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## Summary of REIT Financial Report for the 7th Fiscal Period

January 21, 2020

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  
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 Scheduled date of submission of periodic securities report (*yuka shoken hokokusho*): February 25, 2020  
 Scheduled date of start of distribution payments: February 14, 2020  
 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 7th Fiscal Period

**6th Fiscal Period: Fiscal period ended May 2019 (from December 1, 2018 to May 31, 2019)**

**7th Fiscal Period: Fiscal period ended November 2019 (from June 1, 2019 to November 30, 2019)**

#### (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	%
6th	1,434	(1.0)	699	(2.2)	560	(3.1)	559	(3.1)
7th	1,440	0.4	696	(0.3)	566	1.1	565	1.1

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	%	%	%
6th	2,377	2.6	1.4	39.1
7th	2,403	2.7	1.5	39.3

#### (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	%	%
6th	2,378	559	12	2	2,390	562	100.0	2.6
7th	2,403	565	12	2	2,415	568	100.0	2.7

(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.

#### (3) Financial Position

Fiscal period	Total assets	Net assets	Unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
6th	38,782	21,204	54.7	90,097
7th	38,640	21,207	54.9	90,110

#### (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
6th	884	(186)	(917)	675
7th	1,131	(144)	(758)	903

## 2. Management Status Forecasts for the 8th Fiscal Period and the 9th Fiscal Period

**8th Fiscal Period: Fiscal period ending May 2020 (from December 1, 2019 to May 31, 2020)**

**9th Fiscal Period: Fiscal period ending November 2020 (from June 1, 2020 to November 30, 2020)**

[% 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
8th	1,427	(0.9)	673	(3.4)	539	(4.8)	538	(4.8)	2,288	12	2,300
9th	1,428	0.1	676	0.5	548	1.7	547	1.7	2,328	12	2,340

(Reference) Estimated Profit per unit for the 8th Fiscal Period: 2,288 yen; 9th Fiscal Period: 2,327 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:
- (ii) Number of own investment units at end of period:

7th	235,347 units	6th	235,347 units
7th	0 units	6th	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 May 2019 and November 2020" on page 8.

## 1. Management Status

### 2.1. 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. At the beginning of the 4th fiscal period, 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 business 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.

(Note 2) “Ooedo-Onsen Monogatari Group” is comprised of the Investment Corporation’s sponsors, namely Ooedo-Onsen Monogatari Hotels & Resorts Co, Ltd. and Ooedo-Onsen Monogatari Co., Ltd. (hereinafter “Ooedo-Onsen Monogatari” and may be referred to as “Sponsors” collectively with Ooedo-Onsen Monogatari Hotels & Resorts Co., Ltd.) and their 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

With regard to the Japanese economy during the fiscal period under review, the gross domestic product (GDP) in the July-September quarter of 2019 was up 1.8% on a real (seasonally adjusted) annualized basis (the secondary preliminary estimates) excluding the effects of price fluctuations, up 0.4% from the previous quarter (April to June of last year), and revised upward from the primary preliminary estimates (0.2% on an annualized basis). However, consumption and production declined associated with the consumption tax rate hike in October 2019, and the number of tourists visiting Japan from Asian countries such as South Korea showed a downward trend. In addition, the financial outlook remained uncertain, given concerns regarding the future of the US-China trade friction.

Meanwhile, the Onsen Use Survey by the Nature Conservation Bureau of the Ministry of the Environment, one of the indicators on the use of onsen and spa-related facilities, which are the principal investment targets of the Investment Corporation, shows that the number of accommodation facilities and the total number of annual guests of accommodation facilities remained stable from fiscal 2013 to fiscal 2017, suggesting that demand for onsen is stable over the medium to long-term.

In this environment, the occupancy rate (Note 1) of the 14 onsen and spa-related facilities the Investment Corporation owns as of the end of the fiscal period under review (total acquisition price: 36,705 million yen) remained at 100.0% as of the end of the fiscal period under review under a master lease agreement. In addition, although the overall guestroom occupancy rate (Note 2) of the 14 onsen and spa-related facilities owned declined only slightly to 89.3%, generally remaining stable, the guestroom occupancy rate remained lower than

the same period last year in some facilities that were affected by natural disasters such as typhoons and changes in the local economic conditions. As a result, ADR (Note 3), RevPAR (Note 4) and sales of the 14 properties declined 1.7%, 2.0% and 2.8% from the same period last year, respectively.

