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Summary of REIT Financial Report for the 6th Fiscal Period

July 19, 2019

REIT Issuer: Oedo Onsen Reit Investment Corporation Stock Exchange Listing: TSE
 Securities Code: 3472 URL: <https://oom-reit.com>
 Representative: Fuminori Imanishi, Executive Director
 Asset Manager: Oedo 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*): August 26, 2019
 Scheduled date of start of distribution payments: August 15, 2019
 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 6th Fiscal Period

5th Fiscal Period: Fiscal period ended November 2018 (from June 1, 2018 to November 30, 2018)

6th Fiscal Period: Fiscal period ended May 2019 (from December 1, 2018 to May 31, 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	%
5th	1,450	0.5	714	(2.7)	578	1.3	577	1.3
6th	1,434	(1.0)	699	(2.2)	560	(3.1)	559	(3.1)

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	%	%	%
5th	2,454	2.7	1.5	39.9
6th	2,377	2.6	1.4	39.1

(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	%	%
5th	2,454	577	12	2	2,466	580	100.0	2.7
6th	2,378	559	12	2	2,390	562	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
5th	39,106	21,224	54.3	90,185
6th	38,782	21,204	54.7	90,097

(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
5th	1,728	(287)	(1,389)	895
6th	884	(186)	(917)	675

2. Management Status Forecasts for the 7th Fiscal Period and the 8th Fiscal Period

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

8th Fiscal Period: Fiscal period ending May 2020 (from December 1, 2019 to May 31, 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
7th	1,433	(0.1)	691	(1.1)	558	(0.4)	557	(0.4)	2,368	12	2,380
8th	1,436	0.2	682	(1.3)	548	(1.8)	547	(1.8)	2,325	12	2,337

(Reference) Estimated Profit per unit for the 7th Fiscal Period: 2,368 yen; 8th Fiscal Period: 2,325 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:

6th	235,347 units	5th	235,347 units
6th	0 units	5th	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 2019 and May 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.

(Note2) “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-March quarter of 2019 was up 2.2% on a real (seasonally adjusted) annualized basis (the second preliminary estimates) excluding the effects of price fluctuations, up 0.6% from the previous quarter (October to December of last year). However, some consider that this is largely due to foreign demand, which boosted the growth rate in the calculation as a result of a drop in imports, and that the actual situation is not as good as it looks. Accordingly, private consumption, on which the Investment Corporation relies, was down 0.1% quarter on quarter and should continue to be watched carefully. In addition, the financial outlook remains uncertain because there are growing concerns regarding the future of the US-China trade friction, such as imposing punitive duties on China and the de facto ban on exports of US products to a major Chinese communications equipment company.

As for the status of onsen use, the Onsen Use Survey by the Nature Conservation Bureau of the Ministry of the Environment 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 terms.

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 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 guestroom occupancy rate (Note 2) of the 14 onsen and spa-related facilities owned

varies depending on the facilities, it was 86.7%, up from the same period of the previous year, and remained at a consistently high level for the fiscal period under review. All of ADR (Note 3), RevPAR (Note 4) and sales of the 14 properties also exceeded the results for the same period last year.

The Investment Corporation believes that behind the above are the operational capability of the Ooedo-Onsen Monogatari Group, the tenant, and the relatively stable demand for onsen, while consumption trends tend to change in the short term, as can be inferred from the aforementioned Onsen Use Survey by the Nature Conservation Bureau of the Ministry of the Environment.

Looking at tenant performance in the fiscal period under review, sales of all 14 properties owned remained generally stable, but there were some differences from the initial assumption of the Investment Corporation in terms of profits, including the cost of sales and expenses at the individual facilities.

In addition, there were remarkable improvements in the RevPAR of the largest property, Ooedo-Onsen Monogatari Reoma Resort, and Ito Hotel New Okabe and Ooedo-Onsen Monogatari Kinosaki. However, Kinugawa Kanko Hotel struggled to attract group customers, and Ooedo-Onsen Monogatari Kounaku struggled due to relatively declining visits to the entire area, for which the Investment Corporation will continue to consider improvement plans for attracting customers, etc. with its tenant, the Ooedo-Onsen Monogatari Group.

As a result of the above, variable rent as a whole was almost flat, down 1.0% from the previous period. The Investment Corporation will continue communicating with tenants while paying attention to the competitive environment and the market trends surrounding each facility, as well as the sales and operation policies of the tenants, while monitoring the situation of each facility based on their performance.

