

(Security Code 8803)

**Year Ended March 31, 2019**

**NOTICE CONCERNING THE CONVOCATION OF  
THE 99th ORDINARY GENERAL SHAREHOLDERS' MEETING**

Date of the Meeting: June 26, 2019 (Wednesday), 10:00 a.m. (reception starts at 9:00 a.m.)

Place of the Meeting: The Tokyo Stock Exchange Bldg. 2F, TSE Hall  
2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan

Deadline for voting: If you are unable to attend the meeting, please exercise your voting rights by mail or via the Internet by no later than June 25, 2019 (Tuesday), 5:00 p.m.

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Heiwa Real Estate Co., Ltd.

Security Code 8803  
May 31, 2019

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

Dear Shareholders:

NOTICE CONCERNING THE CONVOCAION OF THE  
99th ORDINARY GENERAL SHAREHOLDERS' MEETING

We are pleased to inform you that the 99th Ordinary General Shareholders' Meeting (the "Meeting") of Heiwa Real Estate Co., Ltd. (the "Company") will be held as specified in the attached notice. You are cordially invited to attend.

Yours faithfully,

Kiyoyuki Tsuchimoto  
Representative Director and Acting President  
Heiwa Real Estate Co., Ltd.  
1-10, Nihonbashi Kabutocho,  
Chuo-ku, Tokyo (103-8222)  
Japan

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

## NOTICE

If you cannot attend the meeting, you can exercise your voting rights in writing or by electronic method (the Internet, etc.). We would appreciate your review of the following attached Reference Documents for the General Shareholders' Meeting and your exercise of the voting rights by 5:00 p.m., Tuesday, June 25, 2019.

1. Date of the Meeting: June 26, 2019 (Wednesday), 10:00 a.m.
2. Place of the Meeting: The Tokyo Stock Exchange Bldg. 2F, TSE Hall  
2-1, Nihonbashi Kabutocho,  
Chuo-ku, Tokyo, Japan
3. Items on Meeting Agenda
  - Items to be reported:
    - 1 The Business Report, the Consolidated Financial Statements, and the Non-consolidated Financial Statements for the 99th fiscal year from April 1, 2018 to March 31, 2019; and
    - 2 Independent Auditor's Report of Consolidated Financial Statements and Audit Report of Consolidated Financial Statements by the Board of Statutory Auditors for the 99th fiscal year.
  - Items to be voted upon:
    - Agenda Item No. 1: Proposed Appropriation of Surplus
    - Agenda Item No. 2: Partial Amendments to the Articles of Incorporation
    - Agenda Item No. 3: Assignment of Six Directors
    - Agenda Item No. 4: Assignment of One Statutory Auditor
    - Agenda Item No. 5: Determination of Amounts and Details of Performance-Linked Stock Compensation for Directors and Executive Officers

## Guide for Exercising Your Voting Rights

The exercise of voting rights is a shareholder privilege.

You can exercise your voting rights by one of the following methods.

We would appreciate your review of the Reference Documents for the General Shareholders' Meeting and your exercise of the voting rights.

### Exercise of Voting Rights by Attending the Meeting

Please bring the enclosed attendance sheet and submit it at the reception desk.

Date of the meeting

June 26, 2019 (Wednesday), 10:00 a.m.

If you are attending the meeting, please submit the enclosed attendance sheet at the reception desk. Please also bring the "Notice Concerning the Convocation" to help conserve paper resources.

### Exercise of Voting Rights by Mail

Please indicate your vote for or against each of the agendas on the enclosed attendance sheet and return the sheet.

Deadline for voting

The sheet must be received by 5:00 p.m., Tuesday, June 25, 2019

### Exercise of Voting Rights via the Internet

Please enter your vote for each agenda on the voting site designated by the Company.

Deadline for voting

The votes must be received by 5:00 p.m., Tuesday, June 25, 2019

Notes:

1. By attending the Meeting, you are not required to exercise your voting rights by postal mail or via the Internet.
2. If you submit the attendance sheet without indicating your vote for or against an agenda item, you will be deemed to have approved that agenda item.

(If you are attending the meeting, please submit the enclosed attendance sheet at the reception desk, without separating it from the proxy forms. For the purpose of saving resources, you are also requested to bring this Notice with you to the meeting.)

(From among the documents to be provided upon the notification of convocation, STOCK ACQUISITION RIGHTS in the Business Report, CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS and NOTES TO CONSOLIDATED FINANCIAL STATEMENTS in the Consolidated Financial Statements, NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS and NOTES TO NON-CONSOLIDATED FINANCIAL

STATEMENTS in the Non-consolidated Financial Statements are disclosed on the Company's website (<https://www.heiwa-net.co.jp/ir/stock/meeting.html>) in accordance to laws and regulations and the provisions of Article 16 of the Articles of Incorporation of the Company. Please note that the Attached Documents provided with this Notice formed part of the Consolidated Financial Statements and Non-consolidated Financial Statements audited by the Independent Auditor and also formed part of the Business Report and the Consolidated Financial Statements and Non-consolidated Financial Statements audited by the Statutory Auditors.

(If any modifications are made to the Business Report, the Consolidated Financial Statements, and the Non-consolidated Financial Statements, the details will be published on the Company's website at <https://www.heiwa-net.co.jp/ir/stock/meeting.html>)

(The contents of the Notice were disclosed on the Company's website at <https://www.heiwa-net.co.jp/ir/stock/meeting.html> prior to the delivery of this Notice, for the purpose of early provision of information.)

REFERENCE DOCUMENTS FOR  
THE GENERAL SHAREHOLDERS' MEETING

Agenda Item No. 1:       “Proposed Appropriation of Surplus”

We make it a basic policy to distribute profit to our shareholders by setting a consolidated payout ratio of approximately 30% as a medium- to long-term target in consideration of the importance of maintaining the internal cash reserves required to increase our corporate value through the stable development of the redevelopment business, the building leasing business, and other businesses of the Company over the long term.

The Company wishes to propose a year-end dividend for the current term by comprehensively considering the above-mentioned policy, the business results for the current term, future business development, and other factors.

Matters regarding year-end dividend

(1) Type of dividends

Cash

(2) Matters related to allotment of dividends and the aggregate amount thereof

¥28 per share of the Company's common stock                      Total amount ¥1,083,092,556

(Note) The annual dividend for this fiscal term, together with the interim dividend of ¥20, will be ¥48 per share, an increase of ¥11 from the annual dividend of the previous fiscal year.

(3) Effective date of appropriation of surplus

June 27, 2019

Agenda Item No. 2: “Partial Amendments to the Articles of Incorporation”

1. Reasons for submitting the proposal

(1) Term of office for Directors

To further clarify the management responsibility of Directors and build a management structure that allows a quick response to changes in the business environment, the Company proposes to shorten the term of office for Directors from two years to one year and make the necessary amendments to Article 21 of the existing Articles of Incorporation; provided, however, the Company plans to establish supplementary provisions to explicitly confirm that with regard to the term of office of the Directors appointed at the 98th Ordinary General Shareholders’ Meeting held on June 26, 2018, the provisions then in force shall remain applicable.

(2) Agreements for limitation of liability

To facilitate the recruitment of outstanding talent suited to serve as Directors who are not Executive Directors, etc. and Statutory Auditors and to make it possible for these people to fulfill the roles expected of them, the Company plans to partially amend Articles 28 and 36 of the existing Articles of Incorporation to provide in the Articles of Incorporation that the Company may enter into agreements for limitation of liability with them pursuant to the provisions of Article 427 of the Companies Act.

Consent has already been obtained from each Statutory Auditor for the amendment to Article 28 of the current Articles of Incorporation.

2. Details of amendments

Details of the proposed amendments are as follows.

(Underlined portions indicate the parts that are to be changed)

Current Articles of Incorporation	Proposed amendments
<p>(Term of Office of Directors)</p> <p>Article 21. The term of office of a Director shall expire upon the conclusion of the ordinary general shareholders’ meeting held with respect to the last business year ending within <u>two (2) years</u> from his/her election to office.</p> <p><u>2. The term of office of a Director elected to fill a vacancy shall be for the balance of the unexpired term of office of his/her predecessor.</u></p>	<p>(Term of Office of Directors)</p> <p>Article 21. The term of office of a Director shall expire upon the conclusion of the ordinary general shareholders’ meeting held with respect to the last business year ending within <u>one (1) year</u> from his/her election to office.</p> <p>[To be deleted]</p>

Current Articles of Incorporation	Proposed amendments
<p><u>(Release of Liability of External Directors)</u></p> <p>Article 28. The Company may enter into an agreement for limitation of liability for damages with each of the <u>External Directors</u> to the effect that the limit of liability for damages shall be the amount stipulated in laws and regulations.</p>	<p><u>(Agreements for Limitation of Liability with Directors)</u></p> <p>Article 28. The Company may enter into an agreement for limitation of liability for damages with each of the <u>Directors (excluding those who are Executive Directors, etc.)</u> to the effect that the limit of liability for damages shall be the amount stipulated in laws and regulations.</p>
<p><u>(Release of Liability of External Statutory Auditors)</u></p> <p>Article 36. The Company may enter into an agreement for limitation of liability for damages with each of the <u>External Statutory Auditors</u> to the effect that the limit of liability for damages shall be the amount stipulated in laws and regulations.</p> <p>[To be newly established]</p>	<p><u>(Agreements for Limitation of Liability with Statutory Auditors)</u></p> <p>Article 36. The Company may enter into an agreement for limitation of liability for damages with each of the <u>Statutory Auditors</u> to the effect that the limit of liability for damages shall be the amount stipulated in laws and regulations.</p> <p><u>Supplementary provisions</u></p> <p><u>Notwithstanding the provisions of Article 21, the term of office of the Directors appointed at the 98th Ordinary General Shareholders' Meeting held on June 26, 2018 shall expire at the conclusion of the ordinary general shareholders' meeting held with respect to the last business year ending within two (2) years from their election to office. These supplementary provisions shall be deleted after the lapse of said date.</u></p>

Agenda Item No. 3: “Assignment of Six Directors”

The office term of the following six present Directors, Hiroyuki Iwakuma, Kiyoyuki Tsuchimoto, Kazuo Yamada, Norio Iwasaki, Shinichi Hayashi, and Kiichiro Masui, shall expire at the close of this meeting.

Accordingly, the Company proposes the election of six Directors, including one External Director.

The Company has established a Nominating Committee, a committee chaired by an External Director and the majority of which consists of External Directors, as an advisory body to the Board of Directors. Prior to the Meeting, the Nominating Committee has deliberated on the candidates for Directorship of the Company and reported the results to the Board of Directors. The Board of Directors has then determined the content of this Agenda based on said report.