As can be inferred from the aforementioned Onsen Use Survey by the Nature Conservation Bureau of the Ministry of the Environment, many facilities the Investment Corporation owns seem to stably maintain a relatively high occupancy rate on the back of the stable demand for onsen in the medium to long term, while consumption trends tend to change in the short term, and the strong operational capability of the Ooedo-Onsen Monogatari Group, the tenant. However, given that the occupancy rate has declined in some facilities due to falling demand from corporations and groups in the local economies and the intensified competitive environment, the Investment Corporation asks the Ooedo-Onsen Monogatari Group, which is the tenant, to draw up and implement measures and it monitors the current status.

While leasing business revenue for the fiscal period under review basically remained stable, supported by fixed rents that had a high composition ratio, variable rents declined 8.3% from the previous period, because profits that took the cost of sales and expenses into consideration decreased in some facilities. The tenants are considering improvement plans, such as fundamental measures to attract more customers and the reduction of expenses for facilities where variable rents were not generated or declined, particularly for Kinugawa Kanko Hotel, which struggled to attract group customers, and Ooedo-Onsen Monogatari Kounkaku, which struggled due to relatively declining visits to the entire area, and the Investment Corporation will continue to request the implementation of these plans and measures.

The appraisal value as of the end of the fiscal period under review totaled 40,392 million yen. Compared with the appraisal value as of the end of the previous period (the end of May 2019), the total appraisal value remained flat for the 14 owned properties. With regard to the unrealized gain/loss (Note 5) of the entire portfolio at the end of the fiscal period under review, the unrealized gain increased to 4,267 million yen, due to a decrease in the book value, reflecting the depreciation of the 14 properties.

Moreover, the Investment Corporation did not acquire any new facilities during the fiscal period under review. However, it developed plans for capital expenditure that took into account the status and features of the owned properties to manage the implementation of necessary repairs by tenants and implement the necessary capital expenditure for maintaining functions. (Repair expenses are basically borne by the tenants based on the lease agreements.)

In addition, the Investment Corporation conducts activities for obtaining deal information to acquire new properties in the future on the premise of acquiring them widely from the market, in addition to properties managed by the Ooedo-Onsen Monogatari Group.

(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)

### **c. Overview of Capital Procurement**

In the fiscal period under review, the Investment Corporation made scheduled repayments of 93 million yen on both July 31 and October 31, 2019, and 10 million yen on November 30, 2019, using cash on hand. As a result, the total amount of interest-bearing debt stood at 15,558 million yen and the ratio of interest-bearing liabilities to total assets (LTV) at 40.3% 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 1,440 million yen, operating profit of 696 million yen, ordinary profit of 566 million yen and profit of 565 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 2,403 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 2,415 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**

Looking at the Japanese economy from the next fiscal period onward, real public investments are expected to increase according to the Comprehensive Economic Measures to Create a Future with Security and Growth adopted at a Cabinet meeting in December 2019, but attention should continue to be paid to the economic trends, given that the impact of a reactionary fall in consumption after the consumption tax hike implemented in October 2019 and the continuation of the deceleration trend of the US and the Chinese economies until the middle of 2020 are expected.

In this environment, the Investment Corporation’s investment target, leisure facilities (Note 1), including onsen and spa-related facilities, the key investment targets of the Investment Corporation, are based on “intangible goods consumption” (Note 2), or more precisely what is called “experience-based consumption” (Note 3), and there are also moves for active seniors to increase consumption and toward workstyle reform. The Investment Corporation therefore believes that domestic demand for leisure facilities will rise stably going forward.

The Investment Corporation also believes that the number of foreign tourists will rise with the progress of government policies for the tourism nation and that the weight of “experience-based consumption” such as sightseeing and the experience of Japanese culture by inbound tourists will increase further.

Under these circumstances, the Investment Corporation believes that the performance of tenants in its owned facilities will remain relatively stable overall, although there will be differences in performance among the facilities, and that it is possible to maintain stable leasing business revenue based on leasing centered on fixed rents. The Investment Corporation also believes that it will be able to increase its growth potential by advancing the acquisition of new properties that could accommodate experience-based consumption, in addition to stability typified by the current owned assets.

