To the Shareholders
of Heiwa Real Estate Co., Ltd.

INFORMATION DISCLOSED ON THE INTERNET UPON ISSUING NOTICE CONCERNING THE CONVOCATION OF THE 102nd ORDINARY GENERAL SHAREHOLDERS' MEETING

THE 102nd FISCAL YEAR (FROM APRIL 1, 2021 TO MARCH 31, 2022)

Heiwa Real Estate Co., Ltd.

Heiwa Real Estate Co., Ltd. (the "Company") provides the above financial documents to Shareholders by posting them on the Company's website (https://www.heiwa-net.co.jp/en/ir/stock/meeting.html) pursuant to the provisions of laws, regulations and the Article 16 of the Articles of Incorporation.

■ STOCK ACQUISITION RIGHTS

1) Stock acquisition rights granted in consideration of the performance of duties and held by Directors and Statutory Auditors of the Company
   Not applicable

2) Stock acquisition rights granted to employees in consideration of the performance of duties during the current fiscal year
   Not applicable

■ ESTABLISHMENT OF A CORPORATE STRUCTURE TO ENSURE THE PROPER CONDUCT OF BUSINESS AND THE STATUS OF ITS OPERATIONS

(1) Corporate structure to ensure the proper conduct of business

In its efforts to establish a lawful and efficient corporate structure, the Company maintains and operates a structure to ensure that the Directors comply with laws and the articles of incorporation in the execution of their operations, and other structures to ensure the proper conduct of the business of the Company and the businesses of the Company group made up of the Company and its subsidiaries, as follows.

1) Corporate structure to ensure legal compliance and compliance with the articles of incorporation in the execution of operations by Directors and employees of the Company

(1) The Company elects External Directors and External Auditors as independent officers to reinforce the management and supervisory functions of the Board of Directors and the audit function of Statutory Auditors.

(2) The Company has established a "Code of Conduct," "Standards for Behavior of Heiwa Real Estate Group," and "Compliance Regulations," and steps are taken to ensure that all of its members are fully aware of their contents. Accordingly, Directors, Corporate Officers, and employees of the Company are requested to maintain fair and high ethical principles and strictly adhere to laws, regulations, and the articles of incorporation, in order to secure a management structure on which the community can rely.

(3) Based on its "Internal Whistleblowing Regulations," "External Whistleblowing Regulations," and other relevant regulations, the Company has established a compliance hotline and other systems as contact points for notification and consultation from people in or outside of the Company, including business partners, when problems or other matters related to compliance occur, and detects and responds to any such problems as promptly as possible.

(4) The Company responds firmly against antisocial forces that jeopardize the order and safety of the civil society.

2) System for the storage and maintenance of information in relation to the performance of duties by the Directors of the Company

The Company properly records the decision-making documents at the Board of Directors' Meetings and other important meetings, approval documents, and information related to the performance of duties by the Directors, and properly stores and maintains these documents in accordance with the relevant laws and "Criteria for the Storage and Disposal of Documents."

Directors and Statutory Auditors may access these documents at any time.

3) Rules of the Company related to the management of the risk of loss and other systems

(1) In recognition of the importance of risk management as a management issue, the Company has established a set of “Risk Management Rules,” has established a “Risk Management Committee” under the rules, and endeavors to secure the effectiveness of risk management by defining the targeted risk and the responsibility for management of the risk.

(2) The “Risk Management Committee” reports on the matters under its management to the Board of Directors and the Board of Statutory Auditors, as necessary.

4) System to ensure the efficient performance of duties by the Directors of the Company

(1) The Company has implemented a Corporate Officer system and endeavors to use the system to segregate the functions and responsibilities of management and business execution and to accelerate the process of decision-making.

(2) Through the system for allocating Directors-in-charge, the system for job authorization, and the system for decision-making provided in various in-company regulations, including the “Regulations of the Board of Directors’ Meetings,” the “Regulations of the Corporate Officers’ Meetings,” and the “Rules on the Division of Authorities,” the Company works to achieve the efficient execution of duties by its Directors.

(3) By formulating annual business plans and other plans, the Company establishes company-wide objectives to promote the efficient execution of business.

5) System to ensure the proper execution of business by the Company group made up of the Company and its subsidiaries

(1) The Company has formulated a set of “Administrative Rules on Subsidiaries and Affiliates” covering the Company and its subsidiaries (collectively the “Company Group”) and endeavors to secure the propriety of operations as the Company Group by defining the responsibility for administration, etc.

(2) The Company manages the planning of strategy related to the Company Group, guidance and monitoring related to subsidiaries and other matters pertaining to business administration, financial operations, and administration related to consolidated accounting, the improvement and operation of internal control related to financial reporting and administration related to the evaluation of effectiveness, and administration related to the operation of business.

(3) The “Code of Conduct,” the “Standards for Behavior for Heiwa Real Estate Group,” and the “Compliance Regulations” prescribed by the Company also apply to the Company Group, and the Company takes steps to ensure that all members of the Group are fully aware of their contents. Accordingly, the Company requests the officers and employees of the Company Group to maintain fair and high ethical

principles and strictly adhere to laws, regulations, and the articles of incorporation so as to secure a management structure on which the community can rely.

(4) In recognition of the importance of risk management as a management issue, the Company endeavors to secure the effectiveness of risk management by defining the targeted risk and the responsibility for management of the risk in the Company Group in accordance with a set of "Risk Management Rules" prescribed by the Company.

(5) In accordance with a set of "Administrative Rules on Subsidiaries and Affiliates," the Company made mandatory for subsidiaries to report important matters related to subsidiaries in advance, in principle.

(6) The Company dispatches its personnel to serve as Directors and Statutory Auditors of major subsidiaries. The Directors of the Company oversee the performance of the duties of the Directors of the subsidiaries, and the Statutory Auditors of the Company oversee the execution of business of the subsidiaries.

(7) In order to report and discuss matters related to consolidated group management, the Company has established a conference with managers from its subsidiaries and meetings with relevant personnel from its subsidiaries to share ownership of business policies, management information, etc., and reports important matters related to subsidiaries to the Board of Directors.

(8) The Company has formulated a set of "Basic Principles for the Maintenance and Operation of Internal Control Related to Financial Reporting," in order to secure reliable financial reporting. The Company has also established an "Internal Control Liaison Committee Related to Financial Reporting" to maintain a cooperative structure that cuts across the whole Company Group for the purpose of realizing the aforesaid principles.

