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## Summary of REIT Financial Report for the 12th Fiscal Period

July 20, 2022

REIT Issuer: Oedo Onsen Reit Investment Corporation      Stock Exchange Listing: TSE  
 Securities Code: 3472      URL: <https://oom-reit.com/en/>  
 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 24, 2022  
 Scheduled date of start of distribution payments: August 15, 2022  
 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 12th Fiscal Period

**11th Fiscal Period: Fiscal period ended November 2021 (from June 1, 2021 to November 30, 2021)**

**12th Fiscal Period: Fiscal period ended May 2022 (from December 1, 2021 to May 31, 2022)**

#### (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	%
11th	1,344	(0.3)	589	(0.7)	393	(14.5)	392	(14.5)
12th	1,291	(3.9)	554	(5.9)	354	(9.8)	353	(9.9)

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	%	%	%
11th	1,667	1.9	1.1	29.3
12th	1,503	1.7	1.0	27.5

#### (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	%	%
11th	1,668	392	18	4	1,686	396	100.0	1.9
12th	1,503	353	18	4	1,521	357	100.0	1.7

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

(Note 2) Distribution payout ratio is rounded down to the first decimal place.

#### (3) Financial Position

Fiscal period	Total assets	Net assets	Unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
11th	36,926	21,021	56.9	89,320
12th	34,760	20,978	60.4	89,137

#### (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
11th	934	(104)	(711)	1,150
12th	2,473	(89)	(2,700)	833

## 2. Management Status Forecasts for the 13th Fiscal Period

13th Fiscal Period: Fiscal period ending November 2022 (from June 1, 2022 to November 30, 2022)

[% 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
13th	1,256	(2.7)	520	(6.2)	330	(6.8)	329	(6.8)	1,401	19	1,420
14th	-	-	-	-	-	-	-	-	-	-	-

(Reference) Estimated Profit per unit for the 13th Fiscal Period: 1,401 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:

12th	235,347 units	11th	235,347 units
12th	0 units	11th	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 Period Ending November 2022” on page 8.

Because of the replacement of shareholders of the Oedo-Onsen Monogatari Group, the sponsor of the Investment Corporation, the Investment Corporation is currently discussing measures for future issues and strategies for future growth with its sponsor. Therefore, this report announces the operating result forecast only for the fiscal period ending November 30, 2022, due to uncertainty in the assumptions for forecasting operating results. The Investment Corporation will announce its forecast for the fiscal period ending May 31, 2023, as soon as it becomes available. For details, see the section “(2) Outlook for the Next Fiscal Period” on page 5 under “2.1. Management Status,” under “1. Management Status.”

## 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. During the 11th fiscal period, the Investment Corporation transferred part of the land of Ooedo-Onsen Monogatari Reoma Resort on November 2, 2020 and at the same time leased the transferred part from the transferee. And during the fiscal period under review, the Investment Corporation transferred Ooedo-Onsen Monogatari Nagasaki Hotel Seifu, as a result of which, the total number of facilities owned by the Investment Corporation as of the end of the fiscal period under review stood at 13 facilities (total acquisition price: 34,449 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” is the purchase price (not including expenses, such as consumption tax, local consumption tax, or sale and purchase fees) of each property in the sale and purchase agreement, rounded down to the nearest million yen. However, in the case of Ooedo-Onsen Monogatari Reoma Resort, since the Investment Corporation transferred part of the land on November 2, 2020 and at the same time leased the transferred part from the transferee, the “acquisition price” is the purchase price (not including expenses, such as consumption tax, local consumption tax or sale and purchase fees) of each real estate in the sale and purchase agreement pertaining to the property as of the time of acquisition minus the amount equivalent to the book value pertaining to such transferred part as of the time of transfer plus the amount equivalent to the premium paid as consideration for the establishment of the leasehold in the lease agreement pertaining to establishment of the leasehold interest in the transferred part.

