

33rd Fiscal Period Financial Report (REIT)

July 17, 2018

REIT Issuer: HEIWA REAL ESTATE REIT, Inc.
 Securities Code: 8966
 Representative: (Title) Executive Director

Stock Exchange Listing: TSE
 URL: <http://www.heiwa-re.co.jp/>
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Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): August 30, 2018

Scheduled date of commencement of distribution payments: August 15, 2018

Supplementary materials: Attached

IR Conference: Yes (for institutional investors, securities analysts)

[Amounts are rounded down to the nearest million yen]

1. Status of Management and Assets for the 33rd Fiscal Period

33rd Fiscal Period (33rd FP): Fiscal period ended May 2018 (from December 1, 2017 to May 31, 2018)

(1) Management

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income	
33rd FP	¥8,803 million	49.7%	¥5,305 million	107.5%	¥4,815 million	135.1%	¥4,815 million	152.8%
32nd FP	¥5,881 million	0.9%	¥2,557 million	1.4%	¥2,048 million	2.0%	¥1,904 million	(5.1%)

	Net income per unit	Ratio of net income to unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenue
33rd FP	¥4,744	5.1%	2.7%	54.7%
32nd FP	¥1,877	2.1%	1.1%	34.8%

(2) Distributions

	Distribution per unit (excluding distribution in excess of earnings)	Total distributions (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit	Total distributions in excess of earnings	Payout ratio (Note 1)	Ratio of distributions to net assets (Note 2)
33rd FP	¥2,300	¥2,334 million	¥0	¥0 million	48.5%	2.5%
32nd FP	¥2,054	¥2,084 million	¥0	¥0 million	109.4%	2.3%

(Note 1) Payout ratio shows figures that have been calculated using the following formula:

Total distributions (excluding total distributions in excess of earnings) ÷ Net income × 100

(Note 2) Ratio of distributions to net assets shows figures that have been calculated using the following formula:

Total distributions (excluding total distributions in excess of earnings) ÷ [(Net assets at beginning of period + Net assets at end of period) ÷ 2] × 100

(Note 3) The amount of total distributions (¥2,084 million) for the 32nd Fiscal Period includes the reversal of the reserve for adjustment of temporary differences (¥138 million), which was calculated based on the amount offsetting gains on sales of real estate properties and impairment losses, as well as the reversal of retained earnings brought forward from the previous period (¥0 million) and the reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit), for the purpose of stable distribution. Therefore, the amount differs from the amount of net income.

(Note 4) The amount of total distributions (¥2,334 million) for the 33rd Fiscal Period are calculated as follows and therefore differ from the amount of net income. The reversal of the reserve for adjustment of temporary differences of ¥40 million (¥40 per unit) is appropriated to the balance excluding the net income provision of reserve for reduction entry of ¥415 million and internal reserve amount of ¥2, 106 million.

(3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
33rd FP	¥181,306 million	¥95,172 million	52.5%	¥93,780
32nd FP	¥178,855 million	¥92,410 million	51.7%	¥91,058

(4) Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
33rd FP	¥12,208 million	(¥6,385 million)	(¥2,693 million)	¥13,689 million
32nd FP	¥4,590 million	(¥1,478 million)	(¥2,068 million)	¥10,559 million

2. Management Status Forecasts for the 34th and 35th Fiscal Periods

34th Fiscal Period (34th FP): Fiscal period ending November 2018 (from June 1, 2018 to November 30, 2018)

35th Fiscal Period (35th FP): Fiscal period ending May 2019 (from December 1, 2018 to May 31, 2019)

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income		Distribution per unit (excluding distribution in excess of earnings) (Note)	Distribution in excess of earnings per unit
	Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change		
34th FP	¥5,880 million	(33.2%)	¥2,609 million	(50.8%)	¥2,148 million	(55.4%)	¥2,148 million	(55.4%)	¥2,300	¥-
35th FP	¥5,925 million	0.8%	¥2,630 million	0.8%	¥2,170 million	1.0%	¥2,170 million	1.0%	¥2,350	¥-

(Reference) Estimated net income per unit: 34th Fiscal Period: ¥2,117 35th Fiscal Period: ¥2,138

(Note) The sources of funds for paying the total distributions for the 34th Fiscal Period include the planned amount of the reversal of the reserve for the adjustment of temporary differences of ¥185 million (¥183 per unit), the sources of funds for paying the total distributions for the 35th Fiscal Period include the planned amount of the reversal of the reserve for the adjustment of temporary differences of ¥215million (¥212 per unit), and they therefore differ from the amount of net income.

* Other

(1) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

(i) Changes in accounting policies accompanying amendments to accounting standards, etc.:	No
(ii) Changes in accounting policies other than (i):	No
(iii) Changes in accounting estimates:	No
(iv) Restatements	No

(2) Total Number of Investment Units Issued and Outstanding

- (i) Total number of investment units issued and outstanding at end of period (including own investment units):
- (ii) Number of own investment units at end of period:

33rd FP:	1,014,847 units	32nd FP:	1,014,847 units
33rd FP:	– units	32nd FP:	– units

(Note) For the number of investment units on which the calculation of net income per unit is based, see “Note on per-unit information” on page 32 of the Japanese version of the “33rd Fiscal Period Financial Report (REIT)” for the period ended May 2018.

* Statement on Status of Review Procedures

Financial statement review procedures based on the Financial Instruments and Exchange Act are still ongoing at the time of disclosure of this financial report.

* Explanation on the Appropriate Use of the Management Status Forecasts, and Other Matters of Special Note (Caution Concerning Forward-Looking Statements, Etc.)

The management status outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions deemed reasonable by the Investment Corporation. Accordingly, actual management status and other results may vary materially due to various factors. This forecast is not a guarantee of actual distributions paid. See the “Management status forecast assumptions for 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)” on page 10 for notes on assumptions used in management status forecasts and on the use of management status forecasts.

1. Related Corporations of the REIT

No disclosure necessary, since there have been no material changes from “Structure of the REIT” in the most recent Annual Securities Report (submitted February 28, 2018).

2. Operating Policies and Operations

(1) Operating policies

No disclosure is necessary since there have been no material changes to the “Investment policies,” “Targets of investments” and “Distributions policy” in the most recent Annual Securities Report (submitted on February 28, 2018).

(2) Operations

a. General situation during the 33rd Fiscal Period

The REIT is striving based on its Basic Philosophy of “Steady Growth of Assets Under Management” and “Stable Medium- to Long-Term Profits,” as well as “cooperation with and use of the Heiwa Real Estate Group” (below, collectively referring to Heiwa Real Estate Co., Ltd. [below, “Heiwa Real Estate”] and the subsidiaries of Heiwa Real Estate; the same hereinafter) to manage its assets with the purpose of maximizing investor’s value. Following is a summary of our asset management during the 33rd Fiscal Period.

(i) Brief background of the REIT

Investment units in the REIT have been listed on the Real Estate Investment Trust Section (J-REIT Section) of the Tokyo Stock Exchange (below, TSE) since March 8, 2005 (Securities Code: 8966). Subsequently, the REIT executed a capital increase through public offering and underwriting of new investment units issued through private placement on several occasions and an investment unit split and investment unit issuance through a merger with Japan Single-residence REIT Inc. on October 1, 2010 (below, this event is referred to as the merger) by the previous Fiscal Period. As a result, total investment units outstanding were 1,014,847 and unitholders' capital was 81,370 million yen as of the end of the 33rd Fiscal Period (May 2018).

(ii) Operating environment

The Japanese economy during the 33rd Fiscal Period sustained a moderate recovery aided by the continued in corporate earnings and increase in capital investment, which in turn reflected an increase in imports and an improvement in production activity against the backdrop of brisk overseas demand and steady personal consumption driven by sustained improvements in the employment/income environment. Looking ahead, uncertain factors include Trump administration policies, the Middle East situation, and the North Korea issue.

In this environment, the TSE REIT index rose to 1,761.54 points on January 25, 2018, from 1,671.62 points at the end of the previous Fiscal Period (end of November 2017). However, the index fell sharply to 1,645.41 points on February 14, 2018 due to a deterioration in investors’ sentiment. Thus, the first half of the Fiscal Period under review experienced fluctuations. In the second half of the Fiscal Period under review, the index remained steady following the continuance of monetary easing by the Bank of Japan, rising to 1,734.13 points at the end of the Fiscal Period under review, up some 62 points compared to the end of previous Fiscal Period.

