

EARNINGS BRIEFING FOR THE PERIOD ENDED FEBRUARY 2019

Name of issuer: Fukuoka REIT Corporation (FRC)
Code number: 8968
URL: <https://www.fukuoka-reit.jp/eng/>
Stock listings: Tokyo Stock Exchange, and Fukuoka Stock Exchange

Representative: Etsuo Matsuyuki CEO & Representative Director

Asset manager: Fukuoka Realty Co., Ltd.
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Expected date for submitting securities report: May 31, 2019
 Expected commencement date of dividend payments: May 17, 2019
 Supplementary documents for earnings briefing: Yes
 Analyst meeting (for institutional investors and analysts): Yes

(Figures rounded down to nearest mm yen)

1. Performance and situation of assets for the period ended February 2019 (September 1, 2018 to February 28, 2019)

(1) Performance

(% shows percentage change from previous period)

	Operating revenues		Operating income		Ordinary income		Profit	
	mm of yen	%	mm of yen	%	mm of yen	%	mm of yen	%
Period ended February 2019	9,242	0.7	3,306	2.1	2,935	2.6	2,934	2.6
Period ended August 2018	9,178	12.0	3,238	9.2	2,861	9.0	2,860	9.0

	Profit per unit	Return on net assets	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
Period ended February 2019	3,687 yen	2.9%	1.5%	31.8%
Period ended August 2018	3,593 yen	2.9%	1.5%	31.2%

(2) Dividends

	Dividend per unit (excl. dividend in excess of earnings)	Total dividend (excl. dividend in excess of earnings)	Dividend in excess of earnings per unit	Total dividend in excess of earnings	Dividend per unit (incl. dividend in excess of earnings)	Total dividend (incl. dividend in excess of earnings)	Payout ratio	Ratio of dividend to net assets
Period ended February 2019	3,687 yen	2,934 mm yen	0 yen	0 mm yen	3,687 yen	2,934 mm yen	100.0%	2.9%
Period ended August 2018	3,593 yen	2,860 mm yen	0 yen	0 mm yen	3,593 yen	2,860 mm yen	100.0%	2.8%

(3) Financial condition

	Total assets	Net assets	Ratio of net assets to total assets	Net assets per unit
Period ended February 2019	195,433 mm yen	101,874 mm yen	52.1%	127,982 yen
Period ended August 2018	193,112 mm yen	101,799 mm yen	52.7%	127,888 yen

(4) Cash flows condition

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents at end of period
Period ended February 2019	4,832 mm yen	(3,604) mm yen	(859) mm yen	8,319 mm yen
Period ended August 2018	4,149 mm yen	(15,326) mm yen	11,734 mm yen	7,950 mm yen

2. Forecast of performance for the period ending August 2019 (March 1, 2019 to August 31, 2019) and the period ending February 2020 (September 1, 2019 to February 29, 2020)

(% shows percentage change from previous period)

	Operating revenues		Operating income		Ordinary income		Profit		Dividend per unit (excl. dividend in excess of earnings)	Dividend in excess of earnings per unit
	mm of yen	%	mm of yen	%	mm of yen	%	mm of yen	%		
Period ending August 2019	9,305	0.7	3,311	0.2	2,930	(0.2)	2,929	(0.2)	3,680 yen	0 yen
Period ending February 2020	9,321	0.2	3,328	0.5	2,946	0.5	2,945	0.5	3,700 yen	0 yen

(Reference) Forecast profit per unit: Period ending August 2019 3,680 yen
Forecast profit per unit: Period ending February 2020 3,700 yen

3. Other

- (1) Changes in accounting policies, changes in accounting estimates and restatement of accounting errors
- (i) Changes in accounting policies accompanying amendments to accounting standards, etc.: No
 - (ii) Changes in accounting policies other than above (i): No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement of accounting errors: No
- (2) Number of investment units outstanding
- (i) Number of investment units outstanding at end of period (including treasury investment units):
 - As of February 2019 796,000 units
 - As of August 2018 796,000 units
 - (ii) Treasury investment units at end of period:
 - As of February 2019 0 unit
 - As of August 2018 0 unit

Note: Regarding the number of investment units, a basis for calculating profit per unit, please refer to "Per unit information," on page 13.

* Statement on Implementation Status of Audit Procedure

This Earnings Briefing ("Kessan Tanshin" in Japanese) report is outside the scope of the auditing procedure under the Financial Instruments and Exchange Act. As of the publication of this report, no auditing procedure under the Financial Instruments and Exchange Act has been completed for the financial statements.

* On the adequate use of performance forecasts and other items warranting special mention

Forecast figures are calculated based on information available on the date of release of the forecast and contain uncertain factors to a large extent. Actual operating revenues, operating income, ordinary income, profit, and dividend per unit may differ due to changes in the business environment. The forecast should not be construed as a guarantee of actual dividend. Concerning details of the preconditions for the above forecast figures please refer to "2. Portfolio Management Policy and Management Situation, (2) Management situation – Preconditions for the performance forecast for the period ending August 2019 (March 1, 2019 to August 31, 2019) and the period ending February 2020 (September 1, 2019 to February 29, 2020)" on page 4.

Concerning the contents hereinafter, items that Fukuoka REIT Corporation (hereinafter “FRC”) judges “can be omitted from the disclosure from the standpoint of importance” are not shown in conformity with the “Format and Guidance for Preparation of Earnings Briefing for REITs” (February 2018).

1. Investment Corporation-Related Organizations

The disclosure is omitted, since there are no significant changes from the “Structure of the investment corporation” disclosed by the latest securities report (submitted on November 29, 2018).

2. Portfolio Management Policy and Management Situation

(1) Portfolio management policy

Fukuoka Realty Co., Ltd., the asset management company to which FRC entrusts management of its assets, approved at its board of directors’ meeting held on March 28, 2019 to partly amend the asset management guidelines (the “Asset Management Guidelines”), its internal regulations. In accordance with this, FRC made partial amendments to the “Investment policy” disclosed by the latest securities report (submitted on November 29, 2018), and accordingly submitted an extraordinary report as of the same date.

