HEIWA REAL ESTATE CO.,LTD.

8803 Tokyo Stock Exchange First Section

15-Jan.-16

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Two forerunning projects of Nihonbashi Kabuto-cho Revitalization Project designated as urban redevelopment project within National Strategic Special Zone

Heiwa Real Estate Co., Ltd. (8803) started by developing office buildings in Japan's main cities and leasing these buildings to stock exchanges, including those in Tokyo, Osaka, and Nagoya. It now develops, leases, manages and operates office buildings primarily, but also commercial buildings and residential buildings in Japan's major cities. Accounting for 70.3% of operating revenues, the leasing business, in which entire buildings are often leased out to a single tenant, features relatively low vacancy rates at its properties primarily located in the financial districts of major urban centers. Representing 23.5% of operating revenues, the real estate solutions business provides a stable source of earnings through a value chain that includes Heiwa Real Estate REIT, Inc. (1H FY3/16)

In 1H FY3/16 (April to September 2015), both operating revenue and operating income were roughly in line with the same period of the previous fiscal year. Both operating revenue and operating income declined only slightly, as contributions from gains on asset divestures, as well as assets acquired and buildings newly built in the previous fiscal year, offset the impact of a reduction in rent at the Tokyo Stock Exchange Building (a dent of ¥0.6bn of operating revenues per half-year from April 2015). We expect operating revenues to increase in FY3/16 as lower revenues in the leasing business are more than offset by the real estate solutions business. We anticipate a decrease in both operating income and ordinary income, but look for an increase in net income due to a sharp drop in extraordinary losses. We believe FY3/16 will be a low point for earnings over the medium term, comprehensively considering the company's rent revision trends, asset acquisitions, and moves to reinforce its financial position.

The Nihonbashi Kabuto-cho Revitalization Project is the centerpiece of the company's growth strategy. Launched in 2011, the project's concept has been forged through collaboration with urban development councils and government entities while the company bought up properties in the area. In June 2015, two of the company's forerunning projects in the area slated for redevelopment were designated as urban redevelopment projects in the National Strategic Special Zone for Greater Tokyo, adding momentum to the projects. We understand that the two forerunning projects (Kabutocho Project and Kayabacho Project) entail plans for a combined floor area of 60,000-80,000 square meters, a relatively large scale compared to the company's current total building leasing area of 378,000 square meters. Progress should be monitored on these projects as they approach their planned completion sometime in 2020.

Check Point

- Two forerunning projects of Nihonbashi Kabuto-cho Revitalization Project designated as urban redevelopment project within National Strategic Special Zone
- Operating income and ordinary income declined owing to lower rental income from Tokyo Stock Exchange Building, but net income rose in 1H FY3/16; expecting net income to grow in FY3/16

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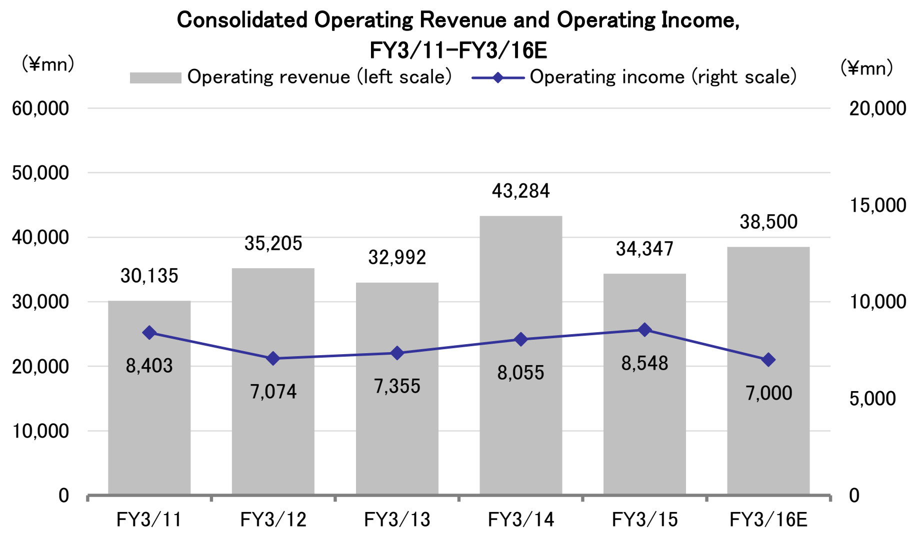