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

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

(Note 3) “Experience-based consumption” refers to consumption activities for the purpose of having experiences.

### **b. Future Management Policy and Challenges to Address**

As a REIT focused on leisure facilities, the Investment Corporation will aim to build a portfolio focused on facilities that are supported by consumers by providing them with productive leisure time, taking note of experience-based consumption demand that is expected to increase both in Japan and overseas, while placing onsen and spa-related facilities as the key investment targets.

#### **(a) External Growth Strategy**

##### **i. Utilization of Sponsor Pipeline**

Looking at the supply aspect of onsen and spa-related facilities, there are many ryokans and hotels that decide to discontinue their business due to persistent issues such as a lack of successors and declining competitiveness caused by aging facilities. In addition, to meet the capital needs for investment in equipment to enhance competitiveness and for funds to open new facilities, a large number of facilities are put up for sale, and information on numerous properties continues to be brought to the Investment Corporation and the Oedo-Onsen Monogatari Group.

In the period of one year from January 2019 to December 2019, the Oedo-Onsen Monogatari Group acquired two facilities: TAOYA Shima (Toba City, Mie Prefecture) in April 2019 and Oedo-Onsen Monogatari Amakusa Hotel Kameya (Kamiamakusa City, Kumamoto Prefecture) in August 2019. The Investment Corporation plans to open Saikaibashi Corazon Hotel (Sasebo City, Nagasaki Prefecture) in April 2020 and believes that the Group will continue to make acquisitions (Note).

In accordance with the sponsor support agreement concluded with the Sponsors on November 1, 2017, the Investment Corporation is granted preferential negotiating rights for the 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 making maximum use of the abovementioned support.

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

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

The Investment Corporation believes that leisure facilities set forth in its Articles of Incorporation (Note 1) remain insufficient to meet notably expanding and diversifying needs in the leisure market in recent years. It also believes that needs for leisure facilities from consumers in Japan and inbound tourists will increase quantitatively and that qualitatively fulfilling facilities which are able to satisfy the services required by consumers in Japan and overseas are still in short supply, suggesting that new supply and the conversion of existing facilities will be much needed in the future.

In this environment, the number of facilities under consideration for investment is increasing year after year partly as a result of an approach to potential sellers as sales information on leisure facilities is obtained in significant volume by utilizing the asset manager's own network. The Investment Corporation will conduct activities to acquire various types of leisure facilities and accommodation facilities, including small and medium-sized ones, by focusing on facilities at urban locations such as ordinance-designated cities and core cities, newly developed facilities and young properties that could complement the current portfolio and contribute to an improvement in the portfolio balance and the diversification of risks, as well as facilities that could meet inbound tourism demand. In addition, there are increasing cases in which a bridge structure, etc. is used to secure preferential negotiating rights (Note 2).

Through these measures, the Investment Corporation will complement the current portfolio balance centered on sponsor-contributed properties and continue to consider making investments to achieve external growth through new acquisitions that can further enhance the diversification of investment areas and tenants and diversity in leisure facilities.

(Note 1) The investment targets set forth in the Articles of Incorporation of the Investment Corporation are ryokans, hotels, bathing facilities, resort facilities, amusement parks and other leisure facilities, as well as their complex facilities.

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

## **(b) Internal Growth Strategy**

### **i. Rent Structure Emphasizing Stability**

The Investment Corporation adopts a rent system that comprises primary rent (fixed rent combined with GOP (Note 1)-linked variable rent) with the addition of secondary rent (amount equivalent to real estate-related costs of each facility) in the long-term lease agreements concluded with the Ooedo-Onsen Monogatari Group companies that are the tenants of the owned assets (Note 2). This along with having tenants pay repair expenses in principle allows 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 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. The same applies hereinafter.

(Note 2) 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 will strategically implement CAPEX such as for the extension and reconstruction of owned properties with high occupancy and value-increasing potential (Note 2) in order to increase the number of guestrooms. Through this measure, it aims to secure the potential income of the operator of the owned properties, as well as to increase the rental income through the effective use of non-operating buildings and unused land on the premises in the medium to long term.