The candidates for Directorship of the Company are as follows:

No.	Name	Position of the Company	Term of office	Attendance at Board of Directors' Meetings (FY2018)
1	Hiroyuki Iwakuma <span style="border: 1px solid black; padding: 2px;">Reappointed</span>	Representative Director and President Chief Executive Officer	6 years	12/12 (100%)
2	Kiyoyuki Tsuchimoto <span style="border: 1px solid black; padding: 2px;">Reappointed</span>	Representative Director and Acting President Managing Senior Executive Officer	2 years	12/12 (100%)
3	Kazuo Yamada <span style="border: 1px solid black; padding: 2px;">Reappointed</span>	Director and Managing Executive Officer	8 years	12/12 (100%)
4	Norio Iwasaki <span style="border: 1px solid black; padding: 2px;">Reappointed</span>	Director and Managing Executive Officer	4 years	12/12 (100%)
5	Shinichi Hayashi <span style="border: 1px solid black; padding: 2px;">Reappointed</span>	Director and Managing Officer	2 years	12/12 (100%)
6	Kiichiro Masui <span style="border: 1px solid black; padding: 2px;">Reappointed</span> <span style="border: 1px solid black; padding: 2px;">External</span> <span style="border: 1px solid black; padding: 2px;">Independent</span>	External Director	2 years	12/12 (100%)

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
1	Hiroyuki Iwakuma March 18, 1952 <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 6 years	14,468	April 1976		Joined Tokyo Stock Exchange, Inc. (TSE)
			November	2001	General Manager of Finance Department of TSE
			June	2003	General Manager of Information Services Department of TSE
			June	2004	Executive Officer of TSE
			June	2007	Senior Executive Officer of TSE
			August	2007	Senior Executive Officer of Tokyo Stock Exchange Group, Inc. (TSE Group)
			June	2009	Executive Vice President & COO of TSE Group Senior Managing Director & COO of TSE
			January	2013	President & CEO of TSE
			June	2013	Representative Director and President of Heiwa Real Estate Co., Ltd. (the Company) (current position) Chief Executive Officer of the Company (current position) General Manager of Leasing Headquarters of the Company
			June	2014	In charge of Business Planning Department of the Company
			May	2015	In charge of Development Planning Department of the Company
			June	2018	In charge of Development Promotion Department of the Company (current position)
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).					
[Reason for nominating him as a candidate for Director] Mr. Hiroyuki Iwakuma assumed the office of Representative Director and President in June 2013 and has engaged in the Company's management. He has supervised the Business Planning Department, Development Planning Department and Development Promotion Department, and has the knowledge and experience necessary to perform the Company's management in an appropriate and efficient manner. The Company therefore expects that Mr. Hiroyuki Iwakuma will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
2	Kiyoyuki Tsuchimoto November 19, 1959  <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 2 years	3,132	April 1982  June 2004  June 2007 October 2007  April 2011 June 2013 June 2014 April 2016 June 2017  June 2018  May 2019	1982  2004  2007 2007  2011 2013 2014 2016 2017  2018  2019	Joined Tokyo Stock Exchange, Inc. (TSE)  Director of Listing Department of TSE  Executive Officer of TSE Standing Governor of Tokyo Stock Exchange Regulation (currently Japan Exchange Regulation)  Senior Executive Officer of TSE Managing Director of TSE Director and Senior Executive Officer of TSE Director and Executive Vice President of TSE Director of Heiwa Real Estate Co., Ltd. (the Company) Managing Senior Executive Officer of the Company (current position) In charge of Real Estate Marketing Department of the Company  In charge of Office Building Development Department of the Company (current position)  Representative Director of the Company (current position) Acting President of the Company (current position)
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).					
[Reason for nominating him as a candidate for Director] Mr. Kiyoyuki Tsuchimoto assumed the office of Director in June 2017 and the office of Representative Director in May 2019, and has engaged in the Company's management. He has supervised the Real Estate Marketing Department and Office Building Development Department, and has the knowledge and experience necessary to perform the Company's management in an appropriate and efficient manner. The Company therefore expects that Mr. Kiyoyuki Tsuchimoto will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
3	Kazuo Yamada February 24, 1957  <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 8 years	15,322	April 1980  December 2004  July 2006  April 2007  June 2009  June 2010  June 2011  June 2014  June 2016  June 2018	1980  2004  2006  2007  2009  2010  2011  2014  2016  2018	Joined Heiwa Real Estate Co., Ltd. (the Company)  General Manager of Building Department  General Manager of Office Building Development Department and Manager of Sapporo Branch of the Company  General Manager of Finance Department of the Company  Managing Officer of the Company  Deputy General Manager of General Affairs Headquarters, and Group Leader of Planning Finance  Director (current position), Managing Executive Officer (current position), and General Manager of General Affairs and Planning Headquarters of the Company  In charge of Real Estate Solutions Department of the Company  In charge of Development Planning Department of the Company (Development)  In charge of Development Promotion Department (Development) of the Company (current position)
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).					
[Reason for nominating him as a candidate for Director] Mr. Kazuo Yamada assumed the office of Director in June 2011 and has engaged in the Company's management. He has served as General Manager of Finance Department and General Manager of General Affairs and Planning Headquarters, has supervised the Real Estate Solutions Department, Development Planning Department (Development) and Development Promotion Department (Development), and has the knowledge and experience necessary to perform the Company's management in an appropriate and efficient manner. The Company therefore expects that Mr. Kazuo Yamada will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
4	Norio Iwasaki May 16, 1957  <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 4 years	6,718	April	1981	Joined Tokyo Stock Exchange, Inc. (TSE)
			June	2004	Director of General Administration Department of TSE
			June	2007	Director of Finance Department of TSE
			August	2007	General Manager of Finance Department of Tokyo Stock Exchange Group, Inc. (TSE Group)
			June	2009	Executive Officer of TSE Group
			January	2013	Executive Officer of Japan Exchange Group, Inc.
			June	2013	Executive Officer of TSE
			June	2014	Managing Executive Officer of Heiwa Real Estate Co., Ltd. (the Company) (current position) In charge of Finance Department of the Company (current position)
			November	2014	In charge of Corporate Planning and General Affairs Department (General Affairs) of the Company (current position)
			January	2015	In charge of Legal Office of the Company (current position)
June	2015	Director of the Company (current position)			
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).					
[Reason for nominating him as a candidate for Director] Mr. Norio Iwasaki assumed the office of Director in June 2015 and has engaged in the Company's management. He has supervised the Finance Department, Corporate Planning and General Affairs Department (General Affairs) and Legal Office, and has the knowledge and experience necessary to perform the Company's management in an appropriate and efficient manner. The Company therefore expects that Mr. Norio Iwasaki will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
5	Shinichi Hayashi December 15, 1961  <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 2 years	7,713	April	1984	Joined Heiwa Real Estate Co., Ltd. (the Company)  April 2007 Manager of Nagoya Branch of the Company  June 2010 General Manager, Group Leader of Building Sales Group, Leasing Headquarters of the Company  June 2011 General Manager, Group Leader of Building Sales Group, Leasing Headquarters of the Company  June 2012 Managing Officer (current position) in charge of the Redevelopment of the Nihonbashi Kabutocho District, and Group Leader of Building Sales Group, Leasing Headquarters of the Company  June 2013 In charge of the Headquarters of Redevelopment of the Nihonbashi Kabutocho District  May 2015 General Manager of Real Estate Marketing Department and in charge of Real Estate Marketing Department of the Company  June 2015 In charge of Property Management Department of the Company  July 2016 Manager of Sapporo Branch of the Company  June 2017 Director of the Company (current position) In charge of Real Estate Solutions Department of the Company (current position)
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).					
[Reason for nominating him as a candidate for Director] Mr. Shinichi Hayashi assumed the office of Director in June 2017 and has engaged in the Company's management. He has supervised the Real Estate Marketing Department, Real Estate Solutions Department and other departments, and has the knowledge and experience necessary to perform the Company's management in an appropriate and efficient manner. The Company therefore expects that Mr. Shinichi Hayashi will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company		
6	Kiichiro Masui July 16, 1950 < Reappointed > <External Director> <Independent Officer> Attendance at Board of Directors' Meetings: 12/12 (100%) Term of office: 2 years	1,044	April 1973 June 2000 July 2003 September 2005 May 2006 June 2012 July 2013 June 2014 June 2016 June 2017	Entered the Ministry of Finance Director-General of Kinki Local Finance Bureau Director-General of the Planning and Coordination Bureau of the Financial Services Agency Senior Managing Director of Japan Securities Dealers Association (JSDA) Vice-Chairman of JSDA Director of the Tokyo Shoken Building Incorporated Chairman of the Japan Investor Protection Fund Chairman of the Board of the Japan Securities Research Institute (current position) Outside Director of Japan Credit Rating Agency, Ltd. (current position) External Director of Heiwa Real Estate Co., Ltd. (the Company) (current position)	
[Significant office(s) concurrently held] Chairman of the Board of The Japan Securities Research Institute Outside Director of Japan Credit Rating Agency, Ltd.					
[Reason for nominating him as a candidate for External Director] Mr. Kiichiro Masui serves as Chairman of the Board of The Japan Securities Research Institute. Although Mr. Kiichiro Masui has never been directly involved in corporate management, he has played an appropriate role in the Company's efforts to strengthen the supervisory functions of Board of Directors, etc. from an independent and objective standpoint taking advantage of the specialized knowledge and experience, etc. he has accumulated in the world of finance and securities. The Company therefore expects that Mr. Kiichiro Masui will contribute to the enhancement of corporate value of the Company, and thus has nominated him as a candidate for External Director.					

No.	Name and date of birth	Number of shares of the Company owned by the candidate	Career summary, position and assignment of the Company
			<p>[Concerning his independence]</p> <p>There have been transactions related to the leasing of real estate between the Company and The Japan Securities Research Institute, an entity for which Mr. Kiichiro Masui serves as Chairman of the Board. However, the amount of the transactions makes up less than 1% of the consolidated operating revenue (consolidated net sales) of the Company. Therefore, Mr. Kiichiro Masui does not fall in the category of persons who execute the business of the Company's major suppliers (criteria: the suppliers who pay the Company an amount equivalent to more than 2% of the Company's consolidated operating revenue (consolidated net sales)) as defined in the "Standards for Assessing the Independence of Independent Officers" (on page 19) stipulated by the Company, and accordingly does not fall in any of the provisions set forth in the Standards.</p> <p>For the above reasons, the Company believes that Mr. Kiichiro Masui will not have potential conflicts of interest with general shareholders in the Company, such as human relationships, capital relationships, transactional relationships, or any other interests, and that his independence is ensured.</p> <p>The Company has registered him with Tokyo Stock Exchange, Inc. as an independent officer. If his reelection is approved, the Company will continue to appoint him as an independent officer.</p>

(Notes)

1. No conflict of interest exists between the Company and the candidates for Director.
2. Mr. Kiichiro Masui is a candidate for External Director.
3. The Company has entered into an agreement with Mr. Kiichiro Masui to limit his liability for damages as set forth in Article 423, Paragraph 1, of the Companies Act in accordance with Article 427, Paragraph 1 of the Act; provided, however, that the limit thereof under such agreement shall be the amount prescribed in the Act. If his reelection is approved, the Company will renew the liability limitation agreement under the same conditions. The Company has entered into liability limitation agreements with all of the External Directors.

Agenda Item No. 4: “Assignment of One Statutory Auditor”

The Company proposes the election of one Statutory Auditor due to the expiration of the office term at the close of this meeting of the present Statutory Auditor: Naoto Kato.

The Board of Statutory Auditors previously gave its approval.

The Company has established a Nominating Committee, a committee chaired by an External Director and the majority of which consists of External Directors, as an advisory body to the Board of Directors. Prior to the Meeting, the Nominating Committee has deliberated on the candidates for Statutory Auditors of the Company and reported the results to the Board of Directors. The Board of Directors has then determined the content of this Agenda based on said report.

The candidate for Statutory Auditor of the Company is as follows:

Name and date of birth	Number of shares of the Company owned by the candidate	Career summary and position	
Naoto Kato October 15, 1956 <Reappointed> Attendance at Board of Directors' Meetings: 12/12 (100%) Attendance at Board of Statutory Auditors' Meetings: 11/11 (100%) Term of office: 4 years	5,863	April 1979 December 1987 April 1997 July 2001 July 2002 June 2010 June 2014 June 2015	Joined the Company Finance Department Osaka Branch Fukuoka Branch General Affairs Department General Manager of General Affairs Headquarters, and Group Leader of General Affairs General Manager of Corporate Planning and General Affairs Department Statutory Auditor (current position)
[Significant office(s) concurrently held] The candidate concurrently holds no significant office(s).			
[Reason for nominating him as a candidate for Statutory Auditor] Mr. Naoto Kato has served as a Statutory Auditor (Full-time) since June 2015 and possesses substantial expertise and knowledge in finance and accounting gained through his abundant experience and achievements in business operations of finance and general affairs. The Company therefore expects that Mr. Naoto Kato will perform his duties as a Statutory Auditor appropriately, and thus has nominated him as a candidate for Statutory Auditor.			