(a) Office building leasing market

The latest office building market data from Miki Shoji Co., Ltd. shows a gradual decline in the average office building vacancy rate in the five central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku and Shibuya) to 2.68% at the end of the Fiscal Period under review, down from 3.03% at the end of the previous period (November 2017). This reflected the continued reduction in vacancies at existing office buildings due to their consolidation, increased floor areas within the buildings and relocation for expansion, as well as more contracts signed for new buildings. The office building leasing market is showing signs of a steady improvement trend driven by an increase in demand for office space backed by improved corporate economic sentiment. The average rent rose from 19,064 yen/tsubo at the end of the previous Fiscal Period to 20,019 yen/tsubo at the end of the Fiscal Period under review, entering a 20,000 yen level for the first time in 8 years and 10 months. The recovery of the rent market is becoming conspicuous.

(b) Residential leasing market

According to At Home Co., Ltd., the used condominium contract rent index in the Tokyo metropolitan area for May 2018 fell 1.0 percentage points year on year, but demand for rental housing remains strong due to a continuous excess of population inflow into the metropolitan area and a growing trend of smaller households. According to the Survey Report on the Statistics of Construction Starts published in May of the same year, the number of new housing starts (rental housing) decreased for the 12th straight month from the same month last year, further to the previous Fiscal Period, the supply increase has stabilized and the demand and supply trends in the rental market for residences remained steady. For assets under management by the REIT, occupancy rates remained high through the Fiscal Period under review, and the number of properties indicative of higher rent levels rose, contributing to a steady rise in rent income. The outlook for the residential market remains stable.

(c) Real estate

Regarding official land prices as of January 1, 2018 announced in March 2018, average land prices in Japan's three major metropolitan areas maintained last year's upward trend in both residential and commercial areas. A breakdown shows that the official prices in residential areas continued to increase modestly, as in the previous year, amid the growth of housing demand fueled by improved economic sentiment in the Tokyo, Osaka and Nagoya areas. In commercial areas, the upward trend maintained its momentum this year as the official land prices climbed for the sixth straight year in the Tokyo, Osaka and Nagoya areas. The upward trend is attributable to the solid housing demand in residential areas as the employment/income environments continue to improve, driven by low interest rates and mortgage tax breaks, while in commercial areas, it is attributable to factors such as the increased demand for real estate investment on the back of the favorable funding environment created by low interest rates, the downward trend in the occupancy rate of office buildings in major city centers, an increase in the demand for stores and hotels arising from the growing number of foreign tourists, and an improvement in rents.

With respect to regional areas, land prices for residential areas continued to fall, but those for commercial areas showed an upward trend for the first time in 26 years. However, official land prices in the cities designated by government ordinance in the regional areas, which the REIT considers to be investment targets, are showing growth in both the residential and commercial areas.

(iii) Management performance

(a) External growth

The REIT acquired two residential buildings (Re-84, HF RYOGOKU RESIDENCE [real estate and land leasehold rights, acquisition price: 1,400 million yen] and Re-85, HF HACHIOJI RESIDENCE [real estate, acquisition price: 1,120 million yen]) on December 15, 2017 and one office building (Of-40, ARK Mori Building [trust beneficiary rights, acquisition price: 3,085 million yen]) on March 28, 2018, and sold one office building (Of-10, HF SHIN-YOKOHAMA BUILDING [real estate, acquisition price: 1,550 million yen]) on December 22, 2017, one office building (Of-22, HF TORANOMON BUILDING [real estate, acquisition price: 1,675 million yen]) on March 28, 2018, one residential building (Re-52, HF TENJIN-HIGASHI RESIDENCE [trust beneficiary rights, acquisition price: 502 million yen]) on March 30, 2018, and one office building (Of-26, HIROKOJI AQUA PLACE [trust beneficiary rights, acquisition price: 2,930 million yen]) on May 31, 2018 for the purpose of increasing the profitability of its portfolio and improving its quality. Moreover, the REIT acquired the land part (leasehold land) of Of-24, HF YUSHIMA BUILDING for 190 million yen additionally on May 28, 2018, and now owns the whole building.

As a result, portfolio assets as of the period end were 99 properties (total acquisition price 165,491 million yen), including 29 office buildings (total acquisition price of 70,161 million yen) and 70 residential buildings (total acquisition price 95,330 million yen).

(b) Internal growth

The REIT has consistently endeavored to increase profitability by improving and maintaining its occupancy rates. During the 33rd Fiscal Period, with the aim of maintaining the high occupancy rate achieved at the end of the previous Fiscal Period, the REIT continued to be engaged in tenant leasing activities, working to shorten vacancy duration as well as systematic efforts to increase its investment value based on tenant needs and the characteristics of each individual property. Partly as a result of these initiatives to maintain and improve the competitiveness of its assets, the occupancy rate for all properties held by the REIT climbed further to 97.9% as at the end of the 33rd Fiscal Period from 97.7% at the end of the previous Fiscal Period. The REIT successfully maintained high and stable occupancy throughout the period, resulting in a high average month-end occupancy rate of 97.7% for the Fiscal Period under review.

(iv) Procurement of funds

The REIT issued the third series of unsecured investment corporation bonds (total amount of issuance: 1,000 million yen) to strengthen its financial base by extending the maturities of interest-bearing liabilities and diversifying repayment dates and means of fund procurement. Using funds procured by the issuance of these bonds, the REIT repaid some of the loans on May 15 2018. Regarding loans payable, the REIT took out Term Loan 36 (loan amount: 200 million yen) to repay Term Loan 32 (loan balance: 200 million yen), whose principal repayment date was February 28, 2018. In addition, the REIT took out Term Loan 35 (Tranche A [loan amount: 700 million yen], Tranche B [loan amount: 800 million yen]) on December 15, 2017 and Term Loan 37 (loan amount: 900 million yen) on March 28, 2018 to use for funds to acquire properties. Moreover, the REIT took out Term Loan 38 (Tranche A [loan amount: 1,200 million yen], Tranche B [loan amount: 4,000 million yen]) on May 31, 2018 to repay Term Loan 16 (loan balance: 3,900 million yen) and Term Loan 25 Tranche A (loan balance: 1,300 million yen), the principal repayment date for which was May 31, 2018. Meanwhile, as a result of the sale of HIROKOJI AQUA PLACE, the REIT prepaid the loan partially, some 2,994 million yen in total on May 31, 2018.

An overview of the loans is provided below. The loans enabled the REIT to extend its borrowing periods and diversify its maturities (average borrowing period as of the end of May: 6.8 years; average remaining period: 4.3 years) and to lower its borrowing cost (average borrowing interest rate as of the end of May: 0.86 %).

[Third series of unsecured investment corporation bonds]

Name	HEIWA REAL ESTATE REIT, Inc. Third Series of Unsecured Investment Corporation Bonds (with special pari passu conditions among specified investment corporation bonds)
Total amount of investment corporation bonds	1,000 million yen
Payment date	May 7, 2018
Amount to be paid in	100 yen per the amount of 100 yen of each investment corporation bond
Interest rate	0.700% annually
Security and guarantee	Unsecured Non-guaranteed
Maturity	The REIT will redeem the total amount of the Investment Corporation Bonds on May 2, 2028. The REIT may conduct the retirement by purchase of the Investment Corporation Bonds anytime from the day after the payment date, unless otherwise provided for in laws, regulations or the operational rules of Japan Securities Depository Center, Inc., which is the transfer institution, and other rules.
Interest payment date	May 31 and November 30 every year (First interest payment date is November 30, 2018)
Use of funds	Funds were appropriated to some of funds for the repayment of existing loans (Term Loan 34 Tranche A, Term Loan 35 Tranche A, and Term Loan 36).

[Term Loan 35 Tranche A]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	700 million yen	November 30, 2018 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

[Term Loan 35 Tranche B]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Mizuho Bank, Ltd.	800 million yen	October 31, 2024 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

[Term Loan 36]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Trust Bank, Limited	200 million yen	February 28, 2019 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

[Term Loan 37]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation	900 million yen	May 31, 2025 (Note)	Lump sum repayment on the principal repayment date	Property acquisition funding, etc.	Unsecured Non-guaranteed

[Term Loan 38 Tranche A]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation Resona Bank, Limited Sumitomo Mitsui Trust Bank, Limited Aozora Bank, Ltd.	1,200 million yen	October 31, 2020 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

[Term Loan 38 Tranche B]

Lender	Loan amount	Principal repayment date	Principal repayment method	Purpose	Summary
Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited Resona Bank, Limited Aozora Bank, Ltd. MUFG Bank, Ltd. The Bank of Fukuoka, Ltd. The 77 Bank, Ltd.	4,000 million yen	November 30, 2026 (Note)	Lump sum repayment on the principal repayment date	Funds to repay existing loans	Unsecured Non-guaranteed

(Note) Or the previous business day if the date shown is not a business day.