6) Matters concerning relevant employees when Statutory Auditors of the Company request the deployment of employees to assist Statutory Auditors in their work, matters related to the independence of those employees from Directors of the Company, and matters to secure the effectiveness of instructions from the Statutory Auditors of the Company to those employees

(1) The Company has established an Auditors Office and deploys dedicated employees to the office to assist Statutory Auditors in matters related to auditing and the duties performed by the Statutory Auditors.

(2) The employees, when assisting Statutory Auditors in their work, follow the orders and instructions of the Statutory Auditors and do not receive any orders and instructions from the Directors.

(3) Employees are appointed and transferred to the Auditors Office to assist the Statutory Auditors, with the consent of the Statutory Auditors, and are assessed based sufficiently on the Statutory Auditors' views.

7) Policy for handling expenses, etc. incurred from the performance of duties by the Statutory Auditors of the Company

If Statutory Auditors, when performing their duties, request the Company to pay expenses in advance pursuant to Article 388 of the Companies Act, the Company shall promptly pay such expenses or debts unless such expenses or debts are determined not to be necessary for the performance of duties by the Statutory Auditors.

8) System of whistleblowing to Statutory Auditors of the Company, system to ensure that a person so whistleblowing is not treated unfavorably because of the whistleblowing, and other systems to ensure effective auditing by the Statutory Auditors of the Company

(1) The Statutory Auditors present at important conferences, including the Board of Directors' Meetings and Corporate Officers' Meetings, express their views, and obtain copies of the minutes of the meetings and approval documents. The Statutory Auditors also request to be briefed on these matters. Further, the Statutory Auditors regularly hold meetings with the Representative Director, the Internal Audit Office, or the Independent Auditor.

(2) If a Director discovers any matters that may cause material damage to the Company, he or she will immediately notify the Board of Statutory Auditors of those matters.

(3) The Company reports to the Statutory Auditors on important matters, including matters pertaining to the subsidiaries reported at the conferences with managers from its subsidiaries and the meetings with relevant personnel from its subsidiaries, the results of internal audits of subsidiaries, the contents of notifications by the compliance hotline, and other matters.

(4) The Company prohibits unfavorable treatment of the officers and employees of the Company Group who report to the Statutory Auditors due to such whistleblowing, and keeps all of the officers and employees of the Company Group well informed of the prohibition.

(2) Operations of a corporate structure to ensure the proper conduct of business

Following are the operations of a corporate structure to ensure the proper conduct of business.

1) Initiatives for the compliance structure

The Company established "Standards for Behavior of Heiwa Real Estate Group" and ensures that officers and employees thoroughly and strictly adhere to laws and regulations. The Company also holds training sessions, etc. on compliance on a regular basis.

The Company checks compliance, information security, etc. simultaneously across the

Company and makes the results thoroughly known within the Company to foster awareness of compliance.

The Company has put several systems in place to facilitate the early detection of compliance breaches. It has set up an internal whistleblowing system for the entire Group, which includes a hotline made available for officers and employees of subsidiaries, and has taken steps to ensure that all members are aware of the system and how to use it. The Company has also established an external whistleblowing system to allow business partners and other stakeholders from both inside and outside the Group to report on incidents of misconduct. In addition, the Company has established an internal consultation office to provide its members with advice on a wide range of workplace concerns besides those related to misconduct.

2) Initiatives for risk management system

As a part of the Group's internal controls, the Company applies "Risk Management Rules" to subsidiaries as well, and thereby has established a system necessary for risk management for the Group as a whole. The Company holds a Risk Management Committee (six times in the current term) chaired by the Representative Director and President to understand risks that have actualized in the Group and deliberates on measures to prevent the recurrence of risks, etc. in accordance with the Risk Management Rules.

In December 2021, the Company revised its Risk Management Rules with the aim of ensuring appropriate management of ESG risks. New ESG risks were added to risk areas of concern.

With regard to the acquisition and sale of property, the Company holds a "Working Group to Review Investment Risk, etc." prior to deliberations at the Board of Directors meetings. The working group analyzes risks associated with the acquisition and sale of property, confirms that related procedures are carried out properly, handles other relevant matters, and reports the results of these activities to the Managing Officers' Meetings.

The Company has established a "Business Continuity Plan (BCP)," prepared a response manual based thereon, regularly checks the same, and thereby strives to mitigate corporate crisis risk at times of emergency.

3) Initiatives for a system to ensure the efficient performance of duties by Directors

The Company has introduced a Managing Officer system, and the Managing Officers' Meetings conduct swift decision-making on the execution of business operations.

When formulating the "annual business plan," an important agenda item for deliberation at the Board of Directors meetings, the plan is fully deliberated at each department, the issues to address in the management plan and the measures to respond to them are discussed, organized, and summarized at the conferences with managers from its subsidiaries and the Managing Officers' Meetings, and the business plan is thereupon submitted to the Board of Directors. By adopting these procedures, the Company promotes the efficient performance of duties.

The Company has established the Nomination Committee and Compensation Committee as discretionary advisory bodies to the Board of Directors, and ensures the objectivity and transparency of personnel affairs relating to Directors and Statutory Auditors and compensation for Directors and Executive Officers by having External Directors chair both committees and make up the majority of their members.

In order to evaluate the effectiveness of the Board of Directors, the Company conducts a self-assessment questionnaire targeting all Directors and Statutory Auditors. Based on the evaluation results from the questionnaires, arguments for improvement are discussed in an effort to enhance the effectiveness of the Board of Directors.

The Board of Statutory Auditors organizes "External Directors/Statutory Auditors Cooperation Council" meetings, provides to External Directors information collected from an independent perspective, and has discussions with them.

In July 2021, the Company established an Independent External Directors Council, to facilitate information exchange and creation of consensus among Independent External Directors, to help put in place through such activities an appropriate management model for the Group.

4) Initiatives for the Company group system

The Company has determined the departments in charge of business execution of subsidiaries in the "Administrative Rules on Subsidiaries and Affiliates" to strengthen business cooperation in the Group.

The Company periodically holds conferences with managers from its subsidiaries in order to monitor the progress of the subsidiaries' business plans. The Company also verifies that internal control systems are properly implemented throughout the Group at periodically held meetings with relevant personnel from its subsidiaries. In addition, information about measures for dealing with the COVID-19 pandemic were shared across the Group in fiscal 2021.

The Company administrates subsidiaries by dispatching to subsidiaries its officers that concurrently serve as officers of the subsidiaries to oversee or audit the execution of duties by the Directors, etc. of the subsidiaries.

