Message from the Officer in Charge of Finance

We will endeavor to improve profits and expand our business while placing greater emphasis on capital efficiency and being conscious of the share price.

Shoji Naraoka
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in Charge of Finance, Accounting and
IR, Corporate Management Division

Review of business results for the fiscal year ended March 31, 2024

For the second year in a row, the new supply of condominium units in FY2023 declined compared to the previous fiscal year in both the Tokyo metropolitan area and the Kinki region. On the other hand, the unit price of for-sale condominiums has been at a record high for three consecutive years, and the average price has also continued to rise, and sales are progressing smoothly due to factors such as improvements in the employment and income environment.

Under these circumstances, the fiscal year ended March 31, 2024, which was the fourth year of the medium-term management plan "HASEKO Next Stage Plan (i.e., Plan NS)" that covers the five years through the fiscal year ending March 31, 2025, saw a sharp rise in material and labor costs, resulting in the decline in the gross profit margin of completed construction contracts. However, consolidated ordinary income came to 83.3 billion yen, exceeding the initial forecast of 83.0 billion yen, as a result of steady profit accumulation by each company in the service-related business.

Progress on the medium-term business plan HASEKO Next Stage Plan ("Plan NS")

Progress of the profit plan in the medium-term management plan

Plan NS has set numerical targets for the fiscal year ending March 31, 2025 of 100.0 billion yen in consolidated ordinary income, 30.0 billion yen or more in ordinary income of consolidated subsidiaries, and a five-year total consolidated ordinary income of 400.0 billion yen. As of the end of the fourth year of Plan NS, we have achieved a total consolidated ordinary profit of 325.3 billion yen.

For the fiscal year ending March 31, 2025, the final year of the plan, we expect to see further expansion of the real estate business. However, due to factors such as a further decline in the gross profit margin of completed construction contracts and an increase in general administrative expenses, we are forecasting consolidated ordinary income of 80.0 billion yen, which is lower than the target of 100.0 billion yen for the final fiscal year, due to increases in commodity prices and labor costs, which were not initially assumed in the plan. Nevertheless, we believe that the target of 400.0 billion yen in consolidated ordinary income over the five-year period is achievable.

In addition, the target of 30.0 billion yen or more in ordinary income of consolidated subsidiaries is expected to be achieved from the fiscal year ended March 31, 2023 to the final year, and the fruits of investments in the condominium sales business and rental real estate development business by subsidiaries are beginning to emerge.

Progress of the investment plan in the medium-term management plan

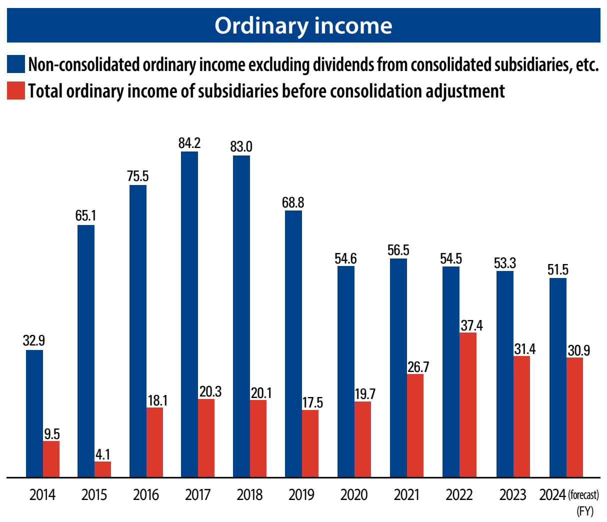
Plan NS has set out the following focused strategies: "expansion of business areas for condominium sales business," "rental properties holding and development business," and "investment in overseas business." In order to increase profits within the timeframe of the plan, it is necessary to make focused investments at an early stage.

Plan NS called for investments of 240.0 billion yen, and by actively utilizing loans to satisfy the strong demand for funding, all investments except for those in new businesses, M&A, etc. were completed in the fiscal year ended March 31, 2024, such that investments have already begun for the fiscal year ending March 31, 2030. The new investment plan aims to expand business in areas and markets with growth potential by acquiring land for business use to expand the area of the domestic real estate sales business to include regional cities, holding and developing rental real estate for investors, including private REITs and private funds, and participating in overseas real estate projects.

At Haseko Corporation, we calculate the weighted average cost of capital (WACC), which includes the cost of shareholders' equity and the cost of debt, and use it for internal investment decisions, mainly for real estate investment. We also regularly monitor the progress and expected results of the projects we have acquired. Drawing on the lessons learned from our experience of significantly damaging the Company's creditworthiness through excessive risk-taking, we actively conduct business investment while maintaining financial soundness without compromising business opportunities, by setting and managing appropriate capital allocations for the risks that differ by each type of asset.

