



Nippon Accommodations Fund Inc.

# NAF REPORT

37th Period

March 1, 2024 – August 31, 2024

# Management's Discussion and Analysis

## Summary of Selected Financial Data

	Yen in millions (Except per unit data or where otherwise indicated)			U.S. dollars in thousands (Note 1) (Except per unit data)
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023	37th Period March 1, 2024 to August 31, 2024
Total revenues	¥ 12,703	¥ 12,586	¥ 13,049	\$ 87,727
Rental revenues	12,112	12,087	11,929	83,646
Other revenues related to property leasing	590	498	571	4,074
Gain on sale of investment properties	—	—	548	—
Operating expenses	6,712	6,415	6,792	46,353
Income before income taxes	5,571	5,770	5,893	38,473
Net income (a)	5,570	5,769	5,892	38,466
Funds from operations (Note 2)	7,467	7,670	7,274	51,567
Net operating income from property leasing activities (Note 2)	9,318	9,485	9,101	64,350
Total amount of cash distribution (b)	5,570	5,769	5,359	38,466
Depreciation and amortization	1,897	1,900	1,930	13,100
Capital expenditures	1,183	938	811	8,169
Total assets (c)	325,693	327,134	327,052	2,249,261
Interest-bearing debt	166,000	167,500	167,500	1,146,408
Total net assets (d)	152,084	152,283	151,874	1,050,303
Total number of common units issued (Units) (e)	503,472	503,472	503,472	
Net assets per unit (Yen/\$) (d) / (e)	302,072	302,467	301,653	2,086.13
Distribution per unit (Yen/\$) (b) / (e)	11,064	11,459	10,645	76.40
Funds from operations per unit (Yen/\$) (Note 2)	14,832	15,234	14,448	102.43
ROA (Note 3)	1.7%	1.8%	1.8%	
(Annual rate)	(3.4%)	(3.5%)	(3.6%)	
ROE (Note 3)	3.7%	3.8%	3.9%	
(Annual rate)	(7.3%)	(7.6%)	(7.7%)	
LTV (Loan-to-value) ratio (Note 2)	51.0%	51.2%	51.2%	
Capital ratio (d) / (c)	46.7%	46.6%	46.4%	
Payout ratio (b) / (a) (Note 4)	100.0%	100.0%	91.0%	
Number of days in the period	184	182	184	
Number of investment properties (Note 5)	136	136	133	
Total rentable area (m <sup>2</sup> )	542,534	542,534	535,530	
The occupancy rate at the end of the period (Note 5)	96.8%	97.2%	97.0%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥144.80 = U.S.\$1.00, the approximate exchange rate as of August 31, 2024.

2. Funds from operations: Net income + Depreciation and amortization – Gain on sale of investment properties

Net operating income from property leasing activities: (Revenues from property leasing – Rental expenses) + Depreciation and amortization

Funds from operations per unit: (Net income + Depreciation and amortization – Gain on sale of investment properties) ÷ Total number of units issued and outstanding at the end of the period

LTV ratio: Interest-bearing debt ÷ Total assets

3. ROA: Income before income taxes ÷ {(Total assets at the beginning of the period + Total assets at the end of the period) ÷ 2}

ROE: Net income ÷ {(Net assets at the beginning of the period + Net assets at the end of the period) ÷ 2}

The figures in parentheses are annualized based on the number of actual days in each period as follows.

Annual equivalent amounts for the period ended August 31, 2024: Amount for the period ÷ Actual days in the period (184) x 365 days

Annual equivalent amounts for the period ended February 29, 2024: Amount for the period ÷ Actual days in the period (182) x 365 days

Annual equivalent amounts for the period ended August 31, 2023: Amount for the period ÷ Actual days in the period (184) x 365 days

Net assets and total assets used in calculating ROA and ROE are beginning-of-period and period-end averages, respectively.

4. "Payout ratio" is calculated to one decimal place only.

5. "Number of investment properties" means the number of properties generally perceived to be one residential building.

"The occupancy rate at the end of the period" is the ratio of gross leased area to total rentable area at the end of the period.

## Overview

### Investment Environment and Operating Performance

During the six months ended August 31, 2024 (the “37th Period”), the Japanese economy continued to show signs of gradual recovery, although the economic recovery appeared to have stalled in some areas. Personal consumption was firm against a backdrop of improvement in the employment and income situation, despite the impact of rising prices. For companies, business conditions were improving in both the manufacturing and non-manufacturing sectors, and the recovery in capital investment has progressed. In addition, the number of foreign tourists visiting Japan has reached a record high level, and consumption from inbound tourism was strong.

In the residential rental market, the balance of supply and demand was favorable against the backdrop of a trend of a population influx into urban centers, mainly in the Tokyo metropolitan area, etc., and property occupancy rates were generally high.

In the real estate trading market, despite the continuing inflation, monetary tightening, etc., an environment with relatively low interest rates has continued in Japan, and the acquisition environment remains challenging for NAF as demand from investors with regard to rental apartments, where occupancy and revenue are stable, was robust.

No properties were acquired during the period under review, and NAF’s assets under management at the end of the period under review were unchanged from the end of the previous period.

As a result, NAF’s portfolio as of August 31, 2024 consisted of 136 properties valued at ¥342,138 million on an acquisition price basis.

In this environment, Mitsui Fudosan Residential Lease Co., Ltd., the property management company of NAF, and Mitsui Fudosan Accommodations Fund Management Co., Ltd., the asset management company of NAF, properly collaborated on management and operation of NAF’s rental apartments portfolio. As a result of this, the occupancy rate for rental apartments was 96.5% at the end of the period under review, and rent change before and after turnover was 5.7 % at the time of tenant turnover which has been increasing for the last five consecutive periods. Also, the balance of supply and demand of rental apartments has continuously been recovering as population influx into urban centers is increasing again. Furthermore, NAF aims to control costs by utilizing the merits of outsourcing all property management tasks to the property management company while examining, whenever necessary, the adequacy of the grade of property management, cost of management and operation.