5) Initiatives for system for auditing by the Statutory Auditors

The Statutory Auditors attend the Board of Directors meetings and other important meetings, request explanations on the details of deliberations as necessary, and regularly exchange opinions with the Representative Director and President, the Internal Audit Office, and the Independent Auditor on the status of controls within the Group.

The Company deploys one employee to assist Statutory Auditors in their work. To ensure the independence of the employee from Directors, the employee is assessed based sufficiently on the Statutory Auditors' views.

Based on the "Internal Whistleblowing Regulations," an internal whistleblowing system is operated as a hotline available for use by the officers and employees of the Company Group. The Company has established a system under which officers and employees of the Company Group who report to the Statutory Auditors are not to be unfavorably treated due to such whistleblowing.

■ BASIC POLICY WITH REGARD TO THE ROLE OF ANY PERSON CONTROLLING THE DECISION OVER FINANCIAL AND BUSINESS POLICIES OF THE COMPANY

1. Outline of Basic Policy with Regard to the Role of Any Person Controlling the Decision over Financial and Business Policies of the Company

In the event of a purchase proposal being made by a specified party that would entail a transfer of controlling rights over the Company, the final say on whether to respond to or reject such a move should be based on the opinions of all shareholders of the Company. However, the Company believes that a person who controls the decisions on financial and business policies of the Company should have a good understanding of the financial situation and business description of the group of the Company as well as the source of the corporate value of the Company, and should continue to increase the corporate value of the Company and the common interest of our shareholders. Furthermore, some large-volume purchase activities, etc. could be prejudicial to the corporate value of the Company or the common interests of shareholders that the Company has been consistently building up.

In light of this, all of the shareholders of the Company believe that all shareholders must have the opportunity to assess carefully the impact of large-volume purchase activities, etc. on corporate value or common shareholder interests. Regarding the purpose and terms of any large-volume purchase and the possible impact on corporate value or common interests of the shareholders, we believe that necessary and sufficient information and opinions should be provided to shareholders of the Company, by both the large-volume buyer and the Board of Directors of the Company, and that the large-volume buyer and the Board of Directors should necessarily be given a sufficient deliberation period for consideration of both of these questions (in other words, avoiding as far as possible a situation in which influences on the judgment of shareholders are coercive in nature).

Based on such fundamental thinking, the Board of Directors of the Company shall require the provision of necessary and sufficient information by the would-be large-volume buyer enabling shareholders to make an appropriate judgment as to whether or not to proceed with any large-volume sale, in order to ensure optimization of corporate value and common shareholder interests. In addition, the Company shall take measures deemed appropriate within the scope of the Financial Instruments and Exchange Act, the Companies Act and other laws and regulations, and the Articles of Incorporation, including disclosure in a timely and appropriate manner of information so provided.

2. Outline of Efforts to Realize the Basic Principles

(1) Special Efforts to Realize the Basic Principles

1) Efforts to Increase Corporate Value

As a “company that contributes to the revitalization of urban areas,” the Group strives to help our society become more sustainable while also improving corporate value, by increasing satisfaction through interactive communication with stakeholders and providing solutions to environmental and social issues. Under these circumstances, the Company has compiled the “Challenge & Progress” Medium-term Management Plan for the period between fiscal 2020 and fiscal 2023. In order to take on challenges and progress as a “company that contributes to the revitalization of urban areas,” we are taking measures to revitalize Nihonbashi Kabutocho and Kayabacho areas of central Tokyo, commercialize the Sapporo redevelopment project and switch to a business model capable of generating added value through external and internal growth, as well as contribute to the solution of problems in society through the promotion of sustainability measures.

2) Efforts to Improve Corporate Governance Structure

The Company considers the enhancement of corporate governance as an important business issue, and the Company’s group as a whole endeavors to strengthen corporate governance in order to meet the trust placed in us by shareholders and other stakeholders and carry out fair and efficient corporate management.

In line with such thinking, the Company proceeded with a strengthening of its governance system including the establishment of Nomination and Compensation Committees, until now discretionary bodies, at which at least one-third of members are External Directors; terms of office of Directors were curtailed, and a stock compensation plan was introduced. Moreover, ahead of our 75th anniversary, and given the changing business environment surrounding the Group including the shift to the (TSE) Prime Market, the increasing sophistication of sustainability management requirements, the rapid progress in the Digital Transformation wave and the diversification of workplace practices and lifestyles, the Company aims to further refine its governance system, through creation of systems capable of reflecting swiftly and appropriately new stakeholder requirements at the management level; and also plans a shift to the “company with nomination committee, etc.” model, so as to ensure sustainable growth and long-term improvement of corporate value through promotion of redevelopment businesses and other management strategies, assuming approval of necessary amendments to the articles of incorporation at the 102nd Ordinary General Shareholders’ Meeting to be held on June 24, 2022.

(2) Measures to Prevent Persons Deemed Inappropriate in Light of the Basic Policy from Controlling Decisions on Financial and Business Policies of the Company

At a meeting of the Board of Directors held on May 14, 2021, the Company approved a resolution to discontinue "measures against large-volume purchases of shares of the Company (Defense Measures Against Takeover)," because the policy expired as of the conclusion of the 101st Ordinary General Shareholders' Meeting on June 24, 2021.

The Company shall require the provision of necessary and sufficient information by the would-be large-volume buyer enabling shareholders to make an appropriate judgment as to whether or not to proceed with any large-volume sale. In addition, the Company shall take measures deemed appropriate within the scope of the Financial Instruments and Exchange Act, the Companies Act and other laws and regulations, and the Articles of Incorporation, including disclosure in a timely and appropriate manner of information so provided.

3. Decisions on Specific Measures by the Board of Directors and the Reasons for Such Decisions

The Company judges that the measures described in 2 above are in accordance with the basic policy in 1. above and contribute to ensure and enhance the corporate value of the Group as well as the common interests of our shareholders, and neither damage the common interests of our shareholders nor are intended to maintain the positions of the officers of the Company.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2021
TO: MARCH 31, 2022

(In millions of yen)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Basis of presenting consolidated financial statements]

1. Basis of consolidation:

(1) Consolidated subsidiaries: 4

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

(2) Changes in scope of consolidation:

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

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

Major non-consolidated subsidiaries

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

(Reason for exclusion from scope of consolidation)

All non-consolidated subsidiaries are small-scale businesses whose combined 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. Basis of applying 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 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 due to the minimal effect that the exclusion has on the consolidated financial statements, taking into account its relatively low net income/loss (corresponding to the equity owned by the Company), retained earnings (corresponding to the equity owned by the Company), etc., and its relative immateriality as a whole in the context of the consolidated financial statements.

