

EARNINGS BRIEFING FOR THE PERIOD ENDED AUGUST 2020

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 Executive Director

Asset manager: Fukuoka Realty Co., Ltd.
Representative: Etsuo Matsuyuki CEO & Representative Director
Contact: Akira Eguchi Executive Managing Director and General Manager of Planning Dept.
 Phone: +81-92-272-3900

Expected date for submitting securities report: November 30, 2020
 Expected commencement date of dividend payments: November 18, 2020
 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 August 2020 (March 1, 2020 to August 31, 2020)

(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 August 2020	8,518	(7.0)	2,966	(9.4)	2,587	(10.8)	2,586	(10.8)
Period ended February 2020	9,162	(0.7)	3,273	(1.3)	2,900	(1.4)	2,899	(1.4)

	Profit per unit	Return on net assets	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
Period ended August 2020	3,249 yen	2.5%	1.3%	30.4%
Period ended February 2020	3,642 yen	2.8%	1.5%	31.7%

(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 August 2020	3,250 yen	2,587 mm yen	— yen	— mm yen	3,250 yen	2,587 mm yen	100.0%	2.5%
Period ended February 2020	3,642 yen	2,899 mm yen	— yen	— mm yen	3,642 yen	2,899 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 August 2020	199,004 mm yen	101,525 mm yen	51.0%	127,544 yen
Period ended February 2020	194,795 mm yen	101,837 mm yen	52.3%	127,937 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 August 2020	3,450 mm yen	(7,136) mm yen	2,000 mm yen	8,348 mm yen
Period ended February 2020	3,985 mm yen	(220) mm yen	(2,938) mm yen	10,032 mm yen

2. Forecast of performance for the period ending February 2021 (September 1, 2020 to February 28, 2021) and the period ending August 2021 (March 1, 2021 to August 31, 2021)

(% 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 February 2021	8,903	4.5	3,013	1.6	2,628	1.6	2,627	1.6	3,300 yen	— yen
Period ending August 2021	9,127	2.5	3,174	5.3	2,787	6.1	2,786	6.1	3,500 yen	— yen

(Reference) Forecast profit per unit: Period ending February 2021 3,300 yen
Forecast profit per unit: Period ending August 2021 3,500 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 August 2020 796,000 units
 - As of February 2020 796,000 units
 - (ii) Treasury investment units at end of period:
 - As of August 2020 0 unit
 - As of February 2020 0 unit

Note: Regarding the number of investment units, a basis for calculating profit per unit, please refer to “Per unit information,” on page 11.

* Statement on Implementation Status of Audit Procedure

This Earnings Briefing (“Kessan Tanshin” in Japanese) report is not subject to audit procedures by public accountants or audit corporations.

* 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 “1. Management Situation, (2) Forecast for the next fiscal period – Preconditions for the performance forecast for the period ending February 2021 (September 1, 2020 to February 28, 2021) and the period ending August 2021 (March 1, 2021 to August 31, 2021)” on page 3 and “Notice Concerning Revision to the Forecasts of Financial Results and Dividend for the Fiscal Period Ending February 2021 and Forecasts of Financial Results and Dividend for the Fiscal Period Ending August 2021” announced on October 16, 2020.

1. Management Situation

(1) Summary of the current fiscal period

(a) Brief history of the investment corporation

Fukuoka REIT Corporation (hereinafter "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"). In the fiscal period under review, FRC acquired three properties in total (Higashi Hie Business Center III on May 29, 2020, LOGICITY Wakamiya on June 30, 2020 and Home Plaza NAFCO at Park Place Oita on July 1, 2020). As of the end of the 32nd fiscal period (August 31, 2020), FRC manages a total of 31 properties comprising 11 Retail, 9 Office buildings and 11 Others.

(b) Investment environment and portfolio performance

During the fiscal period under review (the 32nd fiscal period), the Japanese economy continued to stay in a severe situation under the impact of the novel coronavirus (COVID-19) infection. Looking ahead, the economy is expected to continue picking up partly due to various political measures proving effective, although full attention should be paid to the COVID-19 trends as well as fluctuations in the financial and capital markets.

