This translation of the original Japanese financial report (*kessan tanshin*) is provided solely for information purposes. Should there be any discrepancy between this translation and the Japanese original, the latter shall prevail.

Summary of REIT Financial Report for the 4th Fiscal Period

July 19, 2018

REIT Issuer: Ooedo Onsen Reit Investment Corporation   Stock Exchange Listing: TSE
Securities Code: 3472   URL: https://oom-reit.com
Representative: Fuminori Imanishi, Executive Director

Asset Manager: Ooedo Onsen Asset Management Co. Ltd.
Representative: Fuminori Imanishi, Chief Executive Officer
Inquiries to: Shinya Ito, General Manager, Planning and Coordination Department   +81-3-6262-5200

Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): August 24, 2018
Scheduled date of start of distribution payments: August 15, 2018

Preparing supplementary explanatory materials on financial results: Yes
Holding of brief session on financial results: Yes (for institutional investors and analysts)

[Amounts are rounded down to the nearest million yen, except for per unit figures]

1. Status of Management and Assets for the 4th Fiscal Period

4th Fiscal Period: Fiscal period ended May 2018 (from December 1, 2017 to May 31, 2018)

(1) Management Status

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

Fiscal period	Operating revenue		Operating profit		Ordinary profit		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
4th	1,442	39.7	734	41.5	571	35.7	570	35.7
3rd	1,032	1.1	519	(5.3)	421	(5.6)	420	(5.6)

Fiscal period	Profit per unit	Ratio of profit to unitholders' equity	Ratio of ordinary profit to total assets	Ratio of ordinary profit to operating revenue
	yen	%	%	%
4th	2,427	3.1	1.7	39.6
3rd	2,384	2.6	1.4	40.8

(2) Distribution Status

Fiscal period	Distribution per unit (excluding excess cash distribution)	Total distribution (excluding excess cash distribution)	Excess cash distribution per unit	Total excess cash distribution	Distribution per unit (including excess cash distribution)	Total distribution (including excess cash distribution)	Distribution Payout ratio	Ratio of distribution to net assets
	yen	million yen	yen	million yen	yen	million yen	%	%
4th	2,423	570	12	2	2,435	573	99.9	2.7
3rd	2,385	420	7	1	2,392	421	100.0	2.6

(Note 1) The entire amount of total excess cash distribution is equivalent to the increase amount of allowance for temporary difference adjustments.

(Note 2) Distribution payout ratio is rounded down to the first decimal place. Distribution payout ratio for the fiscal period ended May 2018 is calculated using the following formula since issuance of new investment units was conducted during the period.
Distribution payout ratio = Total distribution amount (excluding excess cash distribution) / Profit × 100

(3) Financial Position

Fiscal period	Total assets	Net assets	Unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
4th	39,875	21,220	53.2	90,166
3rd	29,208	16,171	55.4	91,777

(4) Cash Flow Status

Fiscal period	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
	million yen	million yen	million yen	million yen
4th	531	(10,273)	9,567	843
3rd	689	(153)	(557)	1,018

2. Management Status Forecasts for the 5th Fiscal Period and the 6th Fiscal Period

5th Fiscal Period: Fiscal period ending November 2018 (from June 1, 2018 to November 30, 2018)
6th Fiscal Period: Fiscal period ending May 2019 (from December 1, 2018 to May 31, 2019)

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

Fiscal period	Operating revenue		Operating profit		Ordinary profit		Profit		Distribution per unit (excluding excess cash distribution)	Excess cash distribution per unit	Distribution per unit (including excess cash distribution)
	million yen	%	million yen	%	million yen	%	million yen	%	yen	yen	yen
5th	1,448	0.4	711	(3.2)	571	0.0	570	0.0	2,423	12	2,435
6th	1,441	(0.5)	702	(1.2)	565	(1.1)	564	(1.1)	2,398	12	2,410

(Reference) Estimated Profit per unit for the 5th Fiscal Period: 2,423 yen; 6th Fiscal Period: 2,397 yen

*** Other**

(1) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

(i) Changes in accounting policies accompanying amendments to accounting standards, etc.: None
(ii) Changes in accounting policies other than (i): None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatement: None

(2) Total Number of Investment Units Issued and Outstanding

(i) Total number of investment units issued and outstanding (including own investment units) at end of period:	4th	235,347 units	3rd	176,200 units
(ii) Number of own investment units at end of period:	4th	0 units	3rd	0 units

*** Presentation of the status of implementation of audit procedures**

At the time of disclosure of this financial report (*kessan tanshin*), the audit procedures pursuant to the Financial Instruments and Exchange Act have not been completed.

*** Explanation of the appropriate use of the management status forecasts, and other matters of special note**

The management status outlook and other forward-looking statements contained in this document are based on information that are currently available and certain assumptions that are deemed reasonable by the Investment Corporation. Accordingly, the actual management status, etc. may differ materially due to various factors. In addition, the forecast is not a guarantee of the amount of cash distribution. For the assumptions for the management status forecasts, please refer to “Assumptions Underlying Forecasts of the Financial Results for the Fiscal Periods Ending November 2018 and May 2019” on page 8.

1. Affiliated Juridical Persons of the Investment Corporation

Disclosure is omitted because there is no significant change from "Structure of the Investment Corporation" in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on February 27, 2018).

2. Management Policy and Management Status

2.1. Management Policy

Disclosure is omitted because there are no significant changes from the "Investment Policy," "Investment Targets" and "Distribution Policy" in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on February 27, 2018).

2.2. Management Status

(1) Overview of the Fiscal Period under Review

a. Brief History of the Investment Corporation

Ooedo Onsen Reit Investment Corporation (the "Investment Corporation") was established on March 29, 2016 (capital: 200 million yen, issued investment units: 2,000 units) under the Act on Investment Trusts and Investment Corporations (the "Investment Trust Act"). Registration with the Kanto Local Finance Bureau was completed on May 13, 2016 (registration number 119, filed with the Director of the Kanto Local Finance Bureau).