3. Accounting policy:

(1) Method and basis of valuation of important assets:

1) Method and basis of valuation of marketable securities and other investments-

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

Other marketable securities and investments:

a. Investments other than non-marketable securities:

The market value method is used for investments other than non-marketable securities (differences in valuation are included directly in net assets, and costs of securities sold are calculated using the moving-average method).

b. Non-marketable securities:

Non-marketable securities are mainly valued at cost, determined using the aggregate average method.

2) Method and basis of valuation of 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 important depreciable assets:

1) Tangible fixed assets (excluding lease assets) -

Depreciation of tangible fixed assets is computed using the declining balance method, except for the Tokyo Stock Exchange Building, two other buildings, buildings (excluding attached facilities) acquired on or after April 1, 1998, and facilities and structures attached to buildings acquired on or after April 1, 2016, for which the straight-line method is used. Depreciation of consolidated subsidiaries' tangible fixed assets is computed using the straight-line method.

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

Buildings and structures	2-65 years
Machinery, equipment, and vehicles	2-30 years
Tools, furniture and fixtures	2-20 years

2) Intangible fixed assets (excluding lease assets)-

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

3) Lease assets -

Lease assets are depreciated using the straight-line method over the lease period without residual value.

(3) Method of accounting of important deferred assets:

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

(4) Principles for providing important 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 plus any amounts deemed necessary to cover possible losses on an individual account.

2) Accrued bonuses for directors -

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

3) Accrued bonuses -

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

4) Provision for share-based remuneration -

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

(5) Basis for calculating important revenues and expenses:

Details about the main performance obligations in the major businesses related to revenue from contracts with the Group's customers and the timing at which the Group typically satisfies these performance obligations (when it typically recognizes revenue) are as follows.

1) Building Business -

・ Revenue from sales and acquisitions of properties

The Company generates revenue from sales and acquisitions of properties by increasing the value of properties it has acquired through development, 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 met at the time of delivering a property, and revenue is recognized once the property is delivered.

2) Asset Management Business -

・ Management fees in asset management revenue

The Company generates asset management revenue from management fees obtained through asset management services provided to Heiwa Real Estate REIT, Inc. Based on asset management 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 met by providing these services over their specified periods of time, and revenue is recognized in proportion to the degree these performance obligations are met. Its performance obligations to acquire and transfer ownership of properties are met once an acquisition or transfer of a property has been completed, and revenue is recognized at either of those points in time.

(6) Method of important hedge accounting:

1) Method of hedge accounting -

The special treatment applies to interest rate swaps because they meet the requirements.

2) Hedging instruments and hedged items -

Hedging instruments: interest rate swaps

Hedged items: interest rates of loans payable

3) Policy of hedging transactions -

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

4) Method of assessing hedge effectiveness -

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

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

1) Accounting for retirement benefits-

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

2) Accounting for consumption taxes -

As a rule, the non-credited portion is charged as an expense in the consolidated period under review in which the consumption taxes are paid.

[Notes to changes in accounting policies]

(Adoption of accounting standard related to revenue recognition)

Effective from April 1, 2021, the Company adopted the Accounting Standard for Revenue Recognition (Statement No. 29) issued by the Accounting Standards Board of Japan on March 31, 2020. Accordingly, the Company recognizes the fees it expects to receive for contracted goods and services as revenues at the time when those goods and services have been delivered. Due to this change, the Company has changed its method for recognizing revenue received from building tenants for utilities fees. Specifically, this revenue had previously been deducted from operating costs, but after determining the roles (direct or indirect) involved in providing goods and services to customers, this revenue is now included in the total for operating costs.

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

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

(Adoption of accounting standard related to fair value measurement)

Effective from April 1, 2021, the Company adopted the Accounting Standard for Fair Value Measurement (Statement No. 30) issued by the Accounting Standards Board of Japan on

July 4, 2019. Accordingly, the Company began applying a new accounting policy based on this standard in accordance with the transitional accounting treatment subject to Paragraph 19 of the standard, as well as Paragraph 44-2 of the Accounting Standard for Financial Instruments (Statement No. 10), also issued by the board on July 4, 2019.

In addition, in "[Notes to financial instruments]," we have decided to add notes for items regarding breakdowns of fair value for financial instruments by appropriate category.

These changes had no impact on the Company's consolidated financial results recorded in the financial statements for the fiscal year under review.

[Notes to accounting estimates]

(Impairment loss on fixed assets)

(1) Amount recorded in the consolidated financial statements for the current consolidated fiscal year

Tangible fixed assets	¥249,379 million
Leasehold rights in intangible fixed assets	¥28,560 million
Mainly attributable to the Building Business.	
Impairment loss	¥2 million

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

The Company identifies indications of impairment based on the minimum unit generating cash flows in a manner largely independent of cash flows provided by other assets (or asset groups) (at the individual asset level, in principle).

The Company considers continuous negative income from operating activities, etc., significant deteriorations in the management environment, significant declines in market prices, and other factors as indications of impairment.

If it is recognized that there is an indication of impairment, the Company assesses the necessity of recognizing an impairment loss. If, as a result of this assessment, the total of undiscounted future cash flows is found to be less than total book value on comparison of these two items, the book value is written down to a recoverable amount (the net sales value or value in use, whichever is higher), and the Company records the amount of the reduction in the book value as an impairment loss.

For market prices, the Group uses amounts based on the Real Estate Appraisal Standard by independent real property appraisers, etc. ("independent valuation amounts, etc."). In addition, recoverable amounts are estimated based on independent valuation amounts, etc. and the operating results and plans of assets (or asset groups), combined with the assumption that there will be a recovery from the impact of COVID-19 after a certain period.

Certain assets including those used as hotels in Sapporo, Tokyo, and Osaka (¥23,154 million (total book value of five (5) properties, including sections used for offices and other applications)) have low operating rates as a result of prolongation of the impact of COVID-

19. Continuing from the previous fiscal year, the Company judged that there was an indication of impairment and analyzed the necessity of recognizing an impairment loss, but as total undiscounted future cash flows or the independent valuation amounts exceeded the book values, the Company has not recorded an impairment loss in the fiscal year under review.