The appraisal value as of the end of the fiscal period totaled 40,392 million yen. Compared with the appraisal value as of the end of the previous period (the end of November 2018), the appraisal value decreased for the Ooedo-Onsen Monogatari Reoma Resort, which has decided to reduce fixed rent from June 1, 2019. However, there were increases in the appraisal values of Kinugawa Kanko Hotel, Ooedo-Onsen Monogatari Kinosaki, and Ooedo-Onsen Monogatari Nagasaki Hotel Seifu, which have decided to raise their fixed rents. Consequently, the total appraisal value of the 14 owned properties rose 310 million yen. 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 was 4,013 million yen, partly 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 repairs and capital expenditure that take into account the status and features of the owned properties and implemented the necessary repairs and capital expenditure through collaboration with the Ooedo-Onsen Monogatari Group, the operator and tenant, under the sponsor support agreement. (Repair expenses are basically borne by tenants based on the lease agreements.)

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

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

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

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

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

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

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

c. Overview of Capital Procurement

In the fiscal period under review, for use as part of the repayment source for long-term borrowings of 7,053 million yen and 450 million yen (Note) on the repayment date, May 31, 2019, the Investment Corporation raised 6,676 million yen in long-term borrowings from a syndicate, with Sumitomo Mitsui Banking Corporation as the arranger, and 350 million yen in short-term borrowings from Sumitomo Mitsui Banking Corporation, respectively. In addition, the Investment Corporation made scheduled repayments of 93 million yen on both January 31 and April 30, 2019, using cash on hand. As a result, the total amount of interest-bearing debt stood at 15,754 million yen and the ratio of interest-bearing liabilities to total assets (LTV) at 40.6% as of the end of the fiscal period under review.

(Note) For details, please refer to “Notice Concerning Borrowing of Funds” released on September 1, 2016 and May 28, 2018.”

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 1,434 million yen, operating profit of 699 million yen, ordinary profit of 560 million yen and profit of 559 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 2,378 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 2,390 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, attention should continue to be paid to the effects of the international economic and financial situations, such as the future of the US-China trade friction and the trends of US interest rates.

As for domestic demand, it is necessary to pay attention to the impact of the consumption tax hike that is scheduled for October 2019 and the trend of inbound demand, which is expected to keep rising.

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) and "experience-based consumption" (Note 3), and there are also moves to give consideration to work-life balance and workstyle reform. Against this backdrop, there is significant room for the leisure time of Japanese to increase. The Investment Corporation therefore believes that demand for leisure facilities will rise 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" 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.

(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

(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 to improve facilities and 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 April 2018 to March 2019, the Oedo-Onsen Monogatari Group acquired three facilities: Oedo-Onsen Monogatari Hotel Kisoji (Kiso-gun, Nagano Prefecture) in April 2018, TAOYA Shima (Toba City, Mie Prefecture) in October 2018, and Oedo-Onsen Monogatari Amakusa Hotel Kameya (Kamiamakusa City, Kumamoto Prefecture) in March 2019 (Note 1). The Investment Corporation

believes that the Group will continue to make acquisitions (Note 2). 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 Oedo-Onsen Monogatari Group, and will also be preferentially provided with third-party property sales information acquired by the Oedo-Onsen Monogatari Group. The Investment Corporation intends to continuously acquire mainly onsen and spa-related facilities with the Oedo business model owned and operated by the Oedo-Onsen Monogatari Group by making maximum use of the abovementioned support.

(Note 1) As of the date of this document, it is preparing to reopen after renovation.

(Note 2) 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 regards a wide range of leisure facilities that provide consumers with fun and productive leisure time, represented by onsen and spa-related facilities, as its investment targets within the scope set forth in its Articles of Incorporation (Note 1). Using the asset management company's own network, sales information on leisure facilities is obtained in significant volume, including hotels located in urban areas, accommodation aimed at increasing inbound demand, and new facilities to be developed and built. The number of facilities under consideration for investment is increasing year after year, partially as a result of an approach to potential sellers. 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 will 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 Oedo-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.