In the Fukuoka and Kyushu area, the core investment target area for FRC, the economy was in a situation in which consumer spending was starting to pick up but exports and production decreased while labor supply - demand conditions and compensation of employees were both on a somewhat weak note. With regard to the outlook, attention should be paid to the impact of the COVID-19 trends on the corporate and household sentiments, among other factors.

As for land price trends, the national average price in combined average for residential and commercial land took a downward turn for the first time in 3 years, according to the 2020 Land Market Value Publication. By land type, residential land price showed a higher rate of decrease and commercial land price dropped for the first time in 5 years. Meanwhile, in Fukuoka City, the central area of FRC's investment targets, land prices continued rising for eight consecutive years, up 7.5% year-on-year for commercial land and up 3.5% year-on-year for residential land.

Under such circumstances, FRC's portfolio achieved a solid performance in the asset types of office buildings, logistics facilities and residential properties. On the other hand, monthly sales of Canal City Hakata and other major retail properties as well as hotels have kept falling below the year-earlier level since March 2020.

When analyzing FRC's portfolio (on an acquisition price basis) as of the end of the 32nd fiscal period by investment target area, the investment ratio in the Fukuoka urban area accounted for 76.6%; when analyzing by property type, Retail, Office buildings, and Others accounted for 58.0%, 27.7% and 14.3%, respectively.

On top of these efforts, FRC is engaged in promoting sustainability through environment, social and governance (ESG) considerations based on its Sustainability Policy. For this purpose, it has established the Sustainability Promotion Committee (comprising President/CEO and general managers, Property Management Department, Investment Department, Finance Department, Planning Department and Compliance Department of the Asset Manager), which investigates specific targets and measures and supervises the progress in implementation of the measures with regard to the internal system, cooperation with related parties outside the company and information disclosure policy, etc. On the implementation side, FRC has established the Sustainability Promotion Office under the sustainability officer (general manager of the Planning Department), who is the person responsible for the practical aspects concerning the targets set at the Sustainability Committee, and the Office is engaged in continuous operations related to the GRESB Real Estate Assessment (with Green Star rating), the Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century (PFA21) continuing operations and other initiatives.

(c) Summary of fundraising

As FRC conducted refinancing of 1,000 mm yen as well as new financing of 4,900 mm yen in the 32nd fiscal period, the balance of its interest-bearing debt outstanding (including investment corporation bonds) at the end of the period totaled 82,400 mm yen, with the loan-to-value ratio (ratio of interest-bearing debt (including investment corporation bonds) to total assets) at 41.4% 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 94.1% as of the same date. In addition, with regard to the commitment line agreement (credit limit: 6,000 mm yen) with The Bank of Fukuoka, Ltd. serving as the agent, FRC extended the commitment period by two years, lengthening the remaining term of commitment to three years.

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 8,518 mm yen and operating income after excluding operating expenses such as expenses related to leasing business and asset management fees totaled 2,966 mm yen. Ordinary income was 2,587 mm yen and profit amounted to 2,586 mm yen. Management decided to make a dividend of 3,250 yen per 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 act, an investment corporation is allowed to deduct the maximum amount of dividends paid to investors from its taxable income.

(2) 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 February 2021 (September 1, 2020 to February 28, 2021) and the period ending August 2021 (March 1, 2021 to August 31, 2021). Concerning preconditions for the forecast, please refer to “Preconditions for the performance forecast for the period ending February 2021 (September 1, 2020 to February 28, 2021) and the period ending August 2021 (March 1, 2021 to August 31, 2021)” on page 3 and “Notice Concerning Revision to the Forecasts of Financial Results and Dividend for the Fiscal Period Ending February 2021 and Forecasts of Financial Results and Dividend for the Fiscal Period Ending August 2021” announced on October 16, 2020.