Below are the modified portions, as underlined, from the descriptions in the latest securities report (submitted on November 29, 2018).

Chapter 1 Fund Information

I. Fund Status

2. Investment Policy

(1) Investment Policy

(ii) Investment targets and their acquisition methods

(b) Investment types

(Preliminaries omitted)

<Before amendments>

Use	Investment Ratio	Investment Target
Retail	<u>60</u> – <u>80</u> %	Urban, Regional and Community facilities
Office buildings	20 – <u>40</u> %	Class A properties, Sale and Leaseback
Others	0 – <u>20</u> %	Hotels, Residential properties, Logistics facilities and Public facilities

(The rest omitted)

<After amendments>

Use	Investment Ratio	Investment Target
Retail	<u>40</u> – <u>70</u> %	Urban, Regional and Community facilities
Office buildings	20 – <u>50</u> %	Class A properties, Sale and Leaseback
Others	0 – <u>30</u> %	Hotels, Residential properties, Logistics facilities and Public facilities

(The rest omitted)

(iii) Portfolio building policy for FRC

(b) Property management standards

b. Lease contract formats

<Before amendments>

In concluding lease contracts with tenants of retail facilities, long-term lease contracts with fixed rents shall be employed as a rule. For retail facilities in the categories of urban and regional facilities, however, they shall be managed in a way that allows tenant replacement to reflect the needs of consumers by flexibly setting lease periods and introducing fixed-term lease contracts, among other measures. Moreover, schemes shall be adopted to enable increased rent income in the period of economic expansion by combining percentage-of-sales rent lease contracts with fixed-rent lease contracts.

<After amendments>

In concluding lease contracts with tenants of retail facilities, long-term lease contracts with fixed rents shall be employed as a rule. For retail facilities in the categories of urban and regional facilities, however, they shall be managed in a way that allows tenant replacement to reflect the needs of consumers by flexibly setting lease periods and introducing fixed-term lease contracts, among other measures. Moreover, schemes shall be adopted to enable increased rent income in the period of economic expansion by combining lease contracts that contain variable rent such as percentage-of-sales rent and percentage-of-GOP rent lease contracts with fixed-rent lease contracts.

Furthermore, the disclosure is omitted for the other parts of the “Investment policy,” “Investment target” and “Dividend policy” since there are no significant changes from the latest securities report (submitted on November 29, 2018).

(2) Management situation

(i) Summary of the current fiscal period

(a) Brief history of the investment corporation

FRC was established on July 2, 2004 based on the “Act on Investment Trusts and Investment Corporations” (Act No. 198 in 1951 including later revisions) and listed on the Tokyo Stock Exchange Group Inc. and the Fukuoka Stock Exchange on June 21, 2005 as the nation’s first real estate investment trust specializing in regional properties (code number: 8968). FRC invests in real estate throughout all of Kyushu (including Okinawa Prefecture) with a central focus on Fukuoka City and Yamaguchi Prefecture (hereinafter the “Fukuoka/Kyushu area) by turning regional characteristics in the real estate industry into strengths.

FRC started asset management activities on November 9, 2004 after acquisition of four properties such as Retail in Canal City Hakata (excluding some areas of specialty shops, hotels, theaters, offices and common space), a commercial complex where specialty shops, cinema complex, theaters, amusement facilities, hotels and offices are integrally developed (hereinafter “Canal City Hakata”). As of the end of the current fiscal period (February 28, 2019), FRC manages a total of 29 properties comprising 11 Retail, 8 Office buildings and 10 Others.

(b) Investment environment and portfolio performance

During the fiscal period under review (the 29th fiscal period), the Japanese economy showed a modest recovery despite weakness seen recently in exports and production in some areas. Looking ahead, with the employment and income environment continuing to improve, the economy is expected to continue recovering moderately due to various political measures proving effective, among other factors, although weakness will remain in certain areas for some time.

In the Fukuoka and Kyushu area, the core investment target area for FRC, the economy is expanding moderately. With regard to the outlook, a mild expansion is expected to continue, although attention should be paid to the impact of the uncertainty about overseas economies and the impact of a labor shortage on the supply side, among other factors.

As for land price trends, the average rate of change for residential land price rose for the second consecutive year while the figure for commercial land price and the combined average for residential and commercial land price rose for the fourth consecutive year, all on a national average basis, according to the 2019 Land Market Value Publication. Meanwhile in Fukuoka City, the central area of FRC’s investment targets, land prices continued rising for seven consecutive years, up 12.3% year-on-year for commercial land and up 5.3% year-on-year for residential land, marking higher rates of increase.

Under such circumstances, FRC acquired Tissage Hotel Naha on December 7, 2018. Completed in February 2018, Tissage Hotel Naha is a newly-built hotel located in Naha City, Okinawa Prefecture, which is anticipated to achieve high growth.

As for existing properties, FRC continued its efforts to reinforce competitive advantages and customer drawing ability at Canal City Hakata and other major retail properties, and focused on maintaining and increasing the occupancy rate of its owned properties. As a result of these endeavors, the average occupancy rate of all properties FRC owns was 99.7% at the end of the 29th fiscal period.

When analyzing FRC’s portfolio (on an acquisition price basis) as of the end of the 29th fiscal period by investment target area, the investment ratio in the Fukuoka urban area accounted for 77.2%; when analyzing by property type, Retail, Office buildings, and Others accounted for 59.2%, 26.9% and 13.9%, respectively.

(c) Summary of fundraising

In the 29th fiscal period, FRC conducted refinance while raised new funds by utilizing the commitment line to procure 2,000 mm yen in short-term debt as funds for the acquisition of the above-mentioned property and other purposes. FRC refinanced the short-term debt into long-term debt during the fiscal period. As a result, the balance of its interest-bearing debt outstanding (including investment corporation bonds) at the end of the period totaled 77,500 mm yen, with the loan-to-value ratio (ratio of interest-bearing debt (including investment corporation bonds) to total assets) at 39.7% and the ratio of fixed-interest rate debt (ratio of interest-bearing debt with fixed interest rates (including investment corporation bonds) to total interest-bearing debt) at 90.2% as of the same date.