In addition, the Investment Corporation will strive to raise variable rents by increasing tenant income through collaboration with the Ooedo-Onsen Monogatari Group, which has the expertise to improve added value in onsen and spa-related facilities, by actively engaging, from the position of the facility owner, in various measures to help enhance the competitiveness of facilities, as well as events and other measures to attract guests.

(Note 1) CAPEX (Capital Expenditure) does not refer to repair expenses for maintenance of real estate but refers to expenditure for enhancing value and extending lifetime 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 will implement a flexible financial strategy while placing emphasis on maintaining its conservative financial position.

With regard to equity financing, the Investment Corporation will consider implementing it flexibly, taking into account the enhancement of the value of investment units in the medium to long term and the dilution of distribution per unit.

Although the Investment Corporation has set the upper limit of LTV at 60% in principle, it plans to control LTV to maintain a conservative level of around 40% for the time being, while paying attention to capital reserves.

As to debt financing, the Investment Corporation strives to realize stable financing associated with the expansion of asset scale while maintaining its favorable relationship with existing lenders. The Investment Corporation also aims to reduce financing costs by lowering the risk premium through the expansion of the scale of the portfolio and the diversification of risks in terms of tenants and locations. In addition, the Investment Corporation seeks to acquire a high rating, diversify financing sources, prolong the average repayment date of debt and introduce fixed interest rates.

**(3) Significant Subsequent Events**

Not applicable

**Assumptions Underlying Forecasts of the Financial Results  
for the Fiscal Periods Ending May 2020 and November 2020**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> <li>• Fiscal period ending May 2020 (8th fiscal period: from December 1, 2019, to May 31, 2020) (183 days)</li> <li>• Fiscal period ending November 2020 (9th fiscal period: from June 1, 2020, to November 30, 2020) (183 days)</li> </ul>
Managed Assets	<ul style="list-style-type: none"> <li>• 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 November 2020.</li> <li>• The managed assets may change due to acquisition of assets other than the owned properties above, the disposition of assets under management, etc.</li> </ul>
Operating revenue	<ul style="list-style-type: none"> <li>• Lease operations revenue from the owned assets is calculated based on the lease agreements effective as of the date of this document. It is calculated in light of rent revisions to be made in the future, taking into consideration market trends and other factors. It assumes that there is no delinquency or non-payment of rent by the tenant.</li> <li>• Rent is calculated based on the following assumptions: <p style="margin-left: 20px;">[Ooedo-Onsen Monogatari Reoma Resort] Fixed rent: 52,456,896 yen monthly Variable rent: 5,181,730 yen monthly; and will be calculated using the following calculation method from June 2019</p> <ol style="list-style-type: none"> <li>(1) Modified GOP (Note 1) for the most recent one-year period <math>\times</math> 5.0% (yearly; the monthly amount is 1/12th thereof)</li> <li>(2) Only if 58.7% of the modified GOP exceeds one year's fixed rent, variable rent will apply.</li> </ol> <p style="margin-left: 20px;">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 86,000 yen based on the fixed-term land lease agreement.</p> <p style="margin-left: 20px;">[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:</p> <ol style="list-style-type: none"> <li>(1) Modified GOP for the most recent one-year period <math>\times</math> 4.0% (yearly; the monthly amount is 1/12th thereof)</li> <li>(2) Only if 77.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply.</li> </ol> <p style="margin-left: 20px;">[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:</p> <ol style="list-style-type: none"> <li>(1) Modified GOP for the most recent one-year period <math>\times</math> 5.0% (yearly; the monthly amount is 1/12th thereof)</li> <li>(2) Only if 52.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply.</li> </ol> </li> </ul>



<p>Operating revenue</p>	<p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-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 <math>\times</math> 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.</p> <p>[Oedo-Onsen Monogatari Nagasaki Hotel Seifu]  Fixed rent: 12,496,532 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 <math>\times</math> 2.2% (yearly; the monthly amount is 1/12th thereof)</p>
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- (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  $\times$  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: 29,069,741 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  $\times$  2.4% (yearly; the monthly amount is 1/12th thereof)
- (2) Only if 56.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply.