As a result, the total interest-bearing liabilities amount at period end was 78,667 million yen (period end LTV (Note): 43.39%).

(Note) Interest-bearing liabilities = Short-term loans + Long-term loans due within one year + Investment corporation bonds + Long-term loans

Closing ratio of interest-bearing liabilities to total assets = Closing amount of interest-bearing liabilities / Closing amount of total assets × 100

The ratings of the REIT as of the date of this document are as follows:

Credit rating agency	Issuer rating
Japan Credit Rating Agency, Ltd. (JCR)	Rating: A; Rating outlook: Positive

(v) Performance and distributions

The management described above led to 33rd Fiscal Period results of 8,803 million yen in operating revenues, 5,305 million yen in operating income, after deducting interest expenses on loans, 4,815 million yen in ordinary income, and 4,815 million yen in net income. With respect to the distribution of monies (“distributions”) stipulated in Article 137 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951 and subsequent amendments), distributions shall be not more than the amount of unappropriated retained earnings at the end of the Fiscal Period under review and are defined as anything in excess of 90% of the “amount of distributable income” stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957 and subsequent amendments; the “Special Taxation Measures Act”) in accordance with the stipulations of Article 32, paragraph 1 of its Articles of Incorporation (“bylaws”). However, taxable income is not generated due to the deduction of losses carried forward for the Fiscal Period under review even without the application of the provision of Article 67-15 of the Special Taxation Measures Act. In such a case, according to Article 32, paragraph 1 of the REIT’s bylaws, distributions shall be the amount rationally determined by the REIT. Based on such policy, the REIT made a decision to pay out 2,334,148,100 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to the balance excluding provision of reserve for reduction entry under the application of the “Special Provisions for Taxation in the case of Advanced Acquisition of Land, etc. in 2009 and 2010” of Article 66-2 of the Special Taxation Measures Act of 415,683,166 yen and internal reserve of 2,106,000,648 yen from the net income of 4,815,238,034 yen. As a result, distributions per unit have come to 2,300 yen.

b. Outlook for next period

Management policy and future issues

The REIT has developed and managed a high quality portfolio, primarily consisting of office and residence properties located in Tokyo 23 Wards, with the aim of maximizing investor value through our Basic Philosophy of “Steady Growth of Assets under Management” and “Stable Medium- to Long-Term Profits” as well as through “cooperation with and use of the Heiwa Real Estate Group.” In subsequent periods, we will continue to adhere to the above philosophy, aiming to further maximize investor value through the stable management of our portfolio and pursuing a strategy of steady growth.

(a) External growth

The REIT attempted to enhance the quality of its portfolio and increase its revenues by acquiring five new properties of good quality, in addition to selling four properties from the Fiscal Period under review to the next Fiscal Period. While the REIT will continue to seek expansion in the scale of its assets in the future, it will also consider the replacement of assets, strive to enhance its medium- to long-term portfolio quality and aim to maximize investor value. Given the sound financing environment and the expectations for higher property prices on the back of the expected economic recovery, competitors are maintaining a strong appetite for the acquisition of properties. As a result, the property acquisition environment is likely to remain challenging. We will endeavor to promptly obtain information on excellent properties by using our pipeline with Heiwa Real Estate and building up our unique information routes as an asset management company. As a basic strategy, we aim to increase opportunities for primarily acquiring properties owned and developed by Heiwa Real Estate, and additionally for acquiring properties owned and developed by other developers to expand our portfolio, contributing to stable profitability over the medium to long term.

(b) Internal growth

The REIT believes that by using the database and information network developed by the Heiwa Real Estate Group and its property management company, it can quickly detect leasing market trends and conduct precise property management, enabling it to maintain and increase occupancy rates and rent levels in assets under management. To maintain and increase rent levels, the REIT will continue actively endeavoring to revise rents to reasonable levels against the backdrop of improvement in the leasing market. Meanwhile, to maintain and increase occupancy rates, it will deal with tenants by focusing on minimizing departures and will undertake leasing management, including reducing the period of time for work for restoration to the original state, to shorten the period between the time when properties are vacated and the acquisition of new tenants. To make our properties more competitive, we continuously and actively make value-building investments in repairs and improvements of assets under management to maintain and enhance their medium- to long-term value, taking into account each property's asset age, facility level and other aspects. Through these measures, our goal is to maintain and further improve occupancy rates at high and stable levels.

(c) Financial strategy

The REIT is actively implementing measures in an effort to stabilize its financial foundations and achieve sustainable growth. Concerning borrowings, the REIT will continue to strive to extend its borrowing periods and diversify maturities by maintaining an appropriate loan-to-value ratio, while promoting measures to reduce risks from higher interest rates in the future and cut financial costs. It will also endeavor to further strengthen its bank formation by strengthening its relationships with financial institutions. The REIT will also issue investment corporation bonds, while keeping a close watch on the effect of reducing financial costs and trends in the financial market. By implementing these measures and initiatives on a continuous basis, the REIT will strive to build sound financial systems that are resilient to changes in the funding environment.

(d) Promotion of more timely disclosure

We practice information disclosure that is accurate, fair and timely, complying with the TSE's Securities Listing Regulations and other regulations, laws, etc. relating to timely disclosure. The REIT discloses information on its decisions on the acquisition of new properties, etc. as a rule at the time of the decision by a REIT organization such as the Board of Directors, while events such as damage to assets under management resulting from incidental occurrences are disclosed at the time they are discovered. As a rule, REIT information is disclosed through the TSE's TDnet, press releases to the TSE press club (Kabuto Club), Ministry of Land, Infrastructure, Transport and Tourism Press Club, etc., and through the REIT's website.

c. Significant subsequent events

A. Asset Acquisitions

Based on the basic policy on asset management prescribed in its bylaws, the REIT signed a contractual status succession agreement of real estate trust beneficiary rights to one property (acquisition price: 1,600 million yen) on June 18, 2018 and acquired it on June 25, 2018. In addition, the REIT signed a purchase agreement of real estate trust beneficiary rights to one property (anticipated acquisition price: 2,140 million yen) on June 18, 2018.

Property no: Of-42 Property name: SOUTHERN SKY TOWER HACHIOJI

Type of acquired property	Trust beneficiary rights
Contract date	June 18, 2018
Acquisition date	June 25, 2018
Acquisition price	1,600 million yen
Location (residential address)	4-7-1 Koyasumachi, Hachioji-shi, Tokyo
Use (Note 1)	Office
Completed	September 22, 2010
Structure	Steel reinforced concrete, reinforced concrete, steel structure flat-roof Forty one stories above ground and two basement level floors
Total floor area (Note 2)	5,720.23 m ²
Total rentable area	2,879.99 m ²

(Note 1) The part the REIT acquired are office portion of 6th and 7th floor. Their footprint (in the real estate registry) is 3,344.07 m².

(Note 2) The ownership area indicates the value calculated by multiplying the total floor area of a building by the ownership rate of 5.827275% that is based on the whole shared area specified in the management contract.

Property no: Of-41 Property name: Itopia Nihonbashi SA Building

Type of acquired property	Trust beneficiary rights
Contract date (Note 1)	June 18, 2018
Scheduled acquisition date (Note 1)	August 31, 2018
Anticipated acquisition price	2,140 million yen
Location (residential address)	1-2-10 Nihonbashi Horidome-cho, Chuo-ku, Tokyo
Use (Note 2)	Office, residence, parking lot
Completed	July 27, 1995
Structure	Steel/steel reinforced concrete structure, flat-roof, ten stories above ground and one basement level floor
Total floor area (Note 3)	2,690.16 m ²
Total rentable area	1,788.58 m ²

(Note 1) Trust Beneficiary Rights Purchase Agreement related to the acquisition of the property (hereinafter called the "Agreement" under this (Note1)) falls under a forward commitment by an investment corporation stipulated in the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators" established by the FSA. Under the Agreement, if the Agreement is terminated for reasons attributable to the REIT or the other party, the defaulting party shall pay a penalty payment equivalent to 10% of the purchase price of the real estate trust beneficiary rights related to the termination. Moreover, performance of the REIT's obligation to pay the purchase price is subject to completion of the necessary funding for the REIT to pay the purchase price. If funds cannot be raised at the time of the scheduled acquisition date, there shall be no obligation for the REIT to pay the purchase price and the REIT may terminate the Agreement without an obligation to pay the penalty. We see little likelihood that this will have a material impact on the financial position and distribution, etc. of the REIT as the REIT may terminate the Agreement bearing no burden of compensation (including payment of a penalty) or other obligations to the seller when it fails to raise funds.