##### b. Investment Environment and Management Performance

During the fiscal period under review, tourism-related industries in Japan were affected by another spike in COVID-19 variants, such as the Omicron strain in 2022, after the state of emergency was lifted in major cities in October 2021. The number of cases subsequently began to decline amid progress in the third round of vaccination, and people’s movements that had been restricted began showing signs of recovery with the support of the government’s promotion of tourism, for instance in prefectural discounts for local residents.

Meanwhile, factors adversely affecting the Japanese economy such as rising commodity prices due to an increasingly weak yen since the beginning of 2022 and Russia’s military advance in Ukraine have also been emerging. The Investment Corporation believes that these factors require continuous monitoring.

In this business environment, while the overall occupancy rate of guest rooms (Note 1) was 59.0%, the ADR (Note 2) was maintained at 1.1% above that in the previous fiscal period to prepare for a recovery phase.

The Investment Corporation's variable rents for the fiscal period under review, which are calculated based on the annual results of the Ooedo-Onsen Monogatari Group, the tenant, for the period through February 2022, remained zero from the previous fiscal period for all facilities, reflecting lower occupancy during the period. However, the Investment Corporation received the full amount of fixed rents.

In the prevailing financing environment, bank credit for the hotel sector, which has long been affected by the COVID-19 pandemic, continues to be restricted, with ongoing rises in financial costs and the shortening of borrowing periods. With this background, the Investment Corporation sold Ooedo-Onsen Monogatari Nagasaki Hotel Seifu in January 2022 (Note 3) and appropriated the proceeds primarily to the repayment of existing borrowings to improve its financial position.

The appraisal value of properties acquired totaled 37,799 million yen at the end of the fiscal period under review. In comparison to the appraisal value of properties acquired at the end of the previous fiscal period, the capitalization rate remained unchanged. However, the appraisal value increased 240 million yen in total thanks largely to a revision of capital expenditure plans at some of the facilities. Looking at unrealized gain/loss (Note 4) for the entire portfolio at the end of the fiscal period under review, the unrealized gain increased to 5,324 million yen as a result of the depreciation of the 13 properties that comprise the portfolio.

In addition, the Investment Corporation implemented essential repairs by tenants during the COVID-19 pandemic while taking steps to control expenditures including the postponement of a portion of capital expenditures whose implementation could be delayed from the perspective of cash management. At the same time, the Investment Corporation made the capital expenditures necessary for maintaining functions based on a capital expenditure plan that duly considered the conditions, characteristics and other factors of the owned properties. (In principle, tenants bore repair expenses based on lease agreements.)

Further, the Investment Corporation continued its activities for acquiring new properties and gathering information extensively from the marketplace instead of limiting its operations to the properties operated by the Ooedo-Onsen Monogatari Group, anticipating the future and improvement in the financing environment.

(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) Refer to the press release, "Notice Concerning Transfer of Real Estate in Japan (Ooedo-Onsen Monogatari Nagasaki Hotel Seifu)" and "Notice Concerning Early Repayment of Borrowings in Part" dated December 24, 2021, for details.

(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 3,236 million yen through short-term borrowing and 3,215 million yen through long-term borrowing from a syndicate with Sumitomo Mitsui Banking Corporation (SMBC) as the arranger and 220 million yen through short-term borrowing from SMBC (Note 1) to allocate the funds to the repayment of a portion of 4,349 million yen, 2,102 million yen, and 230 million yen in short-term borrowings that became due on February 28, 2022. Moreover, the Investment Corporation procured 1,736 million yen and 3,173 million yen through short-term borrowing from a syndicate with SMBC as the arranger and 210 million yen through short-term borrowing from SMBC (Note 2) to allocate the funds to the repayment of a portion of 3,215 million yen, 220 million yen in short-term borrowings and 3,093 million yen in long-term borrowing that became due on May 31, 2022. In addition, the Investment Corporation made scheduled repayments of 87 million yen each on January 31, 2022 and April 28, 2022, using cash on hand and made early repayments of 600 million yen with the transfer of asset (Note 3). As a result, the total amount of interest-bearing debt and the ratio of such debt to total assets (LTV) came to 11,874 million yen and 34.2%, respectively, at the end of the fiscal period under review.

