiscal 2021, and contributed ¥381 million to operating revenue, reduced segment incomed by ¥130 million, and accounted for ¥47 million in depreciation in fiscal 2022.

2. Asset Management Business

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

Classification	Fiscal 2021			Fiscal 2022		
	Operating revenue	Segment income	Depreciation	Operating revenue	Segment income	Depreciation
Asset management revenue	2,192	1,606	8	2,482	1,828	10
Brokerage commissions	1,191	371	7	1,191	242	4
Total	3,384	1,977	16	3,674	2,071	14

Part 3 Financial Reporting

Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Assets		
Current assets		
Cash and deposits (Note 13)	23,211	20,908
Accounts receivable–trade (Notes 7, 13 and 21)	1,809	1,967
Marketable securities (Notes 13 and 14)	5,014	6,999
Real estate for sale (Note 7)	19,623	14,153
Real estate for sale in process (Note 7)	251	298
Operating investment (Notes 13 and 14)	1,624	1,027
Other	2,038	1,300
Allowance for doubtful accounts	(25)	(24)
Total current assets	53,548	46,630
Fixed assets		
Tangible fixed assets		
Buildings and structures (Note 7)	172,795	179,609
Accumulated depreciation	(89,847)	(93,392)
Buildings and structures, net (Note 7)	82,947	86,217
Machinery, equipment and vehicles	2,279	2,359
Accumulated depreciation	(1,787)	(1,878)
Machinery, equipment and vehicles, net (Note 7)	492	480
Tools, furniture and fixtures	2,087	2,234
Accumulated depreciation	(1,527)	(1,626)
Tools, furniture and fixtures, net (Note 7)	560	607
Land (Note 7)	163,624	190,497
Construction in progress (Note 7)	1,754	1,723
Total tangible fixed assets	249,379	279,526
Intangible fixed assets		
Leasehold rights (Note 7)	28,560	30,464
Other (Notes 7, 21 and 25)	251	193
Total intangible fixed assets	28,811	30,658
Investments and other assets		
Investment securities (Notes 7, 13 and 14)	39,066	34,632
Deferred tax assets (Note 18)	156	226
Other	5,079	6,345
Total investments and other assets	44,301	41,204
Total fixed assets	322,492	351,388
Deferred assets		
Bond-issuing cost	169	314
Total deferred assets	169	314
Total assets	376,210	398,333

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Liabilities		
Current liabilities		
Accounts payable–trade (Note 13)	3,367	5,727
Current portion of bonds payable (Notes 13 and 25)	4,327	3,648
Short-term loans payable (Notes 13 and 25)	3,800	3,800
Current portion of long-term loans	13,077	15,727
Income taxes payable (Note 18)	3,300	2,618
Accrued consumption taxes	96	642
Accrued bonuses for directors	118	134
Accrued bonuses	250	256
Other (Notes 7, 21 and 25)	2,372	1,988
Total current liabilities	30,710	34,543
Long-term liabilities		
Bonds payable (Notes 13 and 25)	23,889	27,989
Long-term loans payable (Notes 13, 15 and 25)	157,143	170,880
Long-term accounts payable (Notes 13 and 25)	4,000	4,850
Leasehold and guarantee deposits received (Note 13)	22,514	23,524
Deferred tax liabilities (Note 18)	10,170	8,849
Deferred tax liabilities for land revaluation (Note 7)	7,613	7,314
Provision for share-based remuneration	101	147
Retirement benefit liability (Note 16)	119	234
Asset retirement obligations (Note 19)	669	676
Total long-term liabilities	226,221	244,466
Total liabilities	256,931	279,009
Net assets		
Shareholders’ equity		
Common stock	21,492	21,492
Capital surplus	19,720	19,720
Retained earnings	50,258	56,298
Treasury shares	(7,306)	(9,997)
Total shareholders’ equity	84,165	87,513
Accumulated other comprehensive income		
Unrealized gain on securities	18,068	15,443
Revaluation reserve for land (Note 7)	17,045	16,366
Total accumulated other comprehensive income	35,113	31,810
Total net assets	119,278	119,324
Total liabilities and net assets	376,210	398,333

2. Consolidated Statements of Income

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Operating revenue (Notes 8, 21 and 22)	57,818	44,522
Operating costs (Note 8)	40,126	28,242
Gross profit	17,691	16,279
Selling, general and administrative expenses		
Salaries and allowances	1,547	1,578
Provision of accrued bonuses for directors	121	141
Provision of accrued bonuses	169	170
Provision for share-based remuneration	53	66
Retirement benefit costs	88	124
Commission fee	725	838
Other	2,371	2,575
Total selling, general and administrative expenses	5,076	5,495
Operating income (Note 22)	12,615	10,784
Non-operating income		
Interest income	5	6
Dividends earned	534	539
Miscellaneous non-operating income	45	30
Total non-operating income	585	575
Non-operating expenses		
Interest expenses	1,414	1,480
Amortization of bond issuance cost	56	56
Miscellaneous non-operating expenses	158	175
Total non-operating expenses	1,628	1,713
Ordinary income	11,572	9,647
Extraordinary income		
Gain on sales of fixed assets (Note 8)	344	—
Gain on sales of investment securities	761	3,543
Gain on sale of businesses (Note 8)	—	240
Subsidy income	—	44
Total extraordinary income	1,106	3,827
Extraordinary losses		
Loss on disposal of fixed assets (Note 8)	49	61
Loss on building reconstruction (Note 8)	82	—
Impairment loss es (Notes 8 and 22)	2	108
Loss on tax purpose reduction entry of fixed assets	—	44
Total extraordinary losses	133	214
Income before income taxes	12,544	13,260
Income taxes - current	4,113	4,655
Income taxes - deferred	(274)	(532)
Total income taxes (Note 18)	3,839	4,123
Net income	8,705	9,137
Net income attributable to owners of parent	8,705	9,137

3. Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Net income	8,705	9,137
Other comprehensive income (Note 9)		
Unrealized gain on securities	(2,119)	(2,624)
Revaluation reserve for land	49	—
Total other comprehensive income	(2,069)	(2,624)
Comprehensive income (Note 9)	6,635	6,512
Comprehensive income attributable to:		
Owners of parent	6,635	6,512

4. Consolidated Statements of Changes in Net Assets

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
Reversal of revaluation reserve for land			—		—
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	Revaluation reserve for land	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
Reversal of revaluation reserve for land				—
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

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

(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	50,258	(7,306)	84,165
Change during the period					
Distribution of surplus			(3,775)		(3,775)
Net income attributable to owners of parent			9,137		9,137
Changes in scope of consolidation			—		—
Acquisition of treasury shares				(2,708)	(2,708)
Disposal of treasury shares		0		17	17
Reversal of revaluation reserve for land			678		678
Net changes of items other than shareholders' equity					
Total change during the period	—	0	6,040	(2,691)	3,348
Balance at the end of the period	21,492	19,720	56,298	(9,997)	87,513

	Accumulated other comprehensive income			Total net assets
	Unrealized gain on securities	Revaluation reserve for land	Total accumulated other comprehensive income	
Balance at the beginning of the period	18,068	17,045	35,113	119,278
Change during the period				
Distribution of surplus				(3,775)
Net income attributable to owners of parent				9,137
Changes in scope of consolidation				—
Acquisition of treasury shares				(2,708)
Disposal of treasury shares				17
Reversal of revaluation reserve for land				678
Net changes of items other than shareholders' equity	(2,624)	(678)	(3,303)	(3,303)
Total change during the period	(2,624)	(678)	(3,303)	45
Balance at the end of the period	15,443	16,366	31,810	119,324

5. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Cash flows from operating activities		
Income before income taxes	12,544	13,260
Depreciation	5,418	5,668
Loss on disposal of fixed assets	49	61
Impairment losses	2	108
Loss (gain) on sale of businesses	—	(240)
Increase (decrease) in allowance for doubtful accounts	(1)	(0)
Increase (decrease) in accrued bonuses	36	6
Increase (decrease) in retirement benefit liability	4	114
Interest and dividends income	(540)	(545)
Interest expenses	1,414	1,480
Amortization of bond issuance cost	56	56
Loss (gain) on sale of investment securities	(761)	(3,543)
Loss (gain) on sales of fixed assets	(344)	—
Decrease (increase) in notes and accounts receivable – trade	(175)	(157)
Decrease (increase) in inventories	18,578	11,012
Decrease (increase) in operating investments	60	597
Decrease (increase) in prepaid expenses	(25)	0
Decrease (increase) in accounts receivable – other	(895)	1,323
Increase (decrease) in notes and accounts payable – trade	274	(55)
Increase (decrease) in advances received	(66)	12
Increase (decrease) in accrued consumption taxes	19	545
Increase (decrease) in deposits received	633	(544)
Increase (decrease) in leasehold and guarantee deposits received	(281)	1,006
Other	144	35
Subtotal	36,144	30,203
Interest and dividend income received	540	522
Interest paid	(1,407)	(1,457)
Income taxes paid	(1,088)	(5,315)
Net cash provided by operating activities	34,189	23,952

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Cash flows from investing activities		
Purchase of marketable securities	(2,000)	(3,000)
Proceeds from sales and redemption of securities	2,016	1,015
Purchase of investment securities	(1,632)	(313)
Proceeds from sales and redemption of investment securities	986	4,141
Proceeds from sale of businesses	—	240
Purchase of tangible fixed assets	(18,218)	(38,239)
Proceeds from sales of tangible fixed assets	984	—
Purchase of intangible fixed assets	(2,156)	(2,374)
Purchase of long-term prepaid expenses	(498)	(1,155)
Payments for guarantee deposits	(237)	(614)
Proceeds from collection of guarantee deposits	42	48
Payments for asset retirement obligations	(1)	—
Other	11	2
Net cash used in investing activities	(20,705)	(40,250)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	(5,450)	—
Proceeds from long-term loans payable	25,010	29,860
Repayment of long-term loans payable	(27,159)	(13,472)
Proceeds from issuance of bonds	—	7,790
Redemption of bonds	(1,891)	(4,368)
Proceeds from increase in long-term accounts payable	—	850
Purchase of treasury shares	(2,820)	(2,704)
Payment of dividends	(3,176)	(3,761)
Other	(2)	(198)
Net cash provided by (used in) financing activities	(15,490)	13,994
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase (decrease) in cash and cash equivalents	(2,006)	(2,303)
Balance of cash and cash equivalents at beginning of period	29,585	28,111
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)	28,111	25,807