The REIT obtained an appraisal report on the property at the time of appraisal on April 30, 2018 from the Tanizawa Sogo Appraisal Co., Ltd. and the appraisal value at the point of the said day is 2,210 million yen.

(Note 2) The portion the REIT is to acquire the office part of the 6th to 8th floors (whole ownership) and the office part of the 9th floor (co-ownership ratio 40.12%) of the building and the REIT is to acquire the first basement level and the parking lot on the first floor (co-ownership ratio 36.53%), and the ratio of exclusive floor area is 36.54% of the whole building.

(Note 3) The ownership area indicates the value calculated by multiplying the total floor area of a building by the building ownership rate of 36.54% that is based on the management contract for Itopia Nihonbashi SA Building.

d. Outlook for the 34th and 35th Fiscal Periods

Operations are forecast to be as follows during the 34th Fiscal Period (from June 1, 2018 to November 30, 2018). See "Management status forecast assumptions for 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)" below for assumptions used in this forecast.

Operating revenues	5,880 million yen
Operating income	2,609 million yen
Ordinary income	2,148 million yen
Net income	2,148 million yen
Distributions per unit (excluding distributions in excess of earnings)	2,300 yen
Distributions in excess of earnings per unit	– yen

(Note1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 185 million yen (183 yen per unit), and they therefore differ from the amount of net income.

(Note2) The above forecast figures were calculated using a fixed set of assumptions and are valid as of the time of this notice. Actual net income, distributions, etc., may vary due to changes in conditions. Forecast figures are not a guarantee of the amount of distributions.

Operations are forecast to be as follows during the 35th Fiscal Period (from December 1, 2018 to May 31, 2019). See "Management status forecast assumptions for 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)" below for assumptions used in this forecast.

Operating revenues	5,925 million yen
Operating income	2,630 million yen
Ordinary income	2,170 million yen
Net income	2,170 million yen
Distributions per unit (excluding distributions in excess of earnings)	2,350 yen
Distributions in excess of earnings per unit	– yen

(Note1) Sources of funds for paying total distributions include the planned amount of the reversal of the reserve for adjustment of temporary differences of 215 million yen (212 yen per unit), and they therefore differ from the amount of net income.

(Note2) The above forecast figures were calculated using a fixed set of assumptions and are valid as of the time of this notice. Actual net income, distributions, etc., may vary due to changes in conditions. Forecast figures are not a guarantee of the amount of distributions.

Management status forecast assumptions for 34th Fiscal Period (from June 1, 2018 to November 30, 2018) and 35th Fiscal Period (from December 1, 2018 to May 31, 2019)

Item	Assumptions																				
Management period	34th Fiscal Period: from June 1, 2018 to November 30, 2018 (183 days) 35th Fiscal Period: from December 1, 2018 to May 31, 2019 (182 days)																				
Assets under management	<ul style="list-style-type: none"> The assumption is 101 properties consisting of 99 properties the REIT owns at the end of the fiscal period ended May 2018 and “SOUTHERN SKY TOWER HACHIOJI” acquired on June 25, 2018 and “ITOPIA NIHONBASHI SA BUILDING” to be acquired on August 31, 2018. The actual number of properties owned may vary if properties are newly acquired, transferred, etc. 																				
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> The assumption is 1,014,847 units as the total number of investment units issued and outstanding at the end of the fiscal period ended May 2018. 																				
Operating revenues	<ul style="list-style-type: none"> Operating revenues are calculated based on the assumption of the above assets under management. Operating revenues are calculated taking into account such factors as cancellation notices currently received and the future market environment, using the history of acquired assets as our standard. 																				
Operating expenses	<ul style="list-style-type: none"> Operating expenses are calculated based on the assumption of the above assets under management. Assumptions concerning major operating expenses are as follows: <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">34th Fiscal Period (from June 1, 2018 to November 30, 2018)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">409 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">207 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">620 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">931 million yen</td> </tr> <tr> <td colspan="2">35th Fiscal Period (from December 1, 2018 to May 31, 2019)</td> </tr> <tr> <td>Public charges and taxes (fixed property tax, city planning tax, etc.):</td> <td style="text-align: right;">413 million yen</td> </tr> <tr> <td>Maintenance and repair fees:</td> <td style="text-align: right;">210 million yen</td> </tr> <tr> <td>Management commissions:</td> <td style="text-align: right;">635 million yen</td> </tr> <tr> <td>Depreciation:</td> <td style="text-align: right;">941 million yen</td> </tr> </table> Fixed property tax, city planning tax, etc. associated with properties held are accounted for as expenses related to the lending business by posting the amounts corresponding to the relevant calculation period from the amount of tax determined to be due. Although fixed property tax, city planning tax, etc., on the buying and selling of real estate properties is generally calculated on a pro-rata basis with former owners and settled at the time of acquisition, the amount equivalent to the settlement money is not expensed, as it is included in the acquisition cost. For maintenance and repair fees, an amount deemed necessary during the period based on the maintenance and repair plans for the properties is posted. Emergency costs may arise as a result of unforeseeable factors, and actual operating expenses may therefore vary significantly from the forecast. 	34th Fiscal Period (from June 1, 2018 to November 30, 2018)		Public charges and taxes (fixed property tax, city planning tax, etc.):	409 million yen	Maintenance and repair fees:	207 million yen	Management commissions:	620 million yen	Depreciation:	931 million yen	35th Fiscal Period (from December 1, 2018 to May 31, 2019)		Public charges and taxes (fixed property tax, city planning tax, etc.):	413 million yen	Maintenance and repair fees:	210 million yen	Management commissions:	635 million yen	Depreciation:	941 million yen
34th Fiscal Period (from June 1, 2018 to November 30, 2018)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	409 million yen																				
Maintenance and repair fees:	207 million yen																				
Management commissions:	620 million yen																				
Depreciation:	931 million yen																				
35th Fiscal Period (from December 1, 2018 to May 31, 2019)																					
Public charges and taxes (fixed property tax, city planning tax, etc.):	413 million yen																				
Maintenance and repair fees:	210 million yen																				
Management commissions:	635 million yen																				
Depreciation:	941 million yen																				
Non-operating expenses	<ul style="list-style-type: none"> The REIT assumes 447 million yen and 455 million yen as interest expenses (including interest expenses on investment corporation bonds) and borrowing-related expenses for the fiscal period ending November 2018 and the fiscal period ending May 2019 respectively. Moreover, the REIT assumes 8 million yen and 2 million yen as amortization of investment unit issuance expenses and amortization of investment corporation bond issuance expenses for the fiscal period ending November 2018 and the fiscal period ending May 2019, respectively. 																				
Interest-bearing liabilities	<ul style="list-style-type: none"> Interest-bearing liabilities at the end of the fiscal period ended May 2018 are 78,667 million yen. We intend to procure new loans totaling 2,100 million yen as part of the fund for the assets acquired in August 2018, and we assume that the total loan debts will be 80,767 million yen at the end of the fiscal period ending November 2018 and 80,767 million yen at the end of the fiscal period ending May 2019. We assume that the loans maturing in October 2018, November 2018 and May 2019 will be fully refinanced. 																				