Subsequently, pursuant to the basic policy calling for "key investments in onsen and spa-related facilities under the Ooedo business model (Note 1) that can achieve stable revenues and sustained growth" and "growth strategy taking maximum advantage of support from the Ooedo-Onsen Monogatari Group (Note 2)", the sponsor, the Investment Corporation issued new investment units via public offering (174,200 units) with August 30, 2016 as the payment date and listed on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. ("Tokyo Stock Exchange") (Securities Code: 3472) on August 31, 2016. Furthermore, the Investment Corporation acquired 9 onsen and spa-related facilities (Note 3) (total acquisition price (Note 4): 26,844 million yen) on September 1, 2016.

In the fiscal period under review, the Investment Corporation issued new investment units via public offering (56,330 units) and additionally acquired 5 onsen and spa-related facilities (total acquisition price: 9,861 million yen) on December 4, 2017. As a result, the total number of facilities owned by the Investment Corporation as of the end of the fiscal period under review increased to 14 facilities (total acquisition price: 36,705 million yen. The total number of investment units issued and outstanding of the Investment Corporation as of the end of the fiscal period under review stands at 235,347 units).

(Note 1) "Ooedo onsen model" is business expertise introduced in facilities operated by the Ooedo-Onsen Monogatari Group capable of maintaining high profitability and stable occupancy, which are possessed by the Ooedo-Onsen Monogatari Group and believed to be highly competitive.

(Note2) "Ooedo-Onsen Monogatari Group" is comprised of the Investment Corporation's sponsors, Ooedo-Onsen Monogatari Group Co., Ltd. (the "Sponsor Group Parent Company") and Ooedo-Onsen Monogatari Co., Ltd. ("Ooedo-Onsen Monogatari" and may be referred to as "Sponsors" collectively with the Sponsor Group Parent Company); and its consolidated subsidiaries (meaning subsidiaries provided for in Article 8, Paragraph 3 of the Regulation on the Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963, as amended), including the Asset Manager). The same applies hereinafter.

(Note 3) "Onsen and spa-related facilities" refers to facilities which provide as a primary function onsen or hot baths, and include baths (public bathing facilities which employ onsen or other similar facilities; the same hereinafter), ryokan (lodging of which main structure and facilities are Japanese style), hotels (lodging of which main structure and facilities are Western style), resort facilities (facilities to provide opportunities for sports or recreational activities during leisure time), amusement parks, or other leisure facilities (including multi-use facilities that contain the foregoing) that include hot baths as part of their core facilities. Onsen and spa-related facilities also refers to facilities as a whole, including not only buildings with onsen or hot baths, but also the buildings and sites that are adjacent to such buildings or operated as one facility. The same applies hereinafter.

(Note 4) "Acquisition price" indicates the purchase prices of properties stated in the sale and purchase agreements (not including expenses, such as consumption tax, local consumption tax, or sale and purchase fees), rounded down to the nearest million yen.

b. Investment Environment and Management Performance

The Japanese economy during the fiscal period under review showed negative growth in the annualized quarterly real GDP growth rate (the second preliminary estimates) for the first time in nine quarters, changing from a 1.0% increase for October to December 2017 to a 0.6% decrease for January to March 2018, and household consumption for January to March 2018 also decreased due to the rise in the price of fresh foods and the impact of a cold wave and heavy snow. While a pickup in personal consumption has been seen in April 2018 onward due to recovery of weather and improvement in the price of fresh foods, close attention on it together with the trend of the future labor environment is still necessary.

Under such environment, the occupancy rate (Note 1) of the 14 onsen and spa-related facilities the Investment Corporation owns as of the end of fiscal period under review (total acquisition price: 36,705 million yen) was 100.0% as of the end of the fiscal period under review under a master lease agreement. In addition, the guestroom occupancy rate (Note 2) for the 14 onsen and spa-related facilities owned decreased slightly from the previous fiscal period but remained high at 85.3% on average for the fiscal period under review. ADR (Note 3) for the 14 properties owned exceeded the actual results of the same period of the previous year, resulting in cumulative totals of RevPAR (Note 4) mostly maintaining the actual results of the same period of the previous year and generating stable operation results. The Investment Corporation believes that, in addition to the operational capability of Ooedo-Onsen Monogatari Group, the tenant, the fact that demand for onsen is secured in a relatively stable manner while short-term consumption trends are changing, as estimated from the past data showing a continuous increase in the total number of annual guests of accommodation facilities throughout a fiscal year amid a continuing mild decline in the number of accommodation facilities from fiscal 2013 to fiscal 2015 in the Onsen Use Survey by the Nature Conservation Bureau of the Ministry of the Environment, are against the backdrop of the above trends.

The total appraisal value as of the end of the fiscal period under review decreased by 30 million yen from that for the 9 facilities acquired and owned as of the end of the previous period (November 30, 2017). However, as to unrealized gain/loss (Note 5) of the entire portfolio as of the end of the fiscal period under review, unrealized gain of 3,112 million yen was recorded as a result of decline of book value for the 9 properties due to depreciation and the addition of unrealized gain for the 5 properties acquired in the fiscal period under review.

In addition, the Investment Corporation drew up plans for repairs and capital expenditures that take into account the status, features, etc. of the owned properties and implemented necessary repairs and capital expenditures, under trust-based collaboration with the Ooedo-Onsen Monogatari Group (Note 6), the operator-cum-tenant. (Repair expenses are basically borne by tenants based on the lease agreements.)

(Note 1) Occupancy rate refers to the ratio of leased area to leasable area.

(Note 2) Guestroom occupancy rate is calculated using the following formula.

Guestroom occupancy rate = number of guestrooms sold during relevant period / number of rooms available for sale during relevant period ×100 (%)

(Note 3) Average daily rate (ADR) is calculated for a given time period by dividing total room revenue by the number of total rooms sold

(Note 4) Revenue per available room (RevPAR) is calculated for a given time period by dividing total room revenue by the number of total rooms available for sale.

(Note 5) Unrealized gain/loss is calculated using the following formula.