	Period ending February 2021	Period ending August 2021
Operating revenues	8,903 mm yen	9,127 mm yen
Operating income	3,013 mm yen	3,174 mm yen
Ordinary income	2,628 mm yen	2,787 mm yen
Profit	2,627 mm yen	2,786 mm yen
Dividend per unit	3,300 yen	3,500 yen
Dividend in excess of earnings per unit	— yen	— 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 February 2021 (September 1, 2020 to February 28, 2021) and the period ending August 2021 (March 1, 2021 to August 31, 2021)

Item	Preconditions
Calculation period	33rd fiscal period: September 1, 2020 to February 28, 2021 (181 days) 34th fiscal period: March 1, 2021 to August 31, 2021 (184 days)
Assets under management	<ul style="list-style-type: none"> It is assumed that there will be 31 properties FRC owns as of August 31, 2020. 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 August 31, 2021.
Interest-bearing debt and refinancing	<ul style="list-style-type: none"> The balance of interest-bearing debt outstanding at the end of the 33rd fiscal period (February 28, 2021) is expected to total 82,400 mm yen. The loan-to-value ratio (interest-bearing debt / total assets × 100) is expected to stand at around 41.4% (as of August 31, 2020, the loan-to-value ratio stands at 41.4%). The balance of interest-bearing debt outstanding at the end of the 34th fiscal period (August 31, 2021) is expected to total 82,400 mm yen, the same as the end of the 33rd fiscal period (February 28, 2021). The loan-to-value ratio (interest-bearing debt / total assets × 100) is expected to stand at around 41.4%.
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 October 16, 2020 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. With the impact of the spread of COVID-19 in Japan and abroad prolonging, the situation requires FRC to anticipate that a certain degree of impact will continue in the 33rd and 34th fiscal periods on its retail properties and hotels for which percentage-of-sales rents, etc. are established. In estimating the sales, etc. of such properties, FRC assumes that, while domestic tourism will recover gradually, inbound tourism will not recover until the 34th fiscal period. However, actual sales may fluctuate depending on when the COVID-19 pandemic is contained.
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 33rd and 34th 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 1,886 mm yen for the 33rd fiscal period and 1,894 mm yen for the 34th fiscal period. Concerning taxes and other public charges, FRC anticipates 743 mm yen for the 33rd fiscal period and 777 mm yen for the 34th fiscal period. Concerning depreciation and amortization expenses, FRC anticipates 1,631 mm yen for the 33rd fiscal period and 1,607 mm yen for the 34th 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 379 mm yen for the 33rd fiscal period and 384 mm yen for the 34th 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 per unit may fluctuate depending on when the spread will actually be contained.
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.

2. Financial Statements

(1) Balance sheet

(thousands of yen)

Account	31st fiscal period (as of February 29, 2020)		32nd fiscal period (as of August 31, 2020)	
Assets				
Current assets				
Cash and deposits		5,417,020		3,733,612
Cash and deposits in trust		4,664,012		4,660,047
Operating accounts receivable		659,262		1,043,924
Prepaid expenses		288,251		282,717
Consumption taxes receivable		—		177,613
Others		19,263		3,570
Total current assets		11,047,811		9,901,484
Non-current assets				
Property, plant and equipment				
Buildings	—		974,393	
Accumulated depreciation	—	—	—	974,393
Structures	—		17,045	
Accumulated depreciation	—	—	—	17,045
Lands		—		830,254
Buildings in trust	101,501,588		103,899,463	
Accumulated depreciation	(31,914,629)	69,586,959	(33,495,971)	70,403,492
Structures in trust	1,888,802		2,047,268	
Accumulated depreciation	(787,507)	1,101,295	(817,728)	1,229,539
Machinery and equipment in trust	1,480,805		1,487,396	
Accumulated depreciation	(549,601)	931,204	(595,564)	891,831
Vehicles and transport equipment in trust	747		747	
Accumulated depreciation	(628)	118	(676)	70
Tools and fixtures in trust	1,388,990		1,391,058	
Accumulated depreciation	(1,170,941)	218,048	(1,194,239)	196,818
Lands in trust		104,918,451		107,452,281
Construction in progress in trust		15,669		18,319
Total property, plant and equipment		176,771,746		182,014,046
Intangible assets				
Leasehold right in trust		5,545,883		5,545,883
Other intangible assets in trust		34,993		29,519
Total intangible assets		5,580,876		5,575,402
Investment and other assets				
Deferred tax assets		17		14
Lease and guarantee deposits		10,000		10,000
Lease and guarantee deposits in trust		327,135		327,135
Long-term prepaid expenses		1,014,438		1,138,352
Total investment and other assets		1,351,591		1,475,502
Total non-current assets		183,704,215		189,064,950
Deferred assets				
Investment corporation bond issuance expenses		36,244		34,142
Investment unit issuance expenses		7,671		3,835
Total deferred assets		43,915		37,978
Total assets		194,795,942		199,004,413