(Note 1) Refer to the press release, "Notice Concerning Borrowing of Funds" dated February 21, 2022 and "Notice Concerning Borrowing of Funds (Finalization of the loan amount)" dated February 22, 2022, for details.

(Note 2) Refer to the press release, "Notice Concerning Borrowing of Funds" dated May 24, 2022, for details.

(Note 3) Refer to the press release, "Notice Concerning Early Repayment of Borrowings in Part" dated December 24, 2021, 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 1,291 million yen, operating profit of 554 million yen, ordinary profit of 354 million yen and profit of 353 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 1,503 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 4,236,246 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 and leasehold depreciation (as defined in Article 2, Paragraph 2, item 30 (b) of the Investment Corporations Accountings Ordinance). This results in excess distribution per unit of 18 yen.

As a result, distribution per unit for the fiscal period under review was determined as 1,521 yen (of which, excess distribution per unit was 18 yen).

## **(2) Outlook for the Next Fiscal Period**

### **a. Management Environment in the Next Fiscal Period**

The Investment Corporation expects that, in the Japanese economy, people's movements that have been restricted will begin to recover and the number of visitors to its facilities, particularly from within the same prefectures and neighboring prefectures, will gradually increase. This is based on the assumption that the downward trend in the number of COVID-19 cases will continue, the partial acceptance of foreign visitors that resumed in June will continue, and approval will be given for a COVID-19 medication that has been developed.

Meanwhile, the Investment Corporation considers that the ongoing depreciation of the yen, rising consumer prices caused in part by the prolonged situation in Ukraine, and the adverse effect of interest rate hikes in the U.S. on the Japanese economy must continuously be monitored as risk factors in the next and subsequent fiscal periods.

In such a business environment, the trends particularly in "experience-based consumption" (Note 3) among "intangible goods consumption" (Note 2), which is the basis of "leisure facilities" (Note 1) constituting the investment targets of the Investment Corporation, are expected to gradually recover. The Investment Corporation also considers that the financial performance of tenants at its facilities may further recover from now on with the support of prefectural discount plans while remaining cautious about a resurgence particularly of COVID-19 variant cases. On the other hand, it is the third year of the prolonged impact of COVID-19 since 2020, and the Investment Corporation recognizes the need to continue its dialogues with tenants from the standpoint of a lessor about measures necessary for ascertaining the prompt recovery and growth of tenants' performance, which is the precondition for ensuring the future leasing business revenue of the Investment Corporation.

The shareholders of the Oedo-Onsen Monogatari Group, the sponsor of the Investment Corporation, were replaced with Lone Star Funds in February 2022 (for details, see the press release, "Notice Concerning Changes in Parent Company and Specified Associated Corporation at the Asset Manager," dated January 14 and 26, 2022). In the Oedo-Onsen Monogatari Group, the new shareholders have been leading the discussions on measures to recover from the prolonged pandemic and promote growth. The Investment Corporation is also holding consultations with its sponsor-cum-tenant to improve financing conditions such as the refinancing of loans considered a current issue, stabilize medium- to long-term rent income, and turn a profit.

The topics of these consultations and discussions include measures to increase funds on hand to stabilize the financial affairs of the Investment Corporation and measures to implement positive actions such as value-adding investment to raise the future profitability of the facilities and investment in new store opening.

For this reason, this report announces the operating result forecast for the Investment Corporation only for the fiscal period ending November 30, 2022, due to uncertainty in the assumptions for financial forecasts.

(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**

The Investment Corporation aims to build a portfolio focused on leisure facilities but for the time being it will place the highest priority on taking all possible measures to protect itself against income and financial risks posed by COVID-19 and prepare to create flexible growth strategies when the external environment improves.