The Investment Corporation decided with Oedo-Onsen Monogatari Hotels & Resorts or Reoma Unity Co., Ltd. (hereinafter individually or collectively referred to as the "Lessee") on January 31, 2019 to revise the fixed rent (Note 3) set forth in the fixed-term building lease agreement with precedent condition and building management service outsourcing agreement (including subsequent changes and hereinafter individually or collectively referred to as the "Original Agreement") entered into with the Lessee (hereinafter the "Revision") with respect to Oedo-Onsen Monogatari Reoma Resort, Oedo-Onsen Monogatari Nagasaki Hotel Seifu, Kinugawa Kanko Hotel and Oedo-Onsen Monogatari Kinosaki (the "Four Properties") keeping total fixed rent amount of Four Properties, and to partially change the method of calculating the variable rent (Note 4) set forth in the Original Agreement with respect to two properties of Oedo-Onsen Monogatari Reoma Resort and Kinugawa Kanko Hotel among the Four Properties (hereinafter the "Change"), with June 1, 2019 as the effective date.

As a result, with respect to Oedo-Onsen Monogatari Reoma Resort, the fixed rent was reduced from June 1, 2019 when the fixation period (from June 1, 2017 to May 31, 2019) of the variable rent portion ended, because the burden of renewal expenses for game machines and other equipment owned by the Lessee in the theme park was heavy for the Lessee. Consequently, the Lessee's rent burden was reduced, and its future rent income became more stable. Going forward, the Investment Corporation will discuss measures with the Lessee to increase the value that will contribute to the competitiveness of the facility.

With respect to three properties whose ratio of rent to GOP is lower than the portfolio average (Oedo-Onsen Monogatari Nagasaki Hotel Seifu, Kinugawa Kanko Hotel, and Oedo-Onsen Monogatari Kinosaki), their fixed rents were increased from June 1, 2019, but the Investment Corporation believes that the rent burden ratio will remain within an appropriate range.

The Investment Corporation believes that the Revision and the Change have equalized the rent burden ratio of each facility owned, and the reduction in the ratio of the rent of Oedo-Onsen Monogatari Reoma

Resort to the total rent income has advanced the diversification of the portfolio and improved the stability of future cash flows.

The Investment Corporation will continue to make efforts to increase the long-term unitholder value, as well as stabilizing cash distribution by actively working to strengthen competitiveness from a medium- to long-term perspective.

(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.

(Note 3) “Fixed rent” refers to the monthly amount provided for in each facility’s lease agreement. The same applies hereinafter.

(Note 4) “Variable rent” 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. For Ooedo-Onsen Monogatari Reoma Resort, it will be 31 million yen until May 2019 and the amount obtained by the above calculation method for June 2019 onward.

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

The Investment Corporation will proactively implement CAPEX 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 increase the potential income that the operator of the owned properties should acquire, as well as the rental income through the effective use of non-operating buildings and unused land on the premises.

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 improve operations such as the expansion and renovation of open-air baths, the extension of buffet hall floors, and the improvement of customer flow lines in buffet halls, which will help enhance the competitiveness of facilities, as well as other measures such as events 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 competitiveness of real estate and its facilities.

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

(c) Financial Strategy

The Investment Corporation will implement a flexible financial strategy while placing emphasis on maintaining its conservative financial position.

Although the Investment Corporation has set the upper limit of LTV at 60% in principle, it plans to maintain a conservative level of around 40% with normal operations for the time being, while paying attention to capital reserves. As to debt financing, the Investment Corporation aims to maintain and strengthen its favorable relationship with existing lenders as well as diversify financing sources to secure the necessary funds associated with the expansion of asset scale. The Investment Corporation also aims to reduce financing costs by lowering the risk premium in step with progress in the expansion of the scale of the portfolio and the diversification of risk. In addition, the Investment Corporation is taking steps to diversify/level repayment dates of interest-bearing debt to reduce refinancing risk.

(3) Significant Subsequent Events

Not applicable

**Assumptions Underlying Forecasts of the Financial Results
for the Fiscal Periods Ending November 2019 and May 2020**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> • Fiscal period ending November 2019 (7th fiscal period: from June 1, 2019, to November 30, 2019) (183 days) • Fiscal period ending May 2020 (8th fiscal period: from December 1, 2019, to May 31, 2020) (183 days)
Managed Assets	<ul style="list-style-type: none"> • 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 2020. • The managed assets may change due to acquisition of assets other than the owned properties above, the disposition of assets under management, etc.
Operating revenue	<ul style="list-style-type: none"> • 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. • Rent is calculated based on the following assumptions: <div style="padding-left: 20px;"> <p>[Oedo-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"> (1) Modified GOP (Note 1) for the most recent one-year period × 5.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 58.7% of the modified GOP exceeds one year's fixed rent, variable rent will apply. <p>With regard to Oedo-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>[Oedo-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"> (1) Modified GOP for the most recent one-year period × 4.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 77.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply. <p>[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"> (1) Modified GOP for the most recent one-year period × 5.0% (yearly; the monthly amount is 1/12th thereof) (2) Only if 52.0% of the modified GOP exceeds one year's fixed rent, variable rent will apply. </div>