Item	Assumptions
Distributions per unit (excluding distributions in excess of earnings)	<ul style="list-style-type: none"> • Distributions per unit (excluding distributions in excess of earnings) are calculated based on the cash distribution policy stipulated in the REIT's bylaws. For the fiscal period ending November 2018, we assume that a total of 2,334 million yen (2,300 yen per unit) will be distributed after allocating the planned amount of the reversal of the reserves for adjustment of temporary differences of 185 million yen (183 yen per unit) to the estimated net income of 2,148 million yen. For the fiscal period ending May 2019, we also assume that a total of 2,384 million yen (2,350 yen per unit) will be distributed after allocating the planned amount of the reversal of the reserve for adjustment of temporary differences of 215 million yen (212 yen per unit) to the estimated net income of 2,170 million yen. • Distributions per unit (excluding distributions in excess of earnings) may change because of various factors, including changes in leasing income attributable to changes of assets under management or changes in tenants or to unexpected maintenance and repair work.
Distributions in excess of earnings per unit	<ul style="list-style-type: none"> • We do not expect any distributions in excess of earnings at this time.
Other	<ul style="list-style-type: none"> • We assume no amendments to laws, the tax system, accounting standards, TSE rules, or The Investment Trusts Association, Japan rules, etc., that would affect the above forecast figures. • We assume that no major unforeseen changes will occur in the general economic trends, real estate market conditions, etc.

(3) Investment risk

No disclosure necessary, since there have been no material changes from "Investment risk" in the most recent Annual Securities Report (submitted February 28, 2018).

3. Financial Statements

(1) Balance Sheet

(Unit: 1,000 yen)

	32nd Fiscal Period (As of November 30, 2017)	33rd Fiscal Period (As of May 31, 2018)
Assets		
Current assets		
Cash and deposits	10,431,617	17,116,926
Cash and deposits in trust	7,108,638	3,504,078
Operating accounts receivable	54,314	67,577
Prepaid expenses	159,474	145,527
Other	8,514	5,618
Allowance for doubtful accounts	(1,287)	(869)
Total current assets	17,761,272	20,838,858
Noncurrent assets		
Property, plant and equipment		
Buildings	11,596,485	11,082,873
Accumulated depreciation	(3,419,936)	(3,041,731)
Buildings, net	8,176,548	8,041,141
Structures	62,899	57,434
Accumulated depreciation	(37,442)	(29,887)
Structures, net	25,456	27,547
Machinery and equipment	238,522	222,877
Accumulated depreciation	(148,916)	(143,958)
Machinery and equipment, net	89,606	78,918
Tools, furniture and fixture	144,759	146,435
Accumulated depreciation	(99,244)	(102,227)
Tools, furniture and fixtures, net	45,514	44,208
Land	22,138,720	22,223,632
Buildings in trust	50,466,822	48,479,067
Accumulated depreciation	(9,948,305)	(10,222,487)
Buildings in trust, net	40,518,517	38,256,579
Structures in trust	299,108	278,592
Accumulated depreciation	(84,738)	(83,748)
Structures in trust, net	214,369	194,844
Machinery and equipment in trust	592,148	611,016
Accumulated depreciation	(247,517)	(268,621)
Machinery and equipment in trust, net	344,631	342,395
Tools, furniture and fixtures in trust	897,271	927,266
Accumulated depreciation	(540,886)	(576,203)
Tools, furniture and fixtures in trust, net	356,385	351,063
Land in trust	83,854,309	85,718,064
Total property, plant and equipment	155,764,059	155,278,394
Intangible assets		
Leasehold right	1,335,851	1,193,875
Leasehold rights in trust	3,315,665	3,315,665
Other	242	242
Total intangible assets	4,651,758	4,509,782

HEIWA REAL ESTATE REIT, Inc. (8966) 33rd Fiscal Period Financial Report

(Unit: 1,000 yen)

	32nd Fiscal Period (As of November 30, 2017)	33rd Fiscal Period (As of May 31, 2018)
Investment and other assets		
Guarantee deposits	10,252	14,633
Long-term prepaid expenses	302,011	269,315
Derivatives	47,375	54,109
Other	285,377	303,355
Total investments and other assets	645,016	641,414
Total noncurrent assets	161,060,834	160,429,591
Deferred assets		
Investment unit issuance	12,338	6,169
Investment corporation bond issuance costs	21,282	31,713
Total deferred assets	33,620	37,882
Total assets	178,855,727	181,306,332
Liabilities		
Current liabilities		
Operating accounts payable	494,383	498,576
Short-term loans payable	600,000	500,000
Current portion of long-term loans payable	9,550,000	9,681,000
Accrued expenses	677,066	823,674
Income taxes payable	227	594
Accrued consumption tax, etc.	116,899	366,320
Advances received	921,909	948,253
Other	12,601	13,305
Total current liabilities	12,373,088	12,831,725
Noncurrent liabilities		
Investment corporation bonds	2,800,000	3,800,000
Long-term loans payable	66,311,700	64,686,200
Tenant leasehold and security deposits	724,719	615,164
Tenant leasehold and security deposits in trust	3,980,712	3,931,771
Derivative liabilities	254,569	268,768
Total noncurrent liabilities	74,071,700	73,301,904
Total liabilities	86,444,788	86,133,629
Net Assets		
Unitholders' equity		
Unitholders' capital	81,370,715	81,370,715
Surplus		
Investment surplus	7,406,652	7,406,652
Voluntary retained earnings		
Reserve for temporary differences, etc.	*3 2,085,761	*3 1,906,972
Total voluntary retained earnings	2,085,761	1,906,972
Unappropriated retained earnings (undisposed loss)	1,905,706	4,815,238
Total surplus	11,398,120	14,128,862
Total unitholders' equity	92,768,835	95,499,577
Valuation and translation adjustments		
Deferred hedge gain or loss	(357,896)	(326,875)
Total valuation and translation adjustments	(357,896)	(326,875)
Total net assets	*2 92,410,938	*2 95,172,702
Total liabilities and net assets	178,855,727	181,306,332

(2) Profit and Loss Statement

(Unit: 1,000 yen)

	32nd Fiscal Period (June 1, 2017 – November 30, 2017)		33rd Fiscal Period (December 1, 2017 – May 31, 2018)	
Operating Revenues				
Rent revenue-real estate	*1	5,402,385	*1	5,458,663
Other lease business revenue	*1	476,172	*1	516,457
Gain on sales of real estate properties	*2, *4	3,377	*2, *4	2,828,671
Total operating revenue		5,881,935		8,803,792
Operating expenses				
Expenses related to rent business	*1, *4	2,586,380	*1, *4	2,613,023
Asset management fee		536,229		668,720
Asset custody fee		19,738		19,778
Administrative service fees		43,165		43,777
Directors' compensation		7,965		7,965
Audit fee		9,660		9,660
Other operating expenses		121,504		135,153
Total operating expenses		3,324,644		3,498,079
Operating income		2,557,291		5,305,713
Non-operating income				
Interest income		1,264		1,263
Reversal of dividends payable		604		649
Insurance income		4,838		3,270
Refunds of fixed property tax, etc.		–		1,760
Other		291		130
Total non-operating income		6,998		7,074
Non-operating expenses				
Interest expenses		415,823		390,997
Borrowing related expenses		74,363		84,627
Interest expenses on investment corporation bonds		6,125		7,811
Amortization of investment corporation bond issuance costs		1,240		1,589
Amortization of investment unit issuance expenses		12,168		6,169
Other		5,853		5,749
Total non-operating expenses		515,574		496,944
Ordinary income		2,048,715		4,815,843
Extraordinary losses				
Impairment loss	*3	143,159		–
Total extraordinary losses		143,159		–
Income before income taxes		1,905,556		4,815,843
Income taxes-current		605		605
Total income taxes		605		605
Net income		1,904,951		4,815,238
Retained earnings brought forward		755		–
Unappropriated retained earnings (undisposed loss)		1,905,706		4,815,238

(3) Statements of Changes in Net Assets (Unitholders' Equity)

32nd Fiscal Period (June 1, 2017 – November 30, 2017)

(Unit: 1,000 yen)

	Unitholders' equity				
	Unitholders' capital / Total capital	Investment surplus	Surplus		Unappropriated retained earnings (or undisposed loss)
			Reserve for temporary differences, etc.	Total voluntary retained earnings	
Balance at the beginning of the period	81,370,715	7,406,652	2,126,355	2,126,355	2,007,108
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences			(40,593)	(40,593)	40,593
Dividends from surplus					(2,046,946)
Net income					1,904,951
Net changes of items other than unitholders' equity					
Total changes of items during the period	–	–	(40,593)	(40,593)	(101,401)
Balance at the end of the period	*1 81,370,715	7,406,652	2,085,761	2,085,761	1,905,706

