STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product Name: HEIWA REAL ESTATE REIT, Inc.
Legal Entity Identifier: 3538003GH25628YW4R98

The following is the adverse sustainability impact statement of HEIWA REAL ESTATE REIT, Inc. ("HEIWA REIT") pursuant to Regulation (EU) 2019/2088 ("SFDR"). HEIWA REIT has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and relies on HEIWA REAL ESTATE Asset Management CO., LTD. (the "Asset Management Company"), to manage and operate the properties in HEIWA REIT's portfolio. HEIWA REIT and the Asset Management Company are hereinafter referred to collectively as "we," "us" or "our." References to "fiscal year" or "FY" are to the 12 months began or beginning April 1 of the year specified in line with the fiscal year of the Asset Management Company, unless noted otherwise.

Please note that SFDR requirements, including the scope of their application to issuers outside the European Economic Area, continue to evolve. We are therefore taking a principles-based approach to compliance with the SFDR disclosure standards, which are subject to change.

1. Summary

Pursuant to Article 4 of the Delegated Regulation C(2022)1931 supplementing SFDR (the "SFDR Delegated Regulation"), HEIWA REIT is required to publish on its website the information referred to therein covering the period of one calendar year. HEIWA REIT is a Japanese real estate investment trust, commonly known as J-REIT, and has no employees, relying on the Asset Management Company for the management and operation of its properties. The Asset Management Company does not operate based on a calendar year, but operates based on fiscal year ending in March of every year. A recalculation and translation of the data into the reference period of one calendar year would most likely lead to inaccuracies and would therefore provide a potentially less accurate overview of the required information than using the approved and validated data for the period from April 1, 2024 to March 31, 2025. This reference period is sufficiently compatible with, and shows results that do not materially differ from, those that would be produced using the calendar year-based reference period noted in the SFDR Delegated Regulation.

We consider principal adverse impacts of our investment decisions on sustainability factors. The present statement is our consolidated statement of the principal adverse impacts on sustainability factors ("PAI"). The statement covers the reference period from April 1, 2024 to March 31, 2025. The statement will be reviewed at least once during every fiscal year.

HEIWA REIT and the Asset Management Company place a strong emphasis on promoting E/S characteristics. We have integrated the sustainability goals and initiatives of the Heiwa Real Estate Group, to which the Asset Management Company belongs, into our business practices, including the ESG Policy of the Heiwa Real Estate Group (the "Heiwa Group ESG Policy"), which summarizes the Heiwa Real Estate Group's commitment to integrating ESG considerations into the corporate management to contribute to the development of a sustainable society and increase long-term corporate value.

We use the definition of PAI as described in Recital 20 of SFDR being "those impacts of investment decisions and advice that result in negative effects on sustainability factors," with sustainability factors referring to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as defined in Article 2 (24) of SFDR.

We believe that investment decisions that negatively affect climate or other environment-related resources, or have negative implications for society, can have a significant impact to risk and value creation for HEIWA REIT's unitholders, tenants, local communities, employees of tenants as well as the Asset Management Company and other stakeholders. To this end, we consider PAI of our investment decisions throughout all major steps of the investment decision and property management process throughout the lifecycle of the properties in HEIWA REIT's portfolio.

2. Description of principal adverse sustainability impacts

Nearly all types of economic activity have the potential to impact various PAI indicators, both positively and adversely. We aim to manage the risk connected to PAI from our investment decisions in several ways, including general screening criteria, due diligence and our ESG initiatives. Some of the PAI indicators listed below are currently already being monitored and reported. As the availability of data improves, it is our intention that more indicators will be added.

Table 1
Principal adverse sustainability impacts statement

HEIWA REIT does not invest in investee companies but in real estate. As adverse sustainability indicators 1-16 as contained in Table 1 of Annex 1 of the SFDR Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

Indicators applicable to investments in real estate assets				
Adverse sustainability indicator	**Metric**	**Impact in FY2024, FY2023 and FY2022 (From April 1 to March 31)**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**