[Ooedo-Onsen Monogatari Kinosaki]

Fixed rent: 13,147,999 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  $\times$  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  $\times$  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 May 2020 (8th 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	315 (Note 6)	30	33	378
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	3	8	77
Ooedo-Onsen Monogatari Kamoshika-so	35	3	5	45
Ooedo-Onsen Monogatari Ikaho	36	4	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	-	5	29
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	3	4	83
Ooedo-Onsen Monogatari Kounkaku	42	-	2	45
Kinugawa Kanko Hotel	174	-	5	179
Ooedo-Onsen Monogatari Kinosaki	78	5	6	90
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	6	10	68
Total (Note 7)	1,230	87	105	1,422

Fiscal Period Ending November 2020 (9th 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	315 (Note 6)	30	33	379
Ooedo-Onsen Monogatari Ise-shima	108	7	3	118
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	3	8	77
Ooedo-Onsen Monogatari Kamoshika-so	35	3	5	45
Ooedo-Onsen Monogatari Ikaho	36	4	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	-	5	29
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	3	4	83
Ooedo-Onsen Monogatari Kounkaku	42	-	2	45
Kinugawa Kanko Hotel	174	-	5	179
Ooedo-Onsen Monogatari Kinosaki	78	4	6	90
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	6	10	68
Total (Note 7)	1,230	86	105	1,422

	<p>(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.</p> <p>(Note 2) “Primary rent” refers to the sum of the fixed rent and the variable rent. The same applies hereinafter.</p> <p>(Note 3) “Fixed rent” refers to the monthly amount provided for in each facility’s lease agreement. The same applies hereinafter.</p> <p>(Note 4) “Variable rent” refers to 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.</p> <p>(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.</p> <p>(Note 6) Land rent based on the fixed-term land lease agreement is included in the fixed rent.</p> <p>(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.</p>
Operating expenses	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Taxes and public charges is assumed to be 92 million yen for the fiscal period ending May 2020, and 92 million yen for the fiscal period ending November 2020.</li> <li>• 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.</li> <li>• Depreciation, which is calculated using the straight-line method inclusive of incidental expenses and additional capital expenditure in the future, is assumed to be 438 million yen for the fiscal period ending May 2020, and 445 million yen for the fiscal period ending November 2020.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>• The total amount of interest expenses and other borrowing-related expenses is expected to be 133 million yen for the fiscal period ending May 2020, and 127 million yen for the fiscal period ending November 2020.</li> </ul>
Borrowings	<ul style="list-style-type: none"> <li>• The balance of loans outstanding as of November 30, 2019 is 15,558 million yen.</li> <li>• In the fiscal period ending May 2020 and the fiscal period ending November 2020, it is assumed that the scheduled repayment of 186 million yen will be made separately.</li> <li>• In the fiscal period ending May 2020, short-term loans (340 million yen) and the current portion of long-term loans (3,568 million yen) will be due for repayment on May 29, 2020 under the assumption that the same amounts are refinanced.</li> <li>• In the fiscal period ending November 2020, the current portion of long-term loans (2,122 million yen) will be due for repayment on November 30, 2020 under the assumption that the same amounts are refinanced.</li> </ul>
Outstanding Investment Units	<ul style="list-style-type: none"> <li>• 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 November 30, 2020.</li> <li>• 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 May 2020 and November 2020 (235,347 units).</li> </ul>
Distribution per unit	<ul style="list-style-type: none"> <li>• 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</li> </ul>

(Excluding excess cash distribution)	<p>incorporation.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
Excess cash distribution per unit	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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 May 2020 and ending November 2020.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• 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.</li> <li>• It is assumed that unforeseen material changes in general economic trends, in real estate market conditions, or in any other factors will not occur.</li> </ul>

### 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 August 26, 2019).

## 2. Financial Statements

### 2.1. Balance Sheets

(Thousands of yen)