Going forward, FRC will continue its endeavors to reduce refinancing risks by dispersing debt repayment dates and extending debt duration. At the same time, FRC will work to mitigate risks of rising interest rates by shifting to fixed-interest rate borrowings and through other measures.

Moreover, the credit ratings assigned to FRC as of the end of the current fiscal period are as follows.

Credit Rating Agency	Rating Type	Rating	Rating Outlook
Rating and Investment Information, Inc. (R&I)	Issuer Rating	A+	Stable
Japan Credit Rating Agency, Ltd. (JCR)	Long-term Issuer Rating	AA-	Stable

(d) Summary of performance and dividend

As a result of these management efforts, operating revenues totaled 9,242 mm yen and operating income after excluding operating expenses such as expenses related to leasing business and asset management fees totaled 3,306 mm yen. Ordinary income was 2,935 mm yen and profit amounted to 2,934 mm yen. Management decided to make a dividend of 3,687 yen per investment unit to meet the requirements of special tax measures for an investment corporation (as stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation of Japan [Act No. 26 in 1957 including later revisions]). Under this law, an investment corporation is allowed to deduct the maximum amount of dividends paid to investors from its taxable income.

(ii) Forecast for the next fiscal period

(a) Portfolio management policy

FRC will further reinforce management and leasing capabilities by cooperating with property management companies including sponsor companies, and secure and maintain the stable operation of the properties by making the most use of their advantages.

FRC will make investments based on the basic policy stipulated in its Articles of Incorporation and its basic philosophy: focusing on “specialized areas in which FRC can demonstrate its competitive edge” that are in “high growth potential markets.” By geographic location, of Fukuoka and Kyushu areas, FRC will invest 60% to 90% of its assets in the Fukuoka urban area since the Fukuoka urban area is expected to have a high population growth rate in the future. In addition to the Fukuoka urban area, management has decided to actively acquire properties in major cities if there are regions or properties where FRC can generate investment merits from community-oriented viewpoints. FRC will acquire high-quality properties with adequate use of its advantages, such as information gathering ability in the areas, good knowledge of regional properties and close relations with the local business community and governments, so that investors can continue to invest in FRC with assurance.

Meanwhile, FRC will build stronger relationships with financial institutions to realize stable fundraising and try to maintain a solid financial structure.

(b) Significant events that have occurred after the end of the current fiscal period:

No relevant items.

(c) Performance forecast for the next fiscal period

FRC aims to achieve the following performance goals for the period ending August 2019 (March 1, 2019 to August 31, 2019) and the period ending February 2020 (September 1, 2019 to February 29, 2020). Concerning preconditions for the forecast, please refer to “Preconditions for the performance forecast for the period ending August 2019 (March 1, 2019 to August 31, 2019) and the period ending February 2020 (September 1, 2019 to February 29, 2020)” on page 4.

Period ending August 2019

Operating revenues	9,305 mm yen
Operating income	3,311 mm yen
Ordinary income	2,930 mm yen
Profit	2,929 mm yen
Dividend per unit	3,680 yen
Dividend in excess of earnings per unit	0 yen

Period ending February 2020

Operating revenues	9,321 mm yen
Operating income	3,328 mm yen
Ordinary income	2,946 mm yen
Profit	2,945 mm yen
Dividend per unit	3,700 yen
Dividend in excess of earnings per unit	0 yen

Note: The above forecast figures are calculated based on certain preconditions. The forecast should not be construed as a guarantee of actual performance since actual operating revenues, operating income, ordinary income, profit, dividend per unit and dividend in excess of earnings per unit may differ due to changes in the business environment.

Preconditions for the performance forecast for the period ending August 2019 (March 1, 2019 to August 31, 2019) and the period ending February 2020 (September 1, 2019 to February 29, 2020)

Item	Preconditions
Calculation period	30th fiscal period: March 1, 2019 to August 31, 2019 (184 days) 31st fiscal period: September 1, 2019 to February 29, 2020 (182 days)
Assets under management	<ul style="list-style-type: none"> It is assumed that there will be 29 properties FRC owns as of February 28, 2019. In practice, the number may fluctuate due to changes in assets under management.
Total number of investment units outstanding	<ul style="list-style-type: none"> It is assumed that there will be no issuance of new investment units until February 29, 2020.
Interest-bearing debt and refinancing	<ul style="list-style-type: none"> The balance of interest-bearing debt outstanding at the end of the 30th fiscal period (August 31, 2019) is expected to total 77,500 mm yen, the same as that at the end of the 29th fiscal period (February 28, 2019). The loan-to-value ratio (interest-bearing debt ÷ total assets × 100) is expected to stand at around 39.5% (as of February 28, 2019, the loan-to-value ratio stands at 39.7%). The balance of interest-bearing debt outstanding at the end of the 31st fiscal period (February 29, 2020) is expected to total 77,500 mm yen, same as the end of the 30th fiscal period (August 31, 2019). The loan-to-value ratio (interest-bearing debt ÷ total assets × 100) is expected to stand at around 39.5%.
Operating revenues	<ul style="list-style-type: none"> Of leasing revenues – real estate, revenues from properties FRC has already acquired are calculated based on tenancy agreements that are valid as of April 12, 2019 by taking into account the competitiveness of the properties and the market environment, etc. Of leasing revenues– real estate, revenues from lease contracts with variable rent such as percentage-of-sales rent and percentage-of-GOP rent are calculated based on past results by taking into account such fluctuation factors as sales and GOP of the relevant tenants. For leasing revenues – real estate, tenant vacancies are taken into account to a certain extent. It is assumed that there will be no rent arrears or non-payments by tenants.
Operating expenses	<ul style="list-style-type: none"> When acquiring properties, the property taxes and city planning taxes for the assets will be proportionally calculated according to the holding period and adjusted with the former owner. However, the adjusted amount of the property taxes and city planning taxes to be borne by FRC for the initial year will not be written off since they will be included in the acquisition cost. FRC writes off estimated repair costs expected to be required for buildings for the calculation periods (the 30th and 31st fiscal periods). Actual repair costs may differ significantly from the estimated amounts since there is the possibility that repair costs are incurred urgently due to damages to buildings caused by unforeseeable factors, repair costs generally differ largely from period to period, and repair costs are not regularly incurred. Concerning outsourcing expenses, FRC anticipates 1,913 mm yen for the 30th fiscal period and 1,907 mm yen for the 31st fiscal period. Concerning taxes and other public charges, FRC anticipates 734 mm yen for the 30th fiscal period and 734 mm yen for the 31st fiscal period. Of these amounts, FRC anticipates 6 mm yen for the 30th fiscal period and 6 mm yen for the 31st fiscal period for Tissage Hotel Naha it acquired in the 29th fiscal period. Concerning depreciation and amortization expenses, FRC anticipates 1,654 mm yen for the 30th fiscal period and 1,666 mm yen for the 31st fiscal period.
Non-operating expenses	<ul style="list-style-type: none"> Concerning interest expenses (including interest expenses on investment corporation bonds) and expenses related to financing, FRC anticipates 375 mm yen for the 30th fiscal period and 376 mm yen for the 31st fiscal period.
Dividend per unit	<ul style="list-style-type: none"> Dividend (dividend per unit) is calculated based on the dividend policy stipulated in FRC's Articles of Incorporation. Dividend per unit may fluctuate due to fluctuations in leasing revenues caused by changes in assets under management and tenants or various factors including unexpected occurrences of repair.
Dividend in excess of earnings per unit	<ul style="list-style-type: none"> Dividend in excess of earnings (dividend in excess of earnings per unit) is not planned at the moment.
Other	<ul style="list-style-type: none"> It is assumed that there will be no significant revisions to laws and regulations, the tax system, and accounting standards that may influence the forecast figures. It is also assumed that there will be no significant unexpected changes in general economic conditions and the real estate market.