	Unitholders' equity		Valuation and translation adjustments		Total net assets
	Surplus	Total unitholders' equity	Deferred hedge gain or loss	Total valuation and translation adjustments	
	Total surplus				
Balance at the beginning of the period	11,540,115	92,910,830	(483,514)	(483,514)	92,427,316
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences	–	–			–
Dividends from surplus	(2,046,946)	(2,046,946)			(2,046,946)
Net income	1,904,951	1,904,951			1,904,951
Net changes of items other than unitholders' equity			125,617	125,617	125,617
Total changes of items during the period	(141,995)	(141,995)	125,617	125,617	(16,377)
Balance at the end of the period	11,398,120	92,768,835	(357,896)	(357,896)	92,410,938

33rd Fiscal Period (December 1, 2017 – May 31, 2018)

(Unit: 1,000 yen)

	Unitholders' equity				
	Unitholders' capital / Total capital	Investment surplus	Surplus		Unappropriated retained earnings (or undisposed loss)
			Reserve for temporary differences, etc.	Total voluntary retained earnings	
Balance at the beginning of the period	81,370,715	7,406,652	2,085,761	2,085,761	1,905,706
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences			(178,788)	(178,788)	178,788
Dividends from surplus					(2,084,495)
Net income					4,815,238
Net changes of items other than unitholders' equity					
Total changes of items during the period			(178,788)	(178,788)	2,909,531
Balance at the end of the period	*1 81,370,715	7,406,652	1,906,972	1,906,972	4,815,238

	Unitholders' equity		Valuation and translation adjustments		Total net assets
	Surplus	Total unitholders' equity	Deferred hedge gain or loss	Total valuation and translation adjustments	
	Total surplus				
Balance at the beginning of the period	11,398,120	92,768,835	(357,896)	(357,896)	92,410,938
Changes of items during the period					
Reversal of reserve for adjustment of temporary differences	–	–			–
Dividends from surplus	(2,084,495)	(2,084,495)			(2,084,495)
Net income	4,815,238	4,815,238			4,815,238
Net changes of items other than unitholders' equity			31,021	31,021	31,021
Total changes of items during the period	2,730,742	2,730,742	31,021	31,021	2,761,764
Balance at the end of the period	14,128,862	95,499,577	(326,875)	(326,875)	95,172,702

(4) Statements of Cash Dividend Distributions

(Unit: yen)

	32nd Fiscal Period (June 1, 2017 – November 30, 2017)	33rd Fiscal Period (December 1, 2017 – May 31, 2018)
I. Unappropriated retained earnings	1,905,706,896	4,815,238,034
II. Reversal of voluntary retained earnings		
Reversal of reserve for adjustment of temporary differences	*1 178,788,842	40,593,880
III. Distributions	2,084,495,738	2,334,148,100
Distributions per unit (excluding distributions in excess of earnings)	(2,054)	(2,300)
IV. Voluntary retained earnings		
Provision of reserve for reduction entry	–	415,683,166
V. Retained earnings brought forward	–	2,106,000,648
How distributions were calculated	<p>Following the policy prescribed in Article 32, paragraph 1 of the REIT's bylaws, distributions are defined as anything in excess of 90% of the "amount of distributable income" stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation. Based on this policy, the REIT made a decision to pay out 2,084,495,738 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to 2,043,901,858 yen (by appropriating retained earnings brought forward of 755,671 yen and the reversal of reserve for adjustment of temporary differences of 138,194,962 yen to net income), which is the maximum value for the integral multiple of the total number of outstanding investment units, or 1,014,847 units, within the range of the amount equivalent to net income of 1,904,951,225 yen plus the amount offsetting the gain on sales of real estate properties of 3,377,520 yen and the impairment loss of 143,159,407 yen. The REIT does not distribute monies in excess of income as prescribed in Article 32, paragraph 2 of its bylaws.</p>	<p>Following the policy prescribed in Article 32, paragraph 1 of the REIT's bylaws, distributions shall be not more than the amount of unappropriated retained earnings at the end of the Fiscal Period under review and are defined as anything in excess of 90% of the "amount of distributable income" stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation. However, taxable income is not generated due to the deduction of losses carried forward for the Fiscal Period under review even without application of the provision of Article 67-15 of the Act on Special Measures Concerning Taxation. In this case, according to Article 32, paragraph 1 of the REIT's bylaws, distributions shall be the amount rationally determined by the REIT. Based on this policy, the REIT made a decision to pay out 2,334,148,100 yen as distributions from earnings by appropriating the reversal of reserve for adjustment of temporary differences of 40,593,880 yen (40 yen per unit) to the balance excluding the provision of reserve for reduction entry under the application of the "Special Provisions for Taxation in the case of Advanced Acquisition of Land, etc. in 2009 and 2010" of Article 66-2 of the Act on Special Measures Concerning Taxation of 415,683,166 yen and the internal reserve of 2,106,000,648 yen from the net income of 4,815,238,034 yen for the Fiscal Period under review. The REIT does not distribute monies in excess of income as prescribed in Article 32, paragraph 2 of its bylaws.</p>

(5) Cash Flow Statement

(Unit: 1,000 yen)

	32nd Fiscal Period (June 1, 2017 – November 30, 2017)	33rd Fiscal Period (December 1, 2017 – May 31, 2018)
Cash Flows from Operating Activities		
Income before income taxes	1,905,556	4,815,843
Depreciation	971,549	964,880
Increase (decrease) in allowance for doubtful accounts	254	(418)
Amortization of investment corporation bond issuance costs	1,240	1,589
Investment unit issuance expenses amortization	12,168	6,169
Impairment loss	143,159	–
Interest income	(1,264)	(1,263)
Interest expenses	421,948	398,808
Decrease (increase) of operating accounts receivable	15,336	(12,069)
Decrease (increase) of consumption taxes receivable	55,875	–
Increase (decrease) in accrued consumption taxes	116,899	249,420
Decrease (increase) of long-term prepaid expenses	27,609	32,695
Increase (decrease) in operating accounts payable	79,781	(38,153)
Increase (decrease) in accrued expenses	8,218	148,129
Increase (decrease) in advances received	(31,040)	26,344
Increase (decrease) in deposits received	317	(180)
Decrease from sales of property, plant and equipment	1,273,840	5,971,605
Other	(12,191)	3,099
Subtotal	4,989,259	12,566,500
Interest income received	2,464	70
Interest expenses paid	(400,020)	(357,989)
Income taxes (paid) refund	(972)	(238)
Cash Flows from Operating Activities	4,590,730	12,208,342
Cash Flows from Investing Activities		
Proceeds from withdrawal of time deposits	3,000,000	–
Payments into time deposits	(3,000,000)	–
Purchase of property, plant and equipment	(567,155)	(2,294,501)
Purchase of property, plant and equipment in trust	(258,903)	(3,419,339)
Purchase of intangible assets	(620,131)	(573,743)
Proceeds from receipt of tenant leasehold and security deposits	61,240	46,239
Repayments of tenant leasehold and security deposits	(93,271)	(155,794)
Proceeds from tenant leasehold and security deposits in trust	146,014	280,785
Repayments of tenant leasehold and security deposits in trust	(129,102)	(313,840)
Proceeds from payment of trust deposits corresponding to tenant leasehold and security deposits in trust	129,102	329,726
Deposits of trust deposits corresponding to tenant leasehold and security deposits in trust	(146,014)	(280,785)
Payments for guarantee deposits	–	(4,381)
Cash Flows from Investing Activities	(1,478,221)	(6,385,635)
Cash Flows from Financing Activities		
Proceeds from short-term loans payable	600,000	900,000
Decrease in short-term loans payable	–	(1,000,000)
Proceeds from long-term loans payable	6,580,000	6,900,000
Decrease in long-term loans payable	(9,980,000)	(8,394,500)
Proceeds from issuance of investment corporation bonds	2,777,477	987,979
Distributions paid	(2,046,199)	(2,086,497)
Cash Flows from Financing Activities	(2,068,722)	(2,693,017)
Increase (decrease) in cash and cash equivalents	1,043,786	3,129,689
Cash and cash equivalents at beginning of period	9,515,757	10,559,544
Cash and cash equivalents at end of period	*1 10,559,544	13,689,233