(Notes)

1. No conflict of interest exists between the Company and Mr. Naoto Kato.
2. If the reelection of Mr. Naoto Kato is approved, the Company will, subject to the approval of Agenda Item No. 2 “Partial Amendments to the Articles of Incorporation” as proposed, enter into an agreement with Mr. Naoto Kato to limit his liability for

damages as set forth in Article 423, Paragraph 1, of the Companies Act in accordance with Article 427, Paragraph 1 of the Act; provided, however, that the limit thereof under such agreement shall be the amount prescribed in the Act. The Company has entered into liability limitation agreements with all of the External Statutory Auditors. If the Company enters into a liability limitation agreement with Mr. Naoto Kato upon approval of his reelection, the Company will have entered into liability limitation agreements with all of the Statutory Auditors.

(Reference)

### **Standards for Assessing the Independence of Independent Officers**

The Company judges that external directors and external statutory auditors (hereinafter referred to as the “External Officers”) are independent when they do not meet the standards set forth in Paragraph 2 below as well as the standards of independence specified by the financial instruments exchanges.

#### 1. Policies for Election of External Officers

In the election of External Officers, the Company considers it desirable that the Company has no personal relations, capital relations, business relations or any other interests with the External Officers. Meanwhile, the Company also emphasizes a clear understanding of the Company’s business and the expectation of useful roles for the Company’s business expansion.

#### 2. Standards of Independence of External Officers

- (1) Persons who execute the business of the Company’s major suppliers \*Notes 1 and 2
- (2) Persons who execute the business of companies whose major supplier is the Company \*Note 3
- (3) Persons who execute the business of the Company’s principal creditors \*Note 4
- (4) Attorneys, certified public accountants, licensed tax accountants, consultants or any other experts who receive a large amount of money and other properties in addition to the executive compensation from the Company \*Note 5
- (5) Persons who execute the business of entities that receive a large amount of donations from the Company \*Note 6
- (6) Persons who execute the business of the Company’s major shareholders \*Note 7
- (7) Close relatives of those who fall under Items (1) to (6) above \*Note 8
- (8) Those who fall under Items (1) to (7) above for the past three (3) years

- (Notes) 1. “Persons who execute the business” shall refer to the executive director, executive officer and managing officer.
2. “The Company’s major suppliers” shall refer to an entity that pays the Company an amount equivalent to more than 2% of the Company’s consolidated operating revenue for the most recent fiscal year.
  3. “Companies whose major supplier is the Company” shall refer to an entity that receives from the Company the payment of an amount equivalent to more than 2% of the entity’s consolidated operating revenue for the most recent fiscal year.
  4. “Principal creditors” shall refer to an entity that provides the Company with loans in an amount equivalent to more than 2% of the Company’s consolidated total assets for the most recent fiscal year.
  5. “A large amount of money and other properties” shall refer to the payment of more than 10 million yen annually.
  6. “A large amount of donations” shall refer to donations of more than 10 million yen annually.
  7. “Major shareholders” shall refer to the shareholders who own the shares equivalent to 10% or more of the total number of shares issued for the most recent fiscal year.
  8. “Close relatives” shall refer to relatives within the second degree of relationship.

Agenda Item No. 5: “Determination of Amounts and Details of Performance-Linked Stock Compensation for Directors and Executive Officers”

1. Reason for the proposal and reasons why the proposed compensation is reasonable

The Company proposes to newly adopt a performance-linked stock compensation plan (hereinafter, the “Plan”) for the Company’s directors (excluding external directors and non-residents of Japan; hereinafter the same interpretation shall apply) and executive officers (excluding non-residents of Japan; hereinafter, collectively “Directors and Officers”) to be remunerated by shares and monetary amount equivalent to the market value of the shares (hereinafter, “Company Stock”) corresponding to the Company’s performance results.

The Company intends to adopt the Plan for the purpose of clearly linking the compensation of Directors and Officers with the Company’s performance and share price, motivating them to work towards improving the Company’s performance over the medium to long term and increasing corporate value, and placing them in the same position as shareholders with respect to appreciating the benefits of a higher share price as well as the risk of a decrease in the share price. Therefore, the Company believes that the adoption is reasonable.

In order to ensure the impartiality and transparency of the decision-making process with respect to compensation, the Company has established a Compensation Committee as a discretionary advisory body to the Board of Directors. The committee is chaired by an external director, and a majority of its members are external directors. The adoption of the Plan has been deliberated by the Compensation Committee.

This Agenda would compensate Directors and Officers with the Company’s stock separately from the compensation of directors (excluding external directors) previously approved at the 88th Ordinary General Shareholders’ Meeting held on June 26, 2008, which limited the total compensation amount within a range of up to ¥250 million annually (not including the salaries of managers concurrently serving as a manager and director).

The number of directors eligible under the Plan is scheduled to be five at the conclusion of this Ordinary General Shareholders’ Meeting if Agenda Item No. 3: Assignment of Six Directors is approved as proposed. Executive officers are also eligible under the Plan and the number of executive officers who do not concurrently serve as directors and are eligible under the Plan will be two. Compensation under the Plan includes the compensation of executive officers. However, since the stock compensation of directors and stock compensation of executive officers are handled by a single body under the Plan, the Company proposes the amount and details of the entire compensation under the Plan as the compensation of Directors and Officers.

At present, Directors and Officers are compensated through a base salary, bonuses, and a company stock purchasing plan. If, however, this Agenda is approved as proposed, the company stock purchasing plan will be abolished due to the adoption of the Plan. Accordingly, Directors and Officers will receive a fixed base salary, while the bonuses will provide short-term incentives and the performance-linked stock compensation plan will provide medium- and long-term incentives.

<Reference: Image of Compensation for Directors>c

[At present]

Directors (excluding External Directors)	¥250 million annually (Resolved at the 88th Ordinary General Shareholders' Meeting)		
	Base salary	Bonuses	Company stock purchasing plan
External Directors	¥40 million annually (Resolved at the 98th Ordinary General Shareholders' Meeting)		
	Base salary		

[After revising the compensation plan]

Directors (excluding External Directors)	¥250 million annually (Resolved at the 88th Ordinary General Shareholders' Meeting)	Up to ¥150 million and up to 75,000 shares for the period of three fiscal years
	Base salary      Bonuses	Stock compensation * including the executive officer portion
External Directors	¥40 million annually (Resolved at the 98th Ordinary General Shareholders' Meeting)	
	Base salary	

Previously, the Company's bonuses payable to directors were subject to a separate resolution at the Shareholders' Meeting even if the payment was within a compensation range approved at the Shareholders' Meeting. From the current fiscal year, however, bonuses payable to directors shall be resolved by the Board of Directors within a range of the amount of compensation approved at the 88th Ordinary General Shareholders' Meeting held on June 26, 2008.

## 2. Amount and details of compensation under the Plan

### (1) Overview of the Plan

The Plan is a performance-linked stock compensation plan for remunerating each of the

Directors and Officers through a trust (hereinafter, the “Trust”) that the Company will set up and contribute funds to for the acquisition of its own shares to be used as the compensation. The number of shares of the Company Stock to be remunerated will correspond to a number of points awarded to each of the Directors and Officers based on stock compensation rules (hereinafter, the “Stock Compensation Rules”) to be established by the Board of Directors. In principle, the Directors and Officers will receive the Company Stock upon retiring from their respective positions.

(a) Beneficiaries eligible for Company Stock under the Plan	<ul style="list-style-type: none"> <li>* Directors (excluding external directors and non-residents of Japan)</li> <li>* Executive officers (excluding non-residents of Japan)</li> </ul>
(b) The Company’s stock subject to compensation under the Plan	
Maximum amount of money which the Company will contribute (as described in (5) below)	* The total amount of ¥150 million for the period of three fiscal years (Note)
Maximum amount and acquisition method of the Company’s stock (including stock to be converted) to be compensated to Directors and Officers (as described in (6) and (7) below)	<ul style="list-style-type: none"> <li>* Up to a maximum of 75,000 points awarded to Directors and Officers during the period of the Trust for three fiscal years (equivalent to 75,000 shares)</li> <li>* An average per fiscal year is 25,000 points (equivalent to 25,000 shares) and percentage to the total number of shares issued of the Company (as of March 31, 2019; after deducting the number of shares held as treasury stock) is approximately 0.06%</li> <li>* The Company’s stock is scheduled to be acquired from the stock market or via a transfer of treasury stock.</li> </ul>
(c) Matters concerning the terms of performance results (as described in (7) below)	* Range from 0% to 150% based on the growth rate of consolidated operating income and the total shareholder return rate each fiscal year, and, depending on those results
(d) Period of compensating Company Stock to Directors and Officers (as described in (8) below)	* In principle, after retirement of Directors and Officers

(Note) Funds earmarked for trust fees and other necessary expenses shall be included in the ¥150 million designated for the acquisition of the Company’s stock.

(2) Eligible beneficiaries of the Trust

Directors and Officers who meet beneficiary requirements set in the Company's Stock Compensation Rules are eligible as beneficiaries of the Trust.

(3) Coverage period of the Plan

The Plan will initially cover the three fiscal years from the fiscal year ending March 31, 2020, to the fiscal year ending March 31, 2022 (hereinafter, the "Initial Coverage Period"). Upon the expiration of the Initial Coverage Period, the coverage may be extended for periods of three fiscal years (or periods exceeding three fiscal years if the Board of Directors resolves to designate such additional periods). (Hereinafter, the "Coverage Period" refers to the Initial Coverage Period and every subsequent period of three fiscal years or other designated length as resolved by the Board of Directors.)

(4) Period of the Trust

The Trust will be effective from a pending date in August 2019 until the date on which it is terminated, continuing as long as the Plan is in place without a specified date of expiry.

The Plan could be terminated due to such factors as the delisting of the Company's shares or the abolition of the Stock Compensation Rules.

(5) Maximum amount of funds to be contributed by the Company

Assuming the approval of this proposal, the Company will contribute funds to the Trust, with an upper limit of ¥150 million, for the acquisition of the Company's stock to be used for the compensation of Directors and Officers under the Plan over the Initial Coverage Period\*. The Company may also entrust additional funds for the acquisition of stock during the Initial Coverage Period, however, the total amount including the initial contribution of funds shall not exceed ¥150 million.

Following the Initial Coverage Period, in principle, the Company will contribute additional funds to the Trust of up to ¥150 million in each subsequent Coverage Period until the Plan is terminated. In the event such additional funds are contributed, the maximum amount of ¥150 million shall include the combined amount of the additional contribution of funds and any Company's stock and cash remaining in the Trust as trust assets immediately prior to the first day of the relevant Coverage Period (excluding the Company's stock, equivalent to the number of points awarded to Directors and Officers for each Coverage Period up until the relevant Coverage Period, that has yet to be compensated to the Directors and Officers).

\* Funds earmarked for trust fees and other necessary expenses shall be included in the ¥150 million designated for the acquisition of the Company's stock.

(6) Acquisition method and maximum amount of the Company's stock to be acquired by the Trust

The Company's stock will be acquired by the Trust either through the stock market or a transfer of treasury stock within the maximum amount of funds to be contributed to the Trust as mentioned in (5), above. The specific details of the acquisition method will be determined and disclosed by the Company following the Meeting.

The Company's stock will be acquired for the Initial Coverage Period immediately following the establishment of the Trust, up to a maximum of 75,000 shares.

The maximum amount of Company Stock to be compensated to Directors and Officers will be based on the upper limit of funds contributed to the Trust, as mentioned in (5), above, and determined in consideration of the latest share price and other factors.

(7) Method of calculating the amount of points and Company Stock to be compensated to Directors and Officers

Based on the Company's Stock Compensation Rules, the formula shown below will be used to calculate the number of points awarded to Directors and Officers each fiscal year corresponding to their management rank and performance results. The total number of points to be awarded over the three fiscal years of the Initial Coverage Period shall be capped at 75,000.

Each point awarded will be converted to one share of the Company's common stock when the shares are distributed as compensation. (In the event of a change in the Company's stock, such as a stock split, share allotment, or reverse stock split, following the approval of this proposal, the conversion of points to shares shall be adjusted according to the change.)