Meanwhile in the management of “Hospitality Facilities” <sup>(Note)</sup>, NAF holds long-term fixed rental fee contracts with professional operators or corporations to earn stable rental revenues. All properties have been stably occupied in general. In addition, the asset management company regularly monitors the management and operational activities, and makes adjustments through professional dialog with the operator or business corporation as necessary.

In order to maintain and improve the competitiveness of NAF’s portfolio, NAF planned and carried out appropriate renewal work or work to enhance the property value depending on the property age. In the period under review, NAF carried out large-scale repairs at Park Axis Meieki Minami and renovations, etc. in private areas at Okawabata Apartment Communities. In addition, NAF is not only making continuous efforts to control costs, but also introducing such features as environmentally friendly or energy-saving features to the facilities, which include changing the lighting in common areas to LED lighting, in a timely manner.

As a result of these activities, the occupancy rate for NAF’s overall portfolio as of August 31, 2024 remained at a high level of 96.8%.

Consequently, for the 37th Period, NAF recorded total revenues of ¥12,703 million, operating income of ¥5,991 million, income before income taxes of ¥5,571 million and net income of ¥5,570 million.

Note: “Hospitality Facilities” is a generic term for “Accommodation Assets” that includes the four categories of “Dormitories, Corporate Housing,” “Serviced Apartments,” “Senior Residences,” and “Hotels,” excluding “Rental Apartments.”

## Changes in Assets, Liabilities and Net Assets

Total assets as of August 31, 2024 decreased from February 29, 2024 by ¥1,440 million to ¥325,693 million. Total current assets decreased by ¥735 million to ¥15,146 million and total investment properties net of accumulated depreciation decreased by ¥737 million to ¥308,472 million compared with February 29, 2024 as a result of normal depreciation.

NAF's basic policy is to carry out operations in a conservative manner that gives consideration to such matters as maintaining stable distributions in the medium and long term. In the period under review, NAF continued to pursue financing from various sources with diversified repayment dates with an emphasis on long-term fixed-rate loans in its procurement of funds taking into account market trends and interest rate levels, and refinancing existing loans.

As a result, at the end of the period, total interest-bearing debt amounted to ¥166,000 million, the long-term debt ratio was 98.8%, the long-term fixed-rate debt ratio was 92.8%, and the loan-to-value (LTV) ratio was 51.0%. The average remaining maturity of long-term interest-bearing debt was 4.3 years and the number of financial institutions from which NAF procures funds was 27. Furthermore, the weighted average interest rate at the end of the period was 0.49%.

NAF also has secured a commitment line for the purpose of securing flexible and stable fund procurement. At the end of the period under review, the unused amount of the commitment line was ¥15,000 million.

Net assets totaled ¥152,084 million as of August 31, 2024. Unitholders' capital was unchanged at ¥145,449 million, and retained earnings decreased to ¥6,635 million as of August 31, 2024 from ¥6,834 million as of February 29, 2024.

## Distributions to Unitholders

NAF determines the amount of cash distributions such that they exceed 90 percent of NAF's retained earnings available for dividends as set forth in Article 67-15 of the Act on Special Measures Concerning Taxation. For the 37th Period, cash distributions totaled ¥5,570,414,208, or ¥11,064 per unit.

Yen in thousands, except per unit amounts			
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023
Retained earnings	¥5,570,459	¥5,769,486	¥5,892,536
Reserve for reduction entry	—	—	533,000
Undistributed earnings	45	200	76
Total cash distribution	5,570,414	5,769,285	5,359,459
(Per unit)	11,064	11,459	10,645
Distribution of retained earnings	5,570,414	5,769,285	5,359,459
(Per unit)	11,064	11,459	10,645
Cash distribution in excess of retained earnings	—	—	—
(Per unit)	—	—	—

Note: The above cash distributions were paid after the close of the period.

## Funding

### Balance of Paid-in Capital

NAF was established on October 12, 2005 with initial paid-in capital of ¥100 million. NAF began investing activities on November 29, 2005 after ¥21,140 million was raised through private placement. As of August 31, 2024, NAF had issued 503,472 investment units out of 4,000,000 total authorized units. NAF's investment units were listed on the J-REIT section of the Tokyo Stock Exchange in August 2006 upon the completion of a public offering. As the Act on Investment Trusts and Investment Corporations does not contain any provision for the issuance of more than one class of units, NAF's investment units comprise the sole class of units authorized and issued by NAF.

## Changes in Total Number of Investment Units Issued and Outstanding

The following are changes in paid-in capital and units outstanding over the last five years.

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Issue date	Remarks	Units outstanding		Paid-in capital		Notes
		Increase	Balance	Increase	Balance	
		(Units)		(Yen in millions)		
December 15, 2020	Public offering	18,000	502,522	9,352	144,956	Note 1
January 13, 2021	Third-party allocation	950	503,472	493	145,449	Note 2

Notes: 1. Public offering of new units for ¥537,225 per unit (excluding underwriting fee: ¥519,593) to fund property acquisition.

2. Additional issue of new units (third-party allocation) for ¥519,593 per unit undertaken pursuant to the public offering in Note 1.

## Market Price of Units

Highest/Lowest (closing price) of units on the Tokyo Stock Exchange:

	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023	34th Period September 1, 2022 to February 28, 2023	33rd Period March 1, 2022 to August 31, 2022
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Highest	¥677,000	¥667,000	¥682,000	¥688,000	¥696,000
Lowest	566,000	568,000	577,000	566,000	599,000

## Borrowings

Borrowings from financial institutions as of August 31, 2024 are shown below.