6. Notes to Consolidated Financial Statements

Note 1 － Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Heiwa Real Estate Co., Ltd.(the “Company”) and its subsidiaries (collectively, the “Group”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and translated into English for the benefit of readers outside Japan. In addition, the notes to the consolidated financial statements include information which may not be required under Japanese GAAP but is presented herein as additional information.

Note 2 － Significant Accounting Policies

1. Scope of consolidation

(1) Consolidated subsidiaries: 5

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
Tokyo Hibiya Hotel Corporation

Tokyo Hibiya Hotel Corporation was newly established and included in the scope of consolidation in the fiscal year.

(2) Names, etc. of major non-consolidated subsidiaries

Major non-consolidated subsidiaries

The Company has no major non-consolidated subsidiaries or affiliates 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. Matters related to the fiscal year period of consolidated subsidiaries

The accounting year of consolidated subsidiary Tokyo Hibiya Hotel Corporation ends on February 28. This closing date was used for the preparation of these consolidated financial statements, however, if any significant transactions occur between March 1 and the end of the consolidated fiscal year on March 31, adjustments for the consolidated financial statements will be implemented as necessary.

4. 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. The straight-line method, however, is used for the Tokyo Stock Exchange Building and one other building, as well as for 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.

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 of 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 of the Company and certain subsidiaries in accordance with its share-based remuneration rules, and as compensation to its employees in accordance with share-based remuneration rules concerning the trust for the Company's stock ownership 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 2021	Fiscal 2022
Tangible fixed assets	249,379	279,526
Leasehold rights among intangible fixed assets	28,560	30,464
Impairment losses	2	108

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

1) Method for calculating amounts recorded in the consolidated financial statements for the fiscal year under review

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.

2) Main assumptions used for significant accounting estimates

The Group sets market values based on the real estate appraisal value determined by external real estate appraisers (hereafter, "externally appraised real estate value"). Future cash flows and recoverable amounts are estimated based on the externally appraised real estate value and forecasts of an asset group's operating results, which includes assumptions regarding future rent levels, occupancy rates, operating expenses, and other factors. Management also assumes that the impact of COVID-19 will be limited going forward.

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.

3) Possible impact of changes in main assumptions on results recorded in consolidated financial statements for the following fiscal year

The main assumptions listed in 2), above, are derived from the best estimates based on available information as of March 31, 2023, however, if those assumptions change due to changes in redevelopment projects or market conditions, the Group's performance could be affected, such as recording impairment losses.

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 2021	Fiscal 2022
Real estate for sale	19,623	14,153
Real estate for sale in process	251	298

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

1) Method for calculating amounts recorded in the consolidated financial statements for the fiscal year under review

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.

2) Main assumptions used for significant accounting estimates

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, 2023, 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.

3) Possible impact of changes in main assumptions on results recorded in consolidated financial statements for the following fiscal year

The main assumptions listed in 2), above, are derived from the best estimates based on available information as of March 31, 2023, however, if those assumptions change due to certain factors, such as lower than expected sales prices caused by falling demand in the real estate market, the Group's performance could be affected, such as recording a loss on revaluation of inventories.

Note 4 ― Changes in accounting policies

Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement

Effective from April 1, 2022, the Company has adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (Accounting Standards Board of Japan (ASBJ) Guidance No.31 (revised)) issued on June 17, 2021, and decided to apply a new accounting policy based on this guidance prospectively in accordance with the transitional treatment specified in Paragraph 27-2 of the guidance. These changes had no impact on the Company's consolidated financial statements for the fiscal year under review.

In addition, pursuant to Paragraph 27-3 of the guidance, a note regarding investment trusts for the previous fiscal year was not presented with details of different levels of financial instruments described in Note 13 – Financial Instruments.

Note 5 ― Unapplied Accounting Standards

•Accounting Standard for Current Income Taxes (ASBJ Statement No. 27 (revised)) issued on October 28, 2022

• Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25 (revised)) issued on October 28, 2022

• Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28 (revised)) issued on October 28, 2022

(1) Overview

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28) was issued in February 2018, and the transfer of practical guidelines for tax effect accounting from the Japan Institute of Certified Public Accountants to the ASBJ was completed. In deliberations during that process, however, the following two matters were reconsidered following the issuance of ASBJ Statement No. 28, and then further deliberated and announced:

1. Classification of tax expenses for the taxation of other comprehensive income
2. Tax effect of selling shares of subsidiaries or affiliated companies when a consolidated corporate tax system is used

(2) Scheduled date of application

The Company applied the accounting standards, etc. from April 1, 2024.