Point conversion formula:

$$\begin{aligned} \text{Awarded points} = & \text{Fixed portion management rank point}^{*1} \\ & + \text{performance-linked portion management rank point 1}^{*1} \\ & \times \text{performance-linked coefficient 1}^{*2} \\ & + \text{performance-linked portion management rank point 2}^{*1} \\ & \times \text{performance-linked coefficient 2}^{*2} \end{aligned}$$

\*1. The fixed portion management rank point and performance-linked portion management rank point are calculated by dividing the base amount of compensated stock per management rank by the average cost of acquiring the Company's stock for the Trust.

\*2. The performance-linked coefficient is based on the (1) growth rate of consolidated operating income and (2) the total shareholder return rate each fiscal year, and, depending on those results, can range from 0% to 150%.

(8) Period of compensating Company Stock to Directors and Officers

In principle, an eligible director or officer may receive Company Stock corresponding to 70% of the points that have been awarded up until the completion of his or her term, due to retirement or other reason, by following prescribed procedures for beneficiaries set in the Stock Compensation Rules and other regulations. For the remaining points awarded, a cash amount equivalent to the market price of the Company's shares will be paid in place of Company Stock after it has been converted in the Trust. In the event of the death of an eligible director or officer during the period of the Trust, the bereaved family of the deceased may receive, by following the prescribed procedures for beneficiaries set in the Stock Compensation Rules and other regulations, the cash amount equivalent to the market price of the entire amount of Company Stock corresponding to the awarded points after it has been converted in the Trust.

(9) Exercise of voting rights of the Company's stock in the Trust

For the purpose of ensuring neutrality in management, voting rights of the Company's stock in the Trust (prior to compensation to Directors and Officers) shall not be exercised during the period of the Trust.

(10) Payment of dividends of the Company's stock in the Trust

The dividends of the Company's stock in the Trust shall be paid to the Trust, and then used as funds for acquiring the Company's stock and covering trust fees and other expenses incurred by the Trust.

(11) Procedures following the termination of the Trust

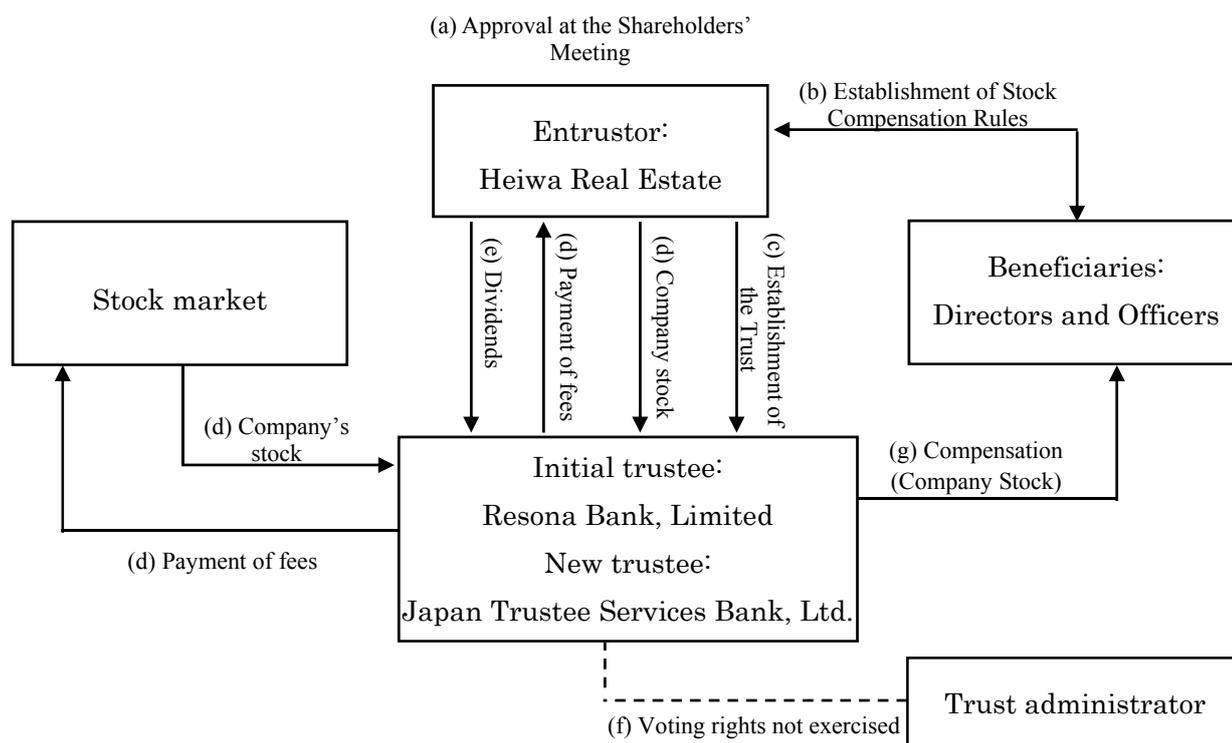
The Trust may be terminated for various reasons, such as the delisting of the Company's shares or the abolition of the Stock Compensation Rules.

Upon termination, among the residual assets in the Trust, the Company's stock shall be fully acquired by the Company at no additional expense and then cancelled upon a resolution of the Board of Directors, while the remaining cash shall be donated to a public interest group that has no interests in the Company or the Directors and Officers.

(12) Other matters concerning the Plan

In connection with the Plan, the establishment of the Trust and any revisions of the trust agreement or additional contributions to the Trust shall be decided in meetings of the Board of Directors.

<Reference: Structure of the Plan>



- (a) The proposal to compensate Directors and Officers through the Plan is approved at the Shareholders' Meeting.
- (b) The Board of Directors establishes Stock Compensation Rules for the remuneration of Company Stock under the Plan.
- (c) The Company sets up the Trust using funds within a range approved at the Shareholders' Meeting mentioned in (a), above, for the beneficiaries eligible under the Plan. The Company may contribute additional funds to the Trust within the aforementioned range upon receiving approval at the said Shareholders' Meeting.
- (d) The funds mentioned in (c), above, are used to acquire the Company's stock for the Trust from the stock market or via a transfer of treasury stock.
- (e) Dividends for the Company's stock in the Trust are paid in the same manner as for the Company's other shares.
- (f) Voting rights concerning the Company's stock in the Trust are not exercised during the period of the Trust for the purpose of ensuring neutrality in management.
- (g) During the period of the Trust, points are awarded to the Directors and Officers each fiscal year corresponding to their management rank and the Company's performance results, based on the Stock Compensation Rules mentioned in (b), above. Upon retirement, Directors and Officers receive an amount of Company Stock corresponding to the points they have earned if they meet beneficiary requirements set in the Stock Compensation Rules at the time of their retirement.

(Attached Documents)

## BUSINESS REPORT

### 1. Outline of Operations for the period from April 1, 2018 to March 31, 2019:

#### (1) Update and Results of Business -

In fiscal 2018, ended March 31, 2019, the Japanese economy continued to grow moderately on the back of improvements in employment and personal income conditions as well as corporate earnings. On the other hand, the economic outlook was unpredictable amid concerns over financial capital market fluctuations and increasingly uncertain economic trends and political situations in other countries of the world.

In Japan's real estate industry, demand for office space was solid as corporations moved or expanded their operations against the backdrop of the improving domestic economy. Consequently, vacancy rates remained low and rental rates continued to rise in the office building leasing market. In the real estate investment market, property acquisitions remained active amid favorable loan procurement conditions. The Japanese real estate investment trust (J-REIT) market was also bullish.

In that operating environment, the Heiwa Real Estate Group set a time frame for establishing a business growth platform aimed at continuously increasing corporate value in the Phase II of its medium- to long-term management plan, "Over the NEXT DECADE," spanning from fiscal 2017 to fiscal 2019. Accordingly, the Group executed projects under the plan and made steady progress in its redevelopment of the Nihonbashi Kabutocho and Kayabacho Revitalization Project in Tokyo.

As a result of those efforts and other factors, consolidated financial results improved or remained on par with the previous fiscal year. Operating revenue totaled ¥39,480 million, up ¥6,782 million (20.7%) year on year. Operating income was ¥9,335 million, declining slightly by ¥97 million (1.0%), while ordinary income amounted to ¥8,430 million, an increase of ¥34 million (0.4%). Net income attributable to owners of parent reached a record high of ¥6,174 million, up ¥886 million (16.8%) year on year.

The operating results for the respective business segments are as summarized below:

#### Leasing Business

[Principal business: Development, leasing, management and operation, etc. of stock exchanges, offices, commercial facilities and housing, etc.]

In the Leasing Business, revenue from building leasing totaled ¥18,766 million, up ¥401 million (2.2%) compared with the previous fiscal year. The increase was mainly due to the contribution of leasing revenue from the Osaka Mido-suji Building (Osaka), which was acquired in the previous fiscal year, and increased rent levels of properties owned by the Company. By property type, the total amount of leasing revenue was comprised of ¥3,016 million from stock exchange buildings, ¥12,860 million from office buildings, and ¥2,889 million from commercial facilities. Combined with operating revenue from other types of Company-owned properties, total operating revenue in the Leasing Business amounted to ¥20,311 million, an increase of ¥913 million (4.7%) year on year. Operating income, however, decreased by ¥48 million (5.4%) to ¥7,158 million, primarily due to a decline in periodic income resulting from the sale of properties.

As of March 31, 2019, the overall vacancy rate of leased buildings in the property portfolio was 2.45%. Excluding buildings for which leases have been suspended due to redevelopment in the Nihonbashi Kabutocho and Kayabacho districts, the vacancy rate would be 1.91%.

#### Real Estate Solutions Business

[Principal business: Development, sales, operation and management of income properties, development and sales of houses, and brokerage of real estates, etc.]

In the Real Estate Solutions Business, revenue from developed real estate jumped ¥5,078 million (61.9%) to ¥13,282 million, resulting from the sale of a partial interest in the Shinjuku Front Tower (Shinjuku-ku, Tokyo) and the sale of the Itopia Nihonbashi SA Building (Chuo-ku, Tokyo) and the Shinjuku Fuji Building II (Shinjuku-ku, Tokyo). The Company also collected ¥1,310 million in management fees, an increase of ¥178 million (15.7%) year on year, and posted leasing revenue from developed real estate and real estate brokerage commissions. Combined, these results amounted to ¥17,493 million in total operating revenue in the Real Estate Solutions Business, an increase of ¥5,782 million (49.4%). Operating income came to ¥3,398 million, up ¥376 million (12.4%) year on year.

In the Company's previous financial reporting, operating revenue and leasing revenue related to inventories had been included under operating revenue from developed real estate. For the purpose of greater clarity, however, operating revenue related to inventories has been included

under operating revenue from developed real estate, and leasing revenue related to inventories has been included under leasing revenue from developed real estate effective from the beginning of the fiscal year under review. In addition, operating revenue and leasing revenue from developed housing had been included under revenue from developed housing, however, since revenue from developed housing decreased as a significant proportion of total operating revenue in the Real Estate Solutions Business, operating revenue from developed housing has been included under operating revenue from developed real estate, and leasing revenue from developed housing has been included under leasing revenue from developed real estate, effective from the beginning of the fiscal year under review.

#### Other Business

[Principal business: Management of buildings and facilities, etc., contracting of repair work, and insurance agency business, etc.]

In the Other Businesses segment, operating revenue increased ¥86 million (5.4%) year on year to ¥1,674 million, and operating income jumped ¥61 million (44.0%) to ¥202 million.

(2) Investment in fixed assets -

During the fiscal year ended March 31, 2019, the Company paid out total capital expenditures of ¥21,824 million, including the expenditure for the acquisition of Hotel Emisia Sapporo (Sapporo-shi, Hokkaido) and Sakae Sun City Building (Nagoya-shi, Aichi).