### Short-term loans

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity (Note 2)	Repayment method	Use of funds	Notes
Sumitomo Mitsui Trust Bank, Limited	¥2,000	0.49227%	November 29, 2024	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
Total short-term loans	¥2,000					

**Long-term loans (Note 7)**

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 1,500	0.47136% (Note 5)	July 31, 2029	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	1,000	0.26000%	February 27, 2026			
	3,000	0.21000%	May 28, 2025			
	2,000	0.30000%	November 30, 2027			
	2,000	0.33000%	July 31, 2026			
	2,000	0.46200%	September 30, 2026			
	2,000	0.45200%	May 31, 2027			
	4,500	0.67500%	February 29, 2028			
Sumitomo Mitsui Trust Bank, Limited	1,000	0.42636% (Note 5)	August 31, 2027			
	2,000	0.22000%	September 30, 2025			
	1,500	0.44227% (Note 6)	August 31, 2028			
NIPPON LIFE INSURANCE COMPANY	2,000	0.25000%	June 30, 2026			
	1,000	0.50000%	April 30, 2031			
	1,000	0.53000%	November 28, 2031			
	2,000	0.65000%	May 31, 2032			
	2,000	0.80000%	November 30, 2032			
	1,000	0.96800%	October 31, 2029			
Development Bank of Japan Inc.	2,500	1.17750%	April 1, 2025			
	2,000	0.18248%	December 30, 2027			
	4,000	0.54779%	April 18, 2029			
	3,000	0.64293%	October 21, 2030			
	3,000	0.93000%	October 31, 2029			
	2,500	0.64000%	February 29, 2028			
	1,000	0.84400%	August 31, 2028			
The Hachijuni Bank, Ltd.	1,000	0.23550%	September 17, 2024			
	1,500	0.29000%	May 29, 2026			
	1,000	0.48000%	March 31, 2031			
	1,000	0.53000%	June 30, 2031			
Mizuho Bank, Ltd.	2,000	0.42456%	March 31, 2027			
	1,000	0.48000%	August 30, 2030			
	1,000	0.48000%	February 28, 2031			
	1,000	0.53000%	November 28, 2031			
The Chugoku Bank, Limited	2,000	0.21880%	May 29, 2026			
	1,000	0.22000%	November 29, 2024			
	1,000	0.24000%	January 5, 2026			
	1,000	0.36000%	June 28, 2028			
	2,000	0.68800%	July 31, 2031			
SBI Shinsei Bank, Limited	1,000	0.53000%	May 30, 2031			
	1,000	0.53000%	June 30, 2031			
	1,000	1.18600%	January 31, 2033			
	1,000	0.61727% (Note 6)	May 31, 2034			
	2,000	0.61727% (Note 6)	May 31, 2034			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Shinkin Central Bank	¥ 2,000	0.38880%	January 29, 2027	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	3,000	0.30950%	July 31, 2025			
	2,000	0.12930%	January 31, 2025			
	2,000	0.26930%	January 31, 2028			
	3,000	0.38178%	December 29, 2028			
The Bank of Fukuoka, Ltd.	2,000	0.43500%	February 26, 2027			
	2,000	0.33500%	April 30, 2026			
	1,000	0.65000%	January 8, 2032			
	1,000	0.45000%	October 31, 2029			
	1,500	0.68000%	April 30, 2032			
MUFG Bank, Ltd.	3,000	0.54500%	April 27, 2029			
	2,000	0.48000%	March 15, 2030			
	1,000	0.32000%	September 30, 2027			
	1,000	0.48000%	September 13, 2030			
	1,000	0.47000%	August 30, 2030			
	3,000	0.21000%	February 27, 2026			
	3,000	0.38000%	September 30, 2026			
	3,000	0.44500%	September 30, 2026			
The Norinchukin Bank	1,000	0.27000%	December 30, 2025			
	2,000	0.37000%	April 28, 2028			
	2,000	0.32000%	July 1, 2027			
	3,000	0.36000%	November 30, 2028			
Mizuho Trust & Banking Co., Ltd.	1,500	0.38380%	March 29, 2028			
	1,000	0.42000%	February 28, 2029			
	1,000	0.38000%	November 30, 2028			
	2,000	0.49727% (Note 6)	July 30, 2032			
The Yamaguchi Bank, Ltd.	1,000	0.55500%	April 27, 2029			
	1,000	0.71000%	June 28, 2033			
	1,000	0.98800%	June 28, 2033			
	1,000	1.11000%	June 28, 2033			
	1,000	1.61300%	May 31, 2035			
Daishi Hokuetsu Bank, Ltd.	1,000	0.36000%	June 30, 2028			
	1,000	0.30000%	June 30, 2027			
	2,000	0.32500%	March 31, 2028			
TAIJU LIFE INSURANCE COMPANY LIMITED	1,000	0.53000%	June 27, 2031			
	1,000	1.24000%	March 31, 2034			
The Ashikaga Bank, Ltd.	2,000	0.27000%	December 30, 2025			
	1,000	0.36000%	June 28, 2028			
DAIDO LIFE INSURANCE COMPANY	1,000	0.53000%	June 30, 2031			
TAIYO LIFE INSURANCE COMPANY	2,000	0.64750%	December 30, 2024			
The Iyo Bank, Ltd.	1,000	0.49727% (Note 6)	March 31, 2032			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
The Yamanashi Chuo Bank, Ltd.	¥ 1,000	0.31630%	June 30, 2026	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	1,000	0.45000%	December 17, 2029			
	1,000	0.65000%	December 16, 2031			
The 77 Bank, Ltd.	1,000	0.40500%	June 30, 2028			
	1,000	0.48000%	March 29, 2030			
	1,000	0.48000%	February 28, 2031			
	1,000	0.53000%	November 28, 2031			
The Chiba Bank, Ltd.	1,000	0.32250%	September 3, 2025			
SUMITOMO LIFE INSURANCE COMPANY	1,000	0.66000%	September 3, 2030			
	1,000	0.68000%	April 30, 2032			
	1,000	0.48000%	July 1, 2030			
	1,000	0.71000%	June 30, 2033			
Mitsui Sumitomo Insurance Company, Limited	1,000	0.29000%	October 30, 2026			
	1,000	0.32000%	August 31, 2027			
The Hyakugo Bank, Ltd.	1,000	0.48000%	February 28, 2031			
Momiji Bank, Ltd.	1,000	0.59000%	April 30, 2032			
Total long-term loans	¥156,000					
Total loans	¥158,000					

Notes: 1. "Interest rate" is rounded to the nearest hundred-thousandth. The weighted average interest rate is presented for the outstanding balance of short-term loans if the institution has provided more than one short-term loan.