Business Trends

Operating revenue, operating income, and ordinary income largely unchanged YoY

(1) 1H FY3/16 Results

In 1H FY3/16, consolidated operating revenue fell 0.9% YoY to ¥17,150mn, operating income decreased 8.4% to ¥4,172mn, and ordinary income fell 6.0% to ¥3,363mn, while net income rose 40.1% to ¥2,150mn. In the leasing business, the impact of a reduction in rent at the Tokyo Stock Exchange Building (a dent of ¥0.6bn of operating revenues per half-year from April 2015) was partially offset by gains on the sale of the Nagoya Marunouchi Heiwa Building, as well as contributions from assets acquired and new buildings completed in the previous fiscal year. As a result, operating revenues and operating income decreased only slightly. In the real estate solutions business, operating income and ordinary income fell, reflecting plans to recognize sales of condominiums in 2H. In 1H FY3/16, net income increased as a result of a sharp YoY decline in extraordinary losses.

1H FY3/16 Business Segment Results

(Unit: ¥mn)

	FY3/15 1H	FY3/16 1H		
	Result	Result	Absolute change YoY	% change YoY
Operating revenue				
Leasing	9,732	12,049	2,316	23.8%
Real estate solutions	6,368	4,030	-2,337	-36.7%
Other businesses	1,211	1,069	-141	-11.7%
Total	17,312	17,150	-162	-0.9%
Operating income				
Leasing	4,109	4,054	-55	-1.3%
Real estate solutions	859	649	-209	-24.4%
Other businesses	101	51	-50	-49.5%
Eliminations	-516	-583	-66	—
Total	4,554	4,172	-381	-8.4%
Ordinary income	3,577	3,363	-213	-6.0%
Extraordinary loss	1,019	277	-742	-72.8%
Net income	1,534	2,150	615	40.1%

Source: Company materials

Forecasting growth in net income as real estate solutions business offsets decline in operating revenues in leasing business

(2) Company Forecasts for FY3/16

The company maintained its forecasts for FY3/16 with a 12.1% YoY rise in consolidated operating revenue to ¥38.5bn, an 18.1% drop in operating income to ¥7.0bn, a 23.9% fall in ordinary income to ¥5.0bn, but an 8.2% increase in net income to ¥2.7bn. Despite the impact of decrease in revenue from leasing the Tokyo Stock Exchange Bldg. (a ¥1.2bn per year decrease from April 2015), the company foresees an increase in operating revenue in the real estate solutions business stemming from an upturn in the number of properties sold. The company projects declines in its operating and ordinary incomes. However, the company does not foresee extraordinary losses in FY3/16 comparable to those in FY3/15, so it anticipates a rise in net income. The company's focus in FY3/16 will be expediting the formation of a foundation for growth over the medium-to-long term.