In addition, regarding redevelopment projects in Nihonbashi Kabutocho and Kayabacho, as well as Sapporo, the Company classifies multiple assets into same asset groups from when it may be judged that the redevelopment projects are feasible, based on negotiations with land rights holders and other factors.

Assumptions related to the future impact of COVID-19, the feasibility of development plans, and other factors contain uncertainties, and the business performance of the Group may be affected if it becomes necessary to recognize impairment losses in future, etc.

(Valuation of real estate for sale)

(1) Amount recorded in the consolidated financial statements for the current consolidated fiscal year

Real estate for sale	¥19,623 million
Real estate for sale in process	¥251 million

Attributable to the Building Business segment.

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

If the net sales value of real estate for sale and real estate for sale in process (“real estate for sale, etc.”), minus future expected building and construction costs and expected sales expenses, etc., falls below the book value, the difference is reported under operating costs as loss on revaluation of inventories.

The Group estimates expected sales values after considering independent valuation amounts, etc. or estimating rental fees, expected yields, etc., together with the impact of any future worsening of demand, etc.

As of March 31, 2022, assets for which the Group estimated expected sales values after estimating rental fees, expected yields, etc. were used for residential purposes, and the Company did not assume any significant fluctuations in rent rates or expected yields in future real estate markets.

The future business performance of the Group may be affected owing to the reporting of loss on revaluation of inventories or other reasons if there are changes in assumptions, including a decline in estimated sales values as a result of a worsening of demand in the real estate market, etc.

[Additional information]

(A performance-linked stock compensation plan for directors and executive officers)

Pursuant to a resolution of the 99th Ordinary General Shareholders' Meeting held on June 26, 2019, the Company adopted a performance-linked stock compensation plan for directors (excluding external directors and non-residents of Japan) and executive officers (excluding non-residents of Japan, hereinafter collectively the "Directors, etc."), and established a trust comprised of common stock for the plan.

(1) Overview of the compensation system

The trust was established using funds provided by the Company, and acquires company stock to be used as compensation for the Directors, etc. under the plan. Through the trust, company stock or a cash amount equivalent to the value of the stock is delivered to the Directors, etc. in an amount commensurate with the number of points each has earned under the stock compensation plan, based on stock compensation rules set by the Company's Board of Directors. As a rule, the Directors, etc. 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. As of March 31, 2022, the book value of the applicable treasury shares amounted to ¥137 million, and the amount of stock totaled 59,300 shares.

(Introduction of employee stock ownership plan)

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

(1) Overview of the ownership plan

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

(2) Company stock held in the trust

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

(Accounting valuation related to the impact of the COVID 19 pandemic)

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

[Notes to consolidated balance sheet]

1. Balances of receivables from contracts with customers, contract assets, and contract liabilities

Receivables from contracts with customers (Note 1)	¥197 million
Contract assets (Note 1)	¥465 million
Contract liabilities (Note 2)	¥25 million

(Notes) 1. Contracts receivables and contract assets are included in "accounts receivable–trade."

2. Contract liabilities are included in "other" under "current liabilities."

2. Accumulated depreciation of tangible fixed assets ¥93,162 million

3. Guarantees due from the Company

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

Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥142 million

4. Revaluation of land

Pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 of March 31, 2001), the Company revalued its land held for business. Corporation taxes equivalent to net unrealized gains are reported as "deferred tax liabilities for land revaluation" in liabilities, and net unrealized gains, net of deferred taxes, are reported as "land revaluation surplus" in net assets.

(Method of revaluation)

Fair values are determined by applying appropriate adjustments to values computed using the method published by the Commissioner of the National Tax Agency for the calculation of land values that serve as the basis for taxable amounts of land-holding tax set forth in Article

16 of the Land-holding Tax Act as set forth in Article 2, Paragraph 4 of the Order for Enforcement of Act on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).

(Date of the revaluation) March 31, 2001

(Difference between fair values at the fiscal year-end and book values after the revaluation of the land revaluated)

Since the fair value of the revalued land exceeded the carrying value of the land after the revaluation as of March 31, 2022, the difference between the amounts has not been stated.

5. Investment securities

Assets included under investment securities are as follows:

Investment units of HEIWA REAL ESTATE REIT, Inc.	¥22,047 million (147,179 units)

6. Changes in purpose of ownership

An amount of ¥7,355 million was reclassified from fixed assets to real estate for sale due to a change in the purpose of ownership

[Notes to consolidated statement of income]

Revenues from contracts with customers ¥32,087 million

Net sales from contracts with customers and revenues from sources besides those contracts are not recorded as specific categories under operating revenue.

[Notes to consolidated statements of changes in net assets]

1. Shares issued

Common shares	38,859,996 shares

2. Treasury shares

Common shares	2,380,419 shares

(Note) The number of common shares of treasury shares includes the number of shares of the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees (130,400 shares for the current consolidated fiscal year).

3. Distribution of surplus

(1) Payments of dividends

1) The following was resolved and approved at the Ordinary General Shareholders' Meeting held on June 24, 2021.

Distribution of common shares

・Total amount of dividends	¥1,676 million
・Dividend per share	¥45
・Record date	March 31, 2021
・Effective date	June 25, 2021

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

2) The following was resolved and approved at the Board of Directors' meeting held on October 29, 2021.

Distribution of common shares

・Total amount of dividends	¥1,512 million
・Dividend per share	¥41
・Record date	September 30, 2021
・Effective date	December 1, 2021

(Note) The total amount of dividends includes ¥5 million in dividends for the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees as trust assets.

(2) Dividends with a record date falling in the current consolidated fiscal year and an effective date falling in the following consolidated fiscal year

We will propose the following agenda for the Ordinary General Shareholders' Meeting to be held on June 24, 2022.

Distribution of common shares

・Total amount of dividends	¥1,976 million
・Source of dividends	Retained earnings
・Dividend per share	¥54
・Record date	March 31, 2022
・Effective date	June 27, 2022

(Note) The total amount of dividends includes ¥7 million in dividends for the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees.

[Notes to financial instruments]

1. Financial instruments

   The Group limits fund management to short-term deposits, etc. and procures funds by borrowing money from banks and other financial institutions.

   Among investment securities, the fair value of listed securities is assessed on a quarterly basis.

   Loans payable are used for working capital (chiefly for short-term purposes) and funds for capital investments (for long-term purposes). The Company fixes interest expenses by applying interest rate swap transactions to a portion of the long-term loans payable with interest rate volatility risk.