2. The earliest maturity of short-term loans is presented if the institution has provided more than one short-term loan.

3. Use of the proceeds of debt financing included purchase of property or real estate trust beneficiary interests, refinancing of other loans, and operating expenses.

4. The loan agreements between NAF and each financial institution stipulate that the above loans from all financial institutions rank pari passu to each other.

5. The interest rate is applied from August 30, 2024 to September 29, 2024.

6. The interest rate is applied from June 28, 2024 to September 29, 2024.

7. The expected annual maturities of long-term loans within five years (excluding maturities within one year) after the balance sheet date are as follows.

(Yen in millions)				
	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount	¥21,500	¥22,000	¥26,000	¥17,500

## Bonds

Issue	Issue date	Balance as of August 31, 2024 (Yen in millions)	Coupon	Maturity date	Redemption	Use of proceeds	Notes
No.3 Unsecured Bonds (green bonds)	July 16, 2020	¥2,000	0.260%	July 16, 2025	Bullet payment	(Note 1)	(Note 2)
No.4 Unsecured Bonds (green bonds)	July 16, 2020	2,000	0.520%	July 16, 2030			
No.5 Unsecured Bonds (green bonds)	September 30, 2021	1,000	0.320%	September 28, 2029			
No.6 Unsecured Bonds	September 30, 2021	2,000	0.390%	September 30, 2031			
No.7 Unsecured Bonds	September 30, 2021	1,000	0.680%	September 30, 2036			
Total		¥8,000					

Notes: 1. Use of proceeds includes repayment of borrowings.

2. These bonds are only issued to rank pari passu with other bonds issued.

3. The total amount of bonds repayable within 5 years after the balance sheet date and expected to be repaid by specific year(s) is as follows.

(Yen in millions)				
	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Unsecured Bonds	—	—	—	—



## Capital Expenditures

### 1. Planned

NAF is planning or conducting the following capital expenditures for the renovation of its properties. The amounts below include repairs and maintenance costs that will be expensed as incurred. Moreover, in addition to a steady planning of expenditures for construction, repair and renovation of facilities, a plan of renewal construction is being implemented in order to increase competitive power in the market as well as to increase the level of tenant satisfaction.

Name of property	Objective	Estimated duration	Estimated amounts		
			Total amounts	Payment for the current period (March 1, 2024 to August 31, 2024)	Cumulative amount paid
			(Yen in millions)		
Shibaura Island Air Tower	Large-scale repair works	From May 2024 to May 2026	¥331	¥—	¥—
Okawabata Apartment Communities, Okawabata Parking	Renewal of foam fire extinguishing system deluge valve (Phase II)	From November 2024 to February 2025	133	—	—
	Renewal of foam fire extinguishing system deluge valve (Phase III)	From November 2025 to February 2026	140	—	—
Okawabata Apartment Communities, River Point Tower and Other	Renovation of rentable areas	From September 2024 to February 2025	120	—	—
Park Axis Shin Itabashi	Large-scale repair works	From April 2025 to August 2025	110	—	—
Park Cube Nihonbashi Suitengu	Large-scale repair works	From November 2024 to April 2025	99	—	—
Park Axis Marunouchi	Large-scale repair works	From April 2025 to August 2025	96	—	—
Park Axis Shibuya Jinnan	Large-scale repair works	From October 2024 to February 2025	86	—	—
Park Cube Ginza East	Large-scale repair works	From April 2025 to August 2025	83	—	—

## 2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥1,183 million in capital expenditures together with ¥679 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Park Axis Meieki Minami	Large-scale repair works	From September 2023 to March 2024	¥142
Park Axis Kanayama WEST	Large-scale repair works	From September 2023 to March 2024	130
Park Axis Bunkyo Stage	Large-scale repair works	From September 2023 to May 2024	106
Park Axis Shirokanedai	Large-scale repair works	From October 2023 to March 2024	90
Park Axis Hongo no Mori	Large-scale repair works	From March 2024 to August 2024	67
Okawabata Apartment Communities, River Point Tower and Other	Renovation of 5 rentable areas	From March 2024 to August 2024	58
Park Cube Heiwadai	Large-scale repair works	From April 2024 to August 2024	51
Other capital expenditures		From March 2024 to August 2024	536
Total			¥1,183

## Expenses regarding Entrustment, etc.

The following table sets forth the breakdown of entrustment fees, etc. paid by NAF.

	Yen in millions		
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023
Asset management fees	¥ 961	¥ 966	¥ 981
Asset custody fees	15	15	15
Agent fees (stock transfer, accounting and administrative)	30	30	35
Directors' remuneration	7	7	7
Auditor's fees	12	12	12
Other expenses	402	382	411
Total	¥1,429	¥1,413	¥1,463

## Related Party Transactions

### 1. Transactions

None applicable

### 2. Fees Paid for the Period from March 1, 2024 to August 31, 2024

Category	Total fees paid (A) (Yen in millions)	Description of transactions with related parties (Note 1)		B/A (Note 2)
		Paid to	Amount of payment (B) (Yen in millions)	
Property management fees	¥830	Mitsui Fudosan Residential Lease Co., Ltd.	¥830	100.0%
Building management fees	422	Mitsui Fudosan Residential Lease Co., Ltd.	417	98.8%
		Mitsui Fudosan Realty Co., Ltd.	5	1.2%
Operation management fees	4	Mitsui Fudosan Investment Advisors, Inc.	4	100.0%
Leasing-related service fees, etc.	181	RESIDENT FIRST CO., LTD.	13	7.5%
		Mitsui Fudosan Realty Tohoku Co., Ltd.	1	0.8%
		Mitsui Fudosan Realty Co., Ltd.	0	0.3%
		Mitsui Fudosan Realty Sapporo Co., Ltd.	0	0.0%
		Mitsui Fudosan Realty Kyusyu Co., Ltd.	0	0.0%

### 3. Other Payments to Related Parties (Note 1)

Paid to	Amount of payment (Yen in millions)	Item
Accommodation First Co., Ltd.	¥16	Repair and maintenance costs
Mitsui Fudosan Facilities Co., Ltd.	11	Repair and maintenance costs

Notes: 1. "Related parties" means parties defined in the government ordinance regarding the Act on Investment Trusts and Investment Corporations and principally, parties related to an asset management company.