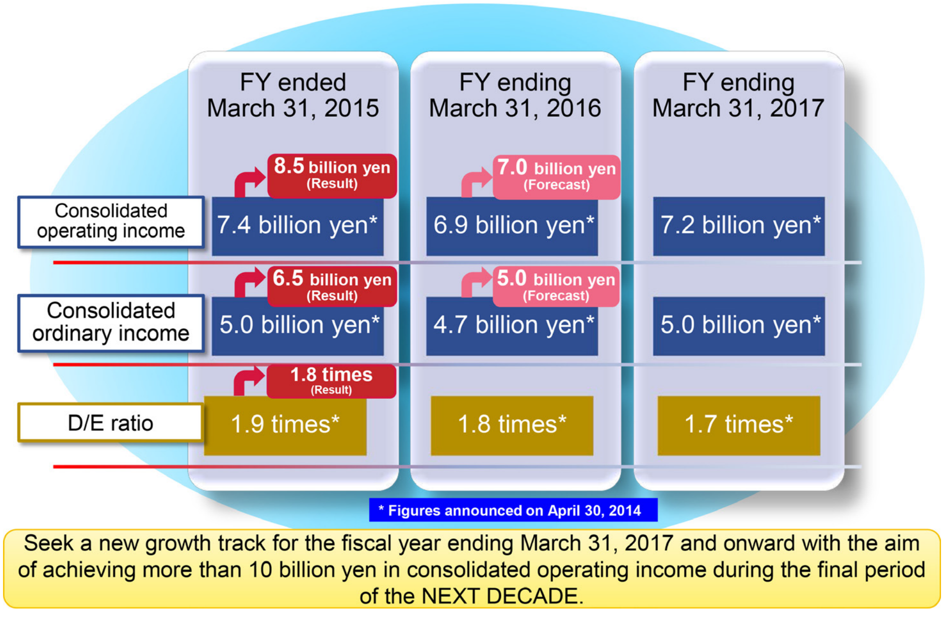
Growth Strategy

Creating a launch pad for growth in the (10-year) Medium-to-long-term Management Plan

(1) Progress on Medium-to-long-term Management Plan

FY3/15 was the first year of the company's current medium-to-long-term management plan, called "over the NEXT DECADE", which ends in FY3/24. In FY3/15–FY3/17, the company will concentrate on building a foundation for future growth, foreseeing business results to remain flat during those three years. When it announced this plan, on April 30, 2014, it targeted operating income of ¥7.4bn for FY3/15, ¥6.9bn for FY3/16, ¥7.2bn for FY3/17, and at least ¥10.0bn for FY3/24. In FY3/15, the company surpassed its targets, earning an operating income of ¥8.5bn, against the ¥7.4bn target, an ordinary income of ¥6.5bn, versus the goal of ¥5.0bn, and a gross debt-to-equity ratio of 1.8 times, lower than the objective of 1.9 times. For FY3/16, the company is progressing as planned, earning an operating income of ¥6.9bn, against the ¥7.0bn forecast, an ordinary income of ¥4.7bn, versus the ¥5.0bn forecast, and a gross debt-to-equity ratio of 1.77 times, against the objective of 1.8 times. The company has not set a target for operating revenues because of its inherent volatility, depending on sales of real estate properties.

Consolidated Targets for FY3/15–FY3/17*



The company's main strategy for its leasing business is to promote the Nihonbashi Kabuto-cho Revitalization Project and to refine building leasing business, while its main strategy for its real estate solutions business is to support the growth of Heiwa Real Estate REIT, Inc. and thereby expand its management fee business.

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(2) Nihonbashi Kabuto-cho Revitalization Project

This project is part of the Tokyo Global Financial Center plan being pursued by the Tokyo Metropolitan Government. For the project, Heiwa Real Estate plans to completet new buildings and thereby expand its leasing assets, revenue and income. It originated the project as part of its corporate vision of contributing to urban revitalization.