(3) Status of financing -

During the fiscal year ended March 31, 2019, the Company issued unsecured bonds, and raised ¥6,500 million in total.

(4) Issues to be resolved by the Company -

The Japanese economy is expected to remain on a moderate recovery trend backed by the continuation of the improved employment and income environment, thanks in part to the effect of the economic policies, though careful monitoring is required for the consumption tax rate hike scheduled for October 2019, uncertainty in international economic trends and policies and the internal and external impacts of fluctuating financial and capital markets, etc. In the office leasing markets in the real estate industry, the declining trend in the office vacancy rate is expected to continue and the rent level is expected to rise moderately on the back of growing demand for offices as a result of favorable corporate performance and the diversification of working styles. In the real estate investment markets, real estate transactions are expected to continue on an active trend for the time being and real estate prices are expected to remain high and hold steady.

In this business environment, we will take the next step into “Aiming to be a company that contributes to revitalizing Areas,” beginning with the redevelopment project in the Nihonbashi Kabutocho and Kayabacho areas. We will aim to increase our presence in society and achieve new growth bases and higher corporate value.

Also, we will deploy the expertise acquired from the redevelopment project of the Nihonbashi Kabutocho and Kayabacho areas to the revitalization of other urban districts. To advance in these initiatives, the Company has continued to carry out the Medium- to Long-term Management Plan: over the NEXT DECADE for the period from FY2014 (the fiscal year ended March 31, 2015) to FY2023 (the fiscal year ending March 31, 2024). We have also been implementing a management plan to cover part of the said period, the three years from FY2017 (the fiscal year ended March 31, 2018) to FY2019 (the fiscal year ending March 31, 2020), as the Medium- to Long-term Management Plan Phase II.

During Phase II, towards the final stage of the medium- to long-term management plan, the Group will aim to continuously increase corporate value by steadily implementing the Nihonbashi Kabutocho and Kayabacho Redevelopment Project and by strengthening our building leasing business. Furthermore, we position Phase II as three years in which we will build a foundation for business growth in order to achieve the target consolidated operating income of over 10 billion yen in FY2023. We will work on the key strategy listed below.

1) The Nihonbashi Kabutocho and Kayabacho Revitalization Project

We will launch the first stage of the project, the Nihonbashi Kabutocho 7 Development Plan (temporary name) and the Nihonbashi Kayabacho 1-6 Development Plan (temporary name), and will implement them steadily. In the consolidated fiscal year under review we have developed the FinGATE series of new financial centers in the Nihonbashi Kabutocho and Kayabacho areas in order to play a role in the “Initiatives for the Tokyo Global Financial Center” adopted by the Tokyo Metropolitan Government. Through these efforts, we are endeavoring to support the development of financial venture companies, etc. focused on asset management by supporting the growth of Fintech companies, asset management companies, start-up companies, etc.

2) Strengthening the Building Leasing Business

We will further enhance the revenue bases to form a base for the redevelopment project by renewing and increasing leasing assets, as well as by implementing measures to improve profitability. In the consolidated fiscal year under review we obtained Hotel Emisia Sapporo (Sapporo-shi, Hokkaido), the Sakae Sun City Building (Nagoya-shi, Aichi), etc. with a view to increasing revenue through accumulated leasing assets. We have also promoted the establishment of a stable revenue base by proactively working to raise the rents of assets held.

3) Expansion and diversification of the Real Estate Solution Business

We will strive to stably increase revenue with our fee business by providing HEIWA REAL ESTATE REIT Inc. our support as a sponsor in increasing its assets and improving their quality. We will also aim to diversify revenue-generating opportunities by deploying our real estate solutions business, where we sell assets after maximizing their value in ways such as developing profitable properties, leasing-up, conducting renewal construction, etc. In the consolidated fiscal year under review we earned revenue by selling off our partial interest in the Shinjuku Front Tower (Shinjuku-ku, Tokyo), as well as the Itopia Nihonbashi SA Building (Chuo-ku, Tokyo) and the Shinjuku Fuji Building II (Shinjuku-ku, Tokyo).

4) Strengthen the structure for implementing business strategies and provide shareholders with stable returns

· Strengthening of organizational controls and maintenance of financial discipline

While paying attention to management efficiency, we will strive to build an organizational structure suitable for pursuing the key strategies and enhance financial strength. Furthermore, we will define this is the period when we will strengthen our initiatives to meet the expectations of our stakeholders, including strengthening corporate governance, promoting dialogues with investors, implementing CSR, developing human resources and reforming work-style, etc. In the consolidated fiscal year under review the rules were amended to have an external director serve as the respective chairpersons of the Nominating Committee and Compensation Committee, discretionary advisory bodies to the Company’s Board of Directors, in order to further strengthen corporate governance.

· Capital and dividend policies

We aim to raise ROE in order to realize sustainable growth and to increase corporate

value over the medium- to long-term. Also, we will maintain an appropriate D/E ratio as our basic policy while we regard the ratio as an indicator of financial discipline.

We will provide shareholders with stable returns, mainly with dividends. Considering the significance of internal reserves that are required to increase corporate value, we have set the target of consolidated dividend payout ratio at approximately 30% over the medium- to long-term. We acquired 1,200 thousand shares of treasury stock in the amount of ¥2,597 million in the consolidated fiscal year under review. The annual dividend per share is scheduled to be ¥48, increasing by ¥11 from the previous fiscal year.

The Group will continue to work for long-term and sustainable increases in its corporate value with a view to proactively fulfilling its corporate social responsibilities as “a company that contributes to revitalizing districts.” We greatly appreciate your ongoing support and encouragement.

(5) Status of asset and profit and loss of the Group -

Fiscal year Classification	The 96th fiscal year (Fiscal year ended March 31, 2016)	The 97th fiscal year (Fiscal year ended March 31, 2017)	The 98th fiscal year (Fiscal year ended March 31, 2018)	The 99th fiscal year (Current fiscal year) (Fiscal year ended March 31, 2019)
Operating revenue	¥37,010 million	¥41,747 million	¥32,698 million	¥39,480 million
Operating income	8,267 million	9,673 million	9,432 million	9,335 million
Ordinary income	6,708 million	8,431 million	8,395 million	8,430 million
Net income attributable to owners of parent	4,408 million	4,514 million	5,288 million	6,174 million
Net income per share (in exact yen)	110.50	113.17	132.57	158.73
Total assets	294,021 million	293,025 million	300,243 million	335,572 million
Net assets	94,827 million	97,524 million	104,900 million	109,075 million
Net assets per share (in exact yen)	2,377.02	2,444.84	2,630.07	2,819.82

(Notes) 1. Net income per share is calculated based on the average number of shares issued during the fiscal year, and net assets per share are calculated based on the number of shares issued at the end of the fiscal year.

The average number of shares issued during the fiscal year and the number of shares issued at the end of the fiscal year are calculated after deducting the number of shares held as treasury stock.

2. Effective from the beginning of the current fiscal year, the Company has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28; February 16, 2018), etc. The figures for the previous fiscal year are those calculated after retrospectively applying the said accounting standard.

(6) Status of significant parent companies and subsidiaries -

1) Status of parent companies

Not applicable

2) Status of significant subsidiaries

<u>Company name</u>	<u>Common stock</u>	<u>Percentage of voting rights held by the Company</u>	<u>Major operating business</u>
Heiwa Service Co., Ltd.	¥134 million	100.0%	Management of buildings and facilities, contracting of repair work, and insurance agency, etc.
Housing Service Co., Ltd.	¥95 million	100.0%	Real estate brokerage, etc.
HEIWA REAL ESTATE Asset Management CO., LTD.	¥295 million	100.0%	Asset management of HEIWA REAL ESTATE REIT, Inc.
The Tokyo Shoken Building Incorporated	¥100 million	100.0%	Ownership and leasing of real estate; management of halls, conference rooms, and restaurants, etc.

(7) Contents of principal businesses of the Group -

Business Segment	Business Activities
Leasing	Development, leasing, management and operation, etc. of stock exchanges, offices, commercial facilities and housing, etc.
Real Estate Solutions	Development, sale, operation and management of income property, development and sales of houses, and brokerage of real estate, etc.
Other	Management of buildings and facilities, etc., contracting of repair work, and insurance agency business, etc.

(8) Principal sales offices -

Heiwa Real Estate Co., Ltd.	Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka Nagoya Branch: Naka-ku, Nagoya Fukuoka Branch: Chuo-ku, Fukuoka Sapporo Branch: Chuo-ku, Sapporo
Heiwa Service Co., Ltd.	Head Office: Chuo-ku, Tokyo Osaka Branch: Chuo-ku, Osaka Nagoya Branch: Naka-ku, Nagoya
Housing Service Co., Ltd.	Chuo-ku, Osaka
HEIWA REAL ESTATE Asset Management CO., LTD.	Chuo-ku, Tokyo
The Tokyo Shoken Building Incorporated	Chuo-ku, Tokyo

(9) Employees of the Group –

1) Employees of the businesses of the Company group

Business Segment	No. of Employees	Increase/(decrease) as compared with prior period end
Leasing	77	0
Real Estate Solutions	83	+3
Other	50	0
Corporate (common among the Company group)	26	0
Total	236	+3

(Notes) 1. Number of employees is number of ordinary employees.

2. Number of employees included in the Corporate (common among the Company group) segment is the number of employees who belong to administrative departments.

2) Employees of the Company

<u>No. of Employees</u>	<u>Increase/(decrease) as compared with prior period end</u>	<u>Average age (years)</u>	<u>Average length of service (years)</u>
108	+2	42.1	16.2

(Note) Number of employees is number of ordinary employees.

(10) Principal creditors and balances of their loans outstanding -

Creditors	Balance (In millions of yen)
Resona Bank, Ltd.	¥28,008
Mizuho Bank, Ltd.	18,826
The 77 Bank, Ltd.	17,180
Sumitomo Mitsui Banking Corporation	17,069
Sumitomo Mitsui Trust Bank, Limited	9,068

## 2. Status of Shares:

- |                                                       |                                                                        |
|-------------------------------------------------------|------------------------------------------------------------------------|
| (1) <u>Number of shares authorized to be issued</u> - | 110,000,000 shares                                                     |
| (2) <u>Number of shares issued and outstanding</u> -  | 40,059,996 shares<br>(including 1,378,119 shares<br>of treasury stock) |
| (3) <u>Number of shareholders</u> -                   | 19,207                                                                 |
| (4) <u>Major shareholders</u> -                       |                                                                        |

Name	No. of shares (000's)	Holding ratio (%)
Mitsubishi Estate Co., Ltd.	4,274	11.05
JP MORGAN CHASE BANK 385632	2,066	5.34
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,799	4.65
Japan Trustee Services Bank, Ltd. (Trust Account)	1,672	4.32
BNYM AS AGT/CLTS 10 PERCENT	1,210	3.13
DFA INTL SMALL CAP VALUE PORTFOLIO	950	2.46
Japan Trustee Services Bank, Ltd. (Trust Account 5)	730	1.89
GOVERNMENT OF NORWAY	660	1.71
Japan Trustee Services Bank, Ltd. (Trust Account 9)	583	1.51
JP MORGAN CHASE BANK 385151	562	1.45

(Notes) 1. The holding ratio is calculated after deducting the number of shares held as treasury stock (1,378,119 shares) from the total number of issued shares.

2. The Company holds 1,378,119 shares of treasury stock, which are excluded from the major shareholders listed above.

### (5) Other important matters related to shares -

The Company decided at the Board of Directors meeting held on April 26, 2018 that the Company would acquire own shares according to the provisions of Article 156 of the Companies Act, applicable pursuant to the provisions of Article 165, Paragraph 3 of the said Act, and acquired treasury stock, as stated below.