<p>Operating revenue</p>	<p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (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. <p>[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:</p> <ol style="list-style-type: none"> (1) Modified GOP for the most recent one-year period \times 2.2% (yearly; the monthly amount is 1/12th thereof)
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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 November 2019 (7th 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)	29	32	377
Ooedo-Onsen Monogatari Ise-shima	108	7	3	118
Ito Hotel New Okabe	73	9	8	91
Ooedo-Onsen Monogatari Atami	93	8	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	4	6	46
Ooedo-Onsen Monogatari Ikaho	36	5	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	2	5	32
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	4	4	83
Ooedo-Onsen Monogatari Kounkaku	42	-	2	45
Kinugawa Kanko Hotel	174	7	5	187
Ooedo-Onsen Monogatari Kinosaki	78	5	6	90
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	5	10	67
Total (Note 7)	1,230	98	104	1,433

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	379
Ooedo-Onsen Monogatari Ise-shima	108	7	4	120
Ito Hotel New Okabe	73	9	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	4	6	46
Ooedo-Onsen Monogatari Ikaho	36	4	4	45
Ooedo-Onsen Monogatari Kimitsu-no-mori	24	2	5	32
Ooedo-Onsen Monogatari Nagasaki Hotel Seifu	74	3	4	83
Ooedo-Onsen Monogatari Kounkaku	42	-	2	45
Kinugawa Kanko Hotel	174	7	5	187
Ooedo-Onsen Monogatari Kinosaki	78	5	6	90
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	5	10	67
Total (Note 7)	1,230	99	106	1,436

(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

	<p>(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"> • 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. • Taxes and public charges is assumed to be 91 million yen for the fiscal period ending November 2019, and 92 million yen for the fiscal period ending May 2020. • Building repair expenses are not expected to arise, as these expenses will, in principle, be borne by the tenant based on the lease agreement effective as of the date of this document. • Depreciation, which is calculated using the straight-line method inclusive of incidental expenses and additional capital expenditure in the future, is assumed to be 435 million yen for the fiscal period ending November 2019, and 440 million yen for the fiscal period ending May 2020.
Non-operating expenses	<ul style="list-style-type: none"> • The total amount of interest expenses and other borrowing-related expenses is expected to be 132 million yen for the fiscal period ending November 2019, and 133 million yen for the fiscal period ending May 2020.
Borrowings	<ul style="list-style-type: none"> • The balance of loans outstanding as of May 31, 2019 is 15,754 million yen. • In the fiscal period ending November 2019 and the fiscal period ending May 2020, it is assumed that the scheduled repayment of 186 million yen will be made separately. • In the fiscal period ending November 2019, it is premised on the partial repayment of 10 million yen out of 350 million yen in short-term loans, as promised separately. • 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.
Outstanding Investment Units	<ul style="list-style-type: none"> • 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, 2020. • 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 2019 and May 2020 (235,347 units).
Distribution per unit (Excluding excess cash distribution)	<ul style="list-style-type: none"> • Distribution per unit (excluding excess cash distribution) is calculated based on the policy for cash distributions provided for in the Investment Corporation’s articles of incorporation. • Distribution per unit (excluding excess cash distribution) may change due to various factors, including changes of portfolio, changes in rent revenue due to a relocation of tenant, etc., the occurrence of unexpected capital expenditures, and other reasons.

Excess cash distribution per unit	<ul style="list-style-type: none"> • Recording of allowance for temporary difference adjustments of 2,824,164 yen is expected concerning the difference in accounts for tax and accounting purposes associated with recording of asset retirement obligation. • Regarding conducting excess cash distribution, the Investment Corporation will have a basic policy of conducting excess cash distribution of which amount will be equivalent to the increased amount of allowance for temporary difference adjustments. Pursuant to the policy, it is assumed that 12 yen of excess distribution per unit will be conducted in each of the fiscal periods ending November 2019 and ending May 2020.
Other	<ul style="list-style-type: none"> • It is assumed that revisions that affect the above forecast figures will not be made to laws or ordinances, tax systems, accounting standards, listing regulations, or rules or the like set by The Investment Trusts Association, Japan. • It is assumed that unforeseen material changes in general economic trends, in real estate market conditions, or in any other factors will not occur.