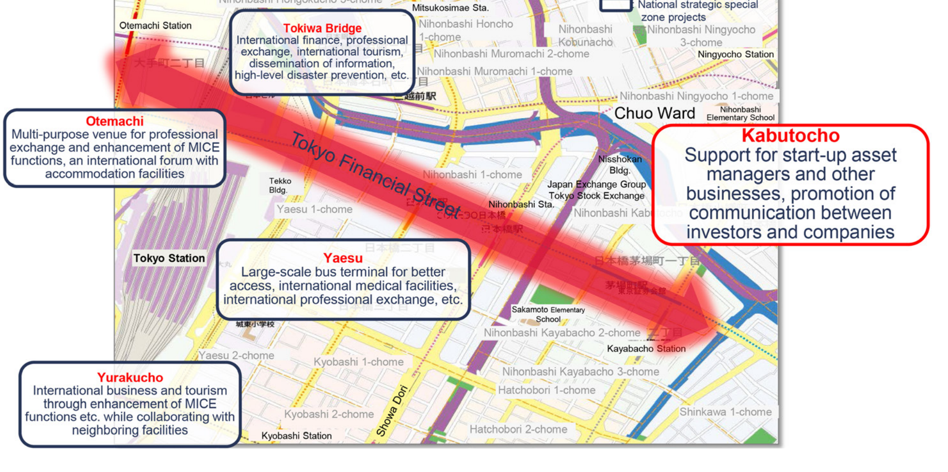
Nihonbashi Kabutocho is the center of the securities industry in Tokyo, housing the Tokyo Stock Exchange, many other buildings owned by Heiwa Real Estate, and the company's main office. The area is within walking distance of Tokyo Station, is served by five subway lines, is close to the business districts of Nihonbashi, Otemachi and Marunouchi, and has easy access to both of Tokyo's international airports, Haneda and Narita. However, there are many old buildings in Nihonbashi Kabutocho now, reflecting several factors. Since the 1990 collapse of Japan's stock market bubble of 1986–1989, Japan's economy has remained weak, its securities industry has consolidated and shrunk, surviving securities companies have relocated, and stock transactions have been totally automated. About 100,000 square meters of Nihonbashi Kabutocho are targeted for redevelopment. In the decade from 2014 to 2023, Heiwa Real Estate plans to redevelop the Kabutocho project and the Kayabacho project, which both front onto Heisei Dori avenue. Since 2011, when Heiwa Real Estate launched the Nihonbashi Kabuto-cho Revitalization Project in earnest, the company has been buying buildings in the area. In May 2015, it bought the Kayabacho Kyodo Building, which is well situated in Kabutocho.

In June 2015, the district commission for National Strategic Special Zone in Greater Tokyo designated as an urban redevelopment project the Nihonbashi Kabutocho and Kayabacho 1-chome area, which is part of the area the company is redeveloping.

The Tokyo Metropolitan Government has come up with the Tokyo Financial Street idea for supporting the concept of a Tokyo Financial Center in the area extending along Eitai Dori avenue from the Otemachi district to the Kabutocho district. Given its status as a National Strategic Special Zone to upgrade financial functions, we expect the projects to benefit specifically from a relaxing of plot ratio regulations and a speedier approval process.

Upgrade to Financial Functions via National Strategic Special Zone

- The Tokyo metropolitan government launched a project with the central government and the private sector to boost the competitiveness of the "Tokyo Global Financial Center" (Heiwa Real Estate has joined as a project member).
- The area stretching from Otemachi to Kabutocho is envisioned as Tokyo Financial Street, which will support the concept of the "Tokyo Global Financial Center" with various financial functions to be developed through private-public initiatives.
- Projects located right on Tokyo Financial Street are to be promoted as a national strategic special zone, a new scheme introduced by the Abe government, with financial functions to be developed in a speedy manner.



