



President
Tsuneo Wakabayashi

Message from the President

TOP MESSAGE

Keihanshin Building will create new value by leveraging the flexibility passed down through a decades-long track record.

Vision for Keihanshin Building

In 2023, Keihanshin Building celebrated the 75th anniversary of its founding. The Company was founded in 1948 as a company that operates the Hanshin Racecourse, and transitioned to a real estate company in 1956. Since then, the Company has changed its portfolio according to the changing needs of society with the times, and provided “valuable commercial space,” as stated in its corporate philosophy. Currently, our operations are focused on the real estate leasing business, where we deal in office buildings, datacenter buildings, WINS buildings, commercial buildings, logistics warehouses, and other facilities that serve as bases to support corporate manufacturing and the provision of services. Property development, maintenance, and management enjoy constant involvement from our technical staff, who have a wealth of field experience at major general contractors. Meanwhile, property management staff work with our technical staff and partner companies to engage in close communication with tenants (see page 29 onward). As a result, we have realized high-quality building construction and meticulous building management, and furthermore maintained high occupancy rates.

We have specialized in the real estate leasing

business for many years, and have achieved steady growth by expanding our asset size. However, faced with changes in the business environment, such as soaring energy prices and soaring real estate prices associated with global monetary easing, it has become difficult for the real estate leasing business on its own to achieve the required yield. Therefore, in May 2023, the Company formulated a new Long-Term Business Plan laying out our future direction for improving capital efficiency and our stock price. Under this plan, the Group will continue to position the real estate leasing business as its core business, and aim to accelerate growth and improve capital efficiency by engaging in new businesses such as equity investments and revolving-type investment business.

The posture of identifying customer needs, which has been long-cultivated since the Company’s founding, will continue to be passed on. Going forward, we have the sensitivity to identify needs that will change in the coming years, and to advance initiatives rapidly reflected in new businesses. Therefore our aim is to build an organization in which employees broaden their horizons and knowledge with curiosity, bring ideas together, and put them into practice, so, too, does it become my mission to achieve this aim.

Targets and approach to capital efficiency

In the Long-Term Business Plan, business profit before depreciation and amortization is listed as a KPI indicating profit. It represents the total cash flow generated by business strategy-based investments, and we aim to grow by expanding it. Business profit before depreciation and amortization is the sum of operating profit, investment profit (loss) from investment partnerships, etc., and depreciation and amortization.

In addition, the Company reviewed its Long-Term Business Plan in September 2024 in order to meet expectations for the early achievement of long-term business targets and improve capital efficiency (page 21). With regard to ROE, the Company has revised its interim target from 6.0% or more to 7.0% or more, and is aiming to ultimately achieve a level of 8.0% or more. In addition to achieving the launch and monetization of all new businesses ahead of schedule, the Company

has set a target of reducing cross-shareholdings. Furthermore, the Company has maintained its financial soundness thanks to its steady management over many years, and has received an A- rating from credit rating agency R&I for 28 consecutive years. As for its financial discipline, the Company has defined targets of 30% or more in equity ratio and a net interest-bearing debt/EBITDA ratio of around 10 times. While maintaining these levels, the Company aims to improve ROE through leveraging to the extent that it does not compromise safety.

In terms of shareholder returns, we continue to target a dividend payout ratio of about 45%, while also setting a new target of implementing progressive dividend payments. Under our plan, we will not stay content with our current stock price and price book-value ratio levels, but will aim for steady growth and an improvement in the stock price as a result.



Initiatives and positioning for fiscal 2023: focusing on building foundations for growth

In fiscal 2023, the first year of the plan, we invested 13.0 billion yen to launch new businesses and maintain the value of existing properties. As a new investment in profitable properties, the Company acquired Asakusa Ekimae Building, a commercial building, in June 2023. The property is located in close proximity to Tokyo Metro Asakusa Station, and offers promising asset value growth ahead due to its strong location and convenience. Therefore, we have positioned this property as one capable of supporting our strategies in both the revolving-type investment business and the real estate leasing business.

As for equity investments, we made equity investments in an office building located in Tokyo's Minato Ward in October of the same year and in a healthcare facility located in Hyogo Prefecture's Nishinomiya City in March 2024. The office building in Minato Ward offers a strong location and the promise of future redevelopment; this means that as long as they are held, they can provide profits. Demand for healthcare facilities is expected to increase in line with Japan's aging population, and we intend to use this investment as a springboard to accumulate

expertise in healthcare facilities, an area where we have no previous experience, leading to the next round of investments. In addition, we will work to build relationships with joint investors for our future second and third projects.

In overseas business, the Company invested in a real estate fund located in the United States in October 2023 for the purpose of gathering information and accumulating expertise. The United States offers promising economic growth and secure legal transparency in the real estate market, and therefore the Company has selected the U.S. as its first investment destination. In addition, this investment led to the launch of a U.S. local subsidiary in May 2024 and equity investment in rental housing in Florida in August of the same year.