	As of May 31, 2019	As of November 30, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	2,001,208	2,228,615
Prepaid expenses	136,232	126,984
Other	66,727	6,942
Total current assets	2,204,168	2,362,543
Non-current assets		
Property, plant and equipment		
Buildings	26,145,944	26,324,003
Accumulated depreciation	(1,926,166)	(2,358,917)
Buildings, net	24,219,777	23,965,085
Structures	10,979	10,979
Accumulated depreciation	(508)	(877)
Structures, net	10,470	10,101
Machinery and equipment	600	600
Accumulated depreciation	(44)	(61)
Machinery and equipment, net	555	538
Tools, furniture and fixtures	2,620	3,498
Accumulated depreciation	(487)	(758)
Tools, furniture and fixtures, net	2,133	2,740
Land	11,988,130	11,988,187
Total property, plant and equipment	36,221,067	35,966,652
Intangible assets		
Leasehold interests in land	157,802	157,802
Software	3,754	2,951
Total intangible assets	161,556	160,754
Investments and other assets		
Deferred tax assets	12	16
Long-term prepaid expenses	185,296	140,673
Lease and guarantee deposits	10,089	10,089
Total investments and other assets	195,399	150,780
Total non-current assets	36,578,023	36,278,186
Total assets	38,782,191	38,640,729

(Thousands of yen)

As of May 31, 2019

As of November 30, 2019

Liabilities		
Current liabilities		
Operating accounts payable	17,426	92,949
Short-term borrowings	350,000	340,000
Current portion of long-term borrowings	3,941,750	6,026,630
Accounts payable - other	87,838	90,011
Accrued expenses	7,508	10,694
Income taxes payable	866	950
Accrued consumption taxes	15,234	42,933
Advances received	259,137	261,849
Other	66,854	7,048
Total current liabilities	4,746,616	6,873,067
Non-current liabilities		
Long-term borrowings	11,463,000	9,191,620
Leasehold and guarantee deposits received	1,230,724	1,230,706
Asset retirement obligations	137,754	138,156
Total non-current liabilities	12,831,479	10,560,482
Total liabilities	17,578,095	17,433,549
Net assets		
Unitholders' equity		
Unitholders' capital	20,653,023	20,653,023
Deduction from unitholders' capital		
Allowance for temporary difference adjustments	(8,643)	(11,467)
Total deduction from unitholders' capital	(8,643)	(11,467)
Unitholders' capital, net	20,644,379	20,641,555
Surplus		
Unappropriated retained earnings (undisposed loss)	559,716	565,624
Total surplus	559,716	565,624
Total unitholders' equity	21,204,095	21,207,179
Total net assets	21,204,095	21,207,179
Total liabilities and net assets	38,782,191	38,640,729

## 2.2. Statements of Income

(Thousands of yen)

	Fiscal period ended May 31, 2019	Fiscal period ended November 30, 2019
Operating revenue		
Leasing business revenue	1,434,986	1,440,167
Total operating revenue	1,434,986	1,440,167
Operating expenses		
Expenses related to leasing business	548,074	555,661
Asset management fee	126,075	125,812
Asset custody fee	1,751	1,738
Administrative service fees	17,233	17,060
Remuneration for directors (and other officers)	3,600	3,600
Other operating expenses	39,245	39,393
Total operating expenses	735,980	743,266
Operating profit	699,005	696,901
Non-operating income		
Interest income	10	10
Interest on tax refund	10	10
Total non-operating income		
Non-operating expenses	62,352	64,257
Interest expenses	75,774	65,642
Borrowing related expenses	500	500
Other	138,626	130,400
Total non-operating expenses	560,389	566,511
Ordinary profit		
Extraordinary income	11,250	—
Subsidy income	11,250	—
Total extraordinary income		
Extraordinary losses	11,250	—
Loss on tax purpose reduction entry of non-current assets	11,250	—
Total extraordinary losses	560,389	566,511
Profit before income taxes	867	952
Income taxes - current	5	(4)
Income taxes - deferred	873	948
Total income taxes	559,516	565,562
Profit	199	61
Retained earnings brought forward	559,716	565,624
Unappropriated retained earnings (undisposed loss)	577,741	559,716



## 2.3. Statements of Unitholders' Equity

6th Fiscal Period (from December 1, 2018 to May 31, 2019)