In addition, the business environment has changed significantly, with factors that could not have been foreseen at the start of the plan, such as increases in construction prices and interest rates. However, we are responding flexibly and quickly to these changes, and are working to secure optimal profits without being constrained by the original business plan. Going forward, we will take into account the evaluations of the stock market as we strive to enhance the corporate value of the Group by giving greater consideration to capital efficiency in our operations.

Total ordinary income: non-consolidated basis plus consolidated subsidiaries (unit: billions of yen)



Cumulative cash flow for the period of plan (unit: billions of yen)

	FYE Mar. 31, 2021 to FYE Mar. 31, 2024 Cumulative	FYE Mar. 31, 2025 Forecast	Total
Cash flows from operating activities (excluding inventory investments)	323.1	27.0	350.1
Fund procurement	259.0	35.0	294.0
Total	582.1	62.0	644.1
Inventory investments	(231.9)	(55.0)	(286.9)
Fixed asset investments	(116.0)	(34.0)	(150.0)
Other, net	(58.2)	(2.0)	(60.2)
Total investments	(406.1)	(91.0)	(497.1)
Dividends	(90.3)	(23.6)	(113.9)
Purchases of treasury stock under the previous plan (NBJ)	(24.6)		(24.6)
Shareholder returns	(114.9)	(23.6)	(138.5)
Increase in cash and deposits, etc.	61.1	(52.6)	8.5

Status of shareholder returns (unit: billions of yen)

	Plan NBS			Plan NBJ			Plan NS				
	FYE Mar. 31, 2015	FYE Mar. 31, 2016	FYE Mar. 31, 2017	FYE Mar. 31, 2018	FYE Mar. 31, 2019	FYE Mar. 31, 2020	FYE Mar. 31, 2021	FYE Mar. 31, 2022	FYE Mar. 31, 2023	FYE Mar. 31, 2024	FYE Mar. 31, 2025 (forecast)
Interim dividend				10	10	20	35	35	40	40	40
Year-end dividend	10	15	30	40	70	50	35	45	40	45	45
Annual dividend (yen/share)	10	15	30	50	80	70	70	80	80	85	85
Earnings per share (EPS, yen)	94.64	170.41	195.48	241.98	293.87	201.36	168.62	198.32	216.10	205.45	194.29
Net income attributable to owners of parent	28.5	51.2	58.8	72.3	87.4	59.9	48.3	54.5	59.3	56.0	53.0
Total dividends	3.0	4.5	9.0	15.0	24.0	20.8	19.9	22.2	22.2	23.6	23.6
Payout ratio* (%)	10.53	8.80	15.35	20.79	27.52	34.78	41.33	40.76	37.44	42.11	44.52
Total income for the period of plan	138.5			219.5			271.1				
Total dividends for the period of plan	16.5			59.9			111.6				
Purchases of treasury stock during the period of plan				30.0							
Total returns during the period of plan	16.5			89.9			111.6				
Total rate of returns during the period of plan (%)	11.93			40.97			41.15				

*Total dividends ÷ net income attributable to owners of parent

Recognition of the current situation

In terms of its investments, Haseko Corporation practices management that is conscious of ROE and ROA in the final consolidated financial statements, including factoring capital cost into acquisition criteria. The method for calculating the cost of shareholders' equity is not necessarily consistent, but we estimate that it is between 6% and 9% when calculated using the capital asset pricing model (CAPM), which is considered to be the most common method. ROE has been above 10% since the fiscal year ended March 31, 2016. This decline in ROE is due to a number of factors as follows: a drop in the gross profit margin of completed construction contracts due to rising material and labor costs; an increase in the costs and general administrative expenses due to better working conditions for employees; the fact that our real estate business, which aims to increase profits under the current plan, is investing ahead of schedule, thereby reducing the rate of turnover of total assets; and the fact that ROA has more than halved

Yield on safe assets Yield on Japanese government bonds		Expected additional yield on shares		Risks specific to Haseko Corporation Stock beta value		Expected additional yield on the Company's shares Cost of shareholders' equity
0.7-1.6%	+	6.00%	×	0.92-1.33	=	6-9%

For the past 10 years, our ROE has been above 10%, having at least exceeded the cost of shareholders' equity calculated by means of CAPM. On the other hand, our ROE has been declining since peaking at 31.1% in the fiscal year ended March 31, 2016 … from 9.60% in the fiscal year ended March 31, 2016 to 4.40% in the fiscal year ended March 31, 2024 due to the abovementioned factors.