2. Figures indicate percentages to total fees paid.

# Financial Statements

## Balance Sheets

### Nippon Accommodations Fund Inc.

As of August 31, 2024 and February 29, 2024

	Yen in millions		U.S. dollars in thousands (Note 1)
	37th Period As of August 31, 2024	36th Period As of February 29, 2024	37th Period As of August 31, 2024
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 2)	¥ 13,541	¥ 14,154	\$ 93,515
Rent receivables	1,489	1,614	10,283
Other current assets	115	112	794
Total current assets	15,146	15,881	104,599
Investment properties (Note 2, 3, 4):			
Land including trust accounts	214,477	214,475	1,481,194
Depreciable property and improvements including trust accounts	154,084	152,929	1,064,116
Accumulated depreciation	(60,089)	(58,194)	(414,979)
Total investment properties	308,472	309,209	2,130,331
Other assets (Note 3)	2,075	2,043	14,330
<b>Total Assets</b>	<b>¥ 325,693</b>	<b>¥ 327,134</b>	<b>\$2,249,261</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Current liabilities:			
Short-term loans (Note 5)	¥ 2,000	¥ 2,000	\$ 13,812
Bonds due within one year (Note 5, 13)	2,000	—	13,812
Long-term loans due within one year (Note 5, 13)	14,500	14,500	100,138
Accounts payable	1,666	1,442	11,505
Rent received in advance	2,038	2,039	14,074
Accrued expenses and other liabilities	237	194	1,636
Total current liabilities	22,442	20,176	154,986
Long-term liabilities:			
Long-term loans (Note 5, 13)	141,500	143,000	977,209
Bonds (Note 5, 13)	6,000	8,000	41,436
Tenant security deposits	3,666	3,673	25,317
Total long-term liabilities	151,166	154,673	1,043,964
<b>Total Liabilities</b>	<b>¥ 173,608</b>	<b>¥ 174,850</b>	<b>\$1,198,950</b>
<b>Net Assets</b>			
Unitholders' capital (Note 6)	¥ 145,449	¥ 145,449	\$1,004,482
Retained earnings	6,635	6,834	45,821
<b>Total Net Assets</b>	<b>¥ 152,084</b>	<b>¥ 152,283</b>	<b>\$1,050,303</b>
<b>Total Liabilities and Net Assets</b>	<b>¥ 325,693</b>	<b>¥ 327,134</b>	<b>\$2,249,261</b>

The accompanying notes are an integral part of these financial statements.

## Statements of Income

### Nippon Accommodations Fund Inc.

For the six-month periods ended August 31, 2024, February 29, 2024 and August 31, 2023

	Yen in millions			U.S. dollars in thousands (Note 1)
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023	37th Period March 1, 2024 to August 31, 2024
<b>Revenues</b>				
Rental (Note 7, 15)	¥ 12,112	¥ 12,087	¥ 11,929	\$ 83,646
Other revenues related to property leasing (Note 7, 15)	590	498	571	4,074
Gain on sale of investment properties (Note 8, 15)	—	—	548	—
Total revenues	12,703	12,586	13,049	87,727
<b>Operating Expenses</b>				
Property management fees (Note 7)	1,302	1,279	1,285	8,991
Real estate taxes and insurance (Note 7)	712	700	703	4,917
Repairs and maintenance (Note 7)	679	523	689	4,689
Other rental expenses (Note 7)	689	597	720	4,758
Depreciation and amortization (Note 7)	1,897	1,900	1,930	13,100
Asset management fees	961	966	981	6,636
Other expenses	468	447	482	3,232
Total operating expenses	6,712	6,415	6,792	46,353
<b>Operating Income</b>	5,991	6,170	6,256	41,374
Interest and other income	6	16	61	41
Interest expense	(414)	(402)	(406)	(2,859)
Other expenses	(12)	(14)	(18)	(82)
<b>Income before Income Taxes</b>	5,571	5,770	5,893	38,473
Current and deferred income taxes (Note 10)	0	0	0	0
<b>Net Income</b>	¥ 5,570	¥ 5,769	¥ 5,892	\$ 38,466

The accompanying notes are an integral part of these financial statements.

## Statements of Changes in Net Assets

### Nippon Accommodations Fund Inc.

For the six-month periods ended August 31, 2024, February 29, 2024 and August 31, 2023

	Number of Units (Note 6)	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of March 1, 2023	503,472	¥ 145,449	¥ 5,958	¥ 151,408
Cash distribution	—	—	(5,426)	(5,426)
Net income	—	—	5,892	5,892
Balance as of August 31, 2023	503,472	145,449	6,424	151,874
Cash distribution	—	—	(5,359)	(5,359)
Net income	—	—	5,769	5,769
Balance as of February 29, 2024	503,472	145,449	6,834	152,283
Cash distribution	—	—	(5,769)	(5,769)
Net income	—	—	5,570	5,570
Balance as of August 31, 2024	503,472	¥ 145,449	¥ 6,635	¥ 152,084

	Number of Units (Note 6)	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of February 29, 2024	503,472	\$1,004,482	\$ 47,196	\$1,051,678
Cash distribution	—	—	(39,841)	(39,841)
Net income	—	—	38,466	38,466
Balance as of August 31, 2024	503,472	\$1,004,482	\$ 45,821	\$1,050,303

The accompanying notes are an integral part of these financial statements.