Class and number of shares to be acquired: 1,200,000 shares of common stock

Aggregate amount of acquisition cost: ¥2,597,561,181

Period of acquisition: From April 27, 2018 to July 13, 2018

### 3. Matters related to Corporate Officers:

#### (1) Directors and Statutory Auditors -

Position	Name	Assignment; significant office(s) concurrently held
Representative Director, President and Chief Executive Officer	Hiroyuki Iwakuma	Supervising Development Promotion Department
Director and Managing Senior Executive Officer	Kiyoyuki Tsuchimoto	Supervising Office Building Development Department
Director and Managing Executive Officer	Kazuo Yamada	Supervising Development Promotion Department (Development)
Director and Managing Executive Officer	Norio Iwasaki	Supervising Corporate Planning and General Affairs Department (General Affairs), Finance Department and Legal Office
Director and Managing Officer	Shinichi Hayashi	Supervising Real Estate Solutions Department
External Director	Motoya Aizawa	President and CEO of AIZAWA SECURITIES CO., LTD.
External Director	Kunitaro Saida	External Statutory Auditor of Nichirei Corporation External Director of Sumitomo Osaka Cement Co., Ltd. External Director of Canon Inc.
External Director	Kiichiro Masui	Chairman of the Board of The Japan Securities Research Institute Outside Director of Japan Credit Rating Agency, Ltd.
External Director	Junji Ota	Public Governor, Chair of Self-regulation Board & Vice-Chairman of Japan Securities Dealers Association Outside Director of Toshiba Corporation
Statutory Auditor (full-time)	Naoto Kato	
External Statutory Auditor (full-time)	Masayuki Hirose	
External Statutory Auditor	Chikami Tsubaki	Director (outside director), Audit & Supervisory Committee Member of Seiko Epson Corporation

External Statutory Auditor

Jun Sekine

Outside Director of Shinhan Bank Japan

(Notes)

1. Motoya Aizawa, Kunitaro Saida, Kiichiro Masui and Junji Ota are External Directors.
2. Masayuki Hirose, Chikami Tsubaki and Jun Sekine are External Statutory Auditors.
3. Statutory Auditor, Naoto Kato, possesses substantial expertise and knowledge in finance and accounting gained through his abundant experience and achievements in business operations of finance and general affairs.
4. External Statutory Auditor, Chikami Tsubaki, has professional knowledge and experience as Certified Public Accountant and possesses substantial expertise and experience in finance and accounting.
5. External Statutory Auditor, Jun Sekine, has long experience at the Bank of Japan and possesses substantial expertise and experience in finance and accounting.
6. Directors Motoya Aizawa, Kunitaro Saida, Kiichiro Masui and Junji Ota, and Statutory Auditors Masayuki Hirose, Chikami Tsubaki and Jun Sekine are independent officers subject to no possible conflicts of interest with general shareholders that the Company is required to designate under the rules of each stock exchange.
7. Junji Ota was newly elected as a Director and Jun Sekine was newly elected as a Statutory Auditor, at the 98th Ordinary General Shareholders' Meeting held on June 26, 2018 and have assumed their respective offices.
8. Yasutada Sasaki retired as Statutory Auditor, at the close of the 98th Ordinary General Shareholders' Meeting held on June 26, 2018.
9. Changes in the assignment of Directors during the current fiscal year:

Name	Before change	After change	Date of change
Hiroyuki Iwakuma	Representative Director, President and Chief Executive Officer supervising Development Planning Department	Representative Director, President and Chief Executive Officer supervising Development Promotion Department	June 26, 2018
Kiyoyuki Tsuchimoto	Director and Managing Senior Executive Officer supervising Real Estate Marketing Department	Director and Managing Senior Executive Officer supervising Office Building Development Department	June 26, 2018

Kazuo Yamada	Director and Managing Executive Officer supervising Development Planning Department (Development)	Director and Managing Executive Officer supervising Development Promotion Department (Development)	June 26, 2018
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10. The following two persons are Managing Officers other than the five Directors/ Managing Officers listed above, and their duties are as indicated hereunder:

Managing Officer	Hiroki Mizuta	Manager of Osaka Branch
Managing Officer	Tomoharu Nakao	Supervising Corporate Planning and General Affairs Department (Corporate Planning) and Development Promotion Department (Corporate Planning)

(2) Summary of the Agreement on Limitation of Liability -

In accordance with the provisions in Article 427, Paragraph 1, of the Companies Act, the Company has entered agreements with the External Directors and the External Statutory Auditors to limit their liabilities for damages as set forth in Article 423, Paragraph 1, of the Companies Act; provided, however, that the limit of the liabilities for damages under such agreements shall be the amount prescribed in the Act.

(3) Policy for determining Remuneration payable to Directors, etc. -

The Company has established the compensation committee, a committee chaired by an external director and the majority of which consists of external directors, at its discretion under the Board of Directors to ensure the objectivity and transparency of the remuneration for directors.

The remuneration for directors consists of the fixed-amount basic compensation, remuneration for the purpose of purchasing treasury stocks and performance-based bonus under a system ensuring motivation to improve the business performance and enhancement of corporate value in the medium and long term and securing excellent human resources.

The compensation committee determines the basic policy for remuneration, etc. for directors, the total amount of remuneration, etc. and the specifics of remuneration, etc. for

individual directors, as well as expressing opinions to the Board of Directors regarding the agenda concerning the amount of base salary and bonuses for directors, which the Board of Directors submits to the general shareholders' meeting, upon consultation with the Board of Directors.

(4) Remuneration paid to Directors and Statutory Auditors for the current fiscal year -

Category	Number of persons	Amount Paid	Note
Director	9	¥242 million	of which ¥27 million to 4 External Directors
Statutory Auditor	5	¥56 million	of which ¥35 million to 4 External Statutory Auditors
Total (Notes)	14	¥299 million	

1. The amount of remuneration, etc. for Directors (excluding External Directors) shall be set within ¥250 million per year (the amount of remuneration for Directors will not include the employee salaries of Directors who serve concurrently as employees) by a resolution of the 88th Ordinary General Shareholders' Meeting held on June 26, 2008, and the amount of remuneration, etc. for External Directors shall be set within ¥40 million per year by a resolution of the 98th Ordinary General Shareholders' Meeting held on June 26, 2018.
2. The amount of remuneration, etc. for Statutory Auditors shall be set within ¥70 million per year by a resolution of the 98th Ordinary General Shareholders' Meeting held on June 26, 2018.
3. The amount of remuneration, etc. for Directors mentioned above includes ¥50 million of bonuses for Directors in addition to basic compensation. Bonuses for Directors of the Company shall be paid within the limit of the amount of remuneration, etc. as stated in (Notes) 1 above by a resolution of the general shareholders' meeting.
4. The number of persons mentioned above includes one Statutory Auditor who retired at the conclusion of the 98th Ordinary General Shareholders' Meeting held on June 26, 2018.

(5) External Officers -

1) Relationship between the Company and the entities in which Directors concurrently hold significant offices

Category	Name	Status of significant office(s) concurrently held	Relationship with the Company
Director	Motoya Aizawa	President and CEO of AIZAWA SECURITIES CO., LTD.	The Company and AIZAWA SECURITIES CO., LTD. hold each other's shares. However, AIZAWA SECURITIES CO., LTD. holds less than 1% of the total number of the Company shares issued.
Director	Kunitaro Saida	External Statutory Auditor of Nichirei Corporation	No important relationship exists.
		External Director of Sumitomo Osaka Cement Co., Ltd.	No important relationship exists.
		External Director of Canon Inc.	No important relationship exists.
Director	Kiichiro Masui	Chairman of the Board of The Japan Securities Research Institute	There have been transactions related to the leasing of real estate between the Company and The Japan Securities Research Institute. However, the amount of the transactions makes up less than 1% of the consolidated operating revenue of the Company.
		Outside Director of Japan Credit Rating Agency, Ltd.	No important relationship exists.
Director	Junji Ota	Public Governor, Chair of Self-regulation Board & Vice-Chairman of Japan Securities Dealers Association	There have been transactions related to the leasing of real estate between the Company and Japan Securities Dealers Association. However, the amount of the transactions makes up less than 1% of the consolidated operating revenue of the Company.
		Outside Director of Toshiba Corporation	No important relationship exists.
Statutory Auditor	Chikami Tsubaki	Director (outside director), Audit & Supervisory Committee Member of Seiko Epson Corporation	No important relationship exists.
Statutory Auditor	Jun Sekine	Outside Director of Shinhan Bank Japan	No important relationship exists.

2) Principal activities during the current fiscal year

Category	Name	Attendance at Board of Directors' Meetings (Number of times) [Attendance rate]	Attendance at Board of Statutory Auditors' Meetings (Number of times) [Attendance rate]	Principal activities
Director	Motoya Aizawa	12 out of 12 [100%]	-	He has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of his knowledge and experience.
Director	Kunitaro Saida	12 out of 12 [100%]	-	He has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of his knowledge and experience.
Director	Kiichiro Masui	12 out of 12 [100%]	-	He has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of his knowledge and experience.
Director	Junji Ota	9 out of 9 [100%]	-	He has provided appropriate advice to contribute to the decision-making of the Board of Directors from an objective standpoint, taking advantage of his knowledge and experience.
Statutory Auditor	Masayuki Hirose	12 out of 12 [100%]	11 out of 11 [100%]	Taking advantage of his knowledge and experience, he carried out discussions on important matters relating to audits and posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-making process of the Board of Directors.
Statutory Auditor	Chikami Tsubaki	12 out of 12 [100%]	11 out of 11 [100%]	Taking advantage of her knowledge and experience, she carried out discussions on important matters relating to audits and posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-making process of the Board of Directors.
Statutory Auditor	Jun Sekine	9 out of 9 [100%]	9 out of 9 [100%]	Taking advantage of his knowledge and experience, he carried out discussions on important matters relating to audits and posed questions and pointed out pertinent issues, as necessary, to ensure appropriate and suitable management of the decision-making process of the Board of Directors.

(Note) The Director, Junji Ota, and the Statutory Auditor, Jun Sekine, were elected at the Ordinary General Shareholders' Meeting held on June 26, 2018. Accordingly, the above only describes their attendance after they have assumed their offices.

#### 4. Matters related to Independent Auditor:

(1) Name of Independent Auditor -

BDO Toyo & Co.

(2) Amount of Independent Auditor's fee -

1) Total fee the Company will pay Independent Auditor for the current fiscal term  
30 million yen

2) Total amount of money and other profits the Company and the Company's subsidiaries  
will pay  
31 million yen

(Notes) 1. The total amount described in 1) above includes fee for audit based on the Securities and Exchange Law, because the Company does not classify fee for audit based on the Companies Act and fee for audit based on the Securities and Exchange Law by audit agreement between the Company and the Independent Auditor.

2. The Board of Statutory Auditors has obtained necessary materials or received reports from the related departments and the Independent Auditor and has confirmed and deliberated the content of the auditing plan, audit results for the previous fiscal year, trends of the Independent Auditor's fee, the basis for calculating the estimated amount of fee, etc., and thereupon has determined to give consent to the amount of the Independent Auditor's fee.

(3) Non-auditing services -

The Company paid the Independent Auditor for the preparation of a comfort letter related to the issuance of bonds, as a service other than the auditing & attestation engagement prescribed in Article 2, Paragraph 1, of the Certified Public Accountants Act.

(4) Policy on determining the dismissal or disapproval of reappointment of the Independent Auditor -

If the Independent Auditor is deemed applicable to any of the provisions in Article 340, Paragraph 1, of the Companies Act, the Board of Statutory Auditors will dismiss the Independent Auditor upon unanimous approval of all the Statutory Auditors.

Further, if the performance of duties of the Independent Auditor is deemed difficult to be appropriately performed based on the Board of Statutory Auditors' review of the Independent Auditor's audit system, independence, specialization, and performance of duties, or when the Board of Statutory Auditors has reasonable grounds to change the Independent Auditor for the purpose of further enhancing the appropriateness of the audit, the Board of Statutory Auditors will decide upon the content of a proposal for the dismissal

or disapproval of reappointment of the Independent Auditor to be submitted to the General Shareholders' Meeting.