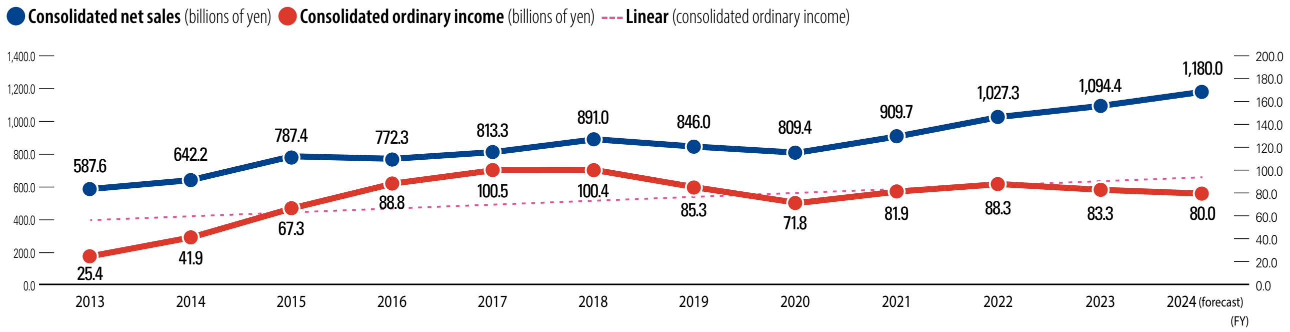
ROA			Total asset turnover ratio			Ratio of net income to net sales	
FYE Mar. 31, 2016	FYE Mar. 31, 2024		FYE Mar. 31, 2016	FYE Mar. 31, 2024		FYE Mar. 31, 2016	FYE Mar. 31, 2024
9.60%	4.40%	=	1.48	0.86	×	6.51%	5.12%
ROE			**Financial leverage**			**ROA**	
FYE Mar. 31, 2016	FYE Mar. 31, 2024		FYE Mar. 31, 2016	FYE Mar. 31, 2024		FYE Mar. 31, 2016	FYE Mar. 31, 2024
31.10%	11.61%	=	3.24	2.64	×	9.60%	4.40%

$$\underbrace{\frac{\text{Earnings per share}}{\text{Net assets per share}}}_{\text{ROE}} = \underbrace{\frac{\text{Total assets}}{\text{Net assets}}}_{\text{Financial leverage}} \times \overbrace{\underbrace{\frac{\text{Net sales}}{\text{Total assets}}}_{\text{Total asset turnover ratio}} \times \underbrace{\frac{\text{Net income}}{\text{Net sales}}}_{\text{Ratio of net income to net sales}}}^{\text{ROA}}$$

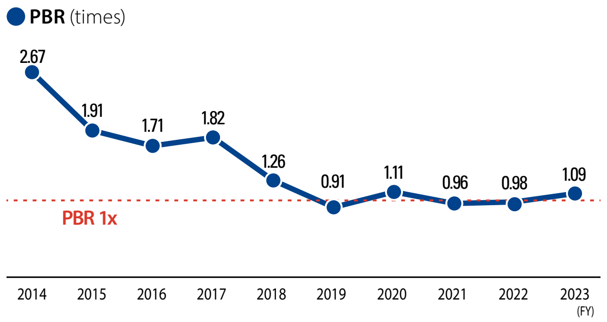
Furthermore, even though the ROE exceeds the cost of capital calculated according to CAPM, the PBR remains at around 1x because the PER has remained low for a long time at less than 10x, which is thought to be due to low expectations for the Company's growth in the stock market.

On the other hand, the Haseko Group's consolidated net sales are expected to increase from 587.6 billion yen in the fiscal year ended March 31, 2014, one year before Plan NBS, to 1,180.0 billion yen in the fiscal year ending March 31, 2025, the final year of Plan NS, for an average annual growth rate of 6.54%. In addition, the Group's consolidated ordinary income is expected to increase from 25.4 billion yen in the fiscal year ended March 31, 2014 to 80.0 billion yen in the fiscal year ending March 31, 2025. The highest ordinary income recorded in the past 11 fiscal years was 100.5 billion yen in the fiscal year ended March 31, 2018, so although the most recent five fiscal years of Plan NS have shown a negative growth in ordinary income, the 11 fiscal years have resulted in an average annual growth rate of 10.99%.