2. Fair value, etc. of financial instruments

   The balance sheet amount, the fair value, and the difference between the two were as follows as of March 31, 2022 (settlement date of the current consolidated fiscal year). The following table does not include any non-marketable securities (amount on consolidated balance sheet: ¥720 million) and does not include investments in partnerships and other similar entities for which equity interests are recorded on a net basis on the consolidated balance sheet (amount on consolidated balance sheet: ¥1,902 million). Also omitted are explanatory notes on cash, and notes on deposits, accounts receivable – trade, accounts payable – trade, and short-term loans payable, as their fair values are close to carrying amounts due to their short maturities.

(In millions of yen)

	Consolidated balance sheet amount (*)	Market value (*)	Difference
(1) Marketable securities	5,014	5,014	-0
(2) Investment securities	38,067	38,067	0
(3) Bonds payable	(28,216)	(28,114)	(-101)
(4) Long-term loans payable	(170,220)	(169,629)	(-590)
(5) Long-term accounts payable	(4,000)	(3,904)	(-95)
(6) Leasehold and guarantee deposits received	(22,514)	(22,116)	(-397)
(7) Derivative transactions	–	–	–

(*) Figures in parentheses are presented in Liabilities.

3. Fair value information by level within the fair value hierarchy

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

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial assets and financial liabilities measured at fair value

(In millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	15,394	–	–	15,394
Total assets	15,394	–	–	15,394

(Note) Fair values of investment trusts, etc. are not included in the above. The amount of investment trusts, etc. recorded on the consolidated balance sheet is ¥22,667 million.

(2) Financial assets and financial liabilities not measured at fair value

(In millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity bonds				
Government bonds	20	–	–	20
Other	–	4,999	–	4,999
Total assets	20	4,999	–	5,019
Bonds payable	–	28,114	–	28,114
Long-term loans payable	–	169,629	–	169,629
Long-term accounts payable	–	3,904	–	3,904
Leasehold and guarantee deposits received	–	22,116	–	22,116
Total liabilities	–	223,765	–	223,765

(Note) A description of the valuation techniques and inputs used in the fair value measurements

Securities and investment securities

The fair value of shares, etc. is valued using quoted prices. As shares and bonds are traded in active markets, their fair value is classified as Level 1. Additionally, commercial paper classified as held-to-maturity bonds (other) is valued using prices indicated at handling financial institutions, but their fair value is classified as Level 2 because they are not traded frequently in the public market and not considered to have quoted prices in active markets.

Bonds payable

The fair value of bonds payable is posted at the present value of the bonds payable and is equal to the total of capital and interests discounted by the remaining terms and interest rates adjusted for credit risk. Their fair value is classified as Level 2.

Long-term loans payable and long-term accounts payable

Those with fixed rates are calculated by discounting the total principal and interest by the assumed interest rate for a borrowing under the same terms and conditions, and their fair value is classified as Level 2. Those with floating rates are posted at their book value because floating rates reflect market rates in a short period of time and their fair value approximates their book value. Their fair value is classified as Level 2. Those with floating rates subject to exceptional treatment for interest-rate swaps are calculated by discounting the total of principal and interest accounted for as a unit with the interest-rate swap by an assumed interest rate reasonably estimated for a borrowing under the same terms and conditions.

Leasehold and guarantee deposits received

The fair values are calculated from current market prices, discounted at interest rates that factor in the remaining period until return of deposit amounts and credit risk. Such fair values are classified as Level 2.

Derivative transactions

A derivative transaction subject to exceptional treatment for interest-rate swaps is accounted for as a unit together with long-term loans payable subject to hedge. For this reason, the market value of such a transaction is included in the fair value of the long-term loans payable (Refer to "Long-term loans payable and long-term accounts payable" above).

[Notes to lease property, etc.]

1. Lease property, etc.

The Company and some subsidiaries own lease office buildings, and lease commercial facilities in Tokyo and other areas.

2. Market value of lease property, etc.

・Amount on the consolidated balance sheet	¥276,714 million
・Market value	¥388,980 million

(Notes)

1. The consolidated balance sheet amount is equal to the acquisition cost minus the accumulated depreciation and accumulated impairment loss.
2. The market value of principal properties, at the end of current consolidated fiscal year are based on the Real Estate Appraisal Standard by independent real property appraisers, and those of other real estate units at the end of this term are calculated by the Company based on the Real Estate Appraisal Standard (including that adjusted using indexes, etc.)

[Notes to revenue recognition]

1. Disaggregation of revenue from contracts with customers

(In millions of yen)

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

(Note) "Revenue from other sources" includes rental/lease income etc. based on the Accounting Standard for Lease Transactions.

2. Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue is as presented in "3. Accounting policy (5) Basis for calculating important revenues and expenses"

3. Information regarding relations between performance obligation satisfaction based on customer contracts and cash flows arising from such contracts, and regarding the timing and totals of revenue expected to be recognized in and from the following consolidated fiscal year, from customer contracts existing at the end of the current consolidated fiscal year.

(1) Contract asset and contract liability balances

(In millions of yen)

	Balance at the beginning of the period	Balance at the end of the period
Receivables from contracts with customers	238	197
Contract assets	435	465
Contract liabilities	32	25

Within the portion of revenue recognized as reflecting progress in satisfaction of performance obligations, contract assets primarily relate to Group entitlements to considerations on which no claim has as yet been made. Once the Group has an unconditional right to consideration, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to advances received from customers. Contract liabilities are reversed as revenue is recognized.

(2) Transaction price allocated to the remaining performance obligations

The Group has applied the practical expedient to the transaction prices allocated to the remaining performance obligations and omits this information here as there are no material contracts at the Group that have an original expected duration of over one year. No material amounts exist in which considerations arising from customer contracts are not included in transaction prices.

[Per share data]

Net assets per share	¥3,269.74
Earnings per share	¥236.74

(Note) To calculate net assets per share, the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees is included in treasury shares subtracted from calculations of the total number of shares issued as of the end of the period (130 thousand shares for the current consolidated fiscal year).To calculate earnings per share, the Company's stock held in the trust is included in treasury shares subtracted from calculations of the average number of shares during the period (124 thousand shares for the current consolidated fiscal year).

[Significant subsequent events]

(Acquisition of the Company's shares)

At a meeting held on April 28, 2022, the Company's Board of Directors resolved to acquire its treasury shares in accordance with the provisions of Article 156 of the Companies Act of Japan, applicable pursuant to Article 165, Paragraph 3, of the said act.