(thousands of yen)

Account	31st fiscal period (as of February 29, 2020)		32nd fiscal period (as of August 31, 2020)	
Liabilities				
Current liabilities				
Operating accounts payable		614,394		340,991
Current maturities of long-term debt		1,000,000		6,300,000
Accounts payable-other		19,450		12,612
Accrued expenses		372,025		355,374
Income taxes payable		1,041		967
Accrued consumption taxes		191,370		—
Advances received		1,082,899		1,123,558
Deposits received		867,707		894,072
Total current liabilities		4,148,889		9,027,577
Non-current liabilities				
Investment corporation bonds		5,000,000		5,000,000
Long-term debt		71,500,000		71,100,000
Tenant leasehold and security deposits		403,248		366,654
Tenant leasehold and security deposits received in trust		11,905,875		11,984,384
Total non-current liabilities		88,809,124		88,451,039
Total liabilities		92,958,013		97,478,617
Net assets				
Unitholders' equity				
Unitholders' capital		98,938,764		98,938,764
Surplus				
Unappropriated surplus		2,899,164		2,587,031
Total surplus		2,899,164		2,587,031
Total unitholders' equity		101,837,928		101,525,796
Total net assets		101,837,928		101,525,796
Total liabilities and net assets		194,795,942		199,004,413

(2) Statement of income

(thousands of yen)

Account	31st fiscal period (September 1, 2019 to February 29, 2020)		32nd fiscal period (March 1, 2020 to August 31, 2020)	
Operating revenues				
Leasing revenues – real estate	*1 8,515,052		*1 7,912,804	
Other leasing revenues – real estate	*1 647,685	9,162,738	*1 605,527	8,518,332
Operating expenses				
Expenses related to leasing business	*1, *2 5,226,888		*1, *2 4,897,107	
Asset management fees	534,300		520,263	
Asset custody fees	7,276		7,344	
Administrative service fees	55,030		57,100	
Director's compensations	9,600		9,600	
Other operating expenses	55,888	5,888,984	60,308	5,551,725
Operating income		3,273,754		2,966,606
Non-operating revenues				
Interest received	47		44	
Others	674	722	502	546
Non-operating expenses				
Interest expenses	246,018		249,252	
Interest expenses on investment corporation bonds	29,200		29,200	
Amortization of investment corporation bond issuance expenses	2,102		2,102	
Amortization of investment unit issuance expenses	3,835		3,835	
Financing related expenses	93,136		94,848	
Others	37	374,330	37	379,275
Ordinary income		2,900,146		2,587,877
Profit before income taxes		2,900,146		2,587,877
Income taxes-current	1,048		974	
Income taxes-deferred	(14)	1,033	3	978
Profit		2,899,112		2,586,899
Surplus brought forward		51		132
Unappropriated surplus		2,899,164		2,587,031

(3) Statement of changes in net assets

31st fiscal period (September 1, 2019 to February 29, 2020)

(thousands of yen)

Item	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of September 1, 2019	98,938,764	2,939,679		101,878,444
Changes in the current fiscal period				
Dividend of surplus		(2,939,628)		(2,939,628)
Profit		2,899,112		2,899,112
Total of changes in the current fiscal period	—	(40,515)		(40,515)
Balance as of February 29, 2020	98,938,764	2,899,164		101,837,928

32nd fiscal period (March 1, 2020 to August 31, 2020)

(thousands of yen)

Item	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of March 1, 2020	98,938,764	2,899,164		101,837,928
Changes in the current fiscal period				
Dividend of surplus		(2,899,032)		(2,899,032)
Profit		2,586,899		2,586,899
Total of changes in the current fiscal period	—	(312,132)		(312,132)
Balance as of August 31, 2020	98,938,764	2,587,031		101,525,796

(4) Dividend statement

Account	31st fiscal period (September 1, 2019 to February 29, 2020)	32nd fiscal period (March 1, 2020 to August 31, 2020)
I. Unappropriated surplus	2,899,164 thousand yen	2,587,031 thousand yen
II. Total	2,899,032 thousand yen	2,587,000 thousand yen
[Dividend per investment unit]	[3,642 yen]	[3,250 yen]
III. Surplus brought forward	132 thousand yen	31 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 2,899,032 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 2,587,000 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 down to the nearest thousand yen.