4. Reference Information

(1) Investment status

Asset type	Use	Area	32nd Fiscal Period (As of November 30, 2017)		33rd Fiscal Period (As of May 31, 2018)	
			Value of holding (Million yen) (Note 1)	Ratio to total assets (%)	Value of holding (Million yen) (Note 1)	Ratio to total assets (%)
Real estate (Note 2)	Office	Tokyo 23 Wards	8,666	4.8	7,132	3.9
		Metropolitan Area (Note 3)	4,722	2.6	3,520	1.9
	Residence	Tokyo 23 Wards	12,591	7.0	13,969	7.7
		Metropolitan Area (Note 3)	3,965	2.2	5,126	2.8
		Other (Note 4)	1,865	1.0	1,860	1.0
	Subtotal		31,811	17.8	31,609	17.4
Real estate in trust (Note 2)	Office	Tokyo 23 Wards	41,649	23.3	44,707	24.7
		Metropolitan Area (Note 3)	3,173	1.8	3,161	1.7
		Other (Note 4)	13,871	7.8	11,122	6.1
	Residence	Tokyo 23 Wards	47,330	26.5	47,180	26.0
		Metropolitan Area (Note 3)	2,976	1.7	2,960	1.6
		Other (Note 4)	19,603	11.0	19,046	10.5
	Subtotal		128,603	71.9	128,178	70.7
Real estate, etc., subtotal		160,415	89.7	159,787	88.1	
Deposits and other assets		18,440	10.3	21,518	11.9	
Total assets		178,855	100.0	181,306	100.0	

(Note 1) “Value of holding” is based on the balance sheet amount (carrying amount after depreciation and impairment accounting in the case of real estate and real estate in trust) as of the end of the period.

(Note 2) The land leasehold right, etc. owned in conjunction with a building, etc. is stated in the sections of “real estate” and “real estate in trust” by aggregating it with the building, etc.

(Note 3) “Metropolitan Area” refers to Tokyo (other than Tokyo 23 Wards) and Kanagawa, Saitama and Chiba prefectures.

(Note 4) “Other” refers to investment areas other than Tokyo 23 Wards and Metropolitan Area.

	32nd Fiscal Period (As of November 30, 2017)		33rd Fiscal Period (As of May 31, 2018)	
	Balance sheet amount (Million yen)	Ratio to total assets (%)	Balance sheet amount (Million yen)	Ratio to total assets (%)
Liabilities	86,444	48.3	86,133	47.5
Net assets	92,410	51.7	95,172	52.5

(2) Investment real estate properties

(i) Overview of portfolio assets

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Of-01	HF GOTANDA BUILDING	Shinagawa-ku, Tokyo	Trust beneficial interest	1,485	1,310	1,290	0.78
Of-05	SUITENGU HEIWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	1,516	1,418	1,550	0.94
Of-06	HF MONZEN-NAKACHO BUILDING	Koto-ku, Tokyo	Trust beneficial interest	2,630	2,295	2,500	1.51
Of-07	HF HAMAMATSUCHO BUILDING	Minato-ku, Tokyo	Trust beneficial interest	1,710	1,537	1,530	0.92
Of-08	HF TAMEIKE BUILDING	Minato-ku, Tokyo	Trust beneficial interest	2,730	2,766	2,700	1.63
Of-09	GRACE BUILDING SENGAKUJIMAE	Minato-ku, Tokyo	Trust beneficial interest	1,690	1,144	1,220	0.74
Of-11	NIHONBASHI DAIICHI BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,100	2,201	2,150	1.30
Of-12	HG HATCHOBORI BUILDING	Chuo-ku, Tokyo	Real estate	2,630	3,075	3,092	1.87
Of-17	HATCHOBORI MF BUILDING	Chuo-ku, Tokyo	Real estate	1,000	1,117	1,110	0.67
Of-18	M2 HARAJUKU	Shibuya-ku, Tokyo	Trust beneficial interest	4,804	3,446	3,418	2.07
Of-20	FUNABASHI FACE BUILDING	Funabashi-shi, Chiba	Real estate	3,290	3,520	3,900	2.36
Of-21	ADESSO NISHIAZABU	Minato-ku, Tokyo	Trust beneficial interest	541	609	640	0.39
Of-23	HF IKEBUKURO BUILDING	Toshima-ku, Tokyo	Real estate	1,420	1,307	1,314	0.79
Of-24	HF YUSHIMA BUILDING	Bunkyo-ku, Tokyo	Real estate	1,640	1,631	1,624	0.98
Of-25	KAYABACHO HEIWA Bldg.	Chuo-ku, Tokyo	Trust beneficial interest	6,540	4,772	4,798	2.90
Of-27	KOBE KYUKYORYUCHI HEIWA BUILDING	Kobe-shi, Hyogo	Trust beneficial interest	3,300	2,297	2,310	1.40
Of-28	MITA HEIWA BUILDING (leasehold land)	Minato-ku, Tokyo	Trust beneficial interest	2,712	2,269	2,230	1.35
Of-29	SAKAE MINAMI HEIWA BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	2,110	1,477	1,580	0.95
Of-30	HF SAKURADORI BUILDING	Nagoya-shi, Aichi	Trust beneficial interest	6,130	4,635	4,900	2.96
Of-31	HF NIHONBASHI HAMACHO BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	2,450	1,940	1,900	1.15

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Of-32	HF SENDAI HONCHO BUILDING	Sendai-shi, Miyagi	Trust beneficial interest	3,430	2,712	2,700	1.63
Of-33	HF UENO BUILDING	Taito-ku, Tokyo	Trust beneficial interest	4,270	3,496	3,400	2.05
Of-34	KOJIMACHI HF BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	2,040	1,391	1,350	0.82
Of-35	HF KUDAN MINAMI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	3,300	2,775	2,720	1.64
Of-36	HF KANDA OGAWAMACHI BUILDING	Chiyoda-ku, Tokyo	Trust beneficial interest	4,150	3,252	3,150	1.90
Of-37	NISSO 5 BUILDING	Yokohama-shi, Kanagawa	Trust beneficial interest	3,570	3,161	3,100	1.87
Of-38	ACROSS SHINKAWA BUILDING	Chuo-ku, Tokyo	Trust beneficial interest	3,650	3,288	3,250	1.96
Of-39	SENJU MILDIX II BANKAN	Adachi-ku, Tokyo	Trust beneficial interest	1,910	1,662	1,650	1.00
Of-40	ARK Mori Building	Minato-ku, Tokyo	Trust beneficial interest	3,390	3,126	3,085	1.86
Office subtotal				82,138	69,644	70,161	42.40

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-03	HF ICHIKAWA RESIDENCE	Ichikawa-shi, Chiba	Trust beneficial interest	541	379	430	0.26
Re-05	HF MEGURO RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	691	625	660	0.40
Re-09	HF KASAI RESIDENCE	Edogawa-ku, Tokyo	Trust beneficial interest	782	587	650	0.39
Re-11	HF WAKABAYASHI-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	4,252	3,200	3,610	2.18
Re-12	HF HIMONYA RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	1,686	1,426	1,560	0.94
Re-14	HF MINAMIAZABU RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,367	1,285	1,370	0.83
Re-15	HF AZABUJUBAN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,250	1,124	1,260	0.76
Re-16	HF GAKUGEIDAIGAKU RESIDENCE	Meguro-ku, Tokyo	Trust beneficial interest	984	904	1,000	0.60
Re-17	HF HIGASHIKANDA RESIDENCE	Chiyoda-ku, Tokyo	Trust beneficial interest	1,400	900	1,100	0.66
Re-18	HF HIGASHINIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,620	998	1,210	0.73
Re-19	HF NERIMA RESIDENCE	Nerima-ku, Tokyo	Trust beneficial interest	821	568	690	0.42
Re-20	HF SHIROKANETAKANAWA RESIDENCE	Minato-ku, Tokyo	Real estate	4,680	3,703	4,030	2.44
Re-21	HF MEIDAIMAE RESIDENCE	Setagaya-ku, Tokyo	Real estate	1,010	986	1,070	0.65
Re-22	HF NIHONBASHI RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,130	1,057	1,130	0.68
Re-23	HF KAMISHAKUJII RESIDENCE	Nerima-ku, Tokyo	Real estate	1,020	864	950	0.57
Re-24	HF KINSHICHO RESIDENCE	Sumida-ku, Tokyo	Real estate	1,180	1,068	1,100	0.66
Re-25	HF GINZA RESIDENCE EAST	Chuo-ku, Tokyo	Trust beneficial interest	5,020	5,518	5,940	3.59
Re-26	HF SHIN-YOKOHAMA RESIDENCE	Yokohama-shi, Kanagawa	Real estate	2,810	3,021	3,350	2.02
Re-29	HF HAKUSAN RESIDENCE	Bunkyo-ku, Tokyo	Real estate	1,950	2,262	2,350	1.42
Re-30	HF MAGOME RESIDENCE	Ota-ku, Tokyo	Real estate	1,400	1,504	1,630	0.98
Re-31	HF GAKUGEIDAIGAKU RESIDENCE II	Meguro-ku, Tokyo	Trust beneficial interest	1,260	1,563	1,650	1.00
Re-33	HF KAMEIDO RESIDENCE	Koto-ku, Tokyo	Real estate	1,110	1,002	1,050	0.63
Re-34	HF TANASHI RESIDENCE	Nishitokyo-shi, Tokyo	Real estate	778	923	911	0.55