1. Reasons for acquisition of treasury shares

To improve capital efficiency and increase shareholder returns

2. Terms and conditions for the acquisition

(1) Type of shares to be acquired: Common share of the Company

(2) Maximum number of shares to be acquired: 750,000 shares

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

(3) Maximum aggregate amount of acquisition cost: ¥2,500 million

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

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

[Other notes]

(Notes to impairment loss)

Location	Principal use	Category	Impairment loss
Abiko-shi, Chiba	Sports facilities	Land	¥2 million

The Group recorded an impairment loss on the asset group above. Upon the calculation of the impairment loss, the Group bundles assets based on the minimum unit generating cash flows in a manner largely independent of cash flows provided by other assets or asset groups. The book values of real properties with declines in profitability were written down to a recoverable amount. The Group recorded the amount written off as impairment loss in extraordinary loss (¥2 million).

The recoverable amount of the above asset group is determined by net sales value. For the net sales value, the Group uses the implied market value.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FROM: APRIL 1, 2021
TO: MARCH 31, 2022

(In millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Common stock	Capital reserve	Other capital surplus	Total capital surplus	Legal reserve	Reserve for advanced depreciation	General reserve	Retained earnings carried forward	Total retained earnings
Balance at the beginning of the period	21,492	19,720	0	19,720	1,453	2,283	10,115	25,703	39,555
Change during the period									
Distribution of surplus								(3,189)	(3,189)
Reversal of reserve for advanced depreciation						(45)		45	–
Net income								8,529	8,529
Acquisition of treasury shares									
Disposal of treasury shares			0	0					
Net changes of items other than shareholders' equity									
Total change during the period	–	–	0	0	–	(45)	–	5,386	5,340
Balance at the end of the period	21,492	19,720	0	19,720	1,453	2,237	10,115	31,090	44,896

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Unrealized gain on securities	Land revaluation surplus	Total valuation and translation adjustments	
Balance at the beginning of the period	(4,496)	76,273	19,802	16,995	36,798	113,071
Change during the period						
Distribution of surplus		(3,189)				(3,189)
Reversal of reserve for advanced depreciation		–				–
Net income		8,529				8,529
Acquisition of treasury shares	(2,810)	(2,810)				(2,810)
Disposal of treasury shares	0	0				0
Net changes of items other than shareholders' equity			(2,076)	49	(2,026)	(2,026)
Total change during the period	(2,810)	2,530	(2,076)	49	(2,026)	503
Balance at the end of the period	(7,306)	78,803	17,726	17,045	34,771	113,574

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

[Significant accounting policies]

1. Method and basis of valuation of assets:

(1) Method and basis of valuation of marketable securities and other investments -

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

2) Stocks of subsidiaries and affiliates:
Stocks of subsidiaries and affiliates are valued at cost, determined using the moving-average method.

3) Other marketable securities and investments:

a. Investments other than non-marketable securities:
The market value method is used for investments other than non-marketable securities (differences in valuation are included directly in net assets, and costs of securities sold are calculated using the moving-average method).

b. Non-marketable securities:
Non-marketable securities are mainly valued at cost, determined using the aggregate average method.

(2) Method and basis of valuation of inventory -

Inventories are valued at cost determined by the specific identification method (the value on the non-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 fixed assets:

(1) Tangible fixed assets -

Depreciation of tangible fixed assets is computed using the declining balance method, except for the Tokyo Stock Exchange Building, two other buildings, buildings (excluding attached facilities) acquired on or after April 1, 1998, and facilities and structures attached to buildings acquired on or after April 1, 2016, for which the straight-line method is used. 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 -

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. Method of accounting of deferred assets:

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

4. Principles for providing 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 plus any amounts deemed necessary to cover possible losses on an individual account.

(2) Accrued bonuses for directors -

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

(3) Accrued bonuses-

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

(4) Provision for share-based remuneration-

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

(5) Accrued severance indemnities for employees -

Accrued severance indemnities for employees are calculated at an amount equal to the projected benefit obligation minus the fair value of pension assets.

5. Basis for calculating revenues and expenses -

Details about the main performance obligations in the major businesses related to revenue from contracts with the Company's customers and the timing at which the Company typically satisfies these performance obligations (when it typically recognizes revenue) are as follows:

- Revenue from sales and acquisitions of properties

  The Company generates revenue from sales and acquisitions of properties by increasing the value of properties it has acquired through development, 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 met at the time of delivering a property, and revenue is recognized once the property is delivered.

6. Method of important hedge accounting:

(1) Method of hedge accounting -

The special treatment applies to interest rate swaps because they meet the requirements.

(2) Hedging instruments and hedged items -

Hedging instruments: interest rate swaps

Hedged items: interest rates of loans payable

(3) Policy of hedging transactions -

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

(4) Method of assessing hedge effectiveness -

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

7. Other important matters for the preparation of non-consolidated financial statements:

Accounting for consumption taxes -

As a rule, the non-credited portion is charged as an expense in the period under review in which the consumption taxes are paid.

[Notes to changes in accounting policies]

(Adoption of accounting standard related to revenue recognition)

Effective from April 1, 2021, the Company adopted the Accounting Standard for Revenue Recognition (Statement No. 29) issued by the Accounting Standards Board of Japan on March 31, 2020. Accordingly, the Company recognizes the fees it expects to receive for contracted goods and services as revenues at the time when those goods and services have been delivered. Due to this change, the Company has changed its method for recognizing revenue received from building tenants for utilities fees. Specifically, this revenue had previously been deducted from operating costs, but after determining the roles (direct or indirect) involved in providing goods and services to customers, this revenue is now included in the total for operating costs.

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

As a result of these changes, operating revenue and operating costs each increased by ¥1,136 million in the fiscal year under review. There was no impact, however, on results for operating income, ordinary income, income before income taxes, or retained earnings.

(Adoption of accounting standard related to fair value measurement)

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

[Notes to changes in presentation methods]

(Non-consolidated statement of income)

In the non-consolidated statement of income in the previous fiscal year, operating revenue is categorized as "revenue from the Building Business" and "revenue from the Asset Management Business," and operating costs as "cost of the Building Business" and "cost of the Asset Management Business." In line with changes to reporting segment classification from the fiscal year under review, the monetary significance of "revenue from the Building Business" and "cost of the Asset Management Business" has declined, so that in the non-consolidated statement of income, they are posted together as "operating revenue" and "operating costs," respectively.