(5) Cash flows statement

(thousands of yen)

Account	31st fiscal period (September 1, 2019 to February 29, 2020)	32nd fiscal period (March 1, 2020 to August 31, 2020)
Net cash provided by (used in) operating activities		
Profit before income taxes	2,900,146	2,587,877
Depreciation and amortization expenses	1,660,510	1,686,347
Amortization of investment corporation bond issuance expenses	2,102	2,102
Amortization of investment unit issuance expenses	3,835	3,835
Interest received	(47)	(44)
Interest expenses	275,218	278,452
Decrease (increase) in operating accounts receivables	45,437	(384,662)
Decrease (increase) in consumption taxes refund receivable	—	(177,613)
Increase (decrease) in accrued consumption taxes	(70,509)	(191,370)
Increase (decrease) in operating accounts payable	9,652	(3,385)
Increase (decrease) in accounts payable-other	8,530	(6,241)
Increase (decrease) in accrued expenses	2,509	(20,452)
Increase (decrease) in advances received	28,440	40,659
Increase (decrease) in deposits expenses	(493,780)	26,365
Decrease (increase) in prepaid expenses	(16,638)	5,534
Decrease (increase) in long-term prepaid expenses	(76,811)	(123,914)
Others, net	(14,848)	3,154
Subtotal	4,263,749	3,726,644
Interest income received	47	44
Interest expenses paid	(277,320)	(274,651)
Income taxes paid	(733)	(1,048)
Net cash provided by (used in) operating activities	3,985,742	3,450,990
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	—	(1,809,655)
Purchase of property, plant and equipment in trust	(289,074)	(5,371,496)
Proceeds from tenant leasehold and security deposits	24,513	29,788
Repayments of tenant leasehold and security deposits	(13,906)	(66,382)
Proceeds from tenant leasehold and security deposits in trust	198,619	316,851
Repayments of tenant leasehold and security deposits in trust	(139,812)	(238,343)
Proceeds from restricted trust deposits	1,315	5,296
Payments for restricted trust deposits	(2,339)	(2,074)
Net cash provided by (used in) investment activities	(220,683)	(7,136,015)
Net cash provided by (used in) financial activities		
Proceeds from short-term debt	—	6,400,000
Repayments of short-term debt	—	(6,400,000)
Proceeds from long-term debt	4,700,000	5,900,000
Repayments of long-term debt	(4,700,000)	(1,000,000)
Dividends paid	(2,938,346)	(2,899,126)
Net cash provided by (used in) financial activities	(2,938,346)	2,000,873
Net increase (decrease) in cash and cash equivalents	826,711	(1,684,151)
Balance of cash and cash equivalents at beginning of period	9,205,877	10,032,589
Balance of cash and cash equivalents at end of period	10,032,589	8,348,438

(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 May 29, 2020).

(8) 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)			
	31st fiscal period (September 1, 2019 to February 29, 2020)		32nd fiscal period (March 1, 2020 to August 31, 2020)	
A. Real estate leasing business revenues				
Leasing revenues – real estate				
Rents	6,968,555		6,531,941	
Common charges	1,095,890		1,056,349	
Parking revenues	450,606	8,515,052	324,513	7,912,804
Other leasing revenues – real estate				
Incidental income	610,648		568,375	
Other miscellaneous income	37,037	647,685	37,152	605,527
Total real estate leasing business revenues		9,162,738		8,518,332
B. Expenses related to real estate leasing business				
Expenses related to leasing business				
Outsourcing fees	1,898,749		1,611,755	
Repair and maintenance expenses	116,285		92,463	
Taxes and other public charges	734,254		743,726	
Insurance premiums and trust compensation	51,676		49,290	
Utilities expenses	505,975		479,907	
Depreciation and amortization expenses	1,660,510		1,686,347	
Other expenses related to real estate leasing business	259,435	5,226,888	233,617	4,897,107
Total expenses related to real estate leasing business		5,226,888		4,897,107
C. Revenues and expenses related to real estate leasing business (A - B)		3,935,850		3,621,224