Unrealized gain/loss = Total appraisal value of owned assets as of the end of the fiscal period under review – Total balance sheet amount (including equipment attached to buildings, structures, machinery and equipment, tools, furniture and fixtures as well as leasehold right)

(Note 6) The Investment Corporation has leased properties it owns as of September 1, 2016 pursuant to the lease agreement concluded with Ooedo-Onsen Monogatari Co., Ltd. on July 29, 2016. However, the Sponsor Group Parent Company has succeeded the contractual status following the absorption-type split between Ooedo-Onsen Monogatari Co., Ltd. and the Sponsor Group Parent Company effective as of November 1, 2017. Furthermore, the Investment Corporation and the Asset Manager concluded a sponsor support agreement with the Sponsors on November 1, 2017. The former sponsor support agreement (as amended, the "former sponsor support agreement") concluded on July 29, 2017 between Ooedo-Onsen Monogatari Co., Ltd., the Investment Corporation and the Asset Manager was invalidated upon conclusion of the sponsor support agreement from that time on. In the sponsor support agreement, Ooedo-Onsen Monogatari Co., Ltd. and the Sponsor Group Parent Company undertake the same obligations as those of sponsors specified in the former sponsor support agreement as sponsors, and thus there is no substantive changes to the terms of the former sponsor support agreement due to the renewal of the agreement.

c. Overview of Capital Procurement

In the fiscal period under review, the Investment Corporation procured 4,667 million yen from the issuance of new investment units via primary offering on December 1, 2017 and 5,650 million yen from the borrowing on December 4, 2017 and allocated both amounts to part of funds for the acquisition of 5 new properties including "Ooedo Onsen Monogatari Nagasaki Hotel Seifu" and related expenses. Furthermore, 233 million yen was procured from the issuance of new investment units via third-party allotment on December 26, 2017 and allocated to part of funds for early repayment of 230 million yen of existing borrowings as of January 31, 2018.

In addition, 450 million yen was procured from new borrowings as of May 31, 2018 and allocated to part of funds for repayment of 500 million yen of existing borrowings.

The Investment Corporation conducted scheduled repayment of 93 million yen on both January 31 and April 30, 2018 using cash on hand. As a result, the total amount of interest-bearing debt stood at 16,807 million yen and the ratio of interest-bearing liabilities to total assets (LTV) at 42.2% as of the end of the fiscal period under review.

d. Overview of Financial Performance and Distributions

As a result of the operations described above, business performance in the fiscal period under review generated operating revenue of 1,442 million yen, operating profit of 734 million yen, ordinary profit of 571 million yen and profit of 570 million yen.

Concerning cash distribution for the fiscal period under review, pursuant to the cash distribution policies provided in the Investment Corporation's articles of incorporation, the amount of distribution was to be in excess of an amount equivalent to 90% of the Investment Corporation's earnings available for distribution as defined in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended; the "Special Measures Concerning Taxation Act"). Accordingly, the Investment Corporation decided to distribute 2,423 yen per unit (excluding excess cash distribution).

Furthermore, in accordance with the policy for "distribution of cash in excess of profit" as stated in the Investment Corporation's articles of incorporation, the Investment Corporation made a distribution for the 2,824,164 yen in allowance for temporary difference adjustments (as defined in Article 2, Paragraph 2, item 30 of the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended; the "Investment Corporations Accountings Ordinance") for the purpose of reflecting the effect on distributions of the difference between accounting and tax treatment of earnings in association with the recording of interest expenses of asset retirement obligation and recording of depreciation of building book value corresponding to asset retirement obligation (as defined in Article 2, Paragraph 2, item 30 (b) of the Investment Corporations Accountings Ordinance). This resulted in excess distribution per unit of 12 yen.

As a result, distribution per unit for the fiscal period under review was 2,435 yen (of which, excess distribution per unit was 12 yen).

(2) Outlook for the Next Fiscal Period

a. Management Environment in the Next Fiscal Period

As to the Japanese economy in the next fiscal period onward, a pickup in personal investment is expected due to continuously strong inbound demand, but attention should be paid to both the trend of import prices as well as the future of the monetary easing policy of the Bank of Japan. With the increase in trade friction between both the U.S. and China as well as the U.S. and Europe attributable to the protectionist trade policy of the U.S., an eye should be kept on the world economy.

In the hotel sector, under the private lodging law enforced in June 2018, the number of companies entering the private lodging business is on the rise, calling for attention to the impact on the existing lodging facility industry. However, supply of guestrooms continues to increase with the rising demand for accommodation from the increased number of inbound tourists serving as the main factor.

Under such circumstances, demand for onsen, which is deeply rooted in Japanese culture, has not only been stable over the long term but also been expected to expand backed by an increase in inbound tourists in line with the progress in the tourism-oriented country policy promoted by the government as well as by the presence of a large senior-age group arising from the aging of society, as well as their children's generation which tends to have multiple family members, and is believed to remain stable. For these reasons, business results of the facilities owned by the Investment Corporation are expected to remain stable in general.

b. Future Management Policy and Challenges to Address

(a) External Growth Strategy

i. Utilization of Sponsor Pipeline

Looking at the supply aspect of onsen and spa-related facilities, the number of inquiries for potential deal information to the Ooedo-Onsen Monogatari Group is expected to increase continuously as more ryokans decide to cease operation and the desire to sell hotels is increasing for various reasons such as a lack of successors and declining competitiveness due to aging properties.

In the period of 1 year from April 2017 to May 2018, the Ooedo-Onsen Monogatari Group acquired "Ooedo-Onsen Monogatari Gero Shinkan" (Gero City, Gifu Prefecture) in April 2017, "Ooedo-Onsen Monogatari Nanki Kushimoto (Note 1)" (Higashimurogun, Wakayama Prefecture) in June 2017 and "Ooedo-Onsen Monogatari Hotel Kisoji" (Kisogun, Nagano Prefecture) in April 2018. The Investment Corporation believes active acquisition will continue to take place in the future. (Note 2).

Furthermore, in accordance with the sponsor support agreement (Note 3) concluded with the Ooedo-Onsen Monogatari Group on November 1, 2017, the Investment Corporation is granted with preferential negotiating rights for acquisition of onsen and spa-related facilities owned or developed by the Ooedo-Onsen Monogatari Group and will also be preferentially provided with third-party property sales information acquired by the Ooedo-Onsen Monogatari Group. The Investment Corporation intends to continuously acquire mainly onsen and spa-related facilities with the Ooedo business model owned and operated by the Ooedo-Onsen Monogatari Group by utilizing the abovementioned support.