During the past year, all Keihanshin Building officers and employees worked under shared aims codified in the Long-Term Business Plan. While keeping our eyes firmly focused on where we want to go, we worked to create a framework in which we can all align our vectors and demonstrate our organizational power in a unified direction. In order

to sustainably increase corporate value and realize a sustainable society, the Company has identified issues of high importance as materiality. Then, to enhance the effectiveness of sustainable management, the Company has reviewed the indicators and targets for initiatives linked to materiality (page 44). Furthermore, "ROE" has been newly added alongside "business

profit before depreciation and amortization", and "sustainability initiatives" which were previously selected as indicators to be used in the calculation of performance-linked remuneration. The Long-Term Business Plan is incorporated into the annual targets of each department and employee, leading to a shared vision among all employees.

Issues and initiatives for fiscal 2024 and beyond: a year of action to take one step forward

In fiscal 2024, the second year of the Long-Term Business Plan, we will further advance the development of an internal system for developing new businesses. Partly because the Company has specialized in the real estate leasing business for many years, it is necessary to accumulate expertise in order to advance new businesses.

In the revolving-type investment business, it is necessary to establish methods to increase property value, such as renovating buildings and facilities and improving income and expenditures by attracting tenants. Furthermore, we are considering expanding our methods of simply selling assets to external parties to include launching a private placement fund, for example, and replacing assets in that way. In order to achieve this, it is necessary for the Company to have an asset management function, and while securing specialist human resources, we will advance the accumulation of revolving assets to be included in the fund, while also considering alliances with other companies.

With regard to equity investments, while continuing to promote alliances with other companies, the Company will strike a balance between investments that generate dividends while funds are invested and those that generate capital gains through sales after development. In the first year of the plan, the Company has used up more than half of its investment budget for Phase I (FYE March 2024 to FYE March 2028). However, since investments depend on acquiring highly promising properties as they appear, the Company will continue to make proactive investments when strong deals arise.

As for overseas investment, in August 2024, the Company invested in multi-family rental housing located in Florida, the United States. In the area where the property is located, population inflows are expected in the future, the housing complex market is favorable, and corporate activities are brisk. Starting with this project, we aim to expand our business in the U.S by building relationships with local developers.

Within the 10-year period of the Long-Term Business Plan, the Company planned to build an internal system and accumulate expertise for new businesses during the five years of Phase I (FYE March 2024 to FYE March 2028), and to realize the monetization during the five years of Phase II (FYE March 2029 to FYE March 2033). However, changes

in the business environment in recent years have been dizzying. In order to respond to changes such as soaring building prices and rising interest rates, as well as to meet the expectations of investors as a company listed on the Tokyo Stock Exchange Prime Market, it is necessary to compress action timeframes and work with a sense of speed. We will engage in repeated trial and error without fear of failure, doing business with a sense of speed and being able to think on the fly. We will further accelerate the investments that we were able to make in the first year of the plan and work to achieve our targets early.

On the other hand, in the real estate leasing business, it is necessary to make investment decisions while closely watching changes in the market. With regard to office buildings, workstyle reforms among companies have progressed in response to the COVID-19 pandemic, and the state of office buildings has changed. At the same time, supply has increased in line with the redevelopment of large-scale properties in the Tokyo metropolitan area and the Kansai region. We intend to closely monitor future supply-demand trends to capture opportunities. We will also look for opportunities in commercial buildings and logistics warehouses while monitoring future e-commerce trends. Demand for datacenter buildings is expected to increase as digital transformation advances. However, as it is difficult for us to purchase and develop land in urban areas on our own due to soaring real estate prices, we are considering new investment methods. As for WINS buildings, although over half of racetrack betting tickets are now sold online, the properties owned by the Company have high transportation convenience, and are important bases that also serve as advertising towers for the Japan Racing Association, which is a customer of the Company. Therefore, the Company believes that these buildings will function as stable profit-generating facilities for the time being.

In this way, the Company has reduced the risk of economic fluctuations by developing various asset types. Going forward, the Company will continue to transform its portfolio and diversify risks. First, with regard to our regional portfolio, in order to ease the concentration of properties in the Kansai region in Japan, we will strive to reduce the risk of disasters such as earthquakes through the acquisition of properties in the Tokyo metropolitan area. In response

to Japan's aging population and low birthrates, which are expected to worsen going forward, as well as the shrinkage of the domestic market and intensifying competition, we will respond by investing in assets that respond to the aging society, such as healthcare facilities, and by investing in overseas areas where

economic growth is expected. In terms of our business portfolio, we aim to build a structure that can flexibly adapt to the rapidly changing investment environment by combining our core real estate leasing business with equity investments, revolving-type investment business, and overseas investments.

Company growth: the sum of each employee's growth

In the Long-Term Business Plan, our corporate vision in 10 years' time is "a company that will continue to contribute to a sustainable society with each and every employee growing through inventiveness and challenges and providing valuable commercial space that meet the needs of the times." In order to maintain efficient management with a small number of people, it is essential to improve the skills of each and every employee, and in order to advance new initiatives such as new businesses and future office creation, it is necessary to adopt new perspectives and have a spirit of challenge. To respect the diverse values of our employees and create an environment in which each and every employee can demonstrate their capabilities, we have set "improvement of human capital" and "diversity and inclusion" as materiality themes. As for investment in human resources, in Phase I (FYE March 2024 to FYE March 2028), we will strengthen our foundations for growth and plan to invest 3.0 billion yen over 10 years.

