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## Summary of REIT Financial Report for the 8th Fiscal Period

July 21, 2020

REIT Issuer: Ooedo Onsen Reit Investment Corporation      Stock Exchange Listing: TSE  
 Securities Code: 3472      URL: <https://oom-reit.com/en/>  
 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 25, 2020  
 Scheduled date of start of distribution payments: August 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 8th Fiscal Period

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

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

#### (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	%
7th	1,440	0.4	696	(0.3)	566	1.1	565	1.1
8th	1,433	(0.5)	678	(2.6)	546	(3.6)	545	(3.6)

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	%	%	%
7th	2,403	2.7	1.5	39.3
8th	2,316	2.6	1.4	38.1

#### (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	%	%
7th	2,403	565	12	2	2,415	568	100.0	2.7
8th	2,316	545	12	2	2,328	547	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.

#### (3) Financial Position

Fiscal period	Total assets	Net assets	Unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
7th	38,640	21,207	54.9	90,110
8th	38,327	21,183	55.3	90,011

#### (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
7th	1,131	(144)	(758)	903
8th	960	(170)	(807)	885

## 2. Management Status Forecasts for the 9th Fiscal Period and the 10th Fiscal Period

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

**10th Fiscal Period: Fiscal period ending May 2021 (from December 1, 2020 to May 31, 2021)**

[% 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
9th	1,335	(6.9)	578	(14.8)	448	(17.9)	447	(17.9)	1,903	12	1,915
10th	1,343	0.6	581	0.5	454	1.3	453	1.3	1,926	12	1,938

(Reference) Estimated Profit per unit for the 9th Fiscal Period: 1,902 yen; 10th Fiscal Period: 1,926 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:

8th	235,347 units	7th	235,347 units
8th	0 units	7th	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 20 and May 2021" 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 January to March quarter of 2020 was down 2.2% on a real (seasonally adjusted) annualized basis (the secondary preliminary estimates) excluding the effects of price fluctuations, and down 0.6% from the previous quarter (October to December of last year), to record negative growth in two consecutive quarters. The amount of decline was reduced from the previous quarter in which economic growth had fallen due to a consumption tax hike. The outbreak of novel coronavirus infectious disease (COVID-19), however, led to restrictions on economic activities, supply shortages due to the suspension of factory operations in China, and other setbacks, which resulted in a decrease in demand in wide-ranging sectors such as consumer spending and exports. Consequently, a decrease in the reactionary fall from the consumption tax hike failed to turn the economy into positive growth.

The declaration of a state of emergency issued in early April 2020 was subsequently extended to cover all prefectures, then gradually lifted in mid-May, after Golden Week, and completely lifted by late May. However, a sharp fall in consumption in April and May due to restrictions on outings and business interruptions, the impact of the COVID-19 pandemic on supply chains, and other adverse effects are expected to result in the continued aggravation of domestic economic conditions in the April to June quarter which will be announced.

In this environment, the total occupancy rate (Note 1) of the 14 onsen and spa-related facilities the Investment Corporation owned as of the end of the fiscal period under review (total acquisition price: 36,705 million yen) remained relatively stable until the end of February 2020 thanks to the high operation capacity of

the tenant, the Ooedo-Onsen Monogatari Group. However, the occupancy rate for the fiscal period under review decreased to 55.9%, a significant fall from the results in the same period of the previous year due to the spread of COVID-19 since March 2020. This was because of a decline in consumer sentiment after the declaration of a state of emergency and some facilities that temporarily closed at the request of the government. As a result, ADR (Note 2), RevPAR (Note 3) and sales of the 14 properties declined 10.0%, 42.0% and 41.5% from the same period last year, respectively.

Meanwhile, leasing business revenue for the fiscal period under review remained stable, supported by fixed rents that had a high composition ratio. Variable rents are calculated based on the annual results of the tenant, the Ooedo-Onsen Monogatari Group, until February of this year, which were not significantly affected by COVID-19.

The appraisal value as of the end of the fiscal period under review totaled 40,249 million yen. Compared with the appraisal value as of the end of the previous period (the end of November 2019), the total appraisal value of the 14 owned properties was reduced by 143 million yen in response to a decrease in the occupancy rate, an expected fall in cash flow for the time being due to business interruption, and other effects of COVID-19 despite a stable cap rate. With regard to the unrealized gain/loss (Note 4) of the entire portfolio at the end of the fiscal period under review, the unrealized gain increased to 4,393 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.