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

The impact of applying the revised Accounting Standard for Current Income Taxes on the consolidated financial statements is currently being assessed.

Note 6 － Additional Information

Performance based stock compensation plan for directors and executive officers

The Company has established a performance-linked stock compensation plan for its executive officers (excluding non-residents of Japan), managing officers (excluding those who have been specially appointed to be in charge of the Audit Committee Office, as well as managing officers of group companies and non-residents of Japan), and directors and managing officers of the Company’s major subsidiaries (excluding part-time directors, directors or managing officers who have been seconded from the Company, and non-residents of Japan).

(1) Overview of the compensation system

A trust established with funds contributed by the Company acquires company stock to be used as compensation for directors and officers eligible under the plan (listed above). Through the trust, company stock or a cash amount equivalent to the value of the stock is delivered to these individuals 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, they 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, 2022, and ¥321 million as of March 31, 2023, and the amount of stock totaled 59,300 shares as of March 31, 2022, and 104,400 shares as of March 31, 2023.

Stock ownership plan for employees

The Company has set up a stock ownership plan for employees as a means to provide them with incentives.

(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. The book value of the applicable treasury shares amounted to ¥298 million as of March 31, 2022, and ¥298 million as of March 31, 2023, and the amount of stock totaled 71,100 shares as of March 31, 2022, and 70,900 shares as of March 31, 2023.

Note 7 ー 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)	Fiscal 2022 (As of March 31, 2023)
Receivables from contracts with customers (Note 1)	197	186
Contract assets (Note 1)	465	485
Contract liabilities (Note 2)	25	5

(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. Guarantee liabilities

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

(Millions of yen)

Fiscal 2021 (As of March 31, 2022)		Fiscal 2022 (As of March 31, 2023)	
Housing loans for employees of Heiwa Real Estate Co., Ltd.	142	Housing loans for employees of Heiwa Real Estate Co., Ltd.	114

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 "Revaluation reserve for land" 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, 2022, and March 31, 2023, the difference between the amounts has not been stated.

4. Assets included under investment securities are as follows:

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Investment units of Heiwa Real Estate REIT, Inc.	22,047	22,444
	(147,179 units)	(147,179 units)

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

Due to the receipt of state subsidies, the following amounts of reduction entry were deducted from acquisition costs.

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Real estate for sale	48	48
Buildings and structures	239	283
Total	288	332

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

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Transferred from fixed assets to real estate for sale	7,355	5,589

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)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
32,087	20,293

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

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Buildings and structures, etc.	139	—
Land	204	—
Total	344	—

3. Gain on sale of business is due to the sale of the insurance-related business operated by Heiwa Real Estate Property Management Co., Ltd, the consolidated subsidiary of the Company.

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

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Buildings and structures	45	59
Other	3	2
Total	49	61

5. Loss on building reconstruction is construction costs associated with KABUTO ONE

6. Impairment losses

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 impairment losses on the asset group above. To calculate impairment losses, assets are grouped according to the smallest unit of assets that generates cash flows that are largely independent of the cash flows provided from other assets or asset groups. The book values of real estate whose market value substantially decreased were written down to a recoverable amount, and the decreased amounts were recorded as impairment losses of ¥2 million under extraordinary losses. The recoverable amount of this asset group was determined by its net realizable value, which was based on indices designed to reflect market prices.

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Location	Principal use	Category	Impairment losses
Abiko City, Chiba	Stores and other commercial facilities	Land and buildings	¥108 million

The Group recorded impairment losses on the asset group above. To calculate impairment losses, assets are grouped according to the smallest unit of assets that generates cash flows that are largely independent of the cash flows provided from other assets or asset groups. The book values of real estate for lease whose profitability substantially decreased were written down to a recoverable amount, and the decreased amounts were recorded as impairment losses of ¥108 million under extraordinary losses. The recoverable amount of this asset group was determined by its net realizable value, which was based on amounts assessed by real estate appraisers.

Note 9 － Consolidated Statements of Comprehensive Income

Reclassification adjustment and tax effect related to other comprehensive income

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Unrealized gain on securities:		
Unrealized gain on securities in the fiscal year	(2,289)	(220)
Reclassification adjustment	(764)	(3,562)
Before tax effect adjustment	(3,054)	(3,783)
Tax benefit	935	1,158
Unrealized gain on securities	(2,119)	(2,624)
Revaluation reserve for land:		
Tax benefit (expense)	49	—
Total other comprehensive income	(2,069)	(2,624)

Note 10 － Consolidated Statements of Changes in Net Assets

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

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)	1,669,867	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 was 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

Approval	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 approved 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 approved 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 ended March 31, 2023

Approval	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, 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.

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

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)	2,380,419	700,264	7,169	3,073,514
Total	2,380,419	700,264	7,169	3,073,514

(Notes) 1. The increase of 700,264 common shares of treasury shares was comprised of 646,100 shares acquired by the Company pursuant to a resolution of the Board of Directors, 52,000 shares acquired for the trust for the Company's stock compensation plan for directors and executive officers, and 2,164 odd-lot shares acquired.