(3) Investment risks

In the extraordinary report submitted on March 28, 2019, FRC made partial amendments to the “Investment risks” disclosed in the latest securities report (submitted on November 29, 2018).

Below are the modified portions, as underlined, from the descriptions in the latest securities report (submitted on November 29, 2018).

Chapter 1 Fund Information

I. Fund Status

3. Investment Risks

(1) Risk Factors

(i) Risks related to the marketability of FRC’s investment securities or investment corporation bonds

(c) Risks related to fluctuations of revenues and expenditures

<Before amendments>

FRC’s earnings mainly depend on the rent income from the real estate or real estate-backed assets it acquires (hereinafter collectively referred to as “real estate” in the (1) Risk Factors section). The rent income from real estate may possibly decrease significantly due to such factors as a decrease in the occupancy rate of the real estate (including the cases where such a decrease is caused by re-construction of the building or large-scale repairs, etc.) and a decrease in the sales of tenants with whom percentage-of-sales rent is applied. Moreover, as a result of discussions with the lessees or requests, etc. from the lessees, the rent may be lowered or its upward revision as stipulated in the contract may not be conducted (for these risks related to the rent income from real estate, please refer to (b) Risks related to lease contracts in (v) Legal risks related to real estate and trust beneficiary interests described later). There is no guarantee that the past situations of rents received from individual assets are compatible with the future situations of rents to be received from such assets. In addition, the rent based on the lease contract concluded for such real estate may not always be on the appropriate level compared with the general rent levels.

(The rest omitted)

<After amendments>

FRC’s earnings mainly depend on the rent income from the real estate or real estate-backed assets it acquires (hereinafter collectively referred to as “real estate” in the (1) Risk Factors section). The rent income from real estate may possibly decrease significantly due to such factors as a decrease in the occupancy rate of the real estate (including the cases where such a decrease is caused by re-construction of the building or large-scale repairs, etc.), a decrease in the sales of tenants with whom percentage-of-sales type rent is applied, and a decrease in the GOP of tenants with whom percentage-of-GOP type rent is applied. Moreover, as a result of discussions with the lessees or requests, etc. from the lessees, the rent may be lowered or its upward revision as stipulated in the contract may not be conducted (for these risks related to the rent income from real estate, please refer to (b) Risks related to lease contracts in (v) Legal risks related to real estate and trust beneficiary interests described later). There is no guarantee that the past situations of rents received from individual assets are compatible with the future situations of rents to be received from such assets. In addition, the rent based on the lease contract concluded for such real estate may not always be on the appropriate level compared with the general rent levels.

(The rest omitted)

3. Financial Statements

(1) Balance sheet

(thousands of yen)

Account	28th fiscal period (as of August 31, 2018)		29th fiscal period (as of February 28, 2019)	
Assets				
Current assets				
Cash and deposits		2,609,937		3,570,388
Cash and deposits in trust		5,386,980		4,796,296
Operating accounts receivable		542,640		676,783
Prepaid expenses		254,144		297,375
Consumption taxes receivable		598,560		—
Others		4,737		4,182
Total current assets		9,397,000		9,345,026
Non-current assets				
Property, plant and equipment				
Buildings in trust	98,000,220		100,692,867	
Accumulated depreciation	(27,296,476)	70,703,743	(28,811,313)	71,881,554
Structures in trust	1,855,414		1,873,277	
Accumulated depreciation	(700,178)	1,155,236	(729,404)	1,143,873
Machinery and equipment in trust	1,295,492		1,400,813	
Accumulated depreciation	(422,173)	873,319	(462,805)	938,007
Vehicles and transport equipment in trust	747		747	
Accumulated depreciation	(485)	261	(533)	214
Tools and fixtures in trust	1,328,883		1,378,452	
Accumulated depreciation	(1,083,830)	245,052	(1,117,165)	261,286
Lands in trust		103,814,610		104,918,451
Construction in progress in trust		113,234		7,088
Total property, plant and equipment		176,905,458		179,150,475
Intangible assets				
Leasehold right in trust		5,545,883		5,545,883
Other intangible assets in trust		14,390		26,654
Total intangible assets		5,560,273		5,572,537
Investment and other assets				
Deferred tax assets		15		17
Lease and guarantee deposits		10,000		10,000
Lease and guarantee deposits in trust		327,135		327,135
Long-term prepaid expenses		850,645		972,221
Total investment and other assets		1,187,795		1,309,374
Total non-current assets		183,653,528		186,032,387
Deferred assets				
Investment corporation bond issuance expenses		42,551		40,449
Investment unit issuance expenses		19,177		15,342
Total deferred assets		61,728		55,791
Total assets		193,112,257		195,433,205