(Note 1) The Ooedo-Onsen Monogatari Group acquired shares of Kushimoto Onsen Hotel Co., Ltd., which owns the facility.

(Note 2) It is not guaranteed the Investment Corporation will be able to acquire these properties in the future.

(Note 3) The sponsor support agreement concluded as of July 29, 2016 was concluded again on November 1, 2017 in line with the reorganization of companies in Ooedo-Onsen Monogatari Group, the sponsor (please refer to “Notice Concerning Changes in Parent Company and Specified Associated Corporation at the Asset Manager” announced by the Investment Corporation as of October 2, 2017).

ii. Synchronization with Revitalization Process of the Ooedo-Onsen Monogatari Group

The Ooedo-Onsen Monogatari Group has expanded revitalization businesses since 2007 in which the Ooedo-Onsen Monogatari Group acquires onsen and spa-related facilities in various locations across the nation and then introduces the Ooedo onsen model. The Investment Corporation intends to expand asset size by continuously acquiring properties that have achieved high profitability and stable operations through the revitalization process (Note).

On the other hand, the Investment Corporation believes that the Ooedo-Onsen Monogatari Group will be able to acquire new properties subject to revitalization by utilizing sales proceeds gained through sales of properties that have achieved high profitability and stable operations to the Investment Corporation, and thus be able to expand its business platform as an operator of onsen and spa-related facilities.

In order to realize such a win-win relationship between the Investment Corporation and the Ooedo-Onsen Monogatari Group, the Investment Corporation is provided with information on properties subject to revitalization as early as when the Ooedo-Onsen Monogatari Group starts discussions, and exchanges views with the Investment Corporation’s own investment criteria while taking into account conflict of interest. At the same time, the Ooedo-Onsen Monogatari Group also works to select properties with an eye to selling them to the Investment Corporation. Furthermore, in renewal plans and such to take place after acquisition of properties subject to revitalization, the Ooedo-Onsen Monogatari Group also implements, reflecting opinions of the Investment Corporation, various measures to enable long-term operations such as seismic retrofitting and securement of legal compliance, assuming sales to the Investment Corporation.

(Note) Revitalization processes are roughly divided into three phases; a phase to discuss acquisition of properties subject to revitalization, a renewal phase after acquisition of properties subject to revitalization and a phase to aim for stable operation after opening renewed facilities.

iii. Utilization of Network Unique to the Asset Manager and Acquisition of Properties Other than Properties Contributed by Sponsor

With regard to facilities for utilizing leisure time (“leisure facilities” (Note 1) hereafter) which provide affluent leisure to consumers, the Investment Corporation will also invest in facilities operated by parties other than the Ooedo-Onsen Monogatari Group and owned or operated by various third parties, and, in considering the diversification and balance of its portfolio, proactively conduct acquisition of said facilities by utilizing a network unique to the Asset Manager while maintaining facilities owned or developed by the Ooedo-Onsen Monogatari Group as its prime investment targets. Selective investment will be conducted by obtaining information on urban locations in major cities, locations with a large market scale and many potential users, and commercial real estate undergoing operation in which stable operation and future prospects are expected to be approachable from the perspective of “intangible goods consumption (experience-based consumption)” (Note 2), which has gained attention in recent years, including “onsen/spa.” Furthermore, such information on investment targets is brought to the Asset Manager in large quantities and the number of projects under consideration is increasing partially due to approaching potential sellers by means of the company’s unique network.

The investment target of the Investment Corporation stipulated in the articles of incorporation are ryokans, hotels, bathing facilities, resort facilities, amusement parks and other leisure facilities as well as mixed-use facilities of these, all of which can be called leisure facilities. The Investment Corporation believes that it can expand the scale of portfolio and diversify risks by conducting acquisition activities in a wide range of area while focusing on investments in onsen and spa-related facilities a facility including onsen and spa, as one of the main use of the facility.

(Note 1) Leisure facilities refer to facilities that provide leisure activities and fulfilling time which people nowadays require such as “enjoyment,” “communication,” “comfort and relaxation” and “health and intellectual satisfaction” to consumers.

(Note 2) “Intangible goods consumption” or “experience-based consumption” refers to consumption activities for providing a “series of experience” which is a combination of individual events.

(b) Internal Growth Strategy

i. Rent Structure Emphasizing Stability

The Investment Corporation adopts a rent system which is comprised of primary rent (fixed rent combined with GOP-linked variable rent) with an addition of secondary rent (amount equivalent to real estate real estate related costs of respective facility) in the long-term lease agreements concluded with the Ooedo-Onsen Monogatari Group companies which are the tenants of the owned assets (Note). This along with having tenants bear repair expenses in principle allow the Investment Corporation to secure stability of cash flow over the long term while pursuing benefits from the upside of a GOP-linked rent income when facilities are generating favorable operating results.

(Note) The rent system has been adopted in the lease agreements for the currently owned assets. However, this does not guarantee the same rent system will be adopted in the lease agreements for the facilities that the Investment Corporation acquires in the future.

ii. Strategic CAPEX (Note 1) Contributing to the Increase in Income and Enhancement of Competitiveness through the Expansion of Capacity

The Investment Corporation proactively implements strategic CAPEX such as increasing the number of guestrooms through extension and reconstruction for existing properties with value-increasing potential (Note 2) and aims to increase rent income by increasing potential earnings that the operator of owned assets are supposed to receive as well as through the effective use of non-operating buildings and unused land within the facility.

In addition, the Investment Corporation will also proactively implement value enhancement work such as the expansion of open-air baths contributing to the enhancement of competitiveness, renovation of buffet halls and improvement of customer flow lines as well as cooperation in various events for attracting customers, by collaborating with the Ooedo-Onsen Monogatari Group which possesses know-how on adding value to onsen and spa-related facilities.

(Note 1) CAPEX (Capital Expenditure) does not refer to repair expenses for maintenance of real estate but refers to expenditure for enhancing value and competitiveness of real estate and its facilities.

(Note 2) “Value-increasing potential” refers to the capability for potential enhancement of asset value that investments, etc. can bring.