## Statements of Cash Flows

### Nippon Accommodations Fund Inc.

For the six-month periods ended August 31, 2024, February 29, 2024 and August 31, 2023

	Yen in millions			U.S. dollars in thousands (Note 1)
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023	37th Period March 1, 2024 to August 31, 2024
<b>Cash Flows from Operating Activities:</b>				
Income before income taxes	¥ 5,571	¥ 5,770	¥ 5,893	\$ 38,473
Depreciation and amortization	1,897	1,900	1,930	13,100
Amortization of investment unit issuance expenses	—	2	5	—
Amortization of bond issue costs	3	3	3	20
Interest expense	414	402	406	2,859
(Increase) Decrease in rent receivables	124	(43)	20	856
Increase (Decrease) in accounts payable	223	(360)	538	1,540
Increase (Decrease) in rents received in advance	0	39	(14)	0
Decrease in investment properties due to sales	—	—	754	—
Cash payments of interest expense	(411)	(404)	(401)	(2,838)
Other, net	70	(3)	48	483
<b>Net Cash Provided by Operating Activities</b>	<b>7,892</b>	<b>7,307</b>	<b>9,185</b>	<b>54,502</b>
<b>Cash Flows from Investing Activities:</b>				
Payments for purchases of investment properties	(1,159)	(4,669)	(895)	(8,004)
Purchase of intangible assets	—	(39)	—	—
Payments for security deposits paid to lessors	(56)	0	—	(386)
Proceeds from tenant security deposits	300	266	303	2,071
Payments for tenant security deposits	(309)	(219)	(393)	(2,133)
Other, net	(11)	(3)	(9)	(75)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>(1,237)</b>	<b>(4,665)</b>	<b>(994)</b>	<b>(8,542)</b>
<b>Cash Flows from Financing Activities:</b>				
Proceeds from short-term loans	4,000	4,000	4,000	27,624
Repayment of short-term loans	(4,000)	(4,000)	(4,000)	(27,624)
Proceeds from long-term loans	7,000	7,000	10,500	48,342
Repayment of long-term loans	(8,500)	(7,000)	(11,500)	(58,701)
Payment of distribution	(5,768)	(5,359)	(5,425)	(39,834)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(7,268)</b>	<b>(5,359)</b>	<b>(6,425)</b>	<b>(50,193)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(613)</b>	<b>(2,717)</b>	<b>1,764</b>	<b>(4,233)</b>
Cash and Cash Equivalents at the Beginning of the Period	14,154	16,872	15,107	97,748
<b>Cash and Cash Equivalents at the End of the Period (Note 2)</b>	<b>¥ 13,541</b>	<b>¥ 14,154</b>	<b>¥ 16,872</b>	<b>\$ 93,515</b>

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

Nippon Accommodations Fund Inc.

For the six-month periods ended August 31, 2024, February 29, 2024 and August 31, 2023

## Note 1 Organization and Basis of Presentation

### Organization

Nippon Accommodations Fund Inc. (hereinafter "NAF") was established on October 12, 2005 as an investment corporation under the Act on Investment Trusts and Investment Corporations with Mitsui Fudosan Accommodations Fund Management Co., Ltd. (hereinafter "MFAFM") acting as a sponsor. Registration with the Kanto Local Finance Bureau of the Ministry of Finance was completed on November 11, 2005 and NAF started acquisition of properties on November 30, 2005.

NAF is an externally managed real estate fund, formed as an investment corporation. MFAFM, as NAF's asset management company, is engaged in the acquisition, management, and renovation of accommodation assets. MFAFM is a 100% subsidiary of Mitsui Fudosan Co., Ltd.

On August 3, 2006, NAF had raised approximately ¥40,000 million through an initial public offering of investment units. Those investment units are listed on the J-REIT section of the Tokyo Stock Exchange.

As of August 31, 2024, NAF had ownership and/or beneficiary interests in 136 properties containing approximately 542,534 square meters of rentable space. As of August 31, 2024, NAF had leased approximately 524,973 square meters to tenants. The occupancy rate for the properties was approximately 96.8%.

### Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Act on Investment Trusts and Investment Corporations and the Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English from the financial statements of NAF prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. NAF does not prepare consolidated financial statements, as NAF has no subsidiaries.

Amounts less than 1 million yen have been omitted. As a result, the totals in Japanese yen shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the approximate exchange rate on August 31, 2024, which was ¥144.80 to U.S.\$1.00. The convenience translation should not be construed as representation that the Japanese yen amounts have been, or could in future be, converted into U.S. dollars at this or any other rate of exchange.

## Note 2 Summary of Significant Accounting Policies

### Cash and Cash Equivalents

NAF considers all highly liquid investments with original maturity of three months or less to be cash and cash equivalents.

### Investment Properties

Investment properties are recorded at cost, which includes the purchase price and related costs and expenses for acquisition of the properties and the beneficiary interests of properties in trust. Property and equipment balances are depreciated using the straight-line method over the estimated useful lives. The estimated useful lives of the principal investment properties (including assets held in trust) are as follows:

Buildings and improvements	2-63 years
Structures	2-60 years
Machinery and equipment	2-45 years
Tools, furniture and fixtures	2-15 years

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add value to or prolong the useful life of a property, are expensed as incurred.

### Deferred Assets

Investment unit issuance expenses are capitalized and amortized over the period of three years using the straight-line method.

Bond issue costs are amortized over the period of the bonds using the straight-line method.



## Income Taxes

The tax effect of temporary differences between the amounts of assets and liabilities for financial statements and for income tax purposes is recognized as deferred taxes.

## Revenue Recognition

The nature of principal performance obligations for NAF regarding revenue from contracts with customers and the normal timing when those performance obligations are satisfied (i.e. normal timing when revenue is recognized) are as described below.