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-35	HF SHIBA-KOEN RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	882	807	836	0.51
Re-36	HF MITA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	1,260	1,037	1,080	0.65
Re-37	HF TAKANAWA RESIDENCE	Minato-ku, Tokyo	Trust beneficial interest	923	717	749	0.45
Re-38	La Residence de Shirokanedai	Minato-ku, Tokyo	Trust beneficial interest	913	693	730	0.44
Re-39	HF GINZA RESIDENCE EAST II	Chuo-ku, Tokyo	Trust beneficial interest	1,750	1,392	1,460	0.88
Re-40	HF HATCHOBORI RESIDENCE II	Chuo-ku, Tokyo	Trust beneficial interest	2,210	1,793	1,890	1.14
Re-41	HF HATCHOBORI RESIDENCE III	Chuo-ku, Tokyo	Trust beneficial interest	1,020	730	793	0.48
Re-42	HF GINZA RESIDENCE	Chuo-ku, Tokyo	Trust beneficial interest	1,210	831	944	0.57
Re-43	HF KOMAZAWA-KOEN RESIDENCE TOWER	Setagaya-ku, Tokyo	Trust beneficial interest	7,310	6,472	6,520	3.94
Re-44	HF UMEDA RESIDENCE TOWER	Osaka-shi, Osaka	Trust beneficial interest	2,130	1,772	1,920	1.16
Re-45	HF NAKANOSHIMA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	515	439	453	0.27
Re-46	HF AWAZA RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	707	518	577	0.35
Re-47	HF MARUNOUCHI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	740	528	624	0.38
Re-48	HF HIRAO RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	2,110	1,637	1,780	1.08
Re-49	HF KAWARAMACHI NIJO RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	587	492	534	0.32
Re-53	HF SHIJO KAWARAMACHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	2,300	1,665	1,820	1.10
Re-54	La Residence de Sendagi	Bunkyo-ku, Tokyo	Trust beneficial interest	978	773	820	0.50
Re-55	HF SENDAGI RESIDENCE	Bunkyo-ku, Tokyo	Trust beneficial interest	1,040	815	870	0.53
Re-56	HF KOMAZAWA-KOEN RESIDENCE	Setagaya-ku, Tokyo	Trust beneficial interest	694	572	615	0.37

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-57	HF MUSASHI KOYAMA RESIDENCE	Shinagawa-ku, Tokyo	Trust beneficial interest	1,090	793	842	0.51
Re-58	HF KOKUBUNJI RESIDENCE	Kokubunji-shi, Tokyo	Trust beneficial interest	1,030	786	839	0.51
Re-59	HF HISAYAODORI RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	1,270	999	1,080	0.65
Re-60	HF KARASUMA KURAMAGUCHI RESIDENCE	Kyoto-shi, Kyoto	Trust beneficial interest	675	527	572	0.35
Re-61	HF NISHI-SHINJUKU RESIDENCE WEST	Shinjuku-ku, Tokyo	Trust beneficial interest	2,570	1,960	1,990	1.20
Re-62	HF NISHI-SHINJUKU RESIDENCE EAST	Shinjuku-ku, Tokyo	Trust beneficial interest	1,480	1,148	1,170	0.71
Re-63	HF HIGASHI SHINJUKU RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,620	1,269	1,360	0.82
Re-64	HF HIGASHI-SHINSAIBASHI RESIDENCE	Osaka-shi, Osaka	Trust beneficial interest	675	529	566	0.34
Re-65	HF KITA-YOBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,100	724	809	0.49
Re-66	HF ATAGOBASHI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	902	594	684	0.41
Re-67	HF KYUDAIBYOINMAE RESIDENCE	Fukuoka-shi, Fukuoka	Trust beneficial interest	511	381	426	0.26
Re-68	HF ASAKUSABASHI RESIDENCE	Taito-ku, Tokyo	Trust beneficial interest	954	721	771	0.47
Re-69	HF ICHIBANCHO RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,110	752	834	0.50
Re-70	HF HIGASHI-NAKANO RESIDENCE	Nakano-ku, Tokyo	Trust beneficial interest	1,090	885	942	0.57
Re-72	HF WASEDA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	2,530	1,982	2,090	1.26
Re-73	HF WASEDA RESIDENCE II	Shinjuku-ku, Tokyo	Trust beneficial interest	1,040	825	872	0.53
Re-74	HF WAKAMATSUKAWADA RESIDENCE	Shinjuku-ku, Tokyo	Trust beneficial interest	1,540	1,193	1,158	0.70
Re-75	HF Sendai Residence EAST	Sendai-shi, Miyagi	Trust beneficial interest	1,930	1,607	1,638	0.99
Re-76	HF NISHI-KOEN RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	1,430	1,354	1,310	0.79

Property no.	Property name	Address	Form of asset (Note 1)	Appraisal value (Million yen)	Balance sheet amount (Million yen) (Note 2)	Acquisition price (Million yen) (Note 3)	Percentage of investments (%) (Note 4)
Re-77	HF BANSUI-DORI RESIDENCE	Sendai-shi, Miyagi	Trust beneficial interest	922	818	790	0.48
Re-78	HF KANNAI RESIDENCE	Yokohama-shi, Kanagawa	Trust beneficial interest	2,010	1,793	1,800	1.09
Re-79	HF MEIEKI-KITA RESIDENCE	Nagoya-shi, Aichi	Trust beneficial interest	2,270	2,152	2,160	1.31
Re-80	HF HIGASHI-SAPPORO RESIDENCE	Sapporo-shi, Hokkaido	Trust beneficial interest	1,660	1,550	1,560	0.94
Re-81	HF HAKATA-HIGASHI RESIDENCE	Fukuoka-shi, Fukuoka	Real estate	903	948	880	0.53
Re-82	HF SENDAI ITSUTSUBASHI RESIDENCE	Sendai-shi, Miyagi	Real estate	863	911	850	0.51
Re-83	HF TABATA RESIDENCE	Kita-ku, Tokyo	Real estate	1,320	1,133	1,100	0.66
Re-84	HF RYOGOKU RESIDENCE	Sumida-ku, Tokyo	Real estate	1,590	1,445	1,400	0.85
Re-85	HF HACHIOJI RESIDENCE	Hachioji-shi, Tokyo	Real estate	1,180	1,182	1,120	0.68
Residence subtotal				105,286	90,143	95,330	57.60
Total				187,424	159,787	165,491	100.00

(Note 1) The “Form of asset” column shows the REIT’s form of ownership of the asset. The form is shown as “Trust beneficial interest” if the REIT is listed as a beneficiary in the registry and as “Real estate” if the REIT is listed as the owner.

(Note 2) The “Balance sheet amount” column shows the acquisition price (including expenses for acquisition and subsequent capital expenditures) as of May 31, 2018, after deducting the accumulated depreciation.

(Note 3) The “Acquisition price” column shows the sales value listed in the real estate sales agreement or trust beneficial interest sales agreement (not including amount corresponding to consumption taxes or costs necessary to make acquisition; same applies below). However, for properties acquired as a result of the merger (35 properties, from Re-35 HF SHIBA-KOEN RESIDENCE through Re-73 HF WASEDA RESIDENCE II), the column shows the appraisal value as of October 1, 2010, the day the merger took effect.

(Note 4) The “Percentage of investments” column shows the percentage of each property’s acquisition price to total acquisition price of all acquired assets, rounded to the nearest one-hundredth of one percent.

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