**(a) External Growth Strategy**

**i. Utilization of Sponsor Pipeline**

An overview of the supply of onsen and spa-related facilities suggests that facility closures in response to the results aggravation due to the prolonged COVID-19 pandemic and facility sales to raise funding for the survival of businesses are anticipated. Properties introduced to the Investment Corporation and the Oedo-Onsen Monogatari Group are likely to remain relatively large in number.

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.

**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 defined in its Articles of Incorporation (Note) is still insufficient to accommodate new infectious disease control measures and increasingly diverse lifestyles and predicts that, in the medium and long term, the structural shift towards increased use of leisure and the global movement of people will continue, picking up pace.

In this environment, information on the sale of leisure facilities with proven stable performance amid the pandemic has been acquired using the asset manager's own network. The Investment Corporation will implement activities to acquire onsen and spa-related facilities in famous hot spring areas as well as a variety of facilities which will help improve the balance of its existing portfolio and diversify risk, including properties 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 post-COVID-19, based on an assessment of new trends and changes in the lodging and leisure industries in light of the lessons learned from COVID-19. In addition, the Investment Corporation will mostly secure preferential negotiating rights through the use of the bridge structure and other means for the time being while waiting for the financing environment to improve and opportunities for fundraising to be available. Such properties outside sponsorship will be acquired mainly through the future expansion of the portfolio. However, they may be targets for acquisition in property replacement, etc. as part of portfolio management.

(Note) 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.

**(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. Looking at variable rents, results for the fiscal period under review, and forecasts for the fiscal period ending November 2022 are all zero due to occupancy rate declines during the COVID-19 pandemic. For the time being, the Investment Corporation is focused on overcoming the current crisis and securing fixed rents to the maximum degree possible. At the same time, the Investment Corporation works to redouble the surety of its rent income by continuously monitoring tenants' business performance and ability to pay rents to restore the stability of rents in the future.

(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) Contributing to the Increase in Income and Enhancement of Competitiveness through the Expansion of Capacity**

The Investment Corporation will implement CAPEX, which will contribute to an increase in value, such as the extension and reconstruction of owned properties that have scope for an increase in asset value to increase the number of guestrooms. Through this measure, it aims to secure potential income for the operator of the owned properties, as well as to increase 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) 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.

**(c) Financial Strategy**

The Investment Corporation's top priority is understanding the impact of COVID-19 on tenants' performance and associated rent income risks and addressing risks to achieve efficient financing. More specifically, it is focused on the refinancing of existing loans. The Investment Corporation believes that maintaining its financial base through conservative LTV control and cash management is very important.

The goal of the Investment Corporation's medium- and long-term debt financing policy is to achieve stable financing at points when it acquires new properties and when existing loans become due while maintaining favorable relationships with existing lenders through sufficient communication based on the provision of timely and appropriate information. The Investment Corporation flexibly considers the implementation of equity financing considering the enhancement of the value of investment units over the medium to long terms and the achievement of growth in distributions per unit.

The Investment Corporation's policy is to maintain LTV at a conservative level with a rate below 40% as a benchmark for the time being under the principle of 60% as maximum, while paying attention to the maintenance of its capital reserves during the COVID-19 pandemic. The Investment Corporation also aims to lower the risk premium and reduce financial costs by expanding its portfolio and diversifying risks including those related to tenants and facility locations from medium- and long-term perspectives. At the same time, the Investment Corporation seeks to gain high ratings, diversify its procurement methods, lengthen the average debt repayment period and introduce fixed interest rates.