(c) Financial Strategy

The Investment Corporation implements flexible financial strategies while emphasizing establishment of a conservative financial base. Although the Investment Corporation has set the upper limit of LTV at 60% in principle, it plans to maintain a conservative level of around 40% amid normal operation for the time being. As to debt financing, the Investment Corporation aims to maintain and enhance the favorable relationship with existing lenders as well as diversify financing sources to secure necessary funds associated with the expansion of asset scale. The Investment Corporation also aims to expand the scale of portfolio and diversify risks as well as reduce financing costs by strengthening credibility. In addition, the Investment Corporation works to diversify/level repayment dates of interest-bearing debt to reduce refinancing risks.

(3) Significant Subsequent Events

Not applicable

Assumptions Underlying Forecasts of the Financial Results for the Fiscal Periods Ending November 2018 and May 2019

<table>
<tr><th>Item</th><th>Assumption</th></tr>
<tr><td>Calculation period</td><td>・ Fiscal period ending November 2018
(5th fiscal period: from June 1, 2018, to November 30, 2018) (183 days)
・ Fiscal period ending May 2019
(6th fiscal period: from December 1, 2018, to May 31, 2019) (182 days)</td></tr>
<tr><td>Managed Assets</td><td>・ It is assumed that there will be no change (acquisition or disposition of assets) to the 14 properties, which the Investment Corporation owns as of the date of this document, through to the end of the fiscal period ending May 2019.
・ The managed assets may actually change due to acquisition of assets other than the owned properties above, the disposition of assets under management, etc.</td></tr>
<tr><td>Operating revenue</td><td>・ Lease operations revenue from the owned assets is calculated based on the lease agreements effective as of the date of this document, taking into consideration market trends and other factors. It is assumed that no rent payments will be behind or declined by tenants.
・ Rent is calculated based on the following assumptions:

[Ooedo-Onsen Monogatari Reoma Resort]
Fixed rent: 62,456,896 yen monthly
Variable rent: 5,181,730 yen monthly; and will be calculated using the following calculation method after June 2019
(1) Modified GOP (Note 1) for the most recent one-year period × 5.0% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 64.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply.
With regard to Ooedo-Onsen Monogatari Reoma Resort, a fixed-term land lease agreement has been executed with the tenant, and the Investment Corporation receives a separate monthly land rent of 89,100 yen based on the fixed-term land lease agreement.

[Ooedo-Onsen Monogatari Ise-shima]
Fixed rent: 18,009,399 yen monthly
Variable rent: 962,993 yen monthly from December 2016; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 4.0% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 77.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply.

[Ito Hotel New Okabe]
Fixed rent: 12,296,799 yen monthly
Variable rent: 1,471,251 yen monthly from December 2016; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 5.0% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 52.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply.</td></tr>
</table>

Operating revenue	[Ooedo-Onsen Monogatari Atami] Fixed rent: 15,619,380 yen monthly Variable rent: 939,716 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 4.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 74.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Toi Marine Hotel] Fixed rent: 9,098,235 yen monthly Variable rent: 1,016,579 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 7.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 72.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Awara] Fixed rent: 10,963,033 yen monthly Variable rent: 608,360 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 3.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 62.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Kamoshika-so] Fixed rent: 5,953,916 yen monthly Variable rent: 655,836 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 6.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 62.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Ikaho] Fixed rent: 6,126,558 yen monthly Variable rent: 708,097 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 7.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 67.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Kimitsu-no-mori] Fixed rent: 4,098,412 yen monthly Variable rent: 436,860 yen monthly from December 2016; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 5.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 52.0% of the modified GOP exceeds one year’s fixed rent, variable rent will apply. [Ooedo-Onsen Monogatari Nagasaki Hotel Seifu] Fixed rent: 9,788,199 yen monthly Variable rent: 498,384 yen monthly from June 2018; and will be revised every six months and calculated as follows: (1) Modified GOP for the most recent one-year period × 2.2% (yearly; the monthly amount is 1/12th thereof)

(2) Only if 44.7% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

[Ooedo-Onsen Monogatari Kounkaku]
Fixed rent: 7,017,209 yen monthly
Variable rent: 755,005 yen monthly from June 2018; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 4.5% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 45.3% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

[Kinugawa Kanko Hotel]
Fixed rent: 22,478,074 yen monthly
Variable rent: 1,188,094 yen monthly from June 2018; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 2.4% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 47.5% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

[Ooedo-Onsen Monogatari Kinosaki]
Fixed rent: 12,447,999 yen monthly
Variable rent: 650,945 yen monthly from June 2018; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 2.4% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 47.7% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

[Ooedo-Onsen Monogatari Higashiyama Grand Hotel]
Fixed rent: 8,631,767 yen monthly
Variable rent: 940,567 yen monthly from June 2018; and will be revised every six months and calculated as follows:
(1) Modified GOP for the most recent one-year period × 4.5% (yearly; the monthly amount is 1/12th thereof)
(2) Only if 45.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

Fiscal Period Ending November 2018 (5th fiscal period)

(Millions of yen)

Property name	Primary rent (Note 2)		Secondary rent (Note 5)	Total (Note 7)
	Fixed rent (Note 3)	Variable rent (Note 4)		
Ooedo-Onsen Monogatari Reoma Resort	375 (Note 6)	31	34	441
Ooedo-Onsen Monogatari Ise-shima	108	7	3	119
Ito Hotel New Okabe	73	8	9	91
Ooedo-Onsen Monogatari Atami	93	7	4	105
Ooedo-Onsen Monogatari Toi Marine Hotel	54	6	1	62

Ooedo-Onsen Monogatari Awara	65	3	9	78
Ooedo-Onsen Monogatari Kamoshika-so	35	4	6	46
Ooedo-Onsen Monogatari Ikaho	36	4	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	2	5	32
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	58	2	6	68
Ooedo-Onsen Monogatari Kounkaku	42	4	5	51
Kinugawa Kanko Hotel	134	7	8	150
Ooedo-Onsen Monogatari Kinosaki	74	3	6	84
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	5	10	68
Total (Note 7)	1,230	101	116	1,448