<table>
<tr><td>Fossil fuels</td><td>17. Exposure to fossil fuels through real estate assets</td><td>Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels</td><td><table><tr><td></td><td>Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels</td></tr><tr><td>FY2024</td><td>N/A</td></tr><tr><td>FY2023</td><td>N/A</td></tr><tr><td>FY2022</td><td>N/A</td></tr></table></td><td>HEIWA REIT does not invest in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels.</td><td>N/A</td></tr>
<tr><td>Energy efficiency</td><td>18. Exposure to energy-inefficient real estate assets</td><td>Share of investments in energy-inefficient real estate assets</td><td><table><tr><td>As of March 31,</td><td>Share of investments in energy-inefficient real estate asset (in %)[1]</td></tr><tr><td>2025</td><td>57.7</td></tr><tr><td>2024</td><td>62.8</td></tr><tr><td>2023</td><td>75.7</td></tr></table>(Note)
(1). Percentage indicates the gross floor area of the properties that did not receive at least one Green Building Certification (as defined under the column “Explanation”) in HEIWA REIT’s portfolio as of March 31 of the year indicated.</td><td>To track the environmental performance of individual properties, we rely on the following environmental certifications issued by third-party organizations such as the Development Bank of Japan (“DBJ”) Green Building Certification, Comprehensive Assessment System for Built Environment Efficiency (“CASBEE”) certification, The Building-Housing Energy-efficiency Labeling System (“BELS”) certification system, Sumitomo Mitsui Banking Corporation (“SMBC”)’ Sustainable Building Assessment Loan. We consider a property to have a sufficient level of</td><td>As HEIWA REIT holistically assess investment opportunities, it may decide to acquire properties that do not have any Green Building Certification. When HEIWA REIT acquires a property that does not any Green Building Certification, we implement appropriate measures following acquisition to reduce the environmental impact.</td></tr>
</table>

				environmental certification if (i) it received two stars or higher out of DBJ Green Building Certification’s five-star ranking system; (ii) it received Rank A or higher out of the CASBEE ranking system featuring Rank S, Rank A, Rank B+ and Rank B; (iii) it received two stars or higher out of BELS’ five-star ranking system ; and/or (iv) it has qualified for the SMBC Sustainable Building Assessment Loan (such sufficient level of environmental certification, the “Green Building Certification”).	

Table 2
Additional climate and other environment-related indicators

HEIWA REIT does not invest in investee companies, but invests in real estate. As additional climate and other environment-related indicators 1-17 as contained in Table 2 of Annex 1 of the SFDR Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Adverse sustainability impact	**Adverse impact on sustainability factors (qualitative or quantitative)**	**Metric**
Indicators applicable to investments in real estate assets		

Climate change

18. GHG emissions

	FY2024	FY2023	FY2022
Scope 1 ($t\text{-}CO_2$)	199	263	188
Scope 2 ($t\text{-}CO_2$)	3,794	3,593	3,515
Scope 3* ($t\text{-}CO_2$)	12,810	8,952	5,984
Total ($t\text{-}CO_2$)	16,802	12,808	9,687

* Scope 3 GHG emissions represents emissions caused by tenants

We have set performance targets of (i) reducing Scope 1 and Scope 2 GHG emissions by 90% by FY2030 from the base level in FY2018 (3,628 $t\text{-}CO_2$) and (ii) achieving net zero GHG emissions by FY2050.

We also track GHG emissions intensity of HEIWA REIT's properties based on gross floor area.

	FY2024	FY2023	FY2022
GHG emissions intensity ($t\text{-}CO_2/m^2$)	0.0410	0.0327	0.0251

Scope 1 GHG emissions generated by real estate assets

Scope 2 GHG emissions generated by real estate assets

Scope 3 GHG emissions generated by real estate assets

Total GHG emissions generated by real estate assets

<table>
<tr>
<td>Energy consumption</td>
<td>
19. Energy consumption intensity

We track energy consumption of the properties in HEIWA REIT’s portfolio by monitoring electricity, direct heating and fuel consumptions. Energy consumption intensity of the properties in HEIWA REIT’s portfolio based on gross floor area was:

<table>
<tr><th></th><th>FY2024</th><th>FY2023</th><th>FY2022</th></tr>
<tr><td>Energy consumption intensity (MWh/m^2)</td><td>0.1058</td><td>0.0786</td><td>0.0615</td></tr>
</table>

We have set performance targets of (i) reducing energy consumption intensity of HEIWA REIT’s portfolio by at least 1% year on year and (ii) reducing energy consumption intensity of HEIWA REIT’s portfolio by annual average of at least 1% over a five-year period.

We also track electricity consumption from renewable sources.