[Notes to accounting estimates]

(Impairment loss on fixed assets)

(1) Amount recorded in the non-consolidated financial statements for the current fiscal year

Tangible fixed assets	¥238,785 million
Leasehold rights in intangible fixed assets	¥28,567 million
Mainly attributable to the Building Business.	
Impairment loss	¥2 million

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

The calculation methods for the amounts in Item (1) are the same as those described in "[Notes to accounting estimates] (Impairment loss on fixed assets) (2) Information related to the details of significant accounting estimates for items identified" in the Notes to Consolidated Financial Statements.

(Valuation of real estate for sale)

(1) Amount recorded in the non-consolidated financial statements for the current fiscal year

Real estate for sale	¥19,623 million
Real estate for sale in process	¥251 million
Attributable to the Building Business segment.	

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

The calculation methods for the amounts in Item (1) are the same as those described in "[Notes to accounting estimates] (Valuation of real estate for sale) (2) Information related to the details of significant accounting estimates for items identified" in the Notes to Consolidated Financial Statements.

[Additional information]

(A performance-linked stock compensation plan for directors and executive officers)

Pursuant to a resolution of the 99th Ordinary General Shareholders' Meeting held on June 26, 2019, the Company adopted a performance-linked stock compensation plan for directors (excluding external directors and non-residents of Japan) and executive officers (excluding non-residents of Japan), and established a trust comprised of common stock for the plan.

Details are described in [Additional information] of the Consolidated Financial Statements.

(Introduction of employee stock ownership plan)

Based on a resolution of the Board of Directors' meeting held on May 18, 2021, the Company has introduced an employee stock ownership plan as an incentive measure for Company employees.

Details are described in [Additional information] of the Consolidated Financial Statements.

(Accounting valuation related to the impact of the spread of the COVID-19 pandemic)

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

[Notes to non-consolidated balance sheet]

1. Accumulated depreciation of tangible fixed assets ¥86,773 million

2. Guarantees due from the Company

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

Housing loans for employees of Heiwa Real Estate Co., Ltd.	¥142 million

3. Assets or debts due from or to subsidiaries and affiliates

Assets	¥49 million
Debts	¥1,843 million

4. Revaluation of land

   Pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 of March 31, 2001), the Company revalued its land held for business. Corporation taxes equivalent to net unrealized gains are reported as "deferred tax liabilities for land revaluation" in liabilities, and net unrealized gains, net of deferred taxes, are reported as "land revaluation surplus" in net assets.

   (Method of revaluation)

   Fair values are determined by applying appropriate adjustments to values computed using the method published by the Commissioner of the National Tax Agency for the calculation of land values that serve as the basis for taxable amounts of land-holding tax set forth in Article 16 of the Land-holding Tax Act as set forth in Article 2, Paragraph 4 of the Order for Enforcement of Act on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998).

   (Date of the revaluation) March 31, 2001

   (Difference between fair values at the fiscal year-end and book values after the revaluation of the land revaluated)

   Since the fair value of the revalued land exceeded the carrying value of the land after the revaluation as of March 31, 2022, the difference between the amounts has not been stated.

5. Investment securities

   Assets included under investment securities are as follows:

Investment units of HEIWA REAL ESTATE REIT, Inc.	¥21,547 million (143,845 units)

6. Changes in purpose of ownership

   An amount of ¥7,355 million was reclassified from fixed assets to real estate for sale due to a change in the purpose of ownership

[Notes to the non-consolidated statement of income]

Transactions with subsidiaries and affiliates

Operating transactions	¥1,818 million
Non-operating transactions	¥717 million

[Notes to non-consolidated statements of changes in net assets]

Treasury shares

Common shares	2,380,419 shares

(Note) The number of common shares of treasury shares includes the number of shares of the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees (130,400 shares for the current fiscal year).

[Income taxes]

Breakdown of deferred tax assets and deferred tax liabilities by major factors

Deferred tax assets	
Accrued bonuses	¥51 million
Accrued corporation tax	¥180 million
Amortization of inventories, etc.	¥94 million
Accounts receivable - other	¥43 million
Loss on rebuilding	¥517 million
Impairment loss	¥340 million
Provision for share-based remuneration	¥18 million
Accrued severance indemnities for employees	¥13 million
Asset retirement obligations	¥197 million
Other	¥334 million
Sub-total of deferred tax assets	¥1,792 million
Valuation allowance	(¥939 million)
Total of deferred tax assets	¥853 million
Deferred tax liabilities	
Reserve for advanced depreciation	(¥987 million)
Unrealized gain on securities	(¥7,823 million)
Loss on valuation of fixed assets	(¥216 million)
Retirement expense corresponding to asset retirement obligations	(¥104 million)
Other	(¥3 million)
Total of deferred tax liabilities	(¥9,135 million)
Net of deferred tax assets (liabilities)	(¥8,281 million)

[Transactions with affiliated parties]

Not applicable

[Notes to revenue recognition]

Useful information in understanding revenue from contracts with customers is omitted as the same details are presented in [Notes to revenue recognition] in the Notes to Consolidated Financial Statements.

[Per share data]

Net assets per share	¥3,113.38
Earnings per share	¥231.97

(Note) To calculate net assets per share, the Company's stock held in the trusts for its stock compensation plan for directors and officers and for the stock compensation plan for employees is included in treasury shares subtracted from calculations of the total number of shares issued as of the end of the period (130 thousand shares for the current fiscal year). To calculate earnings per share, the Company's stock held in the trust is included in treasury shares subtracted from calculations of the average number of shares during the period (124 thousand shares for the current fiscal year).

[Significant subsequent events]

(Acquisition of the Company's treasury shares)

At a meeting held on April 28, 2022, the Company's Board of Directors resolved to acquire its treasury shares in accordance with the provisions of Article 156 of the Companies Act of Japan, applicable pursuant to Article 165, Paragraph 3, of the said act.

Details are described in [Significant subsequent events] of the Consolidated Financial Statements.

[Adoption of dividend restrictions on a consolidated basis]

The Company will be subject to dividend restrictions on a consolidated basis once the end of this fiscal year becomes the end of a fiscal year whose financial statements are approved.

[Other notes]

(Notes to impairment loss)

Location	Principal use	Category	Impairment loss
Abiko-shi, Chiba	Sports facilities	Land	¥2 million

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

The book values of real properties with declines in profitability were written down to a recoverable amount. The Company recorded the amount written off as impairment loss in extraordinary loss (¥2 million).

The recoverable amount of the above asset group is determined by net sales value. For the net sales value, the Company uses the implied market value.