2. The decrease of 7,169 common shares of treasury shares was comprised of 4,900 shares provided to and 2,000 shares sold by the trust for the Company's stock compensation plan for directors and executive officers, 200 shares sold by the trust for the Company's stock compensation plan for employees, and 69 odd-lot shares sold.

3. The total number of common shares of treasury shares as of March 31, 2023, included 175,300 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

Approval	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, 2022	Common shares	1,976	54.0	March 31, 2022	June 27, 2022
Meeting of Board of Directors held on October 31, 2022	Common shares	1,798	50.0	September 30, 2022	December 1, 2022

(Notes) 1. The total amount of dividends approved at the Ordinary General Shareholders' Meeting held on June 24, 2022, included ¥7 million in dividends 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. The total amount of dividends approved at the Board of Directors meeting held on October 31, 2022, included ¥8 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, 2023 and an effective date falling in the consolidated fiscal year ending March 31, 2024

Approval	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Meeting of Board of Directors held on May 17, 2023	Common shares	1,941	Retained earnings	54.0	March 31, 2023	June 5, 2023

(Note) The total amount of dividends included ¥9 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 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Cash and deposits	23,211	20,908
Marketable securities	5,014	6,999
Time deposits with terms of more than 3 months	(100)	(100)
Bonds with redemption periods of more than 3 months	(14)	(2,000)
Cash and cash equivalents	28,111	25,807

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 4. 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 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Due within 1 year	4,852	4,937
Due after 1 year	12,254	12,258
Total	17,106	17,196

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 20 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 4. 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 2021 (As of March 31, 2022)

	Amount on the consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (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. Stocks without quoted market prices 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)
Stocks without quoted market prices	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).

Fiscal 2022 (As of March 31, 2023)

	Amount on the consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Difference (millions of yen)
(1) Marketable securities and investment securities	40,704	40,705	0
Assets	40,704	40,705	0
(1) Bonds payable	31,637	31,144	(492)
(2) Long-term loans payable	186,607	184,871	(1,736)
(3) Long-term accounts payable	4,850	4,709	(140)
(4) Leasehold and guarantee deposits received	23,524	23,085	(438)
Liabilities	246,619	243,811	(2,808)
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. Stocks without quoted market prices 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 2022 (As of March 31, 2023)
Stocks without quoted market prices	655

3. In accordance with the treatment specified in Paragraph 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 (revised)) issued on June 17, 2021, 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 ¥1,298 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 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	—	—

Fiscal 2022 (As of March 31, 2023)

	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	20,908	—	—	—
Accounts receivable–trade	1,967	—	—	—
Marketable securities and investment securities				
Held-to-maturity bonds				
(1) National and municipal bonds	—	5	—	—
(2) Bonds payable	—	101	—	—
(3) Other	6,999	—	—	—
Available-for-sale securities with maturity dates				
(1) Corporate bonds	—	—	—	—
(2) Other	—	—	—	—
Total	29,875	107	—	—

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

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 5 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

Fiscal 2022 (As of March 31, 2023)

	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 5 years (millions of yen)
Short-term loans payable	3,800	—	—	—	—	—
Bonds payable	3,648	3,449	4,084	539	539	19,376
Long-term loans payable	15,727	15,958	16,184	26,217	28,250	84,270
Long-term accounts payable	—	258	258	258	285	3,790
Total	23,175	19,665	20,526	27,014	29,075	107,437

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)

Financial instrument	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and 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.

Fiscal 2022 (As of March 31, 2023)

Financial instrument	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available-for-sale securities				
Stocks	10,935	—	—	10,935
Investment trusts	22,662	—	—	22,662
Total assets	33,597	—	—	33,597

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

Fiscal 2021 (As of March 31, 2022)

Financial instrument	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

Fiscal 2022 (As of March 31, 2023)

Financial instrument	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	5	—	—	5
Bonds payable	—	101	—	101
Other	—	7,000	—	7,000
Total assets	5	7,101	—	7,107
Bonds payable	—	31,144	—	31,144
Long-term loans payable	—	184,871	—	184,871
Long-term accounts payable	—	4,709	—	4,709
Leasehold and guarantee deposits received	—	23,085	—	23,085
Total liabilities	—	243,811	—	243,811

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

Marketable securities and investment securities

Quoted market prices are used to measure fair values of stocks, investment trusts, and national bonds. Since they are traded in an active market, their fair values are classified as Level 1. The fair values of commercial paper and money in trust, which are included under "bonds payable" and "other" in the table above, are measured using market prices provided by financial institutions dealing in such instruments.

They are classified as Level 2 because of the relatively low frequency of trade in the market and therefore they cannot be regarded as having quoted market prices in active markets.

Bonds payable

Bonds payable with fixed interest rates 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. Those with variable interest rates are also 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.