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

(Note 3) 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 4) 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 procured 3,566 million yen through long-term borrowing from a syndicate with Sumitomo Mitsui Banking Corporation (SMBC) as the arranger, and 290 million yen through a long-term borrowing from SMBC, in order to allocate the funds to repayment of a part of 3,850 million yen, a long-term borrowing, and 350 million yen (Note), a short-term borrowing, which matured on May 29, 2020. In addition, the Investment Corporation made scheduled repayments of 93 million yen on both January 31 and April 30, 2020, using cash on hand. As a result, the total amount of interest-bearing debt stood at 15,319 million yen and the ratio of interest-bearing liabilities to total assets (LTV) at 40.0% as of the end of the fiscal period under review.

(Note) Refer to the press release, “Notice Concerning Borrowing of Funds,” dated May 26, 2020, for details.

### **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 1,433 million yen, operating profit of 678 million yen, ordinary profit of 546 million yen and profit of 545 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 2,316 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 makes 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 results in excess distribution per unit of 12 yen.

As a result, distribution per unit for the fiscal period under review was determined as 2,328 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, significant negative growth is expected in response to the impact of COVID-19. For service consumption that involves the risk of infection, optimistic views of full-fledged recovery or additional consumption as a rebound cannot be expected until an effective vaccine is developed or a potent virus medication is put to practical use. The process of ebb and flow is expected to continue for some time as people seek new lifestyles.

In this environment, the trends of the “intangible goods consumption” (Note 2), or more precisely, what is called “experience-based consumption” (Note 3), on which the Investment Corporation’s investment target of leisure facilities (Note 1) are based, must be carefully assessed. The trends are considerably affected by companies’ responses to the need for hygiene, safety, and other measures, and efforts of individual industries, business types, and business operators must be monitored, including the effects of policy assistance such as the “special fixed benefit” and the Go To campaign.

Under these circumstances, the performance of tenants in the facilities owned by the Investment Corporation is facing severe conditions in the short term due to business interruption, declining consumer confidence of domestic customers, and constraints on activities. In the ongoing situation, however, they have been taking measures to prevent infection and are improving their operation to promote proper hygiene. Therefore, the Investment Corporation believes that leisure facilities being its investment targets may be able to recover and regain customers faster than other types of tourism targeting foreign and long-distance visitors thanks to potential reactionary demand for their accessible services as an extension of daily life, which has accumulated in the prolonged period of staying at home. The Investment Corporation also believes that if the practical use of effective vaccines and virus medications becomes more feasible, in addition to the introduction of preventive measures against infectious diseases, its business performance will be expected to recover thanks to a rise in consumer confidence for domestic customers.

(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 working to ensure stability as a feature, and placing onsen and spa-related facilities as key investment targets. In addition, the Investment Corporation will place the highest priority on taking all possible measures to protect itself against income and financial risks posed by COVID-19 for the time being and prepare to create flexible growth strategies when the external environment improves.

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

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

Looking at the supply aspect of onsen and spa-related facilities, many ryokans and hotels are expected to decide to discontinue their business due to persistent issues, such as a lack of successors and declining competitiveness caused by aging facilities. In addition, a large number of facilities are expected to be put on sale in response to the rapid aggravation of business performance as a result of COVID-19 and for the purpose of procuring funds for capital expenditure for business survival. Information on properties brought to the Investment Corporation and the Oedo-Onsen Monogatari Group is likely to continue increasing.

In the period from June 2019 to May 2020, the Oedo-Onsen Monogatari Group acquired one facility: 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)

and Ooedo-Onsen Monogatari Shiomi-so (Murakami City, Niigata Prefecture) in July 2020 after the renewal, and believes that the Group will continue its 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) There is no guarantee that the Investment Corporation will be able to acquire these properties.

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

The Investment Corporation believes that the supply of leisure facilities set forth in its Articles of Incorporation (Note 1) remains insufficient to meet notably expanding and diversifying needs in the leisure market in recent years. In addition, new facility types to accommodate novel measures to prevent infectious diseases and new lifestyles will be required due to the impact of the COVID-19 pandemic. The investment Corporation predicts that this trend will increase in the medium to long run without structural changes in the use of leisure, flow to time consumption, and global movement of people despite a temporary fall in consumer confidence.

In this environment, an increasing amount of sales information on leisure facilities has been acquired using the asset manager's own network. The Investment Corporation will implement activities to acquire a variety of leisure facilities in urban settings such as ordinance-designated cities and core cities, new development projects and recently built properties, and facilities to meet demand for inbound tourism while assessing new trends and changes in the lodging and leisure industries, in view of coexistence with COVID-19. In addition, the Investment Corporation will continue to secure preferential negotiating rights by, for instance, using a bridge structure (Note 2).