### Sale of investment properties

For sale of investment properties, revenue is recognized when the control of the investment property, etc. is obtained by a purchaser, which is a customer, through fulfillment of the delivery obligations specified in the contract for the sale of the investment property. In the statement of income, the amount obtained by deducting "cost of investment properties sold," determined by the book value of the real estate properties sold, and "other sales expenses," determined by the expenses directly incurred through the sales, from "revenues from sale of investment properties," determined by the proceeds from sale of investment properties, is presented as either "gain on sale of investment properties" or "loss on sale of investment properties."

## Real Estate Taxes

Properties are subject to taxes including property tax, city planning tax and depreciable asset tax. Taxes for each fiscal period are charged to expense on an accrual basis.

The owner of properties is registered in a record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record, as of January 1, based on the assessment made by the local government.

Even when a property is purchased on a date other than January 1 of any given calendar year, these taxes for that year are imposed on the seller. The buyer pays the seller the corresponding tax amounts for the period from the property's transfer date to December 31 of that year as part of the purchase prices of each property, and capitalizes these amounts as the cost of the property. Capitalized property tax for the period ended February 29, 2024 amounted to ¥4 million. No property tax was capitalized for the period ended August 31, 2024.

## Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate

For trust beneficiary interests in real estate, all assets and liabilities associated with assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheet and income statement accounts.

### Note 3 Significant Accounting Estimates

## Impairment of Investment Properties and Other Assets

### (1) Carrying amount in the financial statements

	Yen in millions	
	As of August 31, 2024	As of February 29, 2024
Investment properties	¥308,472	¥309,209
Other assets	655	655

### (2) Information on the details of the significant accounting estimates for identified items

In accordance with the Accounting Standard for Impairment of Fixed Assets, NAF has applied the accounting treatment to reduce the book value of investment properties and other assets to a recoverable amount when the invested amount is deemed to be unrecoverable due to lowered profitability.

In applying the accounting treatment, the respective properties owned by NAF are regarded as a separate asset group, and judgment is made whether it is required to recognize impairment losses when indications of impairment are deemed to exist for the group due to continuous operating losses, a significant drop in the market value or significant deterioration of the business environment, etc.

Future cash flow estimates are used to determine whether or not to recognize impairment losses. When it is determined that impairment losses should be recognized, the book value is reduced to the recoverable amount, and the reduced amount is recorded as impairment losses.

In calculating the future cash flows, the underlying rent, occupancy rate and real estate rental expenses, etc. are determined by comprehensively taking into account the market trends and transaction cases of similar properties, etc.

The performance and the market value of each property may be affected by the trends in the real estate rental market and real estate transaction market. Accordingly, changes to the assumptions for the estimate may affect the financial position and results of operation of NAF in the following fiscal period.

**Note 4 Schedule of Investment Properties**

Investment properties as of August 31, 2024 and February 29, 2024 consisted of the following:

	Yen in millions					
	As of August 31, 2024			As of February 29, 2024		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 158,305	¥ —	¥ 158,305	¥ 158,303	¥ —	¥ 158,303
Land in trust	56,171	—	56,171	56,171	—	56,171
Land including trust total	214,477	—	214,477	214,475	—	214,475
Buildings and improvements	106,803	(38,469)	68,333	105,846	(37,141)	68,705
Buildings and improvements in trust	38,556	(15,462)	23,094	38,366	(15,048)	23,317
Buildings and improvements including those in trust total	145,360	(53,931)	91,428	144,213	(52,190)	92,023
Structures	1,802	(1,239)	563	1,801	(1,211)	590
Machinery and equipment	2,555	(2,000)	554	2,522	(1,959)	562
Tools, furniture and fixtures	1,701	(1,261)	439	1,620	(1,219)	401
Construction in process	82	—	82	289	—	289
Structures in trust	1,144	(619)	525	1,131	(602)	529
Machinery and equipment in trust	734	(558)	176	725	(548)	176
Tools, furniture and fixtures in trust	629	(479)	150	606	(463)	143
Construction in process in trust	73	—	73	17	—	17
Other investment properties total	8,723	(6,157)	2,566	8,716	(6,004)	2,711
Total	¥ 368,561	¥ (60,089)	¥ 308,472	¥ 367,404	¥ (58,194)	¥ 309,209

**Note 5 Short-Term Loans and Long-Term Debt**

The annual interest rate on short-term loans as of August 31, 2024 was 0.5% and the rate as of February 29, 2024 was 0.1%. Long-term debt consists of the following:

	Yen in millions	
	As of August 31, 2024	As of February 29, 2024
Unsecured loans due 2024 to 2035 principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 1.6%	¥156,000	¥157,500
0.260% unsecured bonds due 2025	2,000	2,000
0.520% unsecured bonds due 2030	2,000	2,000
0.320% unsecured bonds due 2029	1,000	1,000
0.390% unsecured bonds due 2031	2,000	2,000
0.680% unsecured bonds due 2036	1,000	1,000
	¥164,000	¥165,500

The annual maturities of long-term debt as of August 31, 2024 were as follows:

	Yen in millions
Due after one to two years	¥21,500
Due after two to three years	22,000
Due after three to four years	26,000
Due after four to five years	17,500
Due after five years	60,500

NAF currently has commitment line contracts of ¥15,000 million with three financial institutions. The unused amount of such commitment line was ¥15,000 million as of August 31, 2024.

**Note 6 Unitholders' Capital**

	As of August 31, 2024	As of February 29, 2024	As of August 31, 2023
Total number of common units authorized	4,000,000	4,000,000	4,000,000
Total number of common units issued and outstanding	503,472	503,472	503,472

NAF shall maintain minimum net assets of at least ¥50 million as required by the Act on Investment Trusts and Investment Corporations.