**(3) Significant Subsequent Events**

Not applicable

**Assumptions Underlying Forecasts of the Financial Results  
for the Fiscal Period Ending November 2022**

Item	Assumption
Calculation period	<ul style="list-style-type: none"> <li>Fiscal period ending November 2022 (13th fiscal period: from June 1, 2022, to November 30, 2022) (183 days)</li> </ul>
Managed Assets	<ul style="list-style-type: none"> <li>It is assumed that there will be no change (acquisition or disposition of assets) to the 13 properties, which the Investment Corporation owns as of the date of this document, through to the end of the fiscal period ending November 2022.</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 period constituting the basis for calculating variable rents are determined by multiplying the modified GOP for the period between September 2021 and August 2022 in the fiscal period ending November 2022 (13th period) by the premium rate that is specified in each lease agreement. This assumes that the effects of the COVID-19 pandemic 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 the fiscal period ending November 2022 (13th 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.</li> <li>Rent is calculated based on the following assumptions: [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 <ul style="list-style-type: none"> <li>(1) Modified GOP (Note 1) for the most recent one-year period × 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> </ul> <p>Oedo-Onsen Monogatari Reoma Resort, a fixed-term land lease agreement has been concluded with the tenant and land rent based on this fixed-term land lease agreement of 83,700 yen per month is received separately, however, this land rent will be revised every year and will be calculated as follows.</p> <p>Amount of rent after revision = <math>((A \times 12 - B) + B') \div 12</math></p> <p>A: Amount of rent at that particular point in time</p> <p>B: Sum total of fixed asset tax and other taxes and public dues levied on the land, calculated based on the tax notice as of October 31 immediately preceding the start date of the immediately preceding base fiscal year (refers to one-year period commencing on December 1 each year; the same applies hereinafter), and the land rent (annual rent payable at that particular point in time)</p> <p>B': Sum total of fixed asset tax and other taxes and public dues levied on the land, calculated based on the tax notice as of October 31 immediately preceding the start date of that particular base fiscal year, and the land rent (annual rent payable at that particular point in time)</p> </li> <li>[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: <ul style="list-style-type: none"> <li>(1) Modified GOP for the most recent one-year period × 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> </ul> </li> </ul>



[Ito Hotel New Okabe]

Fixed rent: 12,296,799 yen monthly

Variable rent: 1,471,251 yen monthly from December 2016; and will be revised every six months and calculated as follows:

- (1) Modified GOP for the most recent one-year period  $\times$  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 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 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 2022 (13th fiscal period)

(Millions of yen)

Property name	Primary rent (Note 2)		Secondary rent (Note 5)	Other revenue	Total (Note 7)
	Fixed rent (Note 3)	Variable rent (Note 4)			
Ooedo-Onsen Monogatari Reoma Resort	314	-	30	0 (Note 6)	345
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	-	3	-	40
	Ooedo-Onsen Monogatari Kimitsu-no-mori	24	-	5	-	29
	Ooedo-Onsen Monogatari Kounkaku	42	-	4	-	46
	Kinugawa Kanko Hotel	174	-	7	-	181
	Ooedo-Onsen Monogatari Kinosaki	78	-	6	-	85
	Ooedo-Onsen Monogatari Higashiyama Grand Hotel	51	-	10	0 (Note 6)	62
	Total (Note 7)	1,154	-	100	0	1,255
	<p>(Note 1) “GOP” refers to gross operating profit, which is the amount remaining after deducting expenses arising directly from managing each facility, such as labor expenses and general and administrative expenses, from each facility’s sales. “Modified GOP” is the amount remaining after deducting real estate-related expenses for the property to be borne by the tenant (including, but not limited to, taxes and public charges, non-life insurance premiums and land and house rent, but excluding an amount equivalent to Secondary rent (defined below in Note 5)) from the GOP of each facility for the Modified GOP Calculation Period (defined below in Note 4). The same applies hereinafter.</p> <p>(Note 2) “Primary rent” refers to the sum of the fixed rent and the variable rent. The same applies hereinafter.</p> <p>(Note 3) “Fixed rent” refers to the monthly amount provided for in each facility’s lease agreement. The same applies hereinafter.</p> <p>(Note 4) “Variable rent” refers to the amount obtained by multiplying each facility’s modified GOP for the most recent 1-year period (for the 6 months starting from December of each year, this means the 1-year period from March of that year to February of the following year; for the 6 months starting from June of each year, this means the 1-year period from September of the previous year to August of that year) (these 1-year periods are referred to as “modified GOP Calculation Periods”) regarding each facility by the specific rate provided for in each lease agreement (yearly; the monthly amount is 1/12th thereof). The same applies hereinafter.</p> <p>(Note 5) “Secondary rent” refers to an amount equivalent to the total amount of taxes, public charges, nonlife insurance premiums, and other expenses (real estate management expenses) to be borne by the Investment Corporation for each facility owned by the Investment Corporation. The same applies hereinafter.</p> <p>(Note 6) Land rent based on the fixed-term land lease agreement is included in the fixed rent.</p> <p>(Note 7) Rents of properties are rounded down to the nearest million yen. Therefore, the total of each property’s rent, the total of fixed rents, the total of variable rents and the total of secondary rents may not add up to the figure indicated in the Total column.</p>					
Operating expenses	<ul style="list-style-type: none"> <li>• Of the expenses related to leasing activities, which are a major component of operating expenses, the expenses related to leasing activities other than the depreciation are calculated based on past actual figures and by reflecting factors that cause expenses to fluctuate.</li> <li>• Taxes and public charges is assumed to be 87 million yen for the fiscal period ending November 2022.</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 440 million yen for the fiscal period ending November 2022.</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 189 million yen for the fiscal period ending November 2022.</li> </ul>					
Borrowings	<ul style="list-style-type: none"> <li>• The balance of loans outstanding as of May 31, 2022 is 11,874 million yen.</li> <li>• In the fiscal period ending November 2022, it is assumed that the scheduled repayment of 159 million yen will be made separately.</li> <li>• The repayment of 28 million yen before maturity was made on June 10, 2022.</li> </ul>					