Fiscal Period Ending May 2019 (6th fiscal period)

(Millions of yen)

Property name	Primary rent (Note 2)		Secondary rent (Note 5)	Total (Note 7)
	Fixed rent (Note 3)	Variable rent (Note 4)		
Ooedo-Onsen Monogatari Reoma Resort	375 (Note 6)	31	33	439
Ooedo-Onsen Monogatari Ise-shima	108	7	3	119
Ito Hotel New Okabe	73	8	8	91
Ooedo-Onsen Monogatari Atami	93	7	3	105
Ooedo-Onsen Monogatari Toi Marine Hotel	54	6	1	62
Ooedo-Onsen Monogatari Awara	65	4	8	78
Ooedo-Onsen Monogatari Kamoshika-so	35	4	6	46
Ooedo-Onsen Monogatari Ikaho	36	4	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	3	5	32
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	58	3	4	66
Ooedo-Onsen Monogatari Kounkaku	42	5	2	50
Kinugawa Kanko Hotel	134	8	5	148
Ooedo-Onsen Monogatari Kinosaki	74	4	6	85
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	5	10	67
Total (Note 7)	1,230	105	104	1,440

	(Note 1) "GOP" refers to gross operating profit, which is the amount remaining after deducting expenses arising directly from managing each facility, such as labor expenses and general and administrative expenses, from each facility's sales. "Modified GOP" is the amount remaining after deducting real estate-related expenses for the property to be borne by the tenant (including, but not limited to, taxes and public charges, non-life insurance premiums and land and house rent, but excluding an amount equivalent to Secondary rent (defined below in Note 5)) from the GOP of each facility for the Modified GOP Calculation Period (defined below in Note 4). The same applies hereinafter. (Note 2) "Primary rent" refers to the sum of the fixed rent and the variable rent. The same applies hereinafter. (Note 3) "Fixed rent" refers to the monthly amount provided for in each facility's lease agreement. The same applies hereinafter. (Note 4) Variable rent for Ooedo-Onsen Monogatari Nagasaki Hotel Seifu, Ooedo-Onsen Monogatari Kounkaku, Kinugawa Kanko Hotel, Ooedo-Onsen Monogatari Kinosaki and Ooedo-Onsen Monogatari Higashiyama Grand Hotel in the 5th fiscal period is the fixed amount provided in each facility's lease agreement. Variable rent in the 6th fiscal period onwards is the amount obtained by multiplying each facility's modified GOP for the most recent 1-year period (for the 6 months starting from December of each year, this means the 1-year period from March of that year to February of the following year; for the 6 months starting from June of each year, this means the 1-year period from September of the previous year to August of that year) (these 1-year periods are referred to as "modified GOP Calculation Periods") regarding each facility by the specific rate provided for in each lease agreement (yearly; the monthly amount is 1/12th thereof). The same applies hereinafter. For Ooedo-Onsen Monogatari Reoma Resort, it will be 31 million yen until May 2019 and the amount obtained by the above calculation method for June 2019 onward. The same applies hereinafter. For Ooedo-Onsen Monogatari Reoma Resort, it will be 31 million yen until May 2019 and the amount obtained by the above calculation method for June 2019 onward. (Note 5) "Secondary rent" refers to an amount equivalent to the total amount of taxes, public charges, nonlife insurance premiums, and other expenses (real estate management expenses) to be borne by the Investment Corporation for each facility owned by the Investment Corporation. The same applies hereinafter. (Note 6) Land rent based on the fixed-term land lease agreement is included in the fixed rent. (Note 7) Rents of properties are rounded down to the nearest million yen. Therefore, the total of each property's rent, the total of fixed rents, the total of variable rents and the total of secondary rents may not add up to the figure indicated in the Total column.
Operating expenses	・ Of the expenses related to leasing activities, which are a major component of operating expenses, the expenses related to leasing activities other than the depreciation are calculated based on past actual figures and by reflecting factors that cause expenses to fluctuate. ・ As to taxes and public charges, 91 million yen is recorded as expenses for each fiscal period of the fiscal periods ending November 2018 and May 2019. ・ Building repair expenses are not expected to arise, as these expenses will, in principle, be borne by the tenant based on the lease agreement effective as of the date of this document. ・ Depreciation, which is calculated using the straight-line method inclusive of incidental expenses and additional capital expenditure in the future, is assumed to be 422 million yen for the fiscal period ending November 2018, and 428 million yen for the fiscal period ending May 2019.
Non-operating expenses	・ The total amount of interest expenses and other borrowing-related expenses is expected to be 139 million yen for the fiscal period ending November 2018, and 136 million yen for the fiscal period ending May 2019.
Borrowings	・ The balance of loans outstanding as of May 31, 2018 is 16,807 million yen. ・ In the fiscal period ending November 2018, it is assumed that scheduled repayment of 236 million yen will be conducted separately. ・ It is assumed that 580 million yen will be repaid using the expected refund of consumption tax for property acquisition on November 30, 2018 as refund of consumption tax is expected to be conducted in the fiscal period ending November 2018. ・ In the fiscal period ending May 2019, it is assumed that scheduled repayment of 186 million yen will be conducted separately. ・ In the fiscal period ending May 2019, the current portion of long-term loans (400 million yen and 6,676 million yen) will be due for repayment on May 31, 2019 but refinancing of the same amount is assumed.

Outstanding Investment Units	• The assumed number of investment units issued and outstanding as of the date of this document is 235,347, and it is assumed that the number of investment units will not change due to any additional issuance of new investment units or another reason before May 31, 2019. • Distribution per unit is calculated based on the expected number of investment units issued and outstanding as of the end of the fiscal periods ending November 2018 and May 2019 (235,347 units).
Distribution per unit (Excluding excess cash distribution)	• Distribution per unit (excluding excess cash distribution) is calculated based on the policy for cash distributions provided for in the Investment Corporation's articles of incorporation. • Distribution per unit (excluding excess cash distribution) may change due to various factors, including changes of portfolio, changes in rent revenue due to a relocation of tenant, etc., the occurrence of unexpected capital expenditures, and other reasons.
Excess cash distribution per unit	• Recording of allowance for temporary difference adjustments of 2,824,164 yen is expected concerning the difference in accounts for tax and accounting purposes associated with recording of asset retirement obligation. • Regarding conducting excess cash distribution, the Investment Corporation will have a basic policy of conducting excess cash distribution of which amount will be equivalent to the increased amount of allowance for temporary difference adjustments. Pursuant to the policy, it is assumed that 12 yen of excess distribution per unit will be conducted in each of the fiscal periods ending November 2018 and ending May 2019.
Other	• It is assumed that revisions that affect the above forecast figures will not be made to laws or ordinances, tax systems, accounting standards, listing regulations, or rules or the like set by The Investment Trusts Association, Japan. • It is assumed that unforeseen material changes in general economic trends, in real estate market conditions, or in any other factors will not occur.