<table>
<tr><th></th><th>FY2024</th><th>FY2023</th><th>FY2022</th></tr>
<tr><td>Electricity consumption (MWh)</td><td>36,078</td><td>24,164</td><td>22,102</td></tr>
<tr><td>Consumption of electricity from renewable sources (MWh)</td><td>21,731</td><td>19,849</td><td>18,575</td></tr>
</table>
</td>
<td>Energy consumption in GWh of owned real estate assets per square meter</td>
</tr>
</table>

Waste	20. Waste production in operations We calculate the recycling rate as a percentage of the total weight of waste recycled out of the total weight of waste generated from HEIWA REIT's portfolio. <table><tr><td></td><td>FY2024</td><td>FY2023</td><td>FY2022</td></tr><tr><td>Total waste (tons)</td><td>1,250</td><td>1,137</td><td>1,319</td></tr><tr><td>Recycling rate (%)</td><td>48.85</td><td>49.72</td><td>54.82</td></tr></table> We have set a performance target of increasing recycling rate of waste generated from HEIWA REIT's portfolio year on year.	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract

Table 3
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

HEIWA REIT has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan, and relies on the Asset Management Company to manage and operate the properties in its portfolio. Accordingly, additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters in this PAI statement pertain to the Asset Management Company and the tenants of the properties in HEIWA REIT's portfolio, to the extent available.

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	**Adverse sustainability impact (qualitative or quantitative)**	**Metric**

Indicators applicable to investments to the Asset Management Company or tenants		
Social and employee matters	5. Lack of grievance/complaints handling mechanism related to employee matters <u>Tenant satisfaction survey</u> We conduct surveys on a regular basis to measure satisfaction amongst our tenants. These surveys are conducted either in person or in the form of a questionnaire. These surveys help formulate future measures that will help improve tenant health, safety and comfort, and enhance HEIWA REIT's tenants' satisfaction. <u>Employee satisfaction survey</u> The Asset Management Company conducts a survey to measure employee satisfaction on an annual basis and sets performance targets for promoting diversity, equity and inclusion ("DEI") such as increasing utilization rate of paid leaves taken by all employees to over 70% and achieving a participation rate of 100% for DEI training. As a part of the ongoing initiatives to improve employee satisfaction and facilitate communications among the Asset Management Company' employees, the Asset Management Company conducts an annual one-on-one interview between an employee and the manager of the employee's department; (ii) employee medical check-ups and health screening; (iii) cost reimbursement program for employee training and examinations to acquire or maintain various qualifications and licenses; and (iv) promotion of increased use of paid leaves. <u>Anti-harassment training and hotlines</u> The Asset Management Company also provides anti-harassment trainings at least once a year on (i) the types of actions that would constitute workplace harassment and (ii) reporting policies for harassment, in order to foster a safe and comfortable work environment for the employees, and has established both internal and external (an outside law firm) hotlines for reporting incidents of workplace harassment.	Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters
Anti-corruption and anti-bribery	15. Lack of anti-corruption and anti-bribery policies The Asset Management Company strives to comply with laws and regulations by fostering compliance awareness among the Asset Management Company's officers	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the

	and employees. To help achieve this, the Asset Management Company has established a compliance manual and holds quarterly corporate ethics training sessions for all officers and employees. The Heiwa Real Estate Group, to which the Asset Management Company belongs, has established internal and external compliance hotlines through which officers and employees can report potential misconduct and compliance violations.	United Nations Convention against Corruption

For descriptions of actions which we take and will take with respect to the PAI indicators, please refer to our ESG website with respect to us: https://www.heiwa-re.co.jp/en/sustainability/.

3. Description of policies to identify and prioritize principal adverse sustainability impacts

Subject to data availability, we monitor the selected PAI indicators for the existing properties in HEIWA REIT's portfolio. We collect on an ongoing basis select information regarding the PAI indicators, including exposure to fossil fuels through investment assets, exposure to energy-inefficient investment assets, GHG emission, energy consumption intensity and waste production in operations.

We aim to manage the risk connected to principal adverse impacts from our investment decisions in several ways, including general screening criteria and due diligence. The due diligence findings related to selected PAI indicators are reported and reviewed prior to the investment decision. HEIWA REIT does not invest in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels. We consider the level of our exposure to energy-inefficient investment assets by continuing our efforts to maintain and increase the percentage of HEIWA REIT's properties that receive the Green Building Certifications when making investment decisions.