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 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)

Fiscal 2022 (As of March 31, 2023)

	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	5	5	0
	(2) Bonds payable	—	—	—
	(3) Other	2,000	2,001	1
	Subtotal	2,005	2,006	1
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	101	101	(0)
	(3) Other	4,999	4,999	(0)
	Subtotal	5,101	5,100	(0)
Total		7,106	7,107	0

2. Available-for-sale securities

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 recorded 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 recorded 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 table above.

Fiscal 2022 (As of March 31, 2023)

	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	10,056	3,641	6,415
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	22,474	6,322	16,152
	Subtotal	32,531	9,963	22,567
Available-for-sale securities of which the amount recorded in the consolidated balance sheets does not exceed the acquisition cost	(1) Stocks	878	1,135	(256)
	(2) Bonds			
	1) National and municipal bonds	—	—	—
	2) Bonds payable	—	—	—
	3) Other	—	—	—
	(3) Other	187	198	(11)
	Subtotal	1,065	1,333	(267)
Total		33,597	11,297	22,299

(Note) Stocks without quoted market prices (totaling ¥655 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 ¥1,298 million in the consolidated balance sheets) are not included in available-for-sale securities shown in the table above.

3. Held-to-maturity bonds sold

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

Not applicable

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Not applicable

4. Available-for-sale securities sold

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	—

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Category	Sale amount (millions of yen)	Gain on sale recorded (millions of yen)	Loss on sale recorded (millions of yen)
(1) Stocks	3,939	3,543	—
(2) Bonds			
1) National and municipal bonds	—	—	—
2) Bonds payable	—	—	—
3) Other	—	—	—
(3) Other	—	—	—
Total	3,939	3,543	—

5. Impairment losses on marketable securities

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

Not applicable

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Not applicable

Note 15 － Derivatives

1. Derivatives for which hedge accounting is not applied

Not applicable

2. Derivatives for which hedge accounting is applied

Interest rate-related derivatives

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.

Fiscal 2022 (As of March 31, 2023)

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	37,202	34,469	(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 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Balance at the beginning of the fiscal year	115	119
Retirement benefit costs	105	180
Retirement benefits paid	(67)	(32)
Contributions to the plan	(33)	(32)
Balance at the end of the fiscal year	119	234

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

(Millions of yen)

	Fiscal 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Benefit obligation	1,285	1,350
Pension assets	(1,166)	(1,115)
Net balance of liabilities and assets recorded in the consolidated balance sheets	119	234
Retirement benefit liability	119	234
Net balance of liabilities and assets recorded in the consolidated balance sheets	119	234

(3) Retirement benefit costs

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Retirement benefit costs calculated using simplified accounting methods	105	180

3. Defined contribution plan

The required contributions for the defined contribution plans of consolidated subsidiaries amounted to ¥28 million in the fiscal year ended March 31, 2022 and ¥28 million in the fiscal year ended March 31, 2023.

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 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
Deferred tax assets		
Accrued bonuses	78	82
Accrued enterprise taxes	200	166
Inventory depreciation	94	140
Accounts receivable—other	43	42
Loss on building reconstruction	517	517
Impairment losses	327	360
Provision for share-based remuneration	18	30
Retirement benefit liability	39	75
Loss carryforwards	27	106
Asset retirement obligations	209	211
Other	452	413
Subtotal	2,010	2,148
Valuation allowance	(974)	(1,014)
Total deferred tax assets	1,035	1,133
Deferred tax liabilities		
Reserve for reduction entry	(987)	(833)
Unrealized gain (loss) on securities	(7,992)	(6,834)
Difference in valuation of fixed assets	(1,961)	(1,988)
Retirement expenses for asset retirement obligations	(104)	(95)
Other	(3)	(5)
Total deferred tax liabilities	(11,050)	(9,756)
Net amount of deferred tax assets (liabilities)	(10,014)	(8,622)

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 2021 (As of March 31, 2022)	Fiscal 2022 (As of March 31, 2023)
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 0.2% and 2.3% over expected period of use estimated between 8 and 50 years.

3. Changes in the asset retirement obligations

(Millions of yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Beginning balance	664	669
Adjustment due to passage of time	6	6
Reduction due to fulfillment of assets retirement obligations	(1)	—
Ending balance	669	676

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 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Lease property, etc.			
Amount on the consolidated balance sheet			
	Beginning balance	245,108	252,485
	Increase (decrease)	7,377	23,047
	Ending balance	252,485	275,533
Market value at fiscal-year end		349,750	373,765
Real estate that includes the portion used as lease property, etc.			
Amount on the consolidated balance sheet			
	Beginning balance	19,380	24,228
	Increase (decrease)	4,847	8,889
	Ending balance	24,228	33,117
Market value at fiscal-year end		39,230	46,420

(Note) 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 fiscal 2021 was mainly due to acquisitions of real estate totaling ¥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. The net increase in fiscal 2022 was mainly due to acquisitions of real estate totaling ¥35,221 million, which offset a transfer of ¥5,572 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 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Lease property, etc.		
Leasing revenue	21,921	20,138
Leasing expenses	12,224	12,971
Net	9,697	7,166
Other profit (loss)	227	(141)
Real estate that includes the portion used as lease property, etc.		
Leasing revenue	3,017	3,328
Leasing expenses	1,666	1,952
Net	1,350	1,375
Other profit (loss)	(2)	(19)

(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 due to net balances of a gain on sales of fixed assets, a loss on building reconstruction, a loss on disposal of fixed assets, and an impairment loss.