	<ul style="list-style-type: none"> <li>In the fiscal period ending November 2022, short-term loans of 1,724 million yen will be due for repayment on August 31, 2022 and short-term loans of 1,713 million yen will be due for repayment on November 30, 2022, and it is assumed 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 November 30, 2022.</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 period ending November 2022 (235,347 units).</li> </ul>
Distribution per unit (Excluding excess cash distribution)	<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 occurrence of unexpected capital expenditures, and other reasons.</li> </ul>
Excess cash distribution per unit	<ul style="list-style-type: none"> <li>Recording of allowance for temporary difference adjustments of 4,471,593 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 19 yen of excess distribution per unit will be conducted in the fiscal period ending November 2022.</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, 2021	As of May 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	2,475,520	2,078,429
Prepaid expenses	107,620	180,239
Other	6,799	6,433
Total current assets	2,589,940	2,265,102
Non-current assets		
Property, plant and equipment		
Buildings	26,896,509	25,880,675
Accumulated depreciation	(4,135,462)	(4,403,860)
Buildings, net	22,761,046	21,476,814
Structures	16,979	29,989
Accumulated depreciation	(2,525)	(3,199)
Structures, net	14,453	26,789
Machinery and equipment	600	600
Accumulated depreciation	(132)	(150)
Machinery and equipment, net	467	449
Tools, furniture and fixtures	15,651	16,314
Accumulated depreciation	(3,039)	(4,310)
Tools, furniture and fixtures, net	12,612	12,004
Land	11,208,770	10,657,384
Total property, plant and equipment	33,997,351	32,173,441
Intangible assets		
Leasehold interests in land	302,274	300,798
Software	50	-
Total intangible assets	302,325	300,798
Investments and other assets		
Deferred tax assets	16	19
Long-term prepaid expenses	26,374	11,250
Leasehold and guarantee deposits	10,089	10,089
Total investments and other assets	36,481	21,359
Total non-current assets	34,336,158	32,495,599
<b>Total assets</b>	<b>36,926,098</b>	<b>34,760,701</b>

(Thousands of yen)