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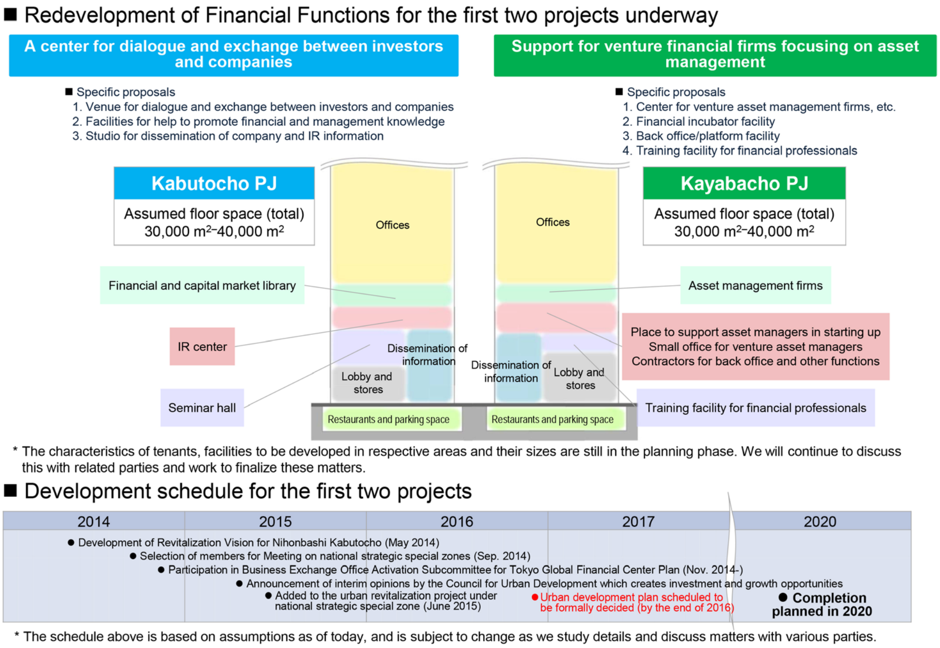
Light has also been shed on the concepts for community creation. In its interim report of April 2015, the Council on Urban Development for Investment and Economic Growth explained the concept behind a new key role to be played by Nihonbashi Kabutocho, one that focuses on asset managers and other financial service professionals. The concept aims to create a community that facilitates interaction among listed companies, as well as the nurturing and concentration of financial venture companies and specialized financial service providers centered on financial professionals and asset managers. Encouraged by this movement, in its forerunning Kabutocho project, Heiwa Real Estate plans to create an investor forum and facilities that foster financial knowledge based on the concept of developing facilities that promote dialog and interaction among investors and companies. In its Kayabacho project, Heiwa Real Estate plans to construct facilities that promote the incubation of financial venture companies, such as new asset management firms, based on the concept of supporting the development of financial venture companies that focus on asset management.

Financial function support concept and development schedule



Heiwa Real Estate aims to complete the Kabutocho Project and the Kayabacho Project during 2020. These two forerunning projects are projected to have a combined floor area of 60,000-80,000 square meters. However, we note that attention should be paid to the timing of approvals and the release of information concerning final investment plans, leasable area and other specifics.

Heiwa Real Estate's share price declined sharply after it was announced on September 4, 2015 that the stock would be removed from the Nikkei 225 Index. Since then, however, the share price has recovered to a level that has outperformed the TOPIX real estate index, as of November 6, 2015 (since May 1, 2015). We attribute this rebound in the share price to investors gaining a better understanding of the steady nature of the company's operations and the future potential of its Kabutocho redevelopment project. With that said, the stock currently trades at a P/B multiple of 0.58x (as of December 16, 2015), lower than sector peers. We expect flat growth in earnings over the short term. We believe the stock is likely to be reassessed when detailed plans are unveiled for the redevelopment of the Nihonbashi Kabutocho area.

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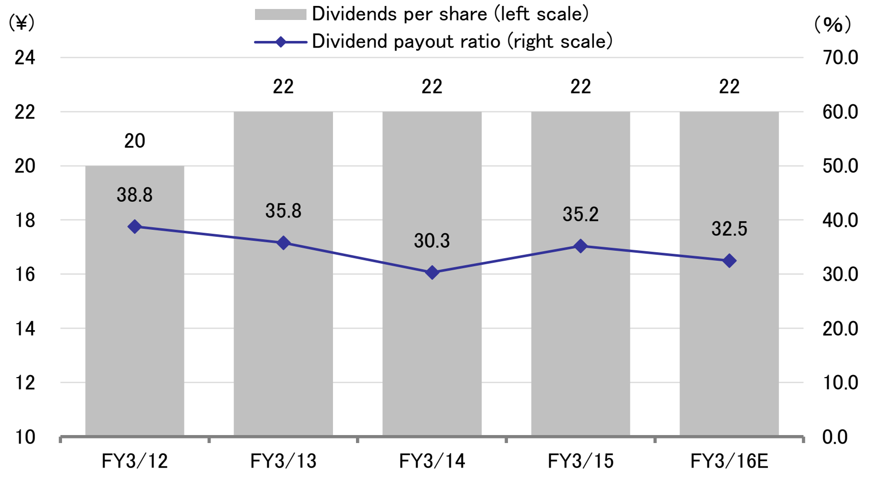
Shareholder Return Policy