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 lease transactions.

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segments		Total
	Building Business	Asset Management Business	
Revenue from sales of properties	14,065	—	14,065
Management fee included in the asset management revenue	—	1,573	1,573
Other	3,463	1,191	4,655
Revenues from contracts with customers	17,528	2,764	20,293
Other revenue (Note)	23,320	909	24,229
Operating revenue from external customers	40,848	3,674	44,522

(Note) Other revenue includes leasing revenue calculated based on accounting standards related to lease 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," 4. "Accounting Policy," (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 during and after the next 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	Fiscal 2022
Receivables from contracts with customers (Beginning balance)	238	197
Receivables from contracts with customers (Ending balance)	197	186
Contract assets (Beginning balance)	435	465
Contract assets (Ending balance)	465	485
Contract liabilities (Beginning balance)	32	25
Contract liabilities (Ending balance)	25	5

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.

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.

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

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

(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	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.

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

(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	40,848	3,674	44,522	—	44,522
Inter-segment revenue and transfer	37	—	37	(37)	—
Total	40,885	3,674	44,560	(37)	44,522
Segment income	10,572	2,071	12,643	(1,859)	10,784
Segment assets	337,439	25,264	362,704	35,629	398,333
Other items					
Depreciation (Note 3)	5,605	14	5,619	49	5,668
Increase in tangible and intangible fixed assets (Note 3)	43,952	9	43,962	150	44,112

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

(1) The negative adjustments to segment income of ¥1,859 million mainly include corporate expenses amounting to ¥1,859 million that belong to the administration division and are not allocated to any of the reportable segments.

(2) Adjustments to segment assets of ¥35,629 million mainly include unallocated corporate assets amounting to ¥37,382 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 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

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

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
Heiwa Real Estate REIT, Inc.	13,365	Building Business Asset Management Business

Information on Impairment Losses of Fixed Assets by Reportable Segment

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

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Building Business	Asset Management Business	Inter-segment eliminations	Total
Impairment losses	108	—	—	108

Amortization and Unamortized Balance of Goodwill by Reportable Segment

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

Not applicable

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Not applicable

Information on Gain on Negative Goodwill by Reportable Segment

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

Not applicable

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Not applicable

Information on Related Parties

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

Not applicable

Fiscal 2022 (From April 1, 2022 to March 31, 2023)

Not applicable

Note 23 － Per Share Information

(Yen)

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Net assets per share	3,269.74	3,334.34
Earnings per share	236.74	254.27

(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, the Company's stock held in the trust for its stock compensation plan for directors and officers and in the trust for its employee stock ownership plan was included in the amount of treasury shares subtracted from calculations of the total number of shares issued as of March 31 of the respective fiscal year and the average number of shares outstanding during each respective fiscal year. 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 130,000 shares in fiscal 2021 and 175,000 shares in fiscal 2022, 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 124,000 shares in fiscal 2021 and 159,000 shares in fiscal 2022.

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

	Fiscal 2021 (From April 1, 2021 to March 31, 2022)	Fiscal 2022 (From April 1, 2022 to March 31, 2023)
Net income attributable to owners of parent (millions of yen)	8,705	9,137
Amount not attributable to common shareholders (millions of yen)	—	—
Net income attributable to common shareholders of the parent (millions of yen)	8,705	9,137
Average number of shares outstanding during the period (thousands of shares)	36,769	35,934

Note 24 ― Significant Subsequent Events

Not applicable

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	1,050 (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	575 (50)	525 (525)	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	400 (200)	200 (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	840 (70)	770 (770)	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	187 (75)	112 (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	937 (75)	862 (75)	0.79% annually	Unsecured bond	September 30, 2024
Heiwa Real Estate Co., Ltd.	28th Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	December 30, 2014	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	2,227 (165)	2,062 (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	1,552 (115)	1,437 (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	770 (55)	715 (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	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	1,263 (134)	1,129 (1,129)	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	1,200 (75)	1,125 (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	1,275 (75)	1,200 (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
Heiwa Real Estate Co., Ltd.	41st Unsecured Bond (limited to authorized institutional investors)	November 30, 2022	—	3,258 (165)	0.76% annually	Unsecured bond	November 30, 2032
Heiwa Real Estate Co., Ltd.	42nd Unsecured Bond (limited to authorized institutional investors)	February 28, 2023	—	2,490 (124)	1.00% annually	Unsecured bond	February 28, 2033
Heiwa Real Estate Co., Ltd.	43rd Unsecured Bond (bank guarantee included and limited to authorized institutional investors)	February 28, 2023	—	2,000 (100)	0.35% annually	Unsecured bond	February 25, 2031
Total	—	—	28,216 (4,327)	31,637 (3,648)	—	—	—

(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, 2023

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)
3,648	3,449	4,084	539	539

2. Schedule of Borrowings

Item	Balance as of April 1, 2022 (millions of yen)	Balance as of March 31, 2023 (millions of yen)	Average interest rate (%)	Repayment period
Short-term loans payable	3,800	3,800	0.3	—
Long-term loans payable within one year	13,077	15,727	0.7	—
Lease obligations payable within one year	0	—	—	—
Long-term loans payable (excluding those payable within one year)	157,143	170,880	0.7	2024–2037
Lease obligations (excluding those payable within one year)	—	—	—	—
Other interest-bearing liabilities Long-term accounts payable	4,000	4,850	0.6	2024–2043
Total	178,020	195,257	—	—

(Notes) 1. The average interest rate is the weighted average interest rate for the respective item in the table as of March 31, 2023.