	As of November 30, 2021	As of May 31, 2022
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	91,868	169,075
Short-term borrowings	7,293,300	5,119,741
Current portion of long-term borrowings	3,246,375	6,754,582
Accounts payable - other	88,362	85,321
Accrued expenses	8,389	3,251
Income taxes payable	955	1,012
Accrued consumption taxes	20,772	117,571
Advances received	245,331	230,392
Other	9,960	6,138
Total current liabilities	11,005,314	12,487,085
Non-current liabilities		
Long-term borrowings	3,529,625	-
Leasehold and guarantee deposits received	1,230,441	1,155,461
Asset retirement obligations	139,502	139,909
Total non-current liabilities	4,899,568	1,295,371
Total liabilities	15,904,883	13,782,457
<b>Net assets</b>		
Unitholders' equity		
Unitholders' capital	20,653,023	20,653,023
Deduction from unitholders' capital		
Allowance for temporary difference adjustments	(24,411)	(28,648)
Total deduction from unitholders' capital	(24,411)	(28,648)
Unitholders' capital, net	20,628,611	20,624,375
Surplus		
Unappropriated retained earnings (undisposed loss)	392,604	353,869
Total surplus	392,604	353,869
Total unitholders' equity	21,021,215	20,978,244
Total net assets	21,021,215	20,978,244
Total liabilities and net assets	36,926,098	34,760,701

## 2.2. Statements of Income

(Thousands of yen)

	11th Fiscal Period (from June 1, 2021 to November 30, 2021)	12th Fiscal Period (from December 1, 2021 to May 31, 2022)
Operating revenue		
Leasing business revenue	1,344,058	1,271,798
Gain on sale of real estate properties	-	16,601
Total operating revenue	1,344,058	1,291,399
Operating expenses		
Expenses related to leasing business	574,035	559,373
Asset management fee	118,566	113,160
Asset custody fee	1,665	1,637
Administrative service fees	16,511	16,612
Remuneration for directors (and other officers)	3,600	3,600
Other operating expenses	40,270	42,369
Total operating expenses	754,649	736,753
Operating profit	589,408	554,645
Non-operating income		
Interest income	10	13
Reversal of distributions payable	750	554
Total non-operating income	761	567
Non-operating expenses		
Interest expenses	56,914	54,234
Borrowing related expenses	102,177	134,905
collateralization-related expenses	37,586	11,238
Total non-operating expenses	196,678	200,377
Ordinary profit	393,492	354,835
Profit before income taxes	393,492	354,835
Income taxes - current	956	1,014
Income taxes - deferred	(1)	(2)
Total income taxes	955	1,011
Profit	392,536	353,824
Retained earnings brought forward	67	45
Unappropriated retained earnings (undisposed loss)	392,604	353,869

## 2.3. Statements of Unitholders' Equity

11th Fiscal Period (from June 1, 2021 to November 30, 2021)

(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	(20,175)	(20,175)	20,632,847	459,464	459,464	21,092,312	21,092,312
Changes of items during period								
Dividends of surplus					(459,397)	(459,397)	(459,397)	(459,397)
Excess cash distribution from allowance for temporary difference adjustments		(4,236)	(4,236)	(4,236)			(4,236)	(4,236)
Profit					392,536	392,536	392,536	392,536
Total changes of items during period	—	(4,236)	(4,236)	(4,236)	(66,860)	(66,860)	(71,096)	(71,096)
Balance at end of current period	20,653,023	(24,411)	(24,411)	20,628,611	392,604	392,604	21,021,215	21,021,215

12th Fiscal Period (from December 1, 2021 to May 31, 2022)

(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	(24,411)	(24,411)	20,628,611	392,604	392,604	21,021,215	21,021,215
Changes of items during period								
Dividends of surplus					(392,558)	(392,558)	(392,558)	(392,558)
Excess cash distribution from allowance for temporary difference adjustments		(4,236)	(4,236)	(4,236)			(4,236)	(4,236)
Profit					353,824	353,824	353,824	353,824
Total changes of items during period	—	(4,236)	(4,236)	(4,236)	(38,734)	(38,734)	(42,970)	(42,970)
Balance at end of current period	20,653,023	(28,648)	(28,648)	20,624,375	353,869	353,869	20,978,244	20,978,244