(thousands of yen)

Account	28th fiscal period (as of August 31, 2018)		29th fiscal period (as of February 28, 2019)	
Liabilities				
Current liabilities				
Operating accounts payable		649,469		905,301
Current maturities of long-term debt		4,200,000		8,400,000
Accounts payable-other		18,856		20,908
Accrued expenses		363,618		368,137
Income taxes payable		992		1,047
Accrued consumption taxes		—		199,254
Advances received		1,049,850		1,043,991
Deposits received		1,327,250		1,103,147
Total current liabilities		7,610,038		12,041,787
Non-current liabilities				
Investment corporation bonds		5,000,000		5,000,000
Long-term debt		66,300,000		64,100,000
Tenant leasehold and security deposits		375,422		375,482
Tenant leasehold and security deposits received in trust		12,027,489		12,041,779
Total non-current liabilities		83,702,912		81,517,261
Total liabilities		91,312,950		93,559,049
Net assets				
Unitholders' equity				
Unitholders' capital		98,938,764		98,938,764
Surplus				
Unappropriated surplus		2,860,542		2,935,391
Total surplus		2,860,542		2,935,391
Total unitholders' equity		101,799,306		101,874,156
Total net assets		101,799,306		101,874,156
Total liabilities and net assets		193,112,257		195,433,205

(2) Statement of income

(thousands of yen)

Account	28th fiscal period (March 1, 2018 to August 31, 2018)		29th fiscal period (September 1, 2018 to February 28, 2019)	
Operating revenues				
Leasing revenues – real estate	*1 8,478,614		*1 8,604,955	
Other leasing revenues – real estate	*1 699,815	9,178,430	*1 637,878	9,242,834
Operating expenses				
Expenses related to leasing business	*1, *2 5,287,625		*1, *2 5,274,003	
Asset management fees	520,829		532,061	
Asset custody fees	6,702		7,182	
Administrative service fees	53,872		54,581	
Director's compensations	9,600		9,600	
Other operating expenses	61,761	5,940,392	59,167	5,936,596
Operating income		3,238,038		3,306,238
Non-operating revenues				
Interest received	37		39	
Others	531	569	2,162	2,202
Non-operating expenses				
Interest expenses	254,894		245,801	
Interest expenses on investment corporation bonds	24,200		29,200	
Amortization of investment corporation bond issuance expenses	1,722		2,102	
Amortization of investment unit issuance expenses	4,770		3,835	
Financing related expenses	91,901		91,535	
Others	30	377,518	37	372,511
Ordinary income		2,861,088		2,935,928
Profit before income taxes		2,861,088		2,935,928
Income taxes-current	998		1,053	
Income taxes-deferred	1	1,000	(2)	1,051
Profit		2,860,088		2,934,877
Surplus brought forward		453		514
Unappropriated surplus		2,860,542		2,935,391

(3) Statement of changes in net assets

28th fiscal period (March 1, 2018 to August 31, 2018)

(thousands of yen)

Item	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of March 1, 2018	91,142,766	2,623,917		93,766,684
Changes in the current fiscal period				
Issuance of new investment units	7,795,998			7,795,998
Dividend of surplus		(2,623,464)		(2,623,464)
Profit		2,860,088		2,860,088
Total of changes in the current fiscal period	7,795,998	236,624		8,032,622
Balance as of August 31, 2018	98,938,764	2,860,542		101,799,306

29th fiscal period (September 1, 2018 to February 28, 2019)

(thousands of yen)

Item	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of September 1, 2018	98,938,764	2,860,542		101,799,306
Changes in the current fiscal period				
Dividend of surplus		(2,860,028)		(2,860,028)
Profit		2,934,877		2,934,877
Total of changes in the current fiscal period	-	74,849		74,849
Balance as of February 28, 2019	98,938,764	2,935,391		101,874,156

(4) Dividend statement

Account	28th fiscal period (March 1, 2018 to August 31, 2018)	29th fiscal period (September 1, 2018 to February 28, 2019)
I. Unappropriated surplus	2,860,542 thousand yen	2,935,391 thousand yen
II. Total	2,860,028 thousand yen	2,934,852 thousand yen
[Dividend per investment unit]	[3,593 yen]	[3,687 yen]
III. Surplus brought forward	514 thousand yen	539 thousand yen

Method for calculating dividends	The amount of dividends shall be decided in accordance with the dividend policy stipulated in Article 38-1-1 of FRC's Articles of Incorporation and must exceed 90% of FRC's distributable profits as stipulated in Article 67-15-1 of the Special Taxation Measures Act. Following the above policy, FRC shall decide to distribute 2,860,028 thousand yen, which is almost the entire amount of unappropriated surplus, as earnings dividends. Moreover, dividend in excess of earnings as stipulated in Article 38-2 of FRC's Articles of Incorporation will not be provided.	The amount of dividends shall be decided in accordance with the dividend policy stipulated in Article 38-1-1 of FRC's Articles of Incorporation and must exceed 90% of FRC's distributable profits as stipulated in Article 67-15-1 of the Special Taxation Measures Act. Following the above policy, FRC shall decide to distribute 2,934,852 thousand yen, which is almost the entire amount of unappropriated surplus, as earnings dividends. Moreover, dividend in excess of earnings as stipulated in Article 38-2 of FRC's Articles of Incorporation will not be provided.
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(Note) Amounts other than the amounts of dividend per investment units are rounded off to the nearest thousand yen.