Through these measures, the Investment Corporation will aim to build a portfolio specializing in full-fledged leisure facilities involving growth and risk diversification.

(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) There is no guarantee that the Investment Corporation will be able to acquire these properties.

## **(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. It will continue to make every effort to secure rent income and ensure stability through monitoring of tenants' business performance.

(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 November 2020 and May 2021**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> <li>• Fiscal period ending November 2020 (9th fiscal period: from June 1, 2020, to November 30, 2020) (183 days)</li> <li>• Fiscal period ending May 2021 (10th fiscal period: from December 1, 2020, to May 31, 2021) (182 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 May 2021.</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>• The periods constituting the basis for calculating variable rents are determined by multiplying the modified GOP for the period between September 2019 and August 2020 in the fiscal period ending November 2020 (9th period) and the modified GOP for the period between March 2020 and February 2021 in the fiscal period ending May 2021 (10th period) by the premium rate that is specified in each lease agreement. This assumes that the restrictions on activities since March and the temporary shutdown of facilities between April and June as a result of COVID-19 will cause a decrease in the modified GOP that becomes the basis of calculating variable rents, resulting in no variable rents for all properties in both the fiscal period ending November 2020 (9th period) and the fiscal period ending in May 2021 (10th period). Fixed rents are assumed to be paid in full based on the provisions of lease agreements that are effective as of the date of this document. Rent is calculated based on the following assumptions:  [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               <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>               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.  [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:               <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>  [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:               <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>

[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  $\times$  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  $\times$  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  $\times$  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  $\times$  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  $\times$  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  $\times$  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: 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  $\times$  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  $\times$  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 November 2020 (9th fiscal period)

(Millions of yen)

Property name	Primary rent (Note 2)		Secondary rent (Note 5)	Other revenue	Total (Note 8)
	Fixed rent (Note 3)	Variable rent (Note 4)			
Ooedo-Onsen Monogatari Reoma Resort	315 (Note 6)	-	33	-	348
Ooedo-Onsen Monogatari Ise-shima	108	-	3	-	111
Ito Hotel New Okabe	73	-	8	-	82
Ooedo-Onsen Monogatari Atami	93	-	3	-	97
Ooedo-Onsen Monogatari Toi Marine Hotel	54	-	1	-	56

Ooedo-Onsen Monogatari Awara	65	-	8	-	74
Ooedo-Onsen Monogatari Kamoshika-so	35	-	5	-	41
Ooedo-Onsen Monogatari Ikaho	36	-	4	-	40
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	-	5	-	29
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	-	4	-	79
Ooedo-Onsen Monogatari Kounkaku	42	-	2	-	45
Kinugawa Kanko Hotel	174	-	5	-	179
Ooedo-Onsen Monogatari Kinosaki	78	-	6	-	85
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	-	10	0 (Note 7)	62
Total (Note 8)	1,230	-	104	0	1,335

Fiscal Period Ending May 2021 (10th fiscal period)

(Millions of yen)

Property name	Primary rent (Note 2)		Secondary rent (Note 5)	Other revenue	Total (Note 8)
	Fixed rent (Note 3)	Variable rent (Note 4)			
Ooedo-Onsen Monogatari Reoma Resort	315 (Note 6)	-	33	-	348
Ooedo-Onsen Monogatari Ise-shima	108	-	3	-	111
Ito Hotel New Okabe	73	-	8	-	82
Ooedo-Onsen Monogatari Atami	93	-	4	-	97
Ooedo-Onsen Monogatari Toi Marine Hotel	54	-	1	-	56
Ooedo-Onsen Monogatari Awara	65	-	9	-	74
Ooedo-Onsen Monogatari Kamoshika-so	35	-	6	-	41
Ooedo-Onsen Monogatari Ikaho	36	-	4	-	40
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	-	5	-	29
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	-	6	-	81
Ooedo-Onsen Monogatari Kounkaku	42	-	4	-	46
Kinugawa Kanko Hotel	174	-	8	-	182
Ooedo-Onsen Monogatari Kinosaki	78	-	6	-	85
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	-	10	0 (Note 7)	62
Total (Note 8)	1,230	-	112	0	1,343