## 2.4. Statements of Cash Distributions

(Yen)

Item	11th Fiscal Period (from June 1, 2021 to November 30, 2021)	12th Fiscal Period (from December 1, 2021 to May 31, 2022)
I. Unappropriated retained earnings	392,604,088	353,869,580
II. Addition of excess distribution	4,236,246	4,236,246
Of which, allowance for temporary difference adjustments	4,236,246	4,236,246
III. Distribution amount	396,795,042	357,962,787
[Distribution amount per unit]	[1,686]	[1,521]
Of which,	392,558,796	353,726,541
Distribution amount from earnings		
[Of which, excess cash distribution per unit]	[1,668]	[1,503]
Of which,	4,236,246	4,236,246
Allowance for temporary difference adjustments		
[Of which, excess cash distribution per unit (pertaining to allowance for temporary difference adjustments)]	[18]	[18]
IV. Retained earnings carried forward	45,292	143,039
Method of calculating distribution amount	<p>As described above, distribution per unit for the fiscal period under review is 1,686 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 1,668 yen.</p> <p>In addition, pursuant to the policy for “distribution of money in excess of profits” as stated in Article 25 of its articles of incorporation, the Investment Corporation decided to make a distribution for the 4,236,246 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 and leasehold depreciation (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 18 yen per investment unit.</p>	<p>As described above, distribution per unit for the fiscal period under review is 1,521 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 1,503 yen.</p> <p>In addition, pursuant to the policy for “distribution of money in excess of profits” as stated in Article 25 of its articles of incorporation, the Investment Corporation decided to make a distribution for the 4,236,246 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 and leasehold depreciation (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 18 yen per investment unit.</p>

## 2.5. Statements of Cash Flows

(Thousands of yen)

	11th Fiscal Period (from June 1, 2021 to November 30, 2021)	12th Fiscal Period (from December 1, 2021 to May 31, 2022)
Cash flows from operating activities		
Profit before income taxes	393,492	354,835
Depreciation	452,782	441,040
Borrowing related expenses	102,177	134,905
Interest income	(10)	(13)
Interest expenses	56,914	54,234
Loss on retirement of non-current assets	-	1,136
Increase (decrease) in operating accounts payable	41,360	(41,272)
Increase (decrease) in accrued consumption taxes	(14,058)	96,799
Decrease (increase) in prepaid expenses	(48,998)	(84,297)
Decrease (increase) in long-term prepaid expenses	1,125	1,125
Increase (decrease) in accounts payable - other	5,128	(3,041)
Increase (decrease) in advances received	(1,733)	(14,938)
Decrease in property, plant and equipment due to sale	-	1,596,838
Other, net	3,574	(3,049)
Subtotal	991,754	2,534,302
Interest received	10	13
Interest paid	(56,007)	(59,372)
Income taxes paid	(934)	(957)
Net cash provided by (used in) operating activities	934,823	2,473,986
Cash flows from investing activities		
Purchase of property, plant and equipment	(103,970)	(95,099)
Refund of leasehold and guarantee deposits received	(251)	(74,979)
Proceeds from restricted bank deposits	-	80,143
Net cash provided by (used in) investing activities	(104,222)	(89,935)
Cash flows from financing activities		
Proceeds from short-term borrowings	7,279,477	8,467,044
Proceeds from long-term borrowings	-	3,215,322
Repayments of short-term borrowings	(5,224,520)	(10,749,830)
Repayments of long-term borrowings	(2,302,890)	(3,236,740)
Distributions paid	(463,633)	(396,795)
Net cash provided by (used in) financing activities	(711,566)	(2,700,998)
Net increase (decrease) in cash and cash equivalents	119,034	(316,947)
Cash and cash equivalents at beginning of period	1,031,260	1,150,295
Cash and cash equivalents at end of period	1,150,295	833,347