

EARNINGS BRIEFING FOR THE PERIOD ENDED AUGUST 2022

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

Representative: Zenji Koike Executive Director

Asset manager: Fukuoka Realty Co., Ltd.
Representative: Zenji Koike President and CEO
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Expected date for submitting securities report: November 28, 2022

Expected commencement date of dividend payments: November 18, 2022

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 2022
 (March 1, 2022 to August 31, 2022)

(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 2022	8,830	2.0	3,181	(0.1)	2,805	(0.4)	2,804	(0.4)
Period ended February 2022	8,658	(2.3)	3,185	(0.6)	2,816	(0.0)	2,814	(0.1)

	Profit per unit	Return on net assets	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
Period ended August 2022	3,523 yen	2.8%	1.4%	31.8%
Period ended February 2022	3,536 yen	2.8%	1.4%	32.5%

(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 2022	3,523 yen	2,804 mm yen	— yen	— mm yen	3,523 yen	2,804 mm yen	100.0%	2.8%
Period ended February 2022	3,536 yen	2,814 mm yen	— yen	— mm yen	3,536 yen	2,814 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 2022	201,223 mm yen	101,743 mm yen	50.6%	127,818 yen
Period ended February 2022	198,745 mm yen	101,753 mm yen	51.2%	127,831 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 2022	4,712 mm yen	(5,498) mm yen	(1,314) mm yen	8,488 mm yen
Period ended February 2022	3,146 mm yen	(658) mm yen	(2,816) mm yen	10,588 mm yen

2. Forecast of performance for the period ending February 2023 (September 1, 2022 to February 28, 2023) and the period ending August 2023 (March 1, 2023 to August 31, 2023)

(% 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 2023	8,915	1.0	3,177	(0.1)	2,803	(0.1)	2,801	(0.1)	3,520 yen	— yen
Period ending August 2023	9,119	2.3	3,199	0.7	2,819	0.6	2,817	0.6	3,540 yen	— yen

(Reference) Forecast profit per unit: Period ending February 2023 3,520 yen
Forecast profit per unit: Period ending August 2023 3,540 yen

3. Others

- (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 2022 796,000 units
 - As of February 2022 796,000 units
 - (ii) Treasury investment units at end of period:
 - As of August 2022 0 unit
 - As of February 2022 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 2023 (September 1, 2022 to February 28, 2023) and the period ending August 2023 (March 1, 2023 to August 31, 2023)" on page 3.

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, 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 comprising retail properties and an office building, and manages a total of 33 properties comprising 11 Retail, 11 Office buildings (including land with leasehold interest for an office building) and 11 Others as of the end of the 36th fiscal period (August 31, 2022).

(b) Investment environment and portfolio performance

The Japanese economy showed a mild pickup trend during the fiscal period under review (the 36th fiscal period). As for the outlook, with social and economic activities increasingly normalized while measures are thoroughly taken against the novel coronavirus (COVID-19) infection, the economy is expected to pick up due in part to the effects of various political measures, although a downturn in overseas economies in the face of global monetary tightening, etc. poses a risk of placing downward pressure on the domestic economy.

In the Fukuoka and Kyushu area, the core investment target area for FRC, the economy improved moderately by and large, mainly in consumer spending and housing investment, with public spending remaining at a high level and capital investment increasing as a whole. As we foresee, we must be wary of how the economic conditions will be impacted by the spread of COVID-19 and rising raw material prices, etc.

As for land price trends, the 2022 Land Price Survey showed an upward turn in the combined average price for residential and commercial land on a national basis and, by land type, in residential land price and commercial land price, respectively, for the first time in three years, 31 years and three years, for each. Meanwhile, in Fukuoka City, the central area of FRC’s investment targets, land prices continued rising for the tenth consecutive year, up 9.6% year-on-year for commercial land and up 6.5% year-on-year for residential land.

Under such circumstances, FRC’s portfolio achieved solid performance in the asset types of office buildings, logistic facilities, residential properties and retail properties rooted in the spheres of people’s daily lives. On the other hand, the impact of COVID-19 continued to linger at Canal City Hakata, a city-center retail property, while hotels remained unable to recover as tourism demand, etc. did not return strongly. As for external growth in the 36th fiscal period, FRC acquired Hakata Chikushi-Dori Center Building, an office property located in about an eight-minute walk from Hakata Station, on March 1, 2022.