5. 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 requests the Directors, Corporate Officers, and employees of the Company 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 the "Internal Reporting Regulations," the Company has established a compliance hotline as a contact point for notification when problems 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 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 management conference among subsidiaries and affiliates and an administrative contact committee among subsidiaries and affiliates 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 reporting to Statutory Auditors of the Company, system to ensure that a person so reporting is not treated unfavorably because of the reporting, 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 management conference among subsidiaries and affiliates and the administrative contact committee among subsidiaries and affiliates, the results of internal audits of subsidiaries, and the contents of notifications by the compliance hotline.

(4) The Company prohibits unfavorable treatment of the officers and employees of the Company Group who report to the Statutory Auditors due to such reporting, 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.

An internal reporting system is applied to the Group as a whole and operated as a hotline available for use by the officers and employees of subsidiaries as well. Through this system, the Company strives to detect compliance issues in their early stages.

The Company established standards for assessing independence in the “Corporate Governance Guidelines” and appointed all External Directors and External Statutory auditors as independent officers. The Company increased the number of External Directors by one in June 2018 and thereby strengthened the management and supervising functions of the Board of Directors.

## 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 (4 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.

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 conducts risk analysis, etc. on the acquisition and sale of property and reports the results 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

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 management conference among subsidiaries and affiliates 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.

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 regularly holds a management conference among subsidiaries and affiliates to confirm and discuss the progress of the subsidiaries’ business plans and regularly holds an administrative contact committee among subsidiaries and affiliates to check the operation of internal control systems within the Group.

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 Reporting Regulations,” an internal reporting 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 reporting.

(3) Basic principles concerning the control of a stock company (*kabushiki kaisha*) -

The Company received the approval of its shareholders for the continuous adoption of the “measures against large volume purchase of shares of the Company (Defense Measures Against Takeover)” (hereinafter, the “Plan”) at the 98th Ordinary General Shareholders’ Meeting held on June 26, 2018. The main outline of the Defense Measures Against Takeover is as follows.

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

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 subsequently the common interest of our shareholders.

Also, if a purchase of a large volume of the Company’s shares benefits the corporate value of the Company, and subsequently the common interest of our shareholders, we will not deny it; and the Company believes that whether we are to accept an offer concerning the purchase of a large volume of the Company’s shares that accompanies the transfer of the power of control of the Company should be ultimately determined based on the intent of our shareholders.

However, there are some cases of the purchase of a large volume of shares which could damage the corporate value of a target company and subsequently the common interest of its shareholders, including the case which (i) obviously violates the corporate value of the target company and subsequently the common interest of its shareholders, (ii) is likely to, in effect, force the shareholders of the target company to sell their shares, or (iii) does not give enough time and information to enable the board of directors or shareholders of the target company to examine the purchase of a large volume, or to enable the board of directors to provide an alternative plan.

Therefore, the Company believes that a person who makes such purchase of a large volume of the Company’s shares which does not benefit the corporate value of the Company and subsequently the common interest of our shareholders is an inappropriate party to control decisions on the financial and business policies of the Company, and that we should take necessary and sufficient countermeasures against such purchase of a large volume of the Company’s shares for the purpose of protecting and ensuring the corporate value of the Company and subsequently the common interest of our shareholders.

## 2) Outline of Special Efforts to Realize the Basic Policy

### 1. Efforts to Increase Corporate Value

The Company formulated the Medium- to Long-term Management Plan over the “NEXT DECADE” in April 2014 as an action plan for its task of expanding the building leasing business, and the Company is determined to move toward the next step with the “aim of being a company that contributes to revitalizing districts” over the next decade.

Phase I of the Medium- to Long-term Management Plan (FY2014-2016) defined the following key strategies: the Nihonbashi Kabutocho Revitalization Project; strengthening of the building leasing business; expansion of the fee businesses including REIT AM; and strengthening of organizational controls and maintenance of financial discipline.

As a consequence of these initiatives, we achieved all of our targets for the consolidated operating income, consolidated ordinary income and D/E ratio during phase I of the Medium- to Long-term Management Plan.

During phase II of the Medium- to Long-term Management Plan (FY2017-2019), we entered a new stage in which we launch a full-scale redevelopment of the Nihonbashi Kabutocho and Kayabacho areas. Looking towards the final stage of the Medium- to Long-term Management Plan, we will aim to sustainably increase corporate value by steadily implementing the redevelopment project and by strengthening our building leasing business. The Company has set phase II as three years in which we will build a foundation for business growth, and we will continue to work on the following key strategies.

- (1) The Nihonbashi Kabutocho and Kayabacho Revitalization Project
- (2) Strengthening the building leasing business
- (3) Expansion and diversification of the real estate solution business
- (4) Strengthen the structure for implementing business strategies and provide shareholders with stable returns

### 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.

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

### 1. Purpose of the Plan

The purpose of the Plan is to continually and sustainably ensure and increase the

corporate value of the Company and, in turn, the common interests of our shareholders in accordance with the basic policy described in 1) above.

The Board of Directors determined that it is indispensable for the Company to have a framework that enables the Board of Directors (i) to secure time and information necessary for the Company's shareholders to make an appropriate decision on whether or not to accept a takeover proposal, (ii) to secure opportunities for negotiating with a Large-Scale Purchaser, as defined in 3 below, for the benefit of the Company's shareholders, and (iii) to deter large-scale purchases of the Company's shares that would harm the corporate value of the Company and, in turn, the common interests of our shareholders. Thus, as part of our measures to prevent a person who is deemed to be inappropriate in light of the basic policy from controlling decisions on the financial and business policies of the Company, we decided to continue the Plan.

## 2. Summary of the Plan

The Plan requires a Large-Scale Purchaser who intends to purchase a certain amount or more of the Company's shares to comply with the Purchase Procedures.

The Company may trigger countermeasures if: (i) the Board of Directors determines that the Large-Scale Purchaser does not comply with the Purchase Procedures; or (ii) the purchase by the Large-Scale Purchaser constitutes one of the four categories identified by the Tokyo High Court or a coercive two-tiered tender offer.

In making that determination, the Board of Directors will respect as much as possible any recommendations provided by a committee consisting of external Directors and external Statutory Auditors of the Company as well as external experts, all of whom shall be independent from the management team that executes the operations of the Company (the "Independent Committee").

In addition, the Board of Directors may confirm the intent of our shareholders regarding whether or not to trigger countermeasures based on recommendations provided by the Independent Committee.

The aforementioned countermeasures under the Plan will be implemented in the form of a gratis allotment of share options.

## 4) Decisions on Measures Above by the Board of Directors and the Reasons for Such Decisions

### 1. Measures that Contribute to the Realization of the Basic Policy

Each of the measures described in 2) and 3) above are prepared as specific measures for the purpose of continually and sustainably increasing the corporate value of the Company and, in turn, the common interests of our shareholders and will contribute to the realization of the basic policy.

Therefore, such measures are in accordance with the basic policy and are consistent

with the common interests of our shareholders, and they are not intended to maintain the positions of the Directors of the Company.

## 2. Rationality of the Plan

### (1) The Plan is in accordance with the basic policy

The Plan is in accordance with the basic policy as the Plan is a framework to ensure the corporate value of the Company and, in turn, the common interests of our shareholders by requesting, when a proposal for a Large-Scale Purchase of the Company's shares is made, the Large-Scale Purchaser to provide the information of the Large-Scale Purchase in advance, thereby ensuring the information and time that are necessary for our shareholders to determine whether they should accept the proposal or not or for the Board of Directors to propose an alternative plan and enabling the Board of Directors to take actions such as negotiating with the Large-Scale Purchaser for the benefit of our shareholders.

### (2) The measures neither damage the common interests of our shareholders nor are intended to maintain the positions of the Directors of the Company

Due to the following reasons, the Company believes that measures to prevent persons deemed inappropriate in light of the basic policy from controlling the Company neither damage the common interests of our shareholders nor are intended to maintain the positions of the Directors of the Company.

- a. The Plan completely fulfills the three principles set out in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" and is in accordance with the content of the "Takeover Defense Measures in light of Recent Environmental Changes."
- b. The Plan has received the approval of our shareholders at a general meeting of shareholders of the Company. There is a provision in the Plan that limits the effective term of the Plan to three years, and even before the expiration of the effective period, the Plan may be abolished if a proposal to abolish the Plan is approved at a general meeting of shareholders of the Company or otherwise.
- c. It is provided in the Plan that countermeasures cannot be triggered unless the predefined reasonable, detailed, and objective requirements are fulfilled.
- d. The Company has established the Independent Committee that is composed of persons who are independent from the Board of Directors of the Company. The Independent Committee will evaluate and consider whether a trigger event has occurred and will provide the Board of Directors with recommendations.
- e. It is provided that the Plan can be abolished by the Board of Directors, which consists of Directors elected at a general meeting of shareholders of the Company.

## CONSOLIDATED BALANCE SHEET

MARCH 31, 2019

### ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥9,810
Accounts receivable – trade	1,065
Marketable securities	3,128
Real estate for sale	37,734
Real estate for sale in process	673
Other inventories	9
Operating investments	500
Other	3,347
Allowance for doubtful accounts	(2)
Total current assets	56,266
Fixed assets:	
Tangible fixed assets -	
Buildings and structures	75,530
Machinery, equipment and vehicles	330
Tools, furniture and fixtures	222
Land	137,634
Construction in progress	405
Total tangible fixed assets	214,124
Intangible fixed assets -	
Leasehold rights	22,556
Other	124
Total intangible fixed assets	22,681
Investments and other assets -	
Investment securities	37,551
Long-term loans to employees	3
Deferred tax assets	184
Other	4,458
Allowance for doubtful accounts	(5)
Total investments and other assets	42,192
Total fixed assets	278,998
Deferred assets -	
Bond-issuing expenses	306
Total deferred assets	306
Total assets	335,572

CONSOLIDATED BALANCE SHEET

MARCH 31, 2019

LIABILITIES AND NET ASSETS

(In millions of yen)

Liabilities

Current liabilities:	
Accounts payable – trade	¥1,409
Current portion of bonds	4,824
Short-term loans payable	11,250
Current portion of long-term loans	14,093
Accrued corporation and other taxes	582
Accrued consumption taxes	74
Accrued bonuses for directors	67
Accrued bonuses	214
Asset retirement obligations	41
Other	1,732
Total current liabilities	34,290
Long-term liabilities:	
Bonds	25,199
Long-term loans payable	129,305
Long-term deposits received and landlord deposits	21,253
Deferred tax liabilities	7,865
Deferred tax liabilities concerning revaluation	7,663
Net defined benefit liability	258
Asset retirement obligations	653
Other	6
Total long-term liabilities	192,206
Total liabilities	226,496
<u>Net Assets</u>	
Shareholders' equity:	
Common stock	21,492
Additional paid-in capital	19,720
Retained earnings	38,665
Treasury stock, at cost	(3,030)
Total shareholders' equity	76,848
Accumulated other comprehensive income:	
Unrealized gain on securities	15,231
Land revaluation surplus	16,995
Total accumulated other comprehensive income	32,227
Total net assets	109,075
Total liabilities and net assets	335,572

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2018

TO: MARCH 31, 2019

	(In millions of yen)
Operating revenue	¥39,480
Cost of sales	25,927
Gross profit	13,552
Selling, general and administrative expenses	4,217
Operating income	9,335
Non-operating income -	
Interest income and dividends earned	494
Miscellaneous non-operating income	29
Total non-operating income	524
Non-operating expenses -	
Interest expense	1,072
Interest on debentures	180
Amortization of bond-issuing expenses	71
Miscellaneous non-operating expenses	104
Total non-operating expenses	1,429
Ordinary income	8,430
Extraordinary income -	
Gain on sale of fixed assets	1,315
Subsidy income	55
Total extraordinary income	1,371
Extraordinary loss -	
Loss on disposal of fixed assets	36
Impairment loss	9
Loss on advanced depreciation of fixed assets	55
Total extraordinary loss	101
Income before income taxes	9,700
Corporation, inhabitants and enterprise taxes	1,266
Income taxes for prior periods	534
Deferred income taxes	1,725
Net income	6,174
Net income attributable to owners of parent	6,174