2.3. Investment Risks

Disclosure is omitted because there are no significant changes from "Investment Risks" set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on February 27, 2018).

3. Financial Statements

3.1. Balance Sheets

(Thousands of yen)

	As of November 30, 2017	As of May 31, 2018
Assets		
Current assets		
Cash and deposits	1,949,727	2,169,076
Prepaid expenses	116,674	148,184
Consumption taxes receivable	-	547,941
Deferred tax assets	13	16
Other	3,625	4,777
Total current assets	2,070,040	2,869,997
Non-current assets		
Property, plant and equipment		
Buildings	18,263,856	25,777,902
Accumulated depreciation	(662,458)	(1,077,075)
Buildings, net	17,601,397	24,700,827
Structures	1,259	1,259
Accumulated depreciation	(51)	(95)
Structures, net	1,207	1,163
Machinery and equipment	-	600
Accumulated depreciation	-	(8)
Machinery and equipment, net	-	591
Tools, furniture and fixtures	255	1,005
Accumulated depreciation	(17)	(49)
Tools, furniture and fixtures, net	237	956
Land	9,263,321	11,988,130
Total property, plant and equipment	26,866,164	36,691,669
Intangible assets		
Leasehold right	157,802	157,802
Software	6,161	5,359
Total intangible assets	163,963	163,161
Investments and other assets		
Long-term prepaid expenses	98,491	141,063
Lease and guarantee deposits	10,000	10,089
Total investments and other assets	108,491	151,153
Total non-current assets	27,138,619	37,005,984
Total assets	29,208,659	39,875,981

(Thousands of yen)

	As of November 30, 2017	As of May 31, 2018
Liabilities		
Current liabilities		
Operating accounts payable	63,196	55,254
Short-term loans payable	-	580,000
Current portion of long-term loans payable	723,000	7,499,250
Accounts payable - other	197,098	145,330
Accrued expenses	7,508	12,056
Income taxes payable	870	954
Accrued consumption taxes	20,086	-
Advances received	185,105	261,678
Other	3,731	4,882
Total current liabilities	1,200,597	8,559,406
Non-current liabilities		
Long-term loans payable	10,901,250	8,728,500
Tenant leasehold and security deposits	868,270	1,230,724
Asset retirement obligations	67,397	136,955
Total non-current liabilities	11,836,917	10,096,180
Total liabilities	13,037,515	18,655,586
Net assets		
Unitholders' equity		
Unitholders' capital	15,752,576	20,653,023
Deduction from unitholders' capital		
Allowance for temporary difference adjustments	(1,762)	(2,995)
Total deduction from unitholders' capital	(1,762)	(2,995)
Unitholders' capital, net	15,750,814	20,650,027
Surplus		
Unappropriated retained earnings (undisposed loss)	420,330	570,366
Total surplus	420,330	570,366
Total unitholders' equity	16,171,144	21,220,394
Total net assets	16,171,144	21,220,394
Total liabilities and net assets	29,208,659	39,875,981

3.2. Statements of Income

(Thousands of yen)

	Fiscal period ended November 30, 2017	Fiscal period ended May 31, 2018
Operating revenue		
Lease business revenue	1,032,755	1,442,676
Total operating revenue	1,032,755	1,442,676
Operating expenses		
Expenses related to rent business	355,550	522,992
Asset management fee	110,490	125,606
Asset custody fee	1,315	1,715
Administrative service fees	12,397	14,933
Directors' compensations	3,600	3,600
Other operating expenses	30,309	39,522
Total operating expenses	513,663	708,370
Operating profit	519,092	734,305
Non-operating income		
Interest income	10	9
Total non-operating income	10	9
Non-operating expenses		
Interest expenses	45,044	64,818
Investment unit issuance expenses	-	22,456
Borrowing related expenses	53,011	73,314
Other	-	2,500
Total non-operating expenses	98,056	163,090
Ordinary profit	421,047	571,225
Profit before income taxes	421,047	571,225
Income taxes - current	872	955
Income taxes - deferred	2	(3)
Total income taxes	874	951
Profit	420,172	570,273
Retained earnings brought forward	157	93
Unappropriated retained earnings (undisposed loss)	420,330	570,366

3.3. Statements of Unitholders' Equity

3rd Fiscal Period (from June 1, 2017 to November 30, 2017)

(Thousands of yen)

	Unitholders' equity							Total net assets
	Unitholders' capital				Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital	Unappropriated retained earnings (undisposed loss)	Total surplus		
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital					
Balance at beginning of current period	15,752,576	(528)	(528)	15,752,047	445,238	445,238	16,197,286	16,197,286
Changes of items during period								
Dividends of surplus					(445,081)	(445,081)	(445,081)	(445,081)
Excess cash distribution from allowance for temporary difference adjustments		(1,233)	(1,233)	(1,233)			(1,233)	(1,233)
Profit					420,172	420,172	420,172	420,172
Total changes of items during period	-	(1,233)	(1,233)	(1,233)	(24,908)	(24,908)	(26,142)	(26,142)
Balance at end of current period	15,752,576	(1,762)	(1,762)	15,750,814	420,330	420,330	16,171,144	16,171,144

4th Fiscal Period (from December 1, 2017 to May 31, 2018)

(Thousands of yen)