(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	20,653,023	(5,819)	(5,819)	20,647,203	577,741	577,741	21,224,944	21,224,944
Changes of items during period								
Dividends of surplus					(577,541)	(577,541)	(577,541)	(577,541)
Excess cash distribution from allowance for temporary difference adjustments		(2,824)	(2,824)	(2,824)			(2,824)	(2,824)
Profit					559,516	559,516	559,516	559,516
Total changes of items during period		(2,824)	(2,824)	(2,824)	(18,024)	(18,024)	(20,848)	(20,848)
Balance at end of current period	20,653,023	(8,643)	(8,643)	20,644,379	559,716	559,716	21,204,095	21,204,095

7th Fiscal Period (from June 1, 2019 to November 30, 2019)

(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	20,653,023	(8,643)	(8,643)	20,644,379	559,716	559,716	21,204,095	21,204,095
Changes of items during period								
Dividends of surplus					(559,655)	(559,655)	(559,655)	(559,655)
Excess cash distribution from allowance for temporary difference adjustments		(2,824)	(2,824)	(2,824)			(2,824)	(2,824)
Profit					565,562	565,562	565,562	565,562
Total changes of items during period	—	(2,824)	(2,824)	(2,824)	5,907	5,907	3,083	3,083
Balance at end of current period	20,653,023	(11,467)	(11,467)	20,641,555	565,624	565,624	21,207,179	21,207,179

## 2.4. Statements of Cash Distributions

(Yen)

Item	6th Fiscal Period (from December 1, 2018 to May 31, 2019)	7th Fiscal Period (from June 1, 2019 to November 30, 2019)
I. Unappropriated retained earnings	559,716,337	565,624,140
II. Addition of excess distribution	2,824,164	2,824,164
Of which, allowance for temporary difference adjustments	2,824,164	2,824,164
III. Distribution amount	562,479,330	568,363,005
[Distribution amount per unit]	[2,390]	[2,415]
Of which,	559,655,166	565,538,841
Distribution amount from earnings		
[Of which, excess cash distribution per unit]	[2,378]	[2,403]
Of which,	2,824,164	2,824,164
Allowance for temporary difference adjustments		
[Of which, excess cash distribution per unit (pertaining to allowance for temporary difference adjustments)]	[12]	[12]
IV. Retained earnings carried forward	61,171	85,299
Method of calculating distribution amount	<p>As described above, distribution per unit for the fiscal period under review is 2,466 yen.</p> <p>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 2,378 yen.</p> <p>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.</p>	<p>As described above, distribution per unit for the fiscal period under review is 2,415 yen.</p> <p>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 2,403 yen.</p> <p>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.</p>

## 2.5. Statements of Cash Flows

(Thousands of yen)

	Fiscal period ended May 31, 2019	Fiscal period ended November 30, 2019
<b>Cash flows from operating activities</b>		
Profit before income taxes	560,389	566,511
Depreciation	428,782	434,211
Borrowing related expenses	75,774	65,642
Interest income	(10)	(10)
Interest expenses	62,352	64,257
Subsidy income	(11,250)	—
Loss on tax purpose reduction entry of non-current assets	11,250	—
Increase (decrease) in operating accounts payable	(41,847)	41,203
Increase (decrease) in accrued consumption taxes	(67,079)	27,698
Decrease (increase) in prepaid expenses	3,361	(12,896)
Decrease (increase) in long-term prepaid expenses	(68,975)	1,125
Increase (decrease) in accounts payable - other	(2,643)	2,173
Increase (decrease) in advances received	441	2,711
Other, net	422	379
Subtotal	950,966	1,193,008
Interest received	10	10
Interest paid	(65,389)	(61,071)
Income taxes paid	(973)	(867)
Net cash provided by (used in) operating activities	884,614	1,131,078
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(198,020)	(144,673)
Refund of leasehold and guarantee deposits received	—	(18)
Subsidies received	11,250	—
Net cash provided by (used in) investing activities	(186,770)	(144,691)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	350,000	—
Proceeds from long-term borrowings	6,576,106	—
Repayments of short-term borrowings	—	(10,000)
Repayments of long-term borrowings	(7,262,750)	(186,500)
Distributions paid	(580,365)	(562,479)
Net cash provided by (used in) financing activities	(917,009)	(758,979)
Net increase (decrease) in cash and cash equivalents	(219,165)	227,407
Cash and cash equivalents at beginning of period	895,148	675,983
Cash and cash equivalents at end of period	675,983	903,390