(5) Cash flows statement

(thousands of yen)

Account	28th fiscal period (March 1, 2018 to August 31, 2018)	29th fiscal period (September 1, 2018 to February 28, 2019)
Net cash provided by (used in) operating activities		
Profit before income taxes	2,861,088	2,935,928
Depreciation and amortization expenses	1,602,568	1,622,792
Amortization of investment corporation bond issuance expenses	1,722	2,102
Amortization of investment unit issuance expenses	4,770	3,835
Interest received	(37)	(39)
Interest expenses	279,094	275,001
Decrease (increase) in operating accounts receivables	(82,691)	(134,143)
Decrease (increase) in consumption taxes refund receivable	(598,560)	598,560
Increase (decrease) in accrued consumption taxes	(298,500)	199,254
Increase (decrease) in operating accounts payable	61,299	(10,519)
Increase (decrease) in accounts payable-other	(638)	2,530
Increase (decrease) in accrued expenses	27,103	5,784
Increase (decrease) in advances received	59,676	(5,858)
Increase (decrease) in deposits expenses	558,514	(224,102)
Decrease (increase) in prepaid expenses	6,646	(43,231)
Decrease (increase) in long-term prepaid expenses	(64,233)	(121,575)
Others, net	3,314	3,668
Subtotal	4,421,137	5,109,987
Interest income received	37	39
Interest expenses paid	(271,057)	(276,266)
Income taxes paid	(778)	(998)
Income taxes refund	428	—
Net cash provided by (used in) operating activities	4,149,768	4,832,761
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment in trust	(12,130,191)	(3,601,665)
Purchase of intangible assets in trust	(3,775,257)	(15,881)
Proceeds from tenant leasehold and security deposits	8,534	60
Repayments of tenant leasehold and security deposits	(6,536)	—
Proceeds from tenant leasehold and security deposits in trust	1,023,194	149,480
Repayments of tenant leasehold and security deposits in trust	(228,985)	(135,190)
Payments of tenant leasehold and security deposits in trust	(217,135)	—
Proceeds from restricted trust deposits	2,872	5,343
Payments for restricted trust deposits	(2,751)	(6,268)
Net cash provided by (used in) investment activities	(15,326,254)	(3,604,122)
Net cash provided by (used in) financial activities		
Proceeds from short-term debt	4,100,000	4,800,000
Repayments of short-term debt	(4,100,000)	(4,800,000)
Proceeds from long-term debt	7,200,000	2,500,000
Repayments of long-term debt	(1,600,000)	(500,000)
Proceeds from issuance of investment corporation bonds	1,000,000	—
Proceeds from issuance of investment units	7,795,998	—
Payments of investment corporation bond issuance expenses	(13,660)	—
Payment of investment unit issuance expenses	(23,013)	—
Dividends paid	(2,624,781)	(2,859,795)
Net cash provided by (used in) financial activities	11,734,542	(859,795)
Net increase (decrease) in cash and cash equivalents	558,055	368,843
Balance of cash and cash equivalents at beginning of period	7,392,916	7,950,972
Balance of cash and cash equivalents at end of period	7,950,972	8,319,815

- (6) Notes on the going concern assumption
No relevant items.
- (7) Significant accounting policies
The disclosure is omitted, since there are no significant changes from contents disclosed by the latest securities report (submitted on November 29, 2018).
- (8) Notes to changes in the presentation
From the beginning of the 29th fiscal period, FRC applied the Partial Amendments to Accounting Standard for Tax Effect Accounting (The Accounting Standards Board of Japan Statement No. 28 issued on February 16, 2018) and changed the presentation method so that deferred tax assets are classified as investment and other assets and deferred tax liabilities are classified as non-current liabilities.
As a result, deferred tax assets amounting to 15 thousand yen which were presented under current assets on the balance sheet for the 28th fiscal period have been reclassified as deferred tax assets in the investment and other assets category.
- (9) Notes to financial statements
FRC omits the disclosure of notes to balance sheet, statement of changes in net assets, and cash flows statement, as well as notes on lease transactions, financial instruments, securities, derivative transactions, related-party transactions, tax-effect accounting, retirement benefits, asset retirement obligations, rental properties, segment information and equity method income, etc. since it does not find substantial need for disclosure in the earnings briefing.

(Notes to statement of income)

*1. Breakdown of revenues and expenses related to real estate leasing business

(thousands of yen)

	28th fiscal period (March 1, 2018 to August 31, 2018)		29th fiscal period (September 1, 2018 to February 28, 2019)	
A. Real estate leasing business revenues				
Leasing revenues – real estate				
Rents	6,883,299		7,045,595	
Common charges	1,123,477		1,111,443	
Parking revenues	471,838	8,478,614	447,916	8,604,955
Other leasing revenues – real estate				
Incidental income	674,484		616,581	
Other miscellaneous income	25,331	699,815	21,296	637,878
Total real estate leasing business revenues		9,178,430		9,242,834
B. Expenses related to real estate leasing business				
Expenses related to leasing business				
Outsourcing fees	1,913,254		1,908,842	
Repair and maintenance expenses	220,275		221,346	
Taxes and other public charges	661,889		661,774	
Insurance premiums and trust compensation	58,540		55,689	
Utilities expenses	595,918		569,325	
Depreciation and amortization expenses	1,602,568		1,622,792	
Other expenses related to real estate leasing business	235,179	5,287,625	234,232	5,274,003
Total expenses related to real estate leasing business		5,287,625		5,274,003
C. Revenues and expenses related to real estate leasing business (A - B)		3,890,804		3,968,831

*2. Transactions with affiliated companies

(thousands of yen)

Item	28th fiscal period (March 1, 2018 to August 31, 2018)	29th fiscal period (September 1, 2018 to February 28, 2019)
Expenses related to real estate leasing business	1,474,309	1,493,926

(Per unit information)

28th fiscal period (March 1, 2018 to August 31, 2018)		29th fiscal period (September 1, 2018 to February 28, 2019)	
Net assets per investment unit:	127,888 yen	Net assets per investment unit:	127,982 yen
Profit per investment unit:	3,593 yen	Profit per investment unit:	3,687 yen

Note 1: Profit per investment unit is calculated by dividing profit by the day-weighted average number of investment units outstanding during the fiscal period. Diluted profit per investment unit is not shown since there are no potential investment units.