Maintaining annual dividends of ¥22 per share, 30% dividend payout ratio

Although the company needs to retain funds for its Nihonbashi Kabuto-cho Revitalization Project, it intends to maintain a dividend payout ratio of around 30%. For FY3/16, the company paid interim dividends of ¥11 per share and plans to pay year-end dividends of ¥11 for full-term dividends of ¥22.

Dividends Per Share and Dividend Payout Ratio



Source: Company materials

Company Outline

Originated as a real estate developer and leaser to Japan's securities industry

(1) History

Heiwa Real Estate was established in 1947 to develop and lease buildings to securities exchanges and securities companies. That year, Japan's previous 11 securities exchanges forming the Japan Securities Exchange, which was partly private and partly public, was dissolved and replaced with new exchanges that used the old exchanges' assets as in-kind investments. Subsequently, the company increased its leased assets by developing or acquiring office buildings and expanded the scope of its business to include asset management and home development. Today, it has six consolidated subsidiaries.

Core leasing business and real estate solutions business coordinating with REIT form two main businesses

(2) Business overview

Two main businesses, leasing and real estate solutions, provided 93.8% of total operating revenue and almost all operating income in 1H FY3/16.

As of September 2015, the leasing business owns about ¥224.1bn of assets for lease, including securities exchange buildings, office buildings, commercial facilities, and housing, in Japan's main cities, including Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, and Sendai. Many of these buildings are in the securities industry centers of Nihonbashi Kabutocho in Tokyo, Kitahama in Osaka, and Sakae in Nagoya. Leasing is the company's main business, supplying 70.3% of its total operating revenue and 97.2% of its total operating income before eliminations in 1H FY3/16.

The real estate solutions business has four sub-divisions or sources of revenue and income: 1) management fees, 2) revenue and income from developed real estate, 3) brokerage commissions, and 4) housing development. Management fees are earned by consolidated subsidiary Heiwa Real Estate Asset Management Co., Ltd., which operates assets received from Heiwa Real Estate REIT, Inc., a non-consolidated unit listed on the Tokyo Stock Exchange in 2005. Management fee income increases as the amount of assets under management expands. Revenue and income from developed real estate stems mainly from the sales of real estate to Heiwa Real Estate REIT, Inc. Sales tend to fluctuate annually, but because properties are usually sold soon after being acquired, the operating income from these sales varies less than sales. Brokerage fees are collected on all real estate transactions conducted by the company. The housing development business constructs condominium buildings and sells the units of these buildings. This business has a short operating cycle. In 1H FY3/16, the real estate solutions business provided 23.5% of the company's total operating revenue and 15.6% of its total operating income before eliminations.

Business Breakdown in 1H FY3/16

Business segment	Segment breakdown	Share of operating revenue		Share of operating income	
Leasing	Office buildings	67.2%	70.3%	91.8%	97.2%
	Residential buildings	3.1%		5.4%	
Real estate solutions	Management fees	3.2%	23.5%	17.3%	15.6%
	Revenue and income from real estate development, etc.	18.1%			
	Brokerage commissions	2.1%			
	Housing development	0.0%		-1.7%	
Other businesses	Building management and contract construction		6.2%		1.2%
Eliminations	-		-		-14.0%
Total	-		100%		100%