2.3. Investment Risks

Disclosure is omitted because there are no significant changes from “Investment Risks” set out in the most recent periodic securities report (*yuka shoken hokokusho*) (submitted on February 26, 2019).

2. Financial Statements

2.1. Balance Sheets

(Thousands of yen)

	As of November 30, 2018	As of May 31, 2019
Assets		
Current assets		
Cash and deposits	2,220,373	2,001,208
Prepaid expenses	127,758	136,232
Other	6,332	66,727
Total current assets	2,354,464	2,204,168
Non-current assets		
Property, plant and equipment		
Buildings	25,982,750	26,145,944
Accumulated depreciation	(1,498,792)	(1,926,166)
Buildings, net	24,483,958	24,219,777
Structures	1,259	10,979
Accumulated depreciation	(138)	(508)
Structures, net	1,120	10,470
Machinery and equipment	600	600
Accumulated depreciation	(26)	(44)
Machinery and equipment, net	573	555
Tools, furniture and fixtures	2,620	2,620
Accumulated depreciation	(268)	(487)
Tools, furniture and fixtures, net	2,352	2,133
Land	11,988,130	11,988,130
Total property, plant and equipment	36,476,134	36,221,067
Intangible assets		
Leasehold interests in land	157,802	157,802
Software	4,556	3,754
Total intangible assets	162,358	161,556
Investments and other assets		
Deferred tax assets	17	12
Long-term prepaid expenses	103,787	185,296
Lease and guarantee deposits	10,089	10,089
Total investments and other assets	113,895	195,399
Total non-current assets	36,752,388	36,578,023
Total assets	39,106,853	38,782,191

(Thousands of yen)

	As of November 30, 2018	As of May 31, 2019
Liabilities		
Current liabilities		
Operating accounts payable	73,130	17,426
Short-term borrowings	—	350,000
Current portion of long-term borrowings	7,380,750	3,941,750
Accounts payable - other	90,481	87,838
Accrued expenses	10,546	7,508
Income taxes payable	972	866
Accrued consumption taxes	82,313	15,234
Advances received	258,696	259,137
Other	6,438	66,854
Total current liabilities	7,903,329	4,746,616
Non-current liabilities		
Long-term borrowings	8,610,500	11,463,000
Leasehold and guarantee deposits received	1,230,724	1,230,724
Asset retirement obligations	137,354	137,754
Total non-current liabilities	9,978,579	12,831,479
Total liabilities	17,881,908	17,578,095
Net assets		
Unitholders' equity		
Unitholders' capital	20,653,023	20,653,023
Deduction from unitholders' capital		
Allowance for temporary difference adjustments	(5,819)	(8,643)
Total deduction from unitholders' capital	(5,819)	(8,643)
Unitholders' capital, net	20,647,203	20,644,379
Surplus		
Unappropriated retained earnings (undisposed loss)	577,741	559,716
Total surplus	577,741	559,716
Total unitholders' equity	21,224,944	21,204,095
Total net assets	21,224,944	21,204,095
Total liabilities and net assets	39,106,853	38,782,191

2.2. Statements of Income

(Thousands of yen)

	Fiscal period ended November 30, 2018	Fiscal period ended May 31, 2019
Operating revenue		
Leasing business revenue	1,450,211	1,434,986
Total operating revenue	1,450,211	1,434,986
Operating expenses		
Expenses related to leasing business	541,878	548,074
Asset management fee	129,310	126,075
Asset custody fee	1,778	1,751
Administrative service fees	16,917	17,233
Remuneration for directors (and other officers)	3,600	3,600
Other operating expenses	42,209	39,245
Total operating expenses	735,695	735,980
Operating profit	714,516	699,005
Non-operating income		
Interest income	10	10
Interest on tax refund	871	—
Total non-operating income	882	10
Non-operating expenses		
Interest expenses	64,353	62,352
Borrowing related expenses	72,451	75,774
Other	—	500
Total non-operating expenses	136,805	138,626
Ordinary profit	578,593	560,389
Extraordinary income		
Subsidy income	—	11,250
Total extraordinary income	—	11,250
Extraordinary losses		
Loss on tax purpose reduction entry of non- current assets	—	11,250
Total extraordinary losses	—	11,250
Profit before income taxes	578,593	560,389
Income taxes - current	973	867
Income taxes - deferred	(0)	5
Total income taxes	972	873
Profit	577,620	559,516
Retained earnings brought forward	120	199
Unappropriated retained earnings (undisposed loss)	577,741	559,716