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2019

ASSETS

(In millions of yen)

Current assets:	
Cash and deposits	¥6,848
Accounts receivable – trade	487
Marketable securities	3,128
Real estate for sale	37,734
Real estate for sale in process	673
Operating investments	500
Prepaid expenses	51
Accrued revenues receivable	2
Short-term loans	2,828
Accounts receivable – other	349
Advances paid	92
Suspense payments	5
Allowance for doubtful accounts	(2)
Total current assets	52,699
Fixed assets:	
Tangible fixed assets -	
Buildings	72,382
Structures	173
Machinery and equipment	326
Vehicles	0
Tools, furniture and fixtures	177
Land	130,321
Construction in progress	405
Total tangible fixed assets	203,787
Intangible fixed assets -	
Leasehold rights	22,556
Software	84
Telephone subscription right	9
Right of using facilities	0
Total intangible fixed assets	22,651
Investments and other assets -	
Investment securities	32,707
Investment in securities of affiliates	9,932
Investment in other securities of affiliates	2,641
Investment in partnerships	21
Long-term loans receivable from employees	2
Long-term prepaid expenses	312
Guarantee deposits	4,003
Insurance funds	91
Allowance for doubtful accounts	(5)
Total investments and other assets	49,707
Total fixed assets	276,146
Deferred assets -	
Bond-issuing expenses	306
Total deferred assets	306
Total assets	329,151

NON-CONSOLIDATED BALANCE SHEET

MARCH 31, 2019

LIABILITIES AND NET ASSETS

(In millions of yen)

<u>Liabilities</u>	
Current liabilities:	
Accounts payable – trade	707
Current portion of bonds	4,824
Short-term loans payable	14,020
Current portion of long-term loans	14,093
Accounts payable – other	49
Accrued expenses	121
Accrued corporation and other taxes	354
Advances received	1,080
Deposits received	219
Accrued bonuses for directors	50
Accrued bonuses	134
Asset retirement obligations	41
Total current liabilities	35,697
Long-term liabilities:	
Bonds	25,199
Long-term loans payable	129,305
Long-term deposits received and landlord deposits	20,679
Deferred tax liabilities	6,091
Deferred tax liabilities concerning revaluation	7,663
Accrued severance indemnities for employees	98
Asset retirement obligations	630
Total long-term liabilities	189,667
Total liabilities	225,364
<u>Net assets</u>	
Shareholders' equity:	
Common stock	21,492
Additional paid-in capital	
Capital reserve	19,720
Total additional paid-in capital	19,720
Retained earnings:	
Legal reserve	1,453
Other retained earnings:	
Reserve for advanced depreciation of fixed assets	2,232
General reserve	10,115
Retained earnings carried forward	19,852
Total other retained earnings	32,200
Total retained earnings	33,653
Treasury stock, at cost	(3,030)
Total shareholders' equity	71,836
Valuation and translation adjustments:	
Unrealized gain on securities	14,954
Land revaluation surplus	16,995
Total valuation and translation adjustments	31,950
Total net assets	103,786
Total liabilities and net assets	329,151

## NON-CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FROM: APRIL 1, 2018

TO: MARCH 31, 2019

(In millions of yen)

Operating revenue -	
Leasing income	18,960
Revenue from real estate solutions	15,361
Total operating revenue	34,321
Cost of sales -	
Cost of leasing	11,288
Cost of real estate solutions	12,601
Total operating cost	23,889
Gross profit	10,431
Selling, general and administrative expenses	2,511
Operating income	7,919
Non-operating income -	
Interest income and dividends earned	1,204
Miscellaneous non-operating income	28
Total non-operating income	1,233
Non-operating expenses -	
Interest expense	1,081
Interest on debentures	180
Amortization of bond-issuing expenses	71
Miscellaneous non-operating expenses	104
Total non-operating expenses	1,437
Ordinary income	7,715
Extraordinary income -	
Gain on sale of fixed assets	1,315
Subsidy income	55
Total extraordinary income	1,371
Extraordinary loss -	
Loss on disposal of fixed assets	2
Impairment loss	88
Loss on advanced depreciation of fixed assets	55
Total extraordinary loss	146
Income before income taxes	8,940
Corporation, inhabitants and enterprise taxes	875
Income taxes for prior periods	534
Deferred income taxes	1,672
Net income	5,857

A COPY OF THE AUDIT REPORT OF THE ACCOUNTING AUDITOR ON THE  
CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report  
(English Translation)

May 9, 2019

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

BDO Toyo & Co.

Wataru Kobayashi, CPA, Engagement Partner  
Noritsugu Adachi, CPA, Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4, of the Companies Act, the consolidated financial statements, which consist of the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements of the Heiwa Real Estate Co., Ltd. and consolidated subsidiaries for the 99th fiscal year from April 1, 2018 to March 31, 2019.

The responsibility of the Company's management for these consolidated financial statements  
The responsibility of the Company's management is to prepare and present fairly these consolidated financial statements in accordance with accounting standards generally accepted in Japan. The above responsibility includes the improvement and management of internal control as considered necessary by the management for the preparation and fair presentation of these consolidated financial statements with no material misstatements resulting from fraud or errors.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatements.

When auditing, we perform audit procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. We decide to select and apply audit procedures based on our assessment of the risks of material misstatements in the consolidated financial statements resulting from fraud or errors. Though the audit does not aim to express an opinion on the effectiveness of internal control, we, when assessing risks, examine internal control associated with the preparation and fair presentation of the consolidated financial statements, in order to plan appropriate audit procedures according to the situation at hand. In addition, an audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

We believe to have obtained complete and sufficient audit evidence which forms the basis of our opinion.

Audit opinion

It is our opinion that the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the consolidated group consisting of the Heiwa Real Estate Co., Ltd and consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

**Conflict of interest**

We have no interest in or relationship with the Company, which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Act.

A COPY OF THE AUDIT REPORT OF THE ACCOUNTING AUDITOR ON THE NON-  
CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report  
(English Translation)

May 9, 2019

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

BDO Toyo & Co.

Wataru Kobayashi, CPA, Engagement Partner  
Noritsugu Adachi, CPA, Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2, Item 1, of the Companies Act, the non-consolidated financial statements, which consist of the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements and supplementary schedules of Heiwa Real Estate Co., Ltd. (hereinafter referred to as the "Company") for the 99th fiscal year from April 1, 2018 to March 31, 2019.

The responsibility of the Company's management for the non-consolidated financial statements, etc.

The responsibility of the Company's management is to prepare and present fairly the non-consolidated financial statements and supplementary schedules in accordance with accounting standards generally accepted in Japan. The above responsibility includes the improvement and management of internal control as considered necessary by the management for the preparation and fair presentation of nonconsolidated financial statements and supplementary schedules with no material misstatements resulting from fraud or errors.

Auditors' responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and supplementary schedules are free of material misstatements.

When auditing, we perform audit procedures to obtain audit evidence supporting the amounts and disclosure in the non-consolidated financial statements and supplementary schedules. We decide to select and apply audit procedures based on our assessment of the risks of material misstatements in the non-consolidated financial statements and supplementary schedules resulting from fraud or errors. Though the audit does not aim to express an opinion on the effectiveness of internal control, we, when assessing risks, examine internal control associated with the preparation and fair presentation of the non-consolidated financial statements and supplementary schedules, in order to plan appropriate audit procedures according to the situation at hand. In addition, an audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation.

We believe to have obtained complete and sufficient audit evidence which forms the basis of our opinion.

Audit opinion

It is our opinion that the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements and supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

Conflict of interest

We have no interest in or relationship with the Company, which is required to be disclosed pursuant to the provisions of the Certified Public Accountant Act.

## A COPY OF THE AUDIT REPORT OF THE BOARD OF STATUTORY AUDITORS

### AUDIT REPORT

We, the Board of Statutory Auditors, having deliberated the issues based on the reports made by each Statutory Auditor concerning the methods and results of their audit of the business activities of the directors for the 99th fiscal year from April 1, 2018 to March 31, 2019, prepared this Audit Report and hereby submit to you as follows:

1. Outline of auditing method applied by the Statutory Auditors and the Board of Statutory Auditors:

- (1) The Board of Statutory Auditors established the auditing policies and the audit plan, received reports and explanations regarding the status of audits and the results thereof from each Statutory Auditor, as well as reports and explanations regarding the status of the execution of duties from the Directors and Accounting Auditor, and requested explanation as necessary.
- (2) In accordance with the auditing standards for Statutory Auditors determined by the Board of Statutory Auditors and the auditing policies and the audit plan, each Statutory Auditor endeavored to collect information and established auditing circumstances through communication with internal audit staff and other employees, and conducted the audit in accordance with the following procedures.
  - 1) Each Statutory Auditor attended the Board of Directors' meeting and other important meetings to receive reports regarding performance of duties from directors and employees and requested explanations as necessary. Each Statutory Auditor also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices. With regard to subsidiaries, each Statutory Auditor communicated and exchanged information with Directors and Statutory Auditors, etc. of the subsidiaries and received reports from the subsidiaries on the status of their business, as necessary.
  - 2) With regard to the resolutions adopted by the Board of Directors regarding the establishment of the system for ensuring that the directors' duties are performed in conformity of laws, regulations and the Articles of Incorporation of the Company as stated in the business reports, the establishment of the system necessary to ensure proper business operations of the company group, which consists of a *kabushiki kaisha* (joint stock company) and its subsidiaries, as set forth in Article 100, Paragraph 1 and 3, of Enforcement Regulations of the Companies Act, and the systems (Internal Control System) established in accordance with the resolution of the Board of Directors, each Statutory Auditor regularly received reports from directors and employees on the status of the establishment and operations thereof, requested them for explanations as necessary, and expressed opinions.
  - 3) The contents of the basic policy set forth in Article 118, Item 3 (i) of the Enforcement Regulations of the Companies Act as stated in the business reports and each approach set forth in Item 3 (ii) of the same article are reviewed based on the status of deliberations of the Board of Directors and other management entities.
  - 4) Statutory Auditors monitored and verified that Accounting Auditor maintains independence and conduct the audits appropriately. Each Statutory Auditor also received reports of the status of the execution of duties from Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the business reports and supplementary schedules, the non-consolidated financial statements (the non-consolidated balance sheet, non-consolidated statement of profit and loss, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements), and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, consolidated statement of profit and loss, consolidated statement of changes in net assets and notes to the consolidated financial statements), and the supplementary schedules, for the year ended on March 31, 2019.

## 2. Results of Audit

### (1) Results of audit of business report

- 1) The business reports and supplementary schedules present fairly the financial condition of the Company in conformity with related laws, regulations, and the Articles of Incorporation of the Company;
- 2) Regarding the performance of duties by Directors, there were no instances of misconduct or material matters in violation of laws, regulations, nor the Articles of Incorporation of the Company; and
- 3) Resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional mention regarding the contents of the business report and the execution of duties by Directors regarding the internal control system.
- 4) There are no matters requiring additional mention with respect to the basic policy on the control of companies stated in the business reports. We acknowledge that, among the approaches set forth in Article 118, Item 3 (ii), of the Enforcement Regulations of the Companies Act, those stated in the business reports conform with the basic policy, are in no way obstructive of any common interests of shareholders, and are not adopted with the intention of maintaining the positions of Directors and Statutory Auditors.

### (2) Results of audit of non-consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, BDO Toyo & Co., are fair and reasonable.

### (3) Results of audit of consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, BDO Toyo & Co., are fair and reasonable.

May 17, 2019

Board of Statutory Auditors  
Heiwa Real Estate Co., Ltd.  
Statutory Auditor (Full-time)  
Naoto Kato

External Statutory Auditor (Full-time)  
Masayuki Hirose

External Statutory Auditor  
Chikami Tsubaki

External Statutory Auditor  
Jun Sekine