Note 2: Calculation of profit per investment unit is based on the following.

Account	28th fiscal period (March 1, 2018 to August 31, 2018)	29th fiscal period (September 1, 2018 to February 28, 2019)
Profit (thousands of yen)	2,860,088	2,934,877
Amount not attributable to common shareholders (thousands of yen)	—	—
Profit attributable to common investment units (thousands of yen)	2,860,088	2,934,877
Average number of investment units during the fiscal period (units)	796,000	796,000

(Significant subsequent events)

No relevant items.

(10) Change in the number of investment units outstanding

No relevant items.

4. Change in Directors

(1) Change in directors in FRC

No relevant items.

(2) Change in directors at Fukuoka Realty Co., Ltd.

No relevant items.

5. Reference Information

(1) Investment situation

(as of February 28, 2019)

Type of asset	Use	Location (Note 1)	Total value of properties owned (mm of yen) (Note 2)	Percentage of total assets (%) (Note 3)
Real estate in Trust	Retail	Fukuoka urban area	75,889	38.8
		Other Kyushu areas	36,698	18.8
	Office buildings	Fukuoka urban area	46,035	23.6
		Other Kyushu areas	-	-
	Others	Fukuoka urban area	20,537	10.5
		Other Kyushu areas	5,554	2.8
	Subtotal			184,715
Deposits and other assets			10,717	5.5
Total amount of assets (Note 4)			195,433 [184,723]	100.0 [94.5]

Note 1: "Fukuoka urban area" refers to cities, towns and villages where 10% or more of the population commute to Fukuoka City for school and work, according to the 2015 census, which states "the number of workers and students aged 15 years or older (students including those aged 14 years or younger: particular reference) including commuting between their homes and places of work or school" conducted by Fukuoka City and the Statistics Bureau of the Ministry of Internal Affairs and Communications. "Other Kyushu areas" refers to all other parts of Kyushu (excluding the Fukuoka urban area).

Note 2: "Total value of properties owned" is based on the value on the balance sheet (the value of real estate in trust is the book value after depreciation).

Note 3: Concerning the "Percentage of total assets," the figures are rounded off to one decimal place. The total of individual percentages in the above table may not equal 100%.

Note 4: Figures in parentheses for "Total amount of assets" refer to the value and percentage of real estate owned in effect to the total amount of assets.

(as of February 28, 2019)

	Value on balance sheet (mm of yen)	Percentage of total amount of assets (%)
Total amount of liabilities	93,559	47.9
Total amount of net assets	101,874	52.1

(2) Investment assets

(i) Primary issues of investment securities

No relevant items.

(ii) Real estate investment portfolio

No relevant items.

(iii) Other primary investment assets

(A) Values and investment ratios at end of period are as follows.

(as of February 28, 2019)

Real estate property name	Acquisition value (mm of yen) (Note 1)	Value on balance sheet (mm of yen)	Period-end appraisal value (mm of yen) (Note 2)	Investment ratio (%) (Note 3)	Real estate appraiser
Canal City Hakata	32,000	30,107	32,000	16.3	Tanizawa Sogo Appraisal Co., Ltd.
Canal City Hakata・B	28,700	29,139	30,000	14.6	Tanizawa Sogo Appraisal Co., Ltd.
Park Place Oita	18,620	19,557	19,800	9.5	Japan Real Estate Institute
SunLive City Kokura	6,633	5,628	8,340	3.4	Japan Real Estate Institute
Konoha Mall Hashimoto	10,000	10,197	10,600	5.1	Tanizawa Sogo Appraisal Co., Ltd.
Square Mall Kagoshima Usuki	5,300	4,411	5,620	2.7	Japan Real Estate Institute
Kumamoto Intercommunity SC	2,400	2,005	2,860	1.2	Japan Real Estate Institute
Hanahata SC	1,130	990	1,250	0.6	Tanizawa Sogo Appraisal Co., Ltd.
Kurume Higashi Kushiwara SC	2,500	2,075	2,790	1.3	Tanizawa Sogo Appraisal Co., Ltd.
K's Denki Kagoshima	3,550	3,019	3,710	1.8	Tanizawa Sogo Appraisal Co., Ltd.
Marinoa City Fukuoka (Marina Side Building)	5,250	5,455	6,060	2.7	Tanizawa Sogo Appraisal Co., Ltd.
Retail subtotal:	116,083	112,587	123,030	59.2	
Canal City Business Center Building	14,600	13,226	15,800	7.4	Tanizawa Sogo Appraisal Co., Ltd.
Gofukumachi Business Center	11,200	9,036	14,300	5.7	Tanizawa Sogo Appraisal Co., Ltd.
Sanix Hakata Building	4,400	3,845	5,980	2.2	Japan Real Estate Institute
Taihaku Street Business Center	7,000	5,995	8,410	3.6	Japan Real Estate Institute
Higashi Hie Business Center	5,900	4,505	7,580	3.0	Tanizawa Sogo Appraisal Co., Ltd.
Tenjin Nishi-Dori Center Building	2,600	2,694	3,100	1.3	Japan Real Estate Institute
Tenjin North Front Building	2,800	2,543	3,900	1.4	Japan Real Estate Institute
Higashi Hie Business Center II	4,230	4,187	4,440	2.2	Tanizawa Sogo Appraisal Co., Ltd.
Office buildings subtotal:	52,730	46,035	63,510	26.9	
Amex Akasakamon Tower	2,060	1,720	1,840	1.1	Daiwa Real Estate Appraisal Co., Ltd.
City House Keyaki Dori	1,111	927	1,140	0.6	Daiwa Real Estate Appraisal Co., Ltd.
Aqualia Chihaya	1,280	1,206	1,720	0.7	Japan Real Estate Institute
D-Wing Tower	2,800	2,710	3,560	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Granfore Yakuin Minami	1,100	1,126	1,310	0.6	Tanizawa Sogo Appraisal Co., Ltd.
Hotel FORZA Oita	1,530	1,433	1,820	0.8	Japan Real Estate Institute
Tissage Hotel Naha	2,835	2,924	3,030	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Tosu Logistics Center	1,250	1,195	1,430	0.6	Japan Real Estate Institute
LOGICITY Minato Kashii	8,150	7,897	8,880	4.2	Tanizawa Sogo Appraisal Co., Ltd.
LOGICITY Hisayama	5,050	4,949	5,250	2.6	Tanizawa Sogo Appraisal Co., Ltd.
Others subtotal:	27,166	26,092	29,980	13.9	
Total	195,979	184,715	216,520	100.0	

Note 1: "Acquisition value" refers to the amount (purchasing prices shown on the purchasing contracts) not including expenses for the acquisition of relevant properties (agency fees and taxes and other public charges).