	Unitholders' equity							Total net assets
	Unitholders' capital				Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital	Unappropriated retained earnings (undisposed loss)	Total surplus		
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital					
Balance at beginning of current period	15,752,576	(1,762)	(1,762)	15,750,814	420,330	420,330	16,171,144	16,171,144
Changes of items during period								
Issuance of new investment units	4,900,447			4,900,447			4,900,447	4,900,447
Dividends of surplus					(420,237)	(420,237)	(420,237)	(420,237)
Excess cash distribution from allowance for temporary difference adjustments		(1,233)	(1,233)	(1,233)			(1,233)	(1,233)
Profit					570,273	570,273	570,273	570,273
Total changes of items during period	4,900,447	(1,233)	(1,233)	4,899,213	150,036	150,036	5,049,250	5,049,250
Balance at end of current period	20,653,023	(2,995)	(2,995)	20,650,027	570,366	570,366	21,220,394	21,220,394

3.4. Statements of Cash Distributions

(Yen)

Item	3rd Fiscal Period (from June 1, 2017 to November 30, 2017)	4th Fiscal Period (from December 1, 2017 to May 31, 2018)
I. Unappropriated retained earnings	420,330,089	570,366,299
II. Addition of excess distribution	1,233,400	2,824,164
Of which, allowance for temporary difference adjustments	1,233,400	2,824,164
III. Distribution amount	421,470,400	573,069,945
[Distribution amount per unit]	[2,392]	[2,435]
Of which, Distribution amount from earnings	420,237,000	570,245,781
[Of which, excess cash distribution per unit]	[2,385]	[2,423]
Of which, Allowance for temporary difference adjustments	1,233,400	2,824,164
[Of which, excess cash distribution per unit (pertaining to allowance for temporary difference adjustments)]	[7]	[12]
IV. Retained earnings carried forward	93,089	120,518
Method of calculating distribution amount	As described above, distribution per unit for the fiscal period under review is 2,392 yen. Concerning cash distribution (excluding excess cash distribution), in order to ensure that the maximum amount of cash distribution of earnings would be included in deductible expenses based on application of special provisions for taxation on investment corporations (Article 67-15, Paragraph 1 of the Special Measures Concerning Taxation Act), the Investment Corporation decided to distribute almost the entire amount of the earnings provided in Article 136, Paragraph 1 of the Act on Investment Trusts and Investment Corporations, excluding the portion where cash distribution per investment unit would be less than JPY1. As a result, the Investment Corporation declared a cash distribution per investment unit (excluding excess cash distribution) of 2,385 yen. In addition, pursuant to the policy for “distribution of money in excess of profits” as stated in its articles of incorporation, the Investment Corporation decided to make a distribution for the 1,233,400 yen in allowance for temporary difference adjustments for the purpose of reflecting the effect on distributions of the difference in accounts for tax and accounting purposes in association with expenses related to asset retirement obligations (as defined in Article 2, Paragraph 2, item 30 (b) of the Investment Corporations Accountings Ordinance). This resulted in distribution of allowance for temporary difference adjustments of 7 yen per investment unit.	As described above, distribution per unit for the fiscal period under review is 2,435 yen. Concerning cash distribution (excluding excess cash distribution), in order to ensure that the maximum amount of cash distribution of earnings would be included in deductible expenses based on application of special provisions for taxation on investment corporations (Article 67-15, Paragraph 1 of the Special Measures Concerning Taxation Act), the Investment Corporation decided to distribute almost the entire amount of the earnings provided in Article 136, Paragraph 1 of the Act on Investment Trusts and Investment Corporations, excluding the portion where cash distribution per investment unit would be less than JPY1. As a result, the Investment Corporation declared a cash distribution per investment unit (excluding excess cash distribution) of 2,423 yen. In addition, pursuant to the policy for “distribution of money in excess of profits” as stated in its articles of incorporation, the Investment Corporation decided to make a distribution for the 2,824,164 yen in allowance for temporary difference adjustments for the purpose of reflecting the effect on distributions of the difference in accounts for tax and accounting purposes in association with expenses related to asset retirement obligations (as defined in Article 2, Paragraph 2, item 30 (b) of the Investment Corporations Accountings Ordinance). This resulted in distribution of allowance for temporary difference adjustments of 12 yen per investment unit.

3.5. Statements of Cash Flows

(Thousands of yen)

	Fiscal period ended November 30, 2017	Fiscal period ended May 31, 2018
Cash flows from operating activities		
Profit before income taxes	421,047	571,225
Depreciation	268,383	415,504
Investment unit issuance expenses	-	22,456
Borrowing related expenses	53,011	73,314
Interest income	(10)	(9)
Interest expenses	45,044	64,818
Increase (decrease) in operating accounts payable	1,946	(1,103)
Decrease (increase) in consumption taxes refund receivable	-	(547,941)
Increase (decrease) in accrued consumption taxes	(40,986)	(20,086)
Decrease (increase) in prepaid expenses	(14,137)	512
Decrease (increase) in long-term prepaid expenses	-	(74,910)
Increase (decrease) in accounts payable - other	986	11,537
Increase (decrease) in advances received	1,055	76,573
Other, net	148	307
Subtotal	736,489	592,197
Interest income received	10	9
Interest expenses paid	(45,748)	(60,271)
Income taxes paid	(917)	(872)
Net cash provided by (used in) operating activities	689,833	531,064
Cash flows from investing activities		
Purchase of property, plant and equipment	(153,024)	(10,241,190)
Proceeds from tenant leasehold and security deposits	-	362,454
Payments for restricted bank deposits	-	(394,454)
Net cash provided by (used in) investing activities	(153,024)	(10,273,190)
Cash flows from financing activities		
Increase in short-term loans payable	-	810,000
Proceeds from long-term loans payable	-	5,217,000
Decrease in short-term loans payable	-	(230,000)
Repayments of long-term loans payable	(111,500)	(686,500)
Proceeds from issuance of investment units	-	4,877,990
Dividends paid	(446,314)	(421,470)
Net cash provided by (used in) financing activities	(557,814)	9,567,020
Net increase (decrease) in cash and cash equivalents	(21,005)	(175,105)
Cash and cash equivalents at beginning of period	1,039,962	1,018,957
Cash and cash equivalents at end of period	1,018,957	843,851