**Note 7 Rental Revenues and Expenses**

Rental revenues and expenses for the periods ended August 31, 2024, February 29, 2024 and August 31, 2023 were as follows:

	Yen in millions		
	<b>37th Period</b> March 1, 2024 to August 31, 2024	<b>36th Period</b> September 1, 2023 to February 29, 2024	<b>35th Period</b> March 1, 2023 to August 31, 2023
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥ 11,587	¥ 11,563	¥ 11,404
Facility charge	524	523	524
Subtotal	12,112	12,087	11,929
Other revenues related to property leasing:			
Income from leasing rights, etc.	449	379	434
Utilities income	22	22	21
Other miscellaneous income	118	97	116
Subtotal	590	498	571
Total revenues from property leasing	12,703	12,586	12,500
Rental Expenses:			
Property management fees	1,302	1,279	1,285
Repairs and maintenance	679	523	689
Real estate taxes	679	667	671
Trust fees	9	9	9
Utilities	141	139	180
Insurance	33	32	32
Depreciation and amortization	1,897	1,900	1,930
Leasing-related service fees, etc.	181	133	181
Other rental expenses	356	314	348
Total rental expenses	5,282	5,001	5,329
Operating income from property leasing activities	¥ 7,421	¥ 7,584	¥ 7,171

**Note 8 Breakdown of Gain on Sale of Investment Properties**

Gain on sale of investment properties for the periods ended August 31, 2024, February 29, 2024 and August 31, 2023 were as follows:

**37th Period (March 1, 2024 to August 31, 2024)**

None applicable

**36th Period (September 1, 2023 to February 29, 2024)**

None applicable

**35th Period (March 1, 2023 to August 31, 2023)**

Dormy Ashiya	Yen in millions
Revenues from sale of investment properties	¥1,304
Cost of investment properties sold	754
Other sales expenses	1
Gain on sale of investment properties	¥548

**Note 9 Leases**

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of August 31, 2024 and February 29, 2024, future minimum rental revenues under the non-cancelable operating leases were as follows:

	Yen in millions	
	As of August 31, 2024	As of February 29, 2024
Due within one year	¥ 668	¥ 718
Due after one year	2,066	2,266
Total	¥2,735	¥2,985

**Note 10 Income Taxes**

NAF is subject to income taxes in Japan. The effective tax rates on NAF's income based on applicable Japanese tax law were 0.01%, 0.02% and 0.01% for the periods ended August 31, 2024, February 29, 2024 and August 31, 2023, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023
Statutory effective tax rate	31.46%	31.46%	31.46%
Deductible distributions paid	(31.46)	(31.45)	(28.61)
Others	0.01	0.01	(2.84)
Effective tax rate	0.01%	0.02%	0.01%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of August 31, 2024 and February 29, 2024 were as follows:

	Yen in thousands	
	As of August 31, 2024	As of February 29, 2024
Deferred tax assets:		
Enterprise taxes	¥9	¥16
Total deferred tax assets	9	16
Net deferred tax assets	¥9	¥16

NAF was established as an investment corporation under the Act on Investment Trusts and Investment Corporations, and as long as an investment corporation distributes to its unitholders at least 90% of earnings available for dividends for a period and other requirements prescribed in Japanese tax regulations are met, the investment corporation is allowed to deduct the total amount of distributions paid in calculating its taxable income under Japanese tax regulations.

#### Note 11 Per Unit Information

Information about earnings per unit for the periods ended August 31, 2024, February 29, 2024 and August 31, 2023 and net assets per unit as of August 31, 2024, February 29, 2024 and August 31, 2023 were as follows.

The computation of earnings per unit is based on the weighted average number of common units outstanding during the period. The computation of net assets per unit is based on the number of common units outstanding at the end of each period.

	Yen		
	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	35th Period March 1, 2023 to August 31, 2023
Earnings per Unit:			
Net income	¥ 11,063	¥ 11,459	¥ 11,703
Weighted average number of common units outstanding	503,472	503,472	503,472
	As of August 31, 2024	As of February 29, 2024	As of August 31, 2023
Net Assets per Unit	¥ 302,072	¥ 302,467	¥ 301,653

#### Note 12 Transactions with Related Parties

(For the six-month period ended August 31, 2024)

- (1) Parent Company and Major Corporate Unitholders: None applicable
- (2) Affiliates: None applicable
- (3) Sister Companies: None applicable
- (4) Directors and Major Individual Unitholders: None applicable

(For the six-month period ended February 29, 2024)

- (1) Parent Company and Major Corporate Unitholders: None applicable
- (2) Affiliates: None applicable
- (3) Sister Companies: None applicable
- (4) Directors and Major Individual Unitholders: None applicable

(For the six-month period ended August 31, 2023)

- (1) Parent Company and Major Corporate Unitholders: None applicable
- (2) Affiliates: None applicable
- (3) Sister Companies: None applicable
- (4) Directors and Major Individual Unitholders: None applicable

(March 1, 2024 - August 31, 2024)

## 1. Status of Financial Instruments

### (1) Policy for Financial Instruments

NAF procures funds for acquisition of assets and other uses through bank loans, issuance of bonds and investment units.

NAF may enter into derivative transactions solely for the purpose of hedging interest rate risk. Currently, NAF is not engaged in any derivative transactions. NAF strives for efficiency in its funding plans and has an operating policy of minimizing surplus funds.

### (2) Financial Instruments, Their Risks and Risk Management System

Funds from loans and bonds are primarily used to acquire assets and repay interest-bearing debt. NAF manages associated liquidity and interest rate fluctuation risks by diversifying its credit sources and maturities, and by mainly using fixed-rate loans.

### (3) Supplemental Explanation regarding Fair Values of Financial Instruments

Since certain assumptions and factors are used in calculating fair values of financial instruments, the values may differ if different assumptions and factors are used.



## 2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of August 31, 2024 were as follows. Notes on the fair values of “cash and cash equivalents” and “short-term loans” have been omitted as they are cash or the book value of these liabilities is considered to approximate fair value because these instruments are settled within a short period of time. The information on “tenant security deposits” has also been omitted as it is immaterial.

	Yen in millions		
	Book value	Fair value	Difference