2. 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, 2023 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	15,958	16,184	26,217	28,250
Long-term accounts payable	258	258	258	285

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, 2022, and March 31, 2023, 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, 2023 and 2022, 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, 2023 and 2022, 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 valuation of fixed assets for the Building Business	
The key audit matter	**How the matter was addressed in our audit**
Tangible fixed assets of ¥279,526 million and leasehold rights among intangible fixed assets of ¥30,464 million ("real estate") were recognized as properties held for leasing in the consolidated balance sheet of Heiwa Real Estate Co., Ltd. (the "Company") and its consolidated subsidiaries for the current fiscal year, representing 77.8% of total assets in the consolidated financial statements. These assets mainly include real estate such as stock exchanges, offices and hotels in Japan and the real estate owned by the Company and its consolidated subsidiaries for several 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, management identifies an impairment indicator based on the smallest unit of assets (individual assets, in principle) that generates cash flows that are largely independent of the cash flows from other assets or asset groups. Impairment indicators include changes that significantly decrease the recoverable amount, such as recurring operating losses, a significant decline in market value, significant deterioration of the business environment, and a change in usage. When it is determined that there is an impairment indicator, management judges whether an impairment loss should be recognized by comparing the undiscounted future cash flows that are expected to be generated from the related properties with their carrying amounts. For the redevelopment projects, several assets are grouped together when the business plan is determined to be feasible. In assessing the market value, the Company uses the real estate appraisal value obtained from external appraisers. - Judgement as to whether there is an impairment indicator In determining whether there is an impairment indicator, management needs to make a complex judgment on prospects for the end of the COVID-19 pandemic as well as expected changes in operating profits and losses and the method of usage. The business plan that serves as the basis for determining the redevelopment projects was prepared by management using various assumptions including the policy for developing blocks to be commercialized, prospective approval for developments by local governments,	The primary procedures we performed to assess the appropriateness of the Company's judgments as to whether there is an impairment indicator for real estate and whether impairment losses should be recognized included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls relevant to identifying an impairment indicator for real estate and determining impairment losses to be recognized. (2) Assessment of the appropriateness of the Company's judgment as to whether there is an impairment indicator ● We inspected the board minutes, the minutes of the executive officers, the requests for approval, and other relevant materials, and inquired of management and responsible personnel at the relevant department in order to confirm management's judgement on the prospects of the COVID-19 pandemic and expected changes in operating profits and losses and their decisions on changes in the scope and method of usage. ● We conducted a site inspection to confirm the occupancy status and construction progress of real estate that was newly acquired and whose occupancy rate changed. ● With respect to the redevelopment projects, we evaluated the consistency between grouping units of assets and the latest business plans prepared by management. In addition, we examined the feasibility of the redevelopment projects by inquiring of responsible personnel at the relevant department regarding whether there was any change in development costs and a possible delay in the business plan, 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. ● We inquired of the external real estate appraisers used by management to assess the market value about their appraisal value and assessed the appropriateness of the appraisal

development costs and expected rental rates, and therefore involved a high degree of uncertainty and dependency on management's subjective judgement. - Judgement as to whether impairment losses should be recognized With respect to real estate for which an impairment indicator (such as a temporary decrease in profitability due to termination by tenants and the cease of operations for future redevelopments) was identified, the estimate of future cash flows reflected significant assumptions such as the level of rental rate, the occupancy rate, and operating costs in the future, and therefore involved a high degree of uncertainty and dependency on management's subjective judgement. We, therefore, determined that our assessment of the appropriateness of the Company's judgments as to whether there is an impairment indicator for real estate and whether impairment losses should be recognized was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	method, underlying basis and discount rates for part of the real estate by involving a real estate appraisal specialist within our domestic network firms. (3) Assessment of the appropriateness of judgment as to whether impairment losses should be recognized ● We assessed the reliability and reasonableness of management's estimates by comparing the estimated future cash flows with the actual results for the current fiscal year and inspecting the negotiation records with tenants. ● We assessed the consistency of the future forecast with information such as the management environment, the real estate rental market, and the trends in land prices issued by external organizations.

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. The audit committee is responsible for overseeing the executive officers' and 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 the Audit Committee 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.

The audit committee is responsible for overseeing the executive officers' and 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 the audit committee 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 the audit committee 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 the audit committee, 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 18, 2023

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.