	<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) Land rent based on the fixed-term land lease agreement is presented.</p> <p>(Note 8) 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 98 million yen for the fiscal period ending November 2020, and 98 million yen for the fiscal period ending May 2021.</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 444 million yen for the fiscal period ending November 2020, and 449 million yen for the fiscal period ending May 2021.</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 129 million yen for the fiscal period ending November 2020, and 126 million yen for the fiscal period ending May 2021.</li> </ul>
Borrowings	<ul style="list-style-type: none"> <li>• The balance of loans outstanding as of May 31, 2020 is 15,319 million yen.</li> <li>• In the fiscal period ending November 2020 and the fiscal period ending May 2021, it is assumed that the scheduled repayment of 186 million yen will be made separately.</li> <li>• In the fiscal period ending November 2020, 40 million yen is assumed to be repaid as part of the current portion of long-term loans (290 million yen) pursuant to a separate schedule. 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 amount will be refinanced.</li> <li>• In the fiscal period ending May 2021, the current portions of long-term loans (250 million yen and 3,491 million yen) will be due for repayment on May 31, 2021, under the assumption that the same amounts will be 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 May 31, 2021.</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 November 2020 and May 2021 (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 incorporation.</li> <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</li> </ul>

(Excluding excess cash distribution)	occurrence of unexpected capital expenditures, and other reasons.
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 November 2020 and ending May 2021.</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. Financial Statements

### 2.1. Balance Sheets

(Thousands of yen)

	As of November 30, 2019	As of May 31, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	2,228,615	2,210,622
Prepaid expenses	126,984	138,154
Other	6,942	6,251
Total current assets	2,362,543	2,355,028
Non-current assets		
Property, plant and equipment		
Buildings	26,324,003	26,493,480
Accumulated depreciation	(2,358,917)	(2,796,416)
Buildings, net	23,965,085	23,697,064
Structures	10,979	10,979
Accumulated depreciation	(877)	(1,247)
Structures, net	10,101	9,731
Machinery and equipment	600	600
Accumulated depreciation	(61)	(79)
Machinery and equipment, net	538	520
Tools, furniture and fixtures	3,498	3,498
Accumulated depreciation	(758)	(1,050)
Tools, furniture and fixtures, net	2,740	2,448
Land	11,988,187	11,988,187
Total property, plant and equipment	35,966,652	35,697,951
Intangible assets		
Leasehold interests in land	157,802	157,802
Software	2,951	2,149
Total intangible assets	160,754	159,951
Investments and other assets		
Deferred tax assets	16	15
Long-term prepaid expenses	140,673	104,578
Lease and guarantee deposits	10,089	10,089
Total investments and other assets	150,780	114,684
Total non-current assets	36,278,186	35,972,587
Total assets	38,640,729	38,327,616

(Thousands of yen)

	As of November 30, 2019	As of May 31, 2020
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating accounts payable	92,949	50,556
Short-term borrowings	340,000	-
Current portion of long-term borrowings	6,026,630	6,240,110
Accounts payable - other	90,011	89,251
Accrued expenses	10,694	8,329
Income taxes payable	950	936
Accrued consumption taxes	42,933	39,513
Advances received	261,849	261,314
Other	7,048	5,795
<b>Total current liabilities</b>	<b>6,873,067</b>	<b>6,695,808</b>
<b>Non-current liabilities</b>		
Long-term borrowings	9,191,620	9,078,890
Leasehold and guarantee deposits received	1,230,706	1,230,706
Asset retirement obligations	138,156	138,288
<b>Total non-current liabilities</b>	<b>10,560,482</b>	<b>10,447,884</b>
<b>Total liabilities</b>	<b>17,433,549</b>	<b>17,143,692</b>
<b>Net assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	20,653,023	20,653,023
Deduction from unitholders' capital		
Allowance for temporary difference adjustments	(11,467)	(14,292)
<b>Total deduction from unitholders' capital</b>	<b>(11,467)</b>	<b>(14,292)</b>
<b>Unitholders' capital, net</b>	<b>20,641,555</b>	<b>20,638,731</b>
<b>Surplus</b>		
Unappropriated retained earnings (undisposed loss)	565,624	545,192
<b>Total surplus</b>	<b>565,624</b>	<b>545,192</b>
<b>Total unitholders' equity</b>	<b>21,207,179</b>	<b>21,183,923</b>
<b>Total net assets</b>	<b>21,207,179</b>	<b>21,183,923</b>
<b>Total liabilities and net assets</b>	<b>38,640,729</b>	<b>38,327,616</b>

## 2.2. Statements of Income

(Thousands of yen)