2.3. Statements of Unitholders' Equity

5th Fiscal Period (from June 1, 2018 to November 30, 2018)

(Thousands of yen)

	Unitholders' equity							Total net assets
	Unitholders' capital				Surplus		Total unitholders' equity	
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital	Unappropriated retained earnings (undisposed loss)	Total surplus		
Allowance for temporary difference adjustments		Total deduction from unitholders' capital						
Balance at beginning of current period	20,653,023	(2,995)	(2,995)	20,650,027	570,366	570,366	21,220,394	21,220,394
Changes of items during period								
Dividends of surplus					(570,245)	(570,245)	(570,245)	(570,245)
Excess cash distribution from allowance for temporary difference adjustments		(2,824)	(2,824)	(2,824)			(2,824)	(2,824)
Profit					577,620	577,620	577,620	577,620
Total changes of items during period	-	(2,824)	(2,824)	(2,824)	7,374	7,374	4,550	4,550
Balance at end of current period	20,653,023	(5,819)	(5,819)	20,647,203	577,741	577,741	21,224,944	21,224,944

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

2.4. Statements of Cash Distributions

(Yen)

Item	5th Fiscal Period (from June 1, 2018 to November 30, 2018)	6th Fiscal Period (from December 1, 2018 to May 31, 2019)
I. Unappropriated retained earnings	577,741,085	559,716,337
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	580,365,702	562,479,330
[Distribution amount per unit]	[2,466]	[2,390]
Of which,		
Distribution amount from earnings	577,541,538	559,655,166
[Of which, excess cash distribution per unit]	[2,454]	[2,378]
Of which,		
Allowance for temporary difference adjustments	2,824,164	2,824,164
[Of which, excess cash distribution per unit (pertaining to allowance for temporary difference adjustments)]	[12]	[12]
IV. Retained earnings carried forward	199,547	61,171
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 2,454 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 2,390 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>

2.5. Statements of Cash Flows

(Thousands of yen)

	Fiscal period ended November 30, 2018	Fiscal period ended May 31, 2019
Cash flows from operating activities		
Profit before income taxes	578,593	560,389
Depreciation	422,799	428,782
Borrowing related expenses	72,451	75,774
Interest income	(10)	(10)
Interest expenses	64,353	62,352
Subsidy income	—	(11,250)
Loss on tax purpose reduction entry of non-current assets	—	11,250
Increase (decrease) in operating accounts payable	41,005	(41,847)
Decrease (increase) in consumption taxes refund receivable	547,941	—
Increase (decrease) in accrued consumption taxes	82,313	(67,079)
Decrease (increase) in prepaid expenses	(15,873)	3,361
Decrease (increase) in long-term prepaid expenses	1,125	(68,975)
Increase (decrease) in accounts payable - other	3,388	(2,643)
Increase (decrease) in advances received	(2,981)	441
Other, net	399	422
Subtotal	1,795,505	950,966
Interest received	10	10
Interest paid	(65,863)	(65,389)
Income taxes paid	(955)	(973)
Net cash provided by (used in) operating activities	1,728,695	884,614
Cash flows from investing activities		
Purchase of property, plant and equipment	(287,828)	(198,020)
Subsidies received	—	11,250
Net cash provided by (used in) investing activities	(287,828)	(186,770)
Cash flows from financing activities		
Proceeds from short-term borrowings	—	350,000
Proceeds from long-term borrowings	—	6,576,106
Repayments of short-term borrowings	(580,000)	—
Repayments of long-term borrowings	(236,500)	(7,262,750)
Distributions paid	(573,069)	(580,365)
Net cash provided by (used in) financing activities	(1,389,569)	(917,009)
Net increase (decrease) in cash and cash equivalents	51,297	(219,165)
Cash and cash equivalents at beginning of period	843,851	895,148
Cash and cash equivalents at end of period	895,148	675,983