Source: Company materials

Leasing market is favorable, company develops prominent business areas

(3) Leasing market environment and company's leasing business model

Japan's leasing market has been improving. The average vacancy rate of office buildings in the five central commercial wards of Tokyo (Chuo, Chiyoda, Minato, Shinjuku, and Shibuya) fell from 9.0% in March 2012 to 4.5% in September 2015, while the average rent in these wards are climbing. The average vacancy rate of office buildings leased in Greater Tokyo by Heiwa Real Estate was 3.8% in September 2015 but, excluding buildings the company had stopped leasing to redevelop, this vacancy rate was only 1.0%, far below the market average vacancy rate. This low vacancy rate is due to the company's practice of leasing many of its buildings as a unit.

* Office data by Miki Shoji Co., Ltd.

In developing office buildings for lease, Heiwa Real Estate considers an entire area, not a single building. Because its buildings are concentrated in the financial districts of leading cities, it excels at developing prominent business areas. For example, in the Sakae area of Nagoya, where it owns the Nagoya Stock Exchange Bldg., the company redeveloped buildings near the exchange over the 10 years from 2004, thereby enhancing the cityscape and increasing the floor area of all buildings leased in the area from 11,300 square meters to 39,700 square meters. Its leasing revenue from the area grew accordingly. The Nihonbashi Kabuto-cho Revitalization Project is also an area where the company can leverage its expertise in urban redevelopment.

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Value chain strategy includes the group's real estate investment trust company

(4) Business model for real estate solutions

The company's basic strategy for real estate solutions is to build a value chain that encompasses its entire group, including Heiwa Real Estate REIT, Inc. (listed on the Tokyo Stock Exchange in 2005). As a sponsor of Heiwa Real Estate REIT, Inc., Heiwa Real Estate buys buildings, raises their value, by lowering their vacancy rates, for example, then sells the buildings to Heiwa Real Estate REIT, Inc. This REIT then transfers most of its assets to Heiwa Real Estate Asset Management to manage. As its supply of high-quality buildings increases, the asset management company, a consolidated subsidiary, earns increasing management fees, completing a cycle of organic growth for Heiwa Real Estate. Heiwa Real Estate REIT, Inc. concentrates its investment on office and residential buildings in the wards of Tokyo, and its business has been growing in recent years, but its results are not included in Heiwa Real Estate's consolidated results.

The company has maintained a sound financial base

(5) Financial Position

The company's financial position has not changed much in 1H FY3/16 compared with the end of FY3/15. Total assets declined ¥3,715mn to ¥294,021mn, owing mainly to a ¥3,473mn decrease in real estate for sale that reflects the sale of inventory assets.

Total liabilities decreased by ¥4,013mn to ¥201,424mn, reflecting a decline of ¥3,473mn in accounts payable.

The current ratio and the shareholders' equity ratio changed slightly, but the company is still in a financially sound position. Thanks to efforts to improve its financial health since the collapse of Lehman Brothers, the D/E ratio (interest-bearing debt / net assets) has improved from 2.61x in FY3/12 to 1.77x in 1H FY3/16.

Summary of Consolidated Balance Sheet and Measures of Management Performance

(Unit: ¥mn)

	FY3/15	FY3/16 1H	Absolute change YoY
Current assets	31,534	33,415	1,881
Cash and deposits	9,046	9,549	503
Marketable securities	2,306	6,307	4,001
Real estate for sale	14,786	11,312	-3,474
Fixed assets	265,767	260,151	-5,616
Tangible fixed assets	218,408	214,973	-3,435
Total assets	297,736	294,021	-3,715
Current liabilities	42,615	50,439	7,824
Fixed liabilities	162,822	150,985	-11,837
Total liabilities	205,438	201,424	-4,014
Total net assets	92,298	92,596	298
Total liabilities and net assets	297,736	294,021	-3,715
Measures of financial stability			
Current ratio (current assets ÷ current liabilities)	74.0%	66.2%	-
Equity ratio (total equity ÷ total assets)	31.0%	31.5%	-

Source: Company materials

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