In addition, in order to ensure that our investment and asset management are sustainable while maximizing the value of HEIWA REIT's portfolio real estate assets, ESG factors are given significant consideration in our investment selection and asset management processes. For example, HEIWA REIT has established a debt-based green finance framework (the "Green Finance Framework") based on our commitment to use funds financed through green financing to acquire or renovate "Eligible Green Assets", which are properties or renovations that meet the eligibility criteria described below. Green financing under the Green Finance Framework consists of green loans and green bonds where proceeds are used to acquire or renovate Eligible Green Assets or refinance loans or bonds financed for such acquisition or renovate. We believe that using such green financing for the acquisitions of Eligible Green Assets, which we believe can serve society as infrastructure assets, will contribute to the betterment of society and the environment.

- *Eligibility criteria – acquisition*.

Properties for which any of the following environmental certifications has been or will be obtained or renewed:

Third-party environmental certification	Minimum eligibility criteria
DBJ Green Building Certification	Three or more stars
CASBEE for Real Estate Certification	B+ rank or higher
BELS Certification	FY2016 Standard: Three or more stars(1) FY2024 Standard: Level 4 or higher(2)
Leadership in Energy and Environmental Design ("LEED") Certification	Silver or higher(3)

Notes:
(1) Buildings must be eligible, i.e. in case of logistics facilities, BEI must be 0.75 or below.
(2) For residential buildings with and without renewable energy facilities, Level 3 or higher is eligible.
(3) For LEED BD+C, version 4.0 or later applies.

- *Eligibility criteria – renovation.*

  Renovation that meets one of the following requirements and that has completed or will be completed within three years from the closing date of the green bond or the green loan, as the case may be:

  - Renovation work intended to reduce CO_2 emissions, energy consumption, water consumption and/or waste generated by more than 30%

  - Renovation work intended to improve the number of stars or the grade/rank by one or more for any of DBJ Green Building Certification, CASBEE for Real Estate Certification, BELS Certification or LEED Certification.

- *Eligibility criteria – renewable energy*.

  Introduction or acquisition of facilities for renewable energy generation:

We publish the procurement and allocation status of the proceeds from financing under the Green Finance Framework on the website at least once a year. If there are unappropriated funds at the time of issuing of green bonds or borrowing of green loans, we disclose an appropriation plan on the website. In addition, if a property for which the proceeds were intended to be used has been sold and will therefore no longer be subject such proceeds to, we will disclose that in a press release and on the website.

For further information, please refer to our ESG website: https://www.heiwa-re.co.jp/en/sustainability/.

4. Engagement policies

Due diligence and screening

HEIWA REIT invests only in properties that have been subjected to the Asset Management Company's comprehensive due diligence review, including an environmental assessment and an evaluation of risks related to building safety, soil contamination, flooding, earthquakes. HEIWA REIT makes decisions on the basis of this due diligence review, and may reject a potential investment opportunity at the conclusion of the due diligence review based on environmental factors. The Asset Management Company's investment decision-making process also involves assessment of whether the property has been granted environmental certifications or its capability of being granted such certifications. When investing in properties using proceed from the Green Finance Framework, HEIWA REIT rules out properties that do not meet the criteria under the Green Finance Framework described above.

In addition, we monitor and track GHG emission, energy consumption, water usage and waste generated from HEIWA REIT's properties.

Engagement

Tenants. When appropriate, we aim to include energy conservation provisions, which we refer to as "Green Lease" provisions, in lease agreement with HEIWA REIT's tenants. Our Green Lease provisions include clauses requiring tenants to collaborate with us in implementing various environmental measures, including on energy savings efforts, benefiting tenant with reduced utilities expenses.

Property management companies. When selecting a property management company, we consider the property management company's ESG-related performance by quantifying and evaluating the property management company's ESG-related performance as part of our annual evaluation of the property management company. In addition, we conduct annual ESG trainings provided by third-party experts at the property management companies that manage HEIWA REIT's properties.

5. References to international standards

In December 2021, the Asset Management Company expressed support for the TCFD recommendations in order to clarify the policy and system on initiatives to address climate-related issues and to promote expansion of the disclosure of the content of such initiatives, and also joined the TCFD Consortium, a group of domestic companies that support TCFD recommendations. In addition, starting in 2021, we have disclosed the climate change-related disclosures recommended by TCFD on the website after identifying and analyzing climate change-related risks and opportunities in alignment with the TCFD's recommendations.

6. Historical comparison

See Table 1, Table 2 and Table 3 above.