In the workstyle reform project, which is a stepping stone toward improving our workplace environment, we have advanced a number of initiatives based on proposals from young employees who will lead the Company in the future, such as career interviews, job-specific training, open training, and the introduction of a flextime system. By doing this, we have worked to create an environment aimed at improving productivity while also supporting employees' voluntary career development and work-life balance. Furthermore, in order to raise employee motivation and create an

office that grows alongside the Company, we have established a new multipurpose space that embraces the ideas of employees. It encourages communication among employees and provides a workplace with well-being that is both comfortable and relaxing (page 26). There are various conditions for the office to be chosen, such as rent, good location, safety, and comfort. As employees have greater freedom in where they work and competition for the recruitment of human resources is expected to intensify in the future in line with Japan's population aging and low birthrate, there is a need for proposals for offices from a worker-first perspective that will make people want to come to work. Therefore, we believe that multipurpose spaces will also play the role of model rooms when leasing. Going forward, we will continue to try various things by reflecting the concepts and ideas generated from communication among employees in our businesses. Even if an attempt does not lead to success, it's all right to devise new methods, and I hope that a spirit of trying things out will help our employees in their work. As a result of the workstyle reform project, employees have begun to have the desire to innovate and take on challenges, and the atmosphere within the Company has begun to change along with this. My sense is that systems and environments for engaging in new initiatives have been established to a certain extent, and how to translate this into action and achieve the goals of the Long-Term Business Plan is an important theme for the second year of the plan and beyond.



suiting to their locations.

In addition, in order to further advance the reduction of greenhouse gas emissions, we have expressed our support for the Japanese government's policy of achieving carbon neutrality by 2050, and set a long-term reduction target of our own toward 2050. Currently, we have set a medium-term target of a 46% reduction in Scope 1 and 2 GHG emissions by the fiscal year ending March 31, 2031 (compared to

FYE March 2020), and a long-term target of net-zero emissions by the fiscal year ending March 31, 2051. As a related initiative, as of the fiscal year ended March 31, 2024, the Company uses electricity derived from renewable energy sources in seven office buildings and some of its datacenter buildings, and has installed solar panels in the Fuchu Building.

As for environmental investments, we plan to invest 7.0 billion yen over 10 years.

In conclusion

In light of the level of capital efficiency required of publicly listed companies in recent years, we are entering an era when business as usual is no longer an option. As a result, the number of listed companies specializing in real estate leasing is decreasing, but I feel that there is great potential for the Company to propose a new style of real estate business. Just as we have grown since our founding through transforming our portfolio over time, I feel that we will expand opportunities for growth by continuing to change through taking on the challenge of new initiatives. The famed intellectual Shoin Yoshida left the world with these words. "Without a dream, there is no ideal. Without an ideal, there is no plan. Without a plan, there is no execution. And without execution, there is no success. Therefore, there is no success without a dream." He taught at Shokasonjuku Academy during the turbulent times at the end of the Edo period,

and many of his pupils went on to make a significant impact on the modernization of Japan. We expect our employees not to be bound by the conventional way of thinking, but to have ideas and actions to set goals and take on new challenges without fear of failure. It is my dream and mission to achieve the goals of the Long-Term Business Plan while encouraging each and every employee to have dreams that they would like to achieve together with the Company, to be happy with their own growth, and to take on new challenges while feeling motivated to work.

In addition, the Company aims to enhance its corporate value by providing management with feedback on the lessons learned through dialogue not only with employees but also with tenants, partner companies, and shareholders. As we continue to work toward our goals, I would like to ask each of you for your continued understanding and support.

Generating added value with environmental performance

The Company has established "strengthening of resilience to climate change" as a materiality theme, and recognizes a number of business risks, including an increase in facility renovation costs and other costs in the event that regulations are established regarding the leasing and trading of properties with low environmental performance, as well as an increase in repair costs and other costs as a result of intensifying windstorms and flooding. At the same time, the Company sees growing demand for properties that aid decarbonization and properties with advanced business continuity planning (BCP) functions for customers as growth opportunities. Accordingly, we have switched to energy-saving equipment for air

conditioning and lighting, and relocated the extra high-voltage power substations of datacenter buildings to upper floors as a flood countermeasure. To objectively assess these initiatives, we aim to raise the proportion of floor area of green-building-certified properties in our portfolio to over 50% of our total floor area by the fiscal year ending March 31, 2031, and to acquire green building certifications for all new properties in the future. In June 2023, Fujisawa Shopping Facility, and in February 2024, WINS Umeda B Building, were awarded Rank S, the highest rank, under the CASBEE for Real Estate. These buildings earned particularly strong evaluations for their high energy-saving capabilities and natural disaster countermeasures