*2. Transactions with affiliated companies

	(thousands of yen)	
Item	31st fiscal period (September 1, 2019 to February 29, 2020)	32nd fiscal period (March 1, 2020 to August 31, 2020)
Expenses related to real estate leasing business	1,430,201	970,797

(Per unit information)

31st fiscal period (September 1, 2019 to February 29, 2020)		32nd fiscal period (March 1, 2020 to August 31, 2020)	
Net assets per investment unit:	127,937 yen	Net assets per investment unit:	127,544 yen
Profit per investment unit:	3,642 yen	Profit per investment unit:	3,249 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	31st fiscal period (September 1, 2019 to February 29, 2020)	32nd fiscal period (March 1, 2020 to August 31, 2020)
Profit (thousands of yen)	2,899,112	2,586,899
Amount not attributable to common unitholders (thousands of yen)	—	—
Profit attributable to common investment units (thousands of yen)	2,899,112	2,586,899
Average number of investment units during the fiscal period (units)	796,000	796,000

(Significant subsequent events)

No relevant items.

(9) Change in the number of investment units outstanding

No relevant items.

3. Reference Information

(1) Information on the prices, etc. of investment assets

1) Investment situation

(as of August 31, 2020)

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	Retail	Fukuoka urban area	—	—
		Other Kyushu areas	—	—
	Office buildings	Fukuoka urban area	—	—
		Other Kyushu areas	—	—
	Others	Fukuoka urban area	—	—
		Other Kyushu areas	1,821	0.9
Subtotal			1,821	0.9
Real estate in trust	Retail	Fukuoka urban area	74,852	37.6
		Other Kyushu areas	37,033	18.6
	Office buildings	Fukuoka urban area	48,283	24.3
		Other Kyushu areas	—	—
	Others	Fukuoka urban area	20,171	10.1
		Other Kyushu areas	5,408	2.7
Subtotal			185,749	93.3
Deposits and other assets			11,433	5.7
Total amount of assets (Note 4)			199,004	100.0
			[187,589]	[94.3]

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 and 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 August 31, 2020)

	Value on balance sheet (mm of yen)	Percentage of total amount of assets (%)
Total amount of liabilities	97,478	49.0
Total amount of net assets	101,525	51.0

2) Investment assets

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

(as of August 31, 2020)

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	29,616	31,500	15.8	Tanizawa Sogo Appraisal Co., Ltd.
Canal City Hakata・B	28,700	28,858	29,700	14.2	Tanizawa Sogo Appraisal Co., Ltd.
Park Place Oita (Note 4)	19,610	20,290	21,300	9.7	Japan Real Estate Institute
SunLive City Kokura	6,633	5,487	8,440	3.3	Japan Real Estate Institute
Konoha Mall Hashimoto	10,000	9,979	10,400	5.0	Tanizawa Sogo Appraisal Co., Ltd.
Square Mall Kagoshima Usuki	5,300	4,307	4,940	2.6	Japan Real Estate Institute
Kumamoto Intercommunity SC	2,400	1,968	2,750	1.2	Japan Real Estate Institute
Hanahata SC	1,130	973	1,250	0.6	Tanizawa Sogo Appraisal Co., Ltd.
Kurume Higashi Kushiwara SC	2,500	2,026	2,790	1.2	Tanizawa Sogo Appraisal Co., Ltd.
K's Denki Kagoshima	3,550	2,952	3,710	1.8	Tanizawa Sogo Appraisal Co., Ltd.
Marinoa City Fukuoka (Marina Side Building)	5,250	5,425	6,080	2.6	Tanizawa Sogo Appraisal Co., Ltd.
Retail subtotal:	117,073	111,885	122,860	58.0	
Canal City Business Center Building	14,600	12,989	16,600	7.2	Tanizawa Sogo Appraisal Co., Ltd.
Gofukumachi Business Center	11,200	8,819	14,900	5.5	Tanizawa Sogo Appraisal Co., Ltd.
Sanix Hakata Building	4,400	3,756	6,410	2.2	Japan Real Estate Institute
Taihaku Street Business Center	7,000	5,774	9,090	3.5	Japan Real Estate Institute
Higashi Hie Business Center	5,900	4,444	8,030	2.9	Tanizawa Sogo Appraisal Co., Ltd.
Tenjin Nishi-Dori Center Building	2,600	2,669	3,100	1.3	Japan Real Estate Institute
Tenjin North Front Building	2,800	2,469	4,380	1.4	Japan Real Estate Institute
Higashi Hie Business Center II	4,230	4,064	4,600	2.1	Tanizawa Sogo Appraisal Co., Ltd.
Higashi Hie Business Center III	3,290	3,294	3,300	1.6	Tanizawa Sogo Appraisal Co., Ltd.
Office buildings subtotal:	56,020	48,283	70,410	27.7	
Amex Akasakamon Tower	2,060	1,668	1,840	1.0	Daiwa Real Estate Appraisal Co., Ltd.
City House Keyaki Dori	1,111	901	1,140	0.6	Daiwa Real Estate Appraisal Co., Ltd.
Aqualia Chihaya	1,280	1,169	1,860	0.6	Japan Real Estate Institute
D-Wing Tower	2,800	2,669	3,500	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Granfore Yakuin Minami	1,100	1,098	1,320	0.5	Tanizawa Sogo Appraisal Co., Ltd.
Hotel FORZA Oita	1,530	1,386	1,890	0.8	Japan Real Estate Institute
Tissage Hotel Naha	2,835	2,853	2,880	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Tosu Logistics Center	1,250	1,168	1,300	0.6	Japan Real Estate Institute
LOGICITY Minato Kashii	8,150	7,824	8,910	4.0	Tanizawa Sogo Appraisal Co., Ltd.
LOGICITY Hisayama	5,050	4,838	5,270	2.5	Tanizawa Sogo Appraisal Co., Ltd.
LOGICITY Wakamiya	1,700	1,821	(Note 5) 2,360	0.8	Tanizawa Sogo Appraisal Co., Ltd.
Others subtotal:	28,866	27,401	32,270	14.3	
Total	201,959	187,571	225,540	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.
- Note 4: The figure includes Home Plaza NAFCO at Park Place Oita, which FRC acquired on July 1, 2020. The same shall apply hereafter.
- Note 5: It is assumed that the repair work which was under way at the time of appraisal has been completed and the lease agreement based on the fixed-term lease option agreement has come into effect.

(B) Summary of the real estate leasing business

(as of August 31, 2020)

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 [50]	100.0	46,604.75	46,604.75	1,016	11.9
Canal City Hakata・B	1 [45]	99.5	68,825.90	68,474.76	1,306	15.3
Park Place Oita	1 [106]	100.0	121,212.26	121,212.26	1,113	13.1
SunLive City Kokura	1	100.0	61,450.22	61,450.22	262	3.1
Konoha Mall Hashimoto	1 [126]	100.0	22,121.05	22,121.05	710	8.3
Square Mall Kagoshima Usuki	13	100.0	14,602.88	14,602.88	253	3.0
Kumamoto Intercommunity SC	2	100.0	6,968.66	6,968.66	89	1.1
Hanahata SC	2	100.0	2,801.15	2,801.15	40	0.5
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	1.3
Marinoa City Fukuoka (Marina Side Building)	1	100.0	33,069.82	33,069.82	165	1.9
Retail subtotal:	25 [348] (Note 2)	99.9	391,420.66	391,069.52	5,157	60.6
Canal City Business Center Building	1 [60]	99.2	23,029.92	22,834.52	624	7.3
Gofukumachi Business Center	36	100.0	19,905.34	19,905.34	554	6.5
Sanix Hakata Building	16	100.0	6,293.75	6,293.75	207	2.4
Taihaku Street Business Center	1 [67]	98.4	14,677.30	14,444.57	318	3.7
Higashi Hie Business Center	1 [27]	100.0	13,614.59	13,614.59	349	4.1
Tenjin Nishi-Dori Center Building	1	100.0	3,339.32	3,339.32	86	1.0
Tenjin North Front Building	11	100.0	5,252.41	5,252.41	145	1.7
Higashi Hie Business Center II	2	100.0	6,214.77	6,214.77	164	1.9
Higashi Hie Business Center III	5	94.1	2,981.14	2,806.28	47	0.6
Office buildings subtotal:	74 [225] (Note 2)	99.4	95,308.54	94,705.55	2,497	29.3
Amex Akasakamon Tower	1 [61]	90.6	4,821.25	4,366.08	64	0.8
City House Keyaki Dori	1 [42]	100.0	2,710.86	2,710.86	38	0.4
Aqualia Chihaya	1 [103]	97.9	5,619.69	5,500.23	59	0.7
D-Wing Tower	1 [133]	96.7	7,187.59	6,952.80	117	1.4
Granfore Yakuin Minami	1 [98]	99.0	2,496.06	2,471.10	38	0.5
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	43	0.5
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)
LOGICITY Wakamiya (Note 7)	—	—	—	—	—	—
Others subtotal:	11 [443] (Note 2)	99.2	104,292.31	103,457.93	863	10.1
Total	110 [1,016] (Note 2)	99.7	591,021.51	589,233.00	8,518	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 11 offices and 56 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.
- Note 7: Since the repair work will be carried out after the acquisition and the operation is scheduled to start around November 2020, no rent, etc. will be incurred in the 32nd fiscal period.

(2) Status of capital expenditures

1) Capital expenditures after the end of the 32nd fiscal period and planned capital expenditures

The following table provides amounts of major items of capital expenditures associated with renovations, etc. conducted after the end of the 32nd fiscal period and of capital expenditures associated with renovations, etc. planned as of October 16, 2020 for real estate properties owned by FRC. The planned construction costs indicated below may be partly classified as expenses. In addition, FRC will implement renewal construction work in order to maintain and improve the competitiveness of properties in the market as well as tenant satisfaction, on top of the construction, facilities and replacement work for which expenditures will be made regularly.

Real estate property name	Location	Purpose	Schedule	Planned construction cost (mm of yen)		
				Total	Construction cost	Amount already paid
Canal City Hakata	Hakata Ward, Fukuoka City	Formation of tenant sections	From August 2020 to January 2021	99	—	—
Canal City Hakata·B	Hakata Ward, Fukuoka City	Replacement of mechanical security system monitoring terminals	From December 2020 to August 2021	57	—	—
Park Place Oita	Oita City, Oita	Replacement of air-conditioning units	From October 2020 to November 2020	114	—	—
Taihaku Street Business Center	Hakata Ward, Fukuoka City	Renovation of external walls	From May 2021 to August 2021	120	—	—

2) Capital expenditures during the 32nd fiscal period

Capital expenditures for the real estate properties owned by FRC totaled 790 mm yen in the 32nd period. Furthermore, FRC incurred construction costs of 895 mm yen in total in the period, including 92 mm yen in repair and maintenance expenses classified as expenses on the statement of income and 12 mm yen in expenses for restoration to former state. The following table provides the overview of major construction work that was completed in the 32nd fiscal period.

Real estate property name	Location	Purpose	Period	Construction cost (mm of yen)
Canal City Hakata	Hakata Ward, Fukuoka City	Renovation of external walls	From August 2019 to July 2020	88
Canal City Hakata·B	Hakata Ward, Fukuoka City	Renovation of external walls	From August 2019 to July 2020	176
Canal City Hakata·B	Hakata Ward, Fukuoka City	Replacement of tide embankment (Seawall (water stops))	From April 2020 to July 2020	57
Park Place Oita	Oita City, Oita	Renovation of external walls	From March 2020 to May 2020	81
Park Place Oita	Oita City, Oita	Rooftop waterproofing	From April 2020 to May 2020	48
Sanix Hakata Building	Hakata Ward, Fukuoka City	Replacement of air-conditioning units	April 2020	29