	Fiscal period ended November 30, 2019	Fiscal period ended May 31, 2020
Operating revenue		
Leasing business revenue	1,440,167	1,433,658
Total operating revenue	1,440,167	1,433,658
Operating expenses		
Expenses related to leasing business	555,661	566,328
Asset management fee	125,812	125,121
Asset custody fee	1,738	1,731
Administrative service fees	17,060	17,161
Remuneration for directors (and other officers)	3,600	3,600
Other operating expenses	39,393	41,276
Total operating expenses	743,266	755,219
Operating profit	696,901	678,438
Non-operating income		
Interest income	10	10
Reversal of distributions payable	-	563
Total non-operating income	10	573
Non-operating expenses		
Interest expenses	64,257	63,464
Borrowing related expenses	65,642	69,268
Other	500	-
Total non-operating expenses	130,400	132,732
Ordinary profit	566,511	546,279
Extraordinary losses		
Loss on retirement of non-current assets	-	233
Total extraordinary losses	-	233
Profit before income taxes	566,511	546,045
Income taxes - current	952	937
Income taxes - deferred	(4)	0
Total income taxes	948	938
Profit	565,562	545,107
Retained earnings brought forward	61	85
Unappropriated retained earnings (undisposed loss)	565,624	545,192

## 2.3. Statements of Unitholders' Equity

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

8th Fiscal Period (from December 1, 2019 to May 31, 2020)

(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	(11,467)	(11,467)	20,641,555	565,624	565,624	21,207,179	21,207,179
Changes of items during period								
Dividends of surplus					(565,538)	(565,538)	(565,538)	(565,538)
Excess cash distribution from allowance for temporary difference adjustments		(2,824)	(2,824)	(2,824)			(2,824)	(2,824)
Profit					545,107	545,107	545,107	545,107
Total changes of items during period	—	(2,824)	(2,824)	(2,824)	(20,431)	(20,431)	(23,255)	(23,255)
Balance at end of current period	20,653,023	(14,292)	(14,292)	20,638,731	545,192	545,192	21,183,923	21,183,923

## 2.4. Statements of Cash Distributions

(Yen)

Item	7th Fiscal Period (from June 1, 2019 to November 30, 2019)	8th Fiscal Period (from December 1, 2019 to May 31, 2020)
I. Unappropriated retained earnings	565,624,140	545,192,520
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	568,363,005	547,887,816
[Distribution amount per unit]	[2,415]	[2,328]
Of which,	565,538,841	545,063,652
Distribution amount from earnings		
[Of which, excess cash distribution per unit]	[2,403]	[2,316]
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	85,299	128,868
Method of calculating distribution amount	<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>	<p>As described above, distribution per unit for the fiscal period under review is 2,328 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 2,316 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 November 30, 2019	Fiscal period ended May 31, 2020
<b>Cash flows from operating activities</b>		
Profit before income taxes	566,511	546,045
Depreciation	434,211	439,012
Borrowing related expenses	65,642	69,268
Interest income	(10)	(10)
Interest expenses	64,257	63,464
Loss on retirement of non-current assets	-	233
Increase (decrease) in operating accounts payable	41,203	(41,203)
Increase (decrease) in accrued consumption taxes	27,698	(3,419)
Decrease (increase) in prepaid expenses	(12,896)	(45,468)
Decrease (increase) in long-term prepaid expenses	1,125	36,785
Increase (decrease) in accounts payable - other	2,173	(759)
Increase (decrease) in advances received	2,711	(534)
Other, net	379	(429)
<b>Subtotal</b>	<b>1,193,008</b>	<b>1,062,985</b>
Interest received	10	10
Interest paid	(61,071)	(65,829)
Income taxes paid	(867)	(952)
<b>Net cash provided by (used in) operating activities</b>	<b>1,131,078</b>	<b>996,214</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(144,673)	(170,933)
Refund of leasehold and guarantee deposits received	(18)	-
<b>Net cash provided by (used in) investing activities</b>	<b>(144,691)</b>	<b>(170,933)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	-	3,820,340
Repayments of short-term borrowings	(10,000)	(340,000)
Repayments of long-term borrowings	(186,500)	(3,755,250)
Distributions paid	(562,479)	(568,363)
<b>Net cash provided by (used in) financing activities</b>	<b>(758,979)</b>	<b>(843,273)</b>
Net increase (decrease) in cash and cash equivalents	227,407	(17,992)
Cash and cash equivalents at beginning of period	675,983	903,390
Cash and cash equivalents at end of period	903,390	885,397