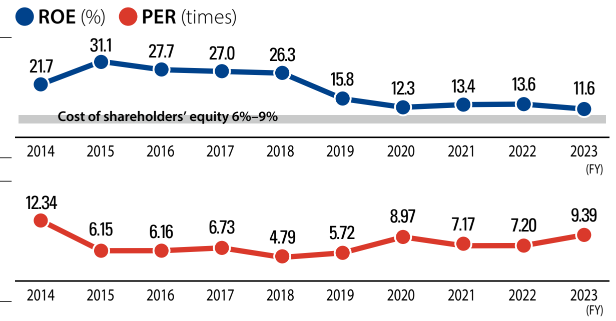
Consolidated net sales/consolidated ordinary income over time



PBR over time



ROE/PER over time



PBR and PER are calculated using the closing price at the end of each fiscal year.
The calculation of EPS and BPS, which form the basis for PBR and PER, is based on the number of shares eligible for dividends at the end of each fiscal year, excluding treasury shares (not including ESOP and BBT).
PBR and ROE are calculated using the average net assets at the beginning and end of the fiscal year.

Initiatives to improve PBR

$$\underbrace{\frac{\text{Share price}}{\text{Net assets per share}}}_{\text{PBR}} = \underbrace{\frac{\text{Earnings per share}}{\text{Net assets per share}}}_{\text{ROE}} \times \underbrace{\frac{\text{Share price}}{\text{Earnings per share}}}_{\text{PER}}$$

To improve PBR, it is essential to improve ROE and PER. We were unable to absorb the effects of rising prices and labor costs in our mainstay construction-related business, leading to a decline in the gross profit margin of completed construction contracts. We recognize that a key issue will be to improve the gross profit margin of completed construction contracts by promoting digital transformation (DX) and industrialization, while gaining the understanding of project owners to allow us to pass on the increased costs to the construction price.

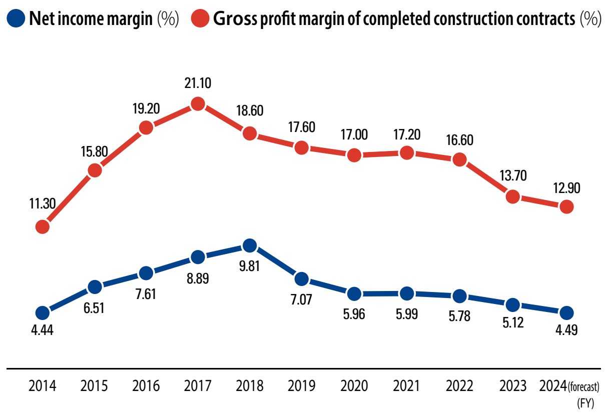
In addition, the total asset turnover ratio has decreased due to the expansion of investment in the real estate-related businesses, which is one of the focused strategies of Plan NS, especially with respect to the expansion of the real estate holding and development business. However, another important issue is to improve the turnover ratio of real estate businesses by contributing to private REITs and private funds managed by our subsidiary Haseko Real Estate Investment Management, Inc. and by actively utilizing other real estate liquidation methods.

We will leverage the investments we made ahead of schedule during the period of Plan NS to generate revenue in the next plan, thereby improving the capital efficiency that had declined temporarily due to the expansion of our real estate business. We will also expand the disclosure of information on the growth strategies of each of the Haseko Group's businesses, our initiatives on environmental issues and technological development, our approaches to human capital, and our measures for ensuring shareholder returns. In doing so, we will deepen understanding from stakeholders through conversations with them and work to improve our standing in the stock market.

Our basic policy on shareholder returns is to "set the minimum annual dividend per share at 80 yen (70 yen in the first year of the plan)" and "set the total shareholder return ratio calculated from the sum of net income attributable to owners of parent for the five years of Plan NS at about 40%." This policy was formulated by taking into account a comprehensive range of factors, including accelerating investment in growth strategies to expand and enhance future earnings, as well as providing stable shareholder returns over the medium to long term.

On the other hand, the business environment has changed significantly since the formulation of Plan NS, and as the nature of corporate value evaluations and market demands change, we will not only continue to implement our existing capital measures, such as "maintaining a strong financial base" and "ensuring stable shareholder returns," but also further deepen our awareness of "improving capital efficiency" to meet market expectations. Furthermore, we will work to improve ROE and EPS without excluding the option of acquiring treasury stock. We are in the process of continuing to invest in order to expand our real estate- and overseas-related businesses, and although our ROE currently stands at around 10%, we are not satisfied with this situation and are aiming for further improvement.

Trends in net income margin/gross profit margin of completed construction contracts



Total assets/total asset turnover ratio over time