Note 2: "Period-end appraisal value" refers to the evaluation value based on appraisals by a real estate appraiser in conformity with the method and standards for asset evaluation stipulated in FRC's Articles of Incorporation and rules stipulated by the Investment Trusts Association, Japan.

Note 3: "Investment ratio" is obtained by dividing each property's acquisition value by the total acquisition value. The total of individual percentages in the above table may not equal 100%, since the figures are rounded off to one decimal place.

(B) Summary of the real estate leasing business

(as of February 28, 2019)

Real estate property name	Number of tenants (Note 1)	Occupancy rate (%) (Note 3)	Total leasable floor space (m ²)	Total leased floor space (m ²)	Total leasing revenues (mm of yen) (Note 4)	Percentage of total leasing revenues (%) (Note 5)
Canal City Hakata	1 [49]	100.0	46,604.75	46,604.75	1,294	14.0
Canal City Hakata・B	1 [46]	99.0	68,827.77	68,137.75	1,618	17.5
Park Place Oita	1 [104]	99.8	113,834.22	113,559.44	1,178	12.7
SunLive City Kokura	1	100.0	61,450.22	61,450.22	289	3.1
Konoha Mall Hashimoto	1 [127]	100.0	22,121.03	22,121.03	838	9.1
Square Mall Kagoshima Usuki	12	100.0	14,602.88	14,602.88	258	2.8
Kumamoto Intercommunity SC	2	100.0	6,968.66	6,968.66	90	1.0
Hanahata SC	2	100.0	2,801.15	2,801.15	41	0.4
Kurume Higashi Kushiwara SC	1	100.0	6,467.80	6,467.80	88	1.0
K's Denki Kagoshima	1	100.0	7,296.17	7,296.17	111	1.2
Marinoa City Fukuoka (Marina Side Building)	1	100.0	33,069.82	33,069.82	178	1.9
Retail subtotal:	24 [346] (Note 2)	99.7	384,044.47	383,079.67	5,986	64.8
Canal City Business Center Building	1 [62]	100.0	23,031.01	23,031.01	633	6.9
Gofukumachi Business Center	35	100.0	19,905.34	19,905.34	537	5.8
Sanix Hakata Building	16	100.0	6,293.75	6,293.75	199	2.2
Taihaku Street Business Center	1 [69]	99.1	14,677.30	14,545.78	306	3.3
Higashi Hie Business Center	1 [25]	100.0	13,614.59	13,614.59	336	3.6
Tenjin Nishi-Dori Center Building	1	100.0	3,339.32	3,339.32	86	0.9
Tenjin North Front Building	11	100.0	5,252.41	5,252.41	140	1.5
Higashi Hie Business Center II	2	100.0	6,214.77	6,214.77	165	1.8
Office buildings subtotal:	68 [221] (Note 2)	99.9	92,328.49	92,196.97	2,405	26.0
Amex Akasakamon Tower	1 [66]	98.8	4,821.25	4,765.67	68	0.7
City House Keyaki Dori	1 [40]	95.6	2,710.86	2,591.66	38	0.4
Aqualia Chihaya	1 [104]	99.3	5,619.69	5,579.76	59	0.6
D-Wing Tower	1 [131]	95.0	7,187.59	6,827.76	114	1.2
Granfore Yakuin Minami	1 [97]	98.0	2,496.06	2,446.14	37	0.4
Hotel FORZA Oita	1	100.0	5,785.44	5,785.44	63	0.7
Tissage Hotel Naha	1	100.0	3,758.76	3,758.76	39	0.4
Tosu Logistics Center	1	100.0	4,173.29	4,173.29	Undisclosed (Note 6)	Undisclosed (Note 6)
LOGICITY Minato Kashii	2	100.0	43,233.72	43,233.72	Undisclosed (Note 6)	Undisclosed (Note 6)
LOGICITY Hisayama	1	100.0	24,505.65	24,505.65	Undisclosed (Note 6)	Undisclosed (Note 6)
Others subtotal:	11 [444] (Note 2)	99.4	104,292.31	103,667.85	850	9.2
Total	103 [1,011] (Note 2)	99.7	580,665.27	578,944.49	9,242	100.0

Note 1: "Number of tenants" is based on the total number of sections stipulated in the tenancy agreements for retail and office buildings among relevant properties. For the number of tenants in pass-through master leasing properties, the number of sections stipulated in the tenancy agreements with end tenants is shown in parentheses. The Taihaku Street Business Center is an office building with a residential tower. Its number of end tenants comprises 12 offices and 57 residences.

Note 2: The subtotal and total of all the tenants in other than pass-through master leasing properties and the number of sections stipulated in the tenancy agreements with end tenants for pass-through master leasing properties is shown in parentheses in the totals column for "Number of tenants."

Note 3: "Occupancy rate" refers to the percentage of total leased floor space to total leasable floor space and the figures are rounded off to one decimal place.

Note 4: "Total leasing revenues" is the total of real estate leasing revenues and other revenues from real estate rent in the current fiscal period.

Note 5: "Percentage of total leasing revenues" is obtained by dividing each property's total leasing revenues by the total amount of total leasing revenues. The total of individual percentages in the above table may not equal 100%, since the figures are rounded off to one decimal place.

Note 6: The figures are not disclosed as no consent to disclosure has been obtained from the tenants.