When analyzing FRC’s portfolio (on an acquisition price basis) as of the end of the 36th fiscal period by investment target area, the investment ratio in the Fukuoka metropolitan area accounted for 77.1%; when analyzing by property type, Retail, Office buildings, and Others accounted for 53.0%, 33.0% and 14.0%, respectively.

On top of these efforts, Fukuoka Realty Co., Ltd. to which FRC entrusts its asset management (the Asset Manager) has established the Sustainability Policy and Regulations Concerning Sustainability Management to promote sustainability through environmental, social and governance (ESG) considerations. By setting up the Sustainability Promotion Committee, which comprises full-time directors, Executive Director and general managers of each department, the Asset Manager 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, 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 Promotion Committee, concurrently serves as general manager of Sustainability Promotion Office, which 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) and other initiatives.

Having established a “Policy on Climate Change and Resilience” that states its policy of endeavors regarding the risks and opportunities from climate changes as well as the resilience (strength and buoyancy) of its operations and strategies for climate-related issues, the Asset Manager announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and joined the TCFD Consortium, an organization of Japanese companies expressing their support, both in September 2022.

(c) Summary of fundraising

In the 36th fiscal period, FRC conducted refinancing of 6,000 mm yen as well as new financing of 1,500 mm yen. These led to the balance of its interest-bearing debt outstanding (including investment corporation bonds) at the end of the period totaling 83,900 mm yen. Of the total amount of financing (7,500 mm yen), FRC procured 6,500 mm yen by way of sustainable financing with an aim to promote sustainability through ESG considerations.

The loan-to-value ratio (ratio of interest-bearing debt (including investment corporation bonds) to total assets) was 41.7% 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) stood at 93.4% at the end of the 36th fiscal period. 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 a year, lengthening the remaining term of commitment to three years.

FRC will continue its endeavors to reduce refinancing risks by dispersing debt repayment dates and other measures. At the same time, FRC will investigate mitigating the possible increase in financing costs in accordance with higher interest rates going forward, including review of the ratio of fixed-interest rate debt.

Moreover, the credit ratings assigned to FRC as of the end of the 36th 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 8,830 mm yen and operating income after excluding operating expenses such as expenses related to leasing business and asset management fees totaled 3,181 mm yen. Ordinary income was 2,805 mm yen and profit amounted to 2,804 mm yen. Management decided to make a dividend of 3,523 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 metropolitan area since the Fukuoka metropolitan area is expected to have a high population growth rate in the future. In addition to the Fukuoka metropolitan 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 including its sponsors 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 2023 (September 1, 2022 to February 28, 2023) and the period ending August 2023 (March 1, 2023 to August 31, 2023). Concerning preconditions for the relevant performance forecast, please refer to “Preconditions for the performance forecast for the period ending February 2023 (September 1, 2022 to February 28, 2023) and the period ending August 2023 (March 1, 2023 to August 31, 2023)” on page 3.

	Period ending February 2023	Period ending August 2023
Operating revenues	8,915 mm yen	9,119 mm yen
Operating income	3,177 mm yen	3,199 mm yen
Ordinary income	2,803 mm yen	2,819 mm yen
Profit	2,801 mm yen	2,817 mm yen
Dividend per unit	3,520 yen	3,540 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 2023 (September 1, 2022 to February 28, 2023) and the period ending August 2023 (March 1, 2023 to August 31, 2023)

Item	Preconditions
Calculation period	37th fiscal period: September 1, 2022 to February 28, 2023 (181 days) 38th fiscal period: March 1, 2023 to August 31, 2023 (184 days)
Assets under management	<ul style="list-style-type: none"> It is assumed that there will be 33 properties FRC owns as of August 31, 2022. FRC assumes that it will dispose part of Kurume Higashi Kushiwara SC in the 37th and 38th fiscal periods. 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, 2023.
Interest-bearing debt and refinancing	<ul style="list-style-type: none"> The balance of interest-bearing debt outstanding at the end of the 37th fiscal period (February 28, 2023) is expected to total 83,900 mm yen. The loan-to-value ratio (interest-bearing debt / total assets × 100) is expected to stand at around 41.7% (as of August 31, 2022, the loan-to-value ratio stands at 41.7%). The balance of interest-bearing debt outstanding at the end of the 38th fiscal period (August 31, 2023) is expected to total 83,900 mm yen. The loan-to-value ratio (interest-bearing debt / total assets × 100) is expected to stand at around 41.6%.
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 19, 2022, 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 37th and 38th 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 38th 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 37th and 38th 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 1,747 mm yen for the 37th fiscal period and 1,752 mm yen for the 38th fiscal period. Concerning taxes and other public charges, FRC anticipates 719 mm yen for the 37th fiscal period and 755 mm yen for the 38th fiscal period. Concerning depreciation and amortization expenses, FRC anticipates 1,505 mm yen for the 37th fiscal period and 1,534 mm yen for the 38th 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 373 mm yen for the 37th fiscal period and 379 mm yen for the 38th 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 of COVID-19 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.
Others	<ul style="list-style-type: none"> It is assumed that there will be no 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)

	35th fiscal period (as of February 28, 2022)		36th fiscal period (as of August 31, 2022)	
Assets				
Current assets				
Cash and deposits		6,860,969		4,203,346
Cash and deposits in trust		3,775,847		4,335,931
Operating accounts receivable		612,230		788,376
Prepaid expenses		254,292		227,634
Consumption taxes receivable		217,676		124,948
Others		15,550		10,223
Total current assets		11,736,566		9,690,462
Non-current assets				
Property, plant and equipment				
Buildings	1,171,821		1,171,821	
Accumulated depreciation	(39,043)	1,132,777	(53,781)	1,118,039
Structures	20,698		20,698	
Accumulated depreciation	(516)	20,182	(709)	19,988
Tools and fixtures	1,571		1,571	
Accumulated depreciation	(312)	1,258	(430)	1,140
Lands		989,124		989,124
Buildings in trust	101,745,620		104,797,631	
Accumulated depreciation	(36,671,427)	65,074,192	(38,070,850)	66,726,781
Structures in trust	1,939,630		1,976,251	
Accumulated depreciation	(884,785)	1,054,845	(907,404)	1,068,847
Machinery and equipment in trust	1,461,684		1,483,511	
Accumulated depreciation	(707,143)	754,541	(745,401)	738,110
Vehicles and transport equipment in trust	626		626	
Accumulated depreciation	(594)	31	(594)	31
Tools and fixtures in trust	1,443,100		1,473,642	
Accumulated depreciation	(1,222,570)	220,530	(1,241,477)	232,165
Lands in trust		110,373,363		113,715,265
Construction in progress in trust		500,610		7,932
Total property, plant and equipment		180,121,458		184,617,427
Intangible assets				
Leasehold right in trust		5,545,883		5,545,883
Other intangible assets in trust		11,234		8,315
Total intangible assets		5,557,117		5,554,198
Investment and other assets				
Deferred tax assets		52		13
Lease and guarantee deposits		10,000		10,000
Lease and guarantee deposits in trust		327,135		327,135
Long-term prepaid expenses		964,988		997,950
Total investment and other assets		1,302,176		1,335,099
Total non-current assets		186,980,752		191,506,725
Deferred assets				
Investment corporation bond issuance expenses		27,836		26,664
Total deferred assets		27,836		26,664
Total assets		198,745,156		201,223,852

(thousands of yen)

	35th fiscal period (as of February 28, 2022)		36th fiscal period (as of August 31, 2022)	
Liabilities				
Current liabilities				
Operating accounts payable		495,811		661,770
Current maturities of long-term debt		6,000,000		5,900,000
Accounts payable-other		22,767		16,275
Accrued expenses		414,713		421,792
Income taxes payable		1,659		962
Advances received		1,007,044		1,084,850
Deposits received		697,145		1,026,223
Total current liabilities		8,639,141		9,111,875
Non-current liabilities				
Investment corporation bonds		5,000,000		5,000,000
Long-term debt		71,400,000		73,000,000
Tenant leasehold and security deposits		450,958		741,017
Tenant leasehold and security deposits received in trust		11,501,470		11,627,634
Total non-current liabilities		88,352,428		90,368,652
Total liabilities		96,991,569		99,480,527
Net assets				
Unitholders' equity				
Unitholders' capital		98,938,764		98,938,764
Surplus				
Unappropriated surplus		2,814,821		2,804,559
Total surplus		2,814,821		2,804,559
Total unitholders' equity		101,753,586		101,743,324
Total net assets		101,753,586		101,743,324
Total liabilities and net assets		198,745,156		201,223,852

(2) Statement of income

(thousands of yen)

	35th fiscal period (September 1, 2021 to February 28, 2022)		36th fiscal period (March 1, 2022 to August 31, 2022)	
Operating revenues				
Leasing revenues – real estate	*1 8,040,738		*1 8,160,720	
Other leasing revenues – real estate	*1 618,096	8,658,835	*1 669,929	8,830,650
Operating expenses				
Expenses related to leasing business	*1, *2 4,810,362		*1, *2 4,974,312	
Asset management fees	526,058		534,574	
Asset custody fees	7,431		7,514	
Administrative service fees	57,769		60,087	
Director's compensations	9,600		6,600	
Other operating expenses	61,771	5,472,993	65,669	5,648,758
Operating income		3,185,841		3,181,891
Non-operating revenues				
Interest received	55		40	
Others	567	623	1,191	1,231
Non-operating expenses				
Interest expenses	242,524		249,567	
Interest expenses on investment corporation bonds	29,200		29,200	
Amortization of investment corporation bond issuance expenses	2,102		1,172	
Financing related expenses	96,157		97,744	
Others	37	370,022	37	377,722
Ordinary income		2,816,442		2,805,401
Profit before income taxes		2,816,442		2,805,401
Income taxes-current	1,667		968	
Income taxes-deferred	(39)	1,628	38	1,007
Profit		2,814,814		2,804,394
Surplus brought forward		7		165
Unappropriated surplus		2,814,821		2,804,559

(3) Statement of changes in net assets

35th fiscal period (September 1, 2021 to February 28, 2022)

(thousands of yen)

	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of September 1, 2021	98,938,764	2,817,051		101,755,815
Changes in the current fiscal period				
Dividend of surplus		(2,817,044)		(2,817,044)
Profit		2,814,814		2,814,814
Total of changes in the current fiscal period	—	(2,229)		(2,229)
Balance as of February 28, 2022	98,938,764	2,814,821		101,753,586

36th fiscal period (March 1, 2022 to August 31, 2022)

(thousands of yen)

	Unitholders' Equity			Total net assets
	Unitholders' capital	Surplus		
		Unappropriated surplus		
Balance as of March 1, 2022	98,938,764	2,814,821		101,753,586
Changes in the current fiscal period				
Dividend of surplus		(2,814,656)		(2,814,656)
Profit		2,804,394		2,804,394
Total of changes in the current fiscal period	—	(10,261)		(10,261)
Balance as of August 31, 2022	98,938,764	2,804,559		101,743,324

(4) Dividend statement

Item	35th fiscal period (September 1, 2021 to February 28, 2022)	36th fiscal period (March 1, 2022 to August 31, 2022)
I. Unappropriated surplus	2,814,821 thousand yen	2,804,559 thousand yen
II. Total dividend [Dividend per investment unit]	2,814,656 thousand yen [3,536 yen]	2,804,308 thousand yen [3,523 yen]
III. Surplus brought forward	165 thousand yen	251 thousand yen

Method for calculating dividends	The amount of dividends shall be decided in accordance with the dividend policy stipulated in Article 38-1-2 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 2,814,656 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 38-1-2 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 2,804,308 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)

	35th fiscal period (September 1, 2021 to February 28, 2022)	36th fiscal period (March 1, 2022 to August 31, 2022)
Net cash provided by (used in) operating activities		
Profit before income taxes	2,816,442	2,805,401
Depreciation and amortization expenses	1,486,407	1,514,524
Amortization of investment corporation bond issuance expenses	2,102	1,172
Interest received	(55)	(40)
Interest expenses	271,724	278,767
Decrease (increase) in operating accounts receivables	(19,216)	(176,146)
Decrease (increase) in consumption taxes refund receivable	(217,676)	92,727
Increase (decrease) in accrued consumption taxes	(705,556)	—
Increase (decrease) in operating accounts payable	(29,962)	73,784
Increase (decrease) in accounts payable-other	5,577	(6,115)
Increase (decrease) in accrued expenses	(3,258)	4,057
Increase (decrease) in advances received	(50,183)	77,805
Increase (decrease) in deposits expenses	(215,687)	329,077
Decrease (increase) in prepaid expenses	18,381	26,658
Decrease (increase) in long-term prepaid expenses	71,142	(32,961)
Others, net	(9,271)	1,417
Subtotal	3,420,911	4,990,132
Interest income received	55	40
Interest expenses paid	(273,972)	(275,746)
Income taxes paid	(952)	(1,665)
Net cash provided by (used in) operating activities	3,146,040	4,712,760
Net cash provided by (used in) investment activities		
Purchase of property, plant and equipment	(5,092)	(493)
Purchase of property, plant and equipment in trust	(522,327)	(5,911,512)
Proceeds from tenant leasehold and security deposits	176	290,149
Repayments of tenant leasehold and security deposits	(30)	(90)
Proceeds from tenant leasehold and security deposits in trust	109,679	309,878
Repayments of tenant leasehold and security deposits in trust	(239,871)	(183,714)
Proceeds from restricted trust deposits	4,978	3,634
Payments for restricted trust deposits	(6,343)	(6,099)
Net cash provided by (used in) investment activities	(658,830)	(5,498,246)
Net cash provided by (used in) financial activities		
Proceeds from short-term debt	—	4,000,000
Repayments of short-term debt	—	(4,000,000)
Proceeds from long-term debt	—	7,500,000
Repayments of long-term debt	—	(6,000,000)
Dividends paid	(2,816,432)	(2,814,517)
Net cash provided by (used in) financial activities	(2,816,432)	(1,314,517)
Net increase (decrease) in cash and cash equivalents	(329,222)	(2,100,003)
Balance of cash and cash equivalents at beginning of period	10,917,706	10,588,484
Balance of cash and cash equivalents at end of period	10,588,484	8,488,481

- (6) Notes on the going concern assumption
No relevant items.
- (7) Significant accounting policies
Disclosure is omitted, since there are no significant changes from contents disclosed by the latest securities report (submitted on May 31, 2022).
- (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, revenue recognition, 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)			
	35th fiscal period (September 1, 2021 to February 28, 2022)		36th fiscal period (March 1, 2022 to August 31, 2022)	
A. Real estate leasing business revenues				
Leasing revenues – real estate				
Rents	6,677,000		6,784,821	
Common charges	944,582		934,731	
Parking revenues	419,155	8,040,738	441,168	8,160,720
Other leasing revenues – real estate				
Incidental income	571,819		649,178	
Other miscellaneous income	46,277	618,096	20,750	669,929
Total real estate leasing business revenues		8,658,835		8,830,650
B. Expenses related to real estate leasing business				
Expenses related to leasing business				
Outsourcing fees	1,711,225		1,740,908	
Repair and maintenance expenses	121,025		119,524	
Taxes and other public charges	711,798		719,695	
Insurance premiums and trust compensation	41,708		42,669	
Utilities expenses	476,400		544,853	
Depreciation and amortization expenses	1,486,407		1,514,524	
Other expenses related to real estate leasing business	261,797	4,810,362	292,136	4,974,312
Total expenses related to real estate leasing business		4,810,362		4,974,312
C. Revenues and expenses related to real estate leasing business (A - B)		3,848,472		3,856,337

*2. Transactions with affiliated companies

	(thousands of yen)	
	35th fiscal period (September 1, 2021 to February 28, 2022)	36th fiscal period (March 1, 2022 to August 31, 2022)
Expenses related to real estate leasing business	775,891	839,311

(Per unit information)

35th fiscal period (September 1, 2021 to February 28, 2022)		36th fiscal period (March 1, 2022 to August 31, 2022)	
Net assets per investment unit:	127,831 yen	Net assets per investment unit:	127,818 yen
Profit per investment unit:	3,536 yen	Profit per investment unit:	3,523 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.

	35th fiscal period (September 1, 2021 to February 28, 2022)	36th fiscal period (March 1, 2022 to August 31, 2022)
Profit (thousands of yen)	2,814,814	2,804,394
Amount not attributable to common unitholders (thousands of yen)	—	—
Profit attributable to common investment units (thousands of yen)	2,814,814	2,804,394
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, 2022)

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 metropolitan area	—	—
		Other Kyushu areas	—	—
	Office buildings	Fukuoka metropolitan area	—	—
		Other Kyushu areas	—	—
	Others	Fukuoka metropolitan area	—	—
		Other Kyushu areas	2,128	1.1
Subtotal			2,128	1.1
Real estate in trust	Retail	Fukuoka metropolitan area	66,780	33.2
		Other Kyushu areas	37,089	18.4
	Office buildings	Fukuoka metropolitan area	59,306	29.5
		Other Kyushu areas	—	—
	Others	Fukuoka metropolitan area	19,632	9.8
		Other Kyushu areas	5,226	2.6
Subtotal			188,035	93.4
Deposits and other assets			11,060	5.5
Total amount of assets (Note 4)			201,223 [190,171]	100.0 [94.5]

Note 1: "Fukuoka metropolitan 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 2020 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 metropolitan 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, 2022)

	Value on balance sheet (mm of yen)	Percentage of total amount of assets (%)
Total liabilities	99,480	49.4
Total net assets	101,743	50.6

2) Investment assets

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

(as of August 31, 2022)

Real estate property name	Acquisition price (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	29,757	30,600	15.5	Tanizawa Sogo Appraisal Co., Ltd.
Canal City Hakata・B	21,060	20,701	21,400	10.2	Tanizawa Sogo Appraisal Co., Ltd.
Park Place Oita	19,610	20,555	20,500	9.5	Japan Real Estate Institute
SunLive City Kokura	6,633	5,548	8,520	3.2	Japan Real Estate Institute
Konoha Mall Hashimoto	10,000	10,018	10,000	4.8	Tanizawa Sogo Appraisal Co., Ltd.
Square Mall Kagoshima Usuki	5,300	4,234	4,650	2.6	Japan Real Estate Institute
Kumamoto Intercommunity SC	2,400	1,921	2,740	1.2	Japan Real Estate Institute
Hanahata SC	1,130	950	1,200	0.5	Tanizawa Sogo Appraisal Co., Ltd.
Kurume Higashi Kushiwara SC	2,500	1,966	2,740	1.2	Tanizawa Sogo Appraisal Co., Ltd.
K's Denki Kagoshima	3,550	2,863	3,660	1.7	Tanizawa Sogo Appraisal Co., Ltd.
Marinoa City Fukuoka (Marina Side Building)	5,250	5,352	5,890	2.5	Tanizawa Sogo Appraisal Co., Ltd.
Retail subtotal:	109,433	103,869	111,900	53.0	
Canal City Business Center Building	14,600	12,706	17,400	7.1	Tanizawa Sogo Appraisal Co., Ltd.
Gofukumachi Business Center	11,200	8,679	15,600	5.4	Tanizawa Sogo Appraisal Co., Ltd.
Sanix Hakata Building	4,400	3,731	6,890	2.1	Japan Real Estate Institute
Taihaku Street Business Center	7,000	5,524	9,770	3.4	Japan Real Estate Institute
Higashi Hie Business Center	5,900	4,288	8,230	2.9	Tanizawa Sogo Appraisal Co., Ltd.
Tenjin Nishi-Dori Center Building	2,600	2,650	3,360	1.3	Japan Real Estate Institute
Tenjin North Front Building	2,800	2,350	4,880	1.4	Japan Real Estate Institute
Higashi Hie Business Center II	4,230	3,901	4,660	2.1	Tanizawa Sogo Appraisal Co., Ltd.
Higashi Hie Business Center III	3,290	3,218	3,380	1.6	Tanizawa Sogo Appraisal Co., Ltd.
Tenjin Nishi-Dori Business Center (Land with leasehold interest)	7,700	7,754	8,250	3.7	Japan Real Estate Institute
Hakata Chikushi-Dori Center Building	4,320	4,499	4,540	2.1	Tanizawa Sogo Appraisal Co., Ltd.
Office buildings subtotal:	68,040	59,306	86,960	33.0	
Amex Akasakamon Tower	2,060	1,599	1,950	1.0	Daiwa Real Estate Appraisal Co., Ltd.
City House Keyaki Dori	1,111	866	1,090	0.5	Daiwa Real Estate Appraisal Co., Ltd.
Aqualia Chihaya	1,280	1,129	2,040	0.6	Japan Real Estate Institute
D-Wing Tower	2,800	2,605	3,880	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Granfore Yakuin Minami	1,100	1,064	1,370	0.5	Tanizawa Sogo Appraisal Co., Ltd.
Hotel FORZA Oita	1,530	1,329	1,890	0.7	Japan Real Estate Institute
Tissage Hotel Naha	2,835	2,762	2,880	1.4	Tanizawa Sogo Appraisal Co., Ltd.
Tosu Logistics Center	1,250	1,134	1,420	0.6	Japan Real Estate Institute
LOGICITY Minato Kashii	8,150	7,680	9,670	3.9	Tanizawa Sogo Appraisal Co., Ltd.
LOGICITY Hisayama	5,050	4,688	5,650	2.4	Tanizawa Sogo Appraisal Co., Ltd.
LOGICITY Wakamiya	1,700	2,128	2,490	0.8	Tanizawa Sogo Appraisal Co., Ltd.
Others subtotal:	28,866	26,987	34,330	14.0	
Total	206,339	190,163	233,190	100.0	

(Real estate property to be acquired)

Real estate property name	Acquisition price (planned) (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
Island City Minato Bay related site (Land with leasehold interest) (tentative) (Note 4)	8,082	-	8,210	-	Tanizawa Sogo Appraisal Co., Ltd.

Note 1: "Acquisition price" and "Acquisition price (planned)" refer 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 price. 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 acquisition of the property falls under the category of forward commitment, etc. as provided by the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." set by the Financial Services Agency. As a reservation deposit, FRC paid the amount equivalent to 5% (approximately 4 mm yen) of the purchase price corresponding to its acquisition ratio at the time of applying for purchase to the Fukuoka City Government. If FRC withdraws from the purchase of the property, the deposit shall be used as cancellation penalty.

(B) Summary of the real estate leasing business

(as of August 31, 2022)

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 [43]	97.7	46,585.57	45,494.59	1,016	11.5
Canal City Hakata・B	1 [42]	96.0	31,141.44	29,904.36	929	10.5
Park Place Oita	1 [103]	99.8	121,184.09	120,987.88	1,164	13.2
SunLive City Kokura	1	100.0	61,450.22	61,450.22	270	3.1
Konoha Mall Hashimoto	1 [124]	100.0	22,191.19	22,191.19	816	9.2
Square Mall Kagoshima Usuki	13	100.0	14,602.88	14,602.88	255	2.9
Kumamoto Intercommunity SC	2	100.0	6,968.66	6,968.66	89	1.0
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	177	2.0
Retail subtotal:	25 [333] (Note 2)	99.3	353,758.99	351,234.72	4,959	56.2
Canal City Business Center Building	1 [64]	100.0	23,031.14	23,031.14	649	7.3
Gofukumachi Business Center	36	100.0	19,905.34	19,905.34	590	6.7
Sanix Hakata Building	16	100.0	6,293.75	6,293.75	211	2.4
Taihaku Street Business Center	1 [71]	99.5	14,677.35	14,601.53	325	3.7
Higashi Hie Business Center	1 [27]	100.0	13,614.59	13,614.59	357	4.0
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	148	1.7
Higashi Hie Business Center II	2	100.0	6,214.77	6,214.77	164	1.9
Higashi Hie Business Center III	6	100.0	2,981.14	2,981.14	98	1.1
Tenjin Nishi-Dori Business Center (Land with leasehold interest) (Note 6)	1	100.0	1,343.51	1,343.51	159	1.8
Hakata Chikushi-Dori Center Building	1 [13]	96.7	5,994.41	5,796.59	133	1.5
Office buildings subtotal:	77 [248] (Note 2)	99.7	102,647.73	102,374.09	2,924	33.1
Amex Akasakamon Tower	1 [64]	94.1	4,821.25	4,534.78	66	0.7
City House Keyaki Dori	1 [42]	100.0	2,710.86	2,710.86	39	0.4
Aqualia Chihaya	1 [104]	98.9	5,619.69	5,559.96	60	0.7
D-Wing Tower	1 [127]	93.2	7,187.59	6,695.58	112	1.3
Granfore Yakuin Minami	1 [96]	97.0	2,496.06	2,421.34	39	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	43	0.5
Tosu Logistics Center	1	100.0	4,173.29	4,173.29	Undisclosed (Note 7)	Undisclosed (Note 7)
LOGICITY Minato Kashii	2	100.0	43,233.72	43,233.72	Undisclosed (Note 7)	Undisclosed (Note 7)
LOGICITY Hisayama	1	100.0	24,505.65	24,505.65	Undisclosed (Note 7)	Undisclosed (Note 7)
LOGICITY Wakamiya	1	100.0	17,556.32	17,556.32	Undisclosed (Note 7)	Undisclosed (Note 7)
Others subtotal:	12 [440] (Note 2)	99.3	121,848.63	120,935.70	946	10.7
Total	114 [1,021] (Note 2)	99.4	578,255.35	574,544.51	8,830	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 13 offices and 58 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 total 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 number of tenants indicates the number of the lessee of the land with leasehold interest. The total leasable floor space indicates the land area recorded in the real estate registry.
- Note 7: The figures are not disclosed as no consent to disclosure has been obtained from the tenants.

(2) Status of capital expenditures

1) Capital expenditures after the end of the 36th 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 36th fiscal period and of capital expenditures associated with renovations, etc. planned as of October 19, 2022 for real estate properties owned by FRC. The planned construction costs indicated below may be partly classified as expenses for accounting purposes. 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	Amount paid in the 36th fiscal period	Total amount already paid
Canal City Hakata	Hakata Ward, Fukuoka City	Replacement of facilities and formation of floor sections	From March 2023 to July 2023	528	—	—
Canal City Hakata	Hakata Ward, Fukuoka City	Replacement of air-conditioning units	From March 2022 to February 2023	78	—	—
Canal City Hakata-B	Hakata Ward, Fukuoka City	Replacement of emergency power generators	From July 2022 to April 2023	50	—	—
Park Place Oita	Oita City, Oita	Replacement of air-conditioning units	From March 2023 to May 2023	147	—	—
Gofukumachi Business Center	Hakata Ward, Fukuoka City	Replacement of central monitoring equipment	From April 2023 to May 2023	52	—	—
Gofukumachi Business Center	Hakata Ward, Fukuoka City	Replacement of disaster prevention facilities and equipment	From July 2023 to August 2023	52	—	—
Hotel FORZA Oita	Oita City, Oita	Replacement of air-conditioning units	From May 2023 to August 2023	58	—	—

2) Capital expenditures during the 36th fiscal period

Capital expenditures for the real estate properties owned by FRC totaled 1,946 mm yen in the 36th fiscal period. Furthermore, FRC incurred construction costs of 2,075 mm yen in total in the period, including 119 mm yen in repair and maintenance expenses classified as expenses on the statement of income and 9 mm yen in expenses for restoration to former state. The following table provides the overview of major construction work that was completed in the 36th fiscal period.

Real estate property name	Location	Purpose	Period	Construction cost (mm of yen)
Canal City Hakata	Hakata Ward, Fukuoka City	Replacement of piping	From July 2021 to April 2022	597
Park Place Oita	Oita City, Oita	Renovation of common spaces	From September 2021 to April 2022	632
Park Place Oita	Oita City, Oita	Formation of tenant sections	May 2022	78
Park Place Oita	Oita City, Oita	Replacement of air-conditioning units	May 2022	33
Konoha Mall Hashimoto	Nishi Ward, Fukuoka City	Switching to LED lighting throughout the building	From June 2022 to August 2022	147
Konoha Mall Hashimoto	Nishi Ward, Fukuoka City	Improvement of food court environment	From February 2022 to April 2022	62
Square Mall Kagoshima Usuki	Kagoshima City, Kagoshima	Renovation of external walls	From May 2022 to August 2022	19
Gofukumachi Business Center	Hakata Ward, Fukuoka City	Replacement of air-conditioning units	March 2022	38
Sanix Hakata Building	Hakata Ward, Fukuoka City	Renovation of common spaces	From February 2022 to May 2022	36
Taihaku Street Business Center	Hakata Ward, Fukuoka City	Repair of mechanical parking lots	June 2022	14
Taihaku Street Business Center	Hakata Ward, Fukuoka City	Replacement of heat exchangers	August 2022	10
Hotel FORZA Oita	Oita City, Oita	Replacement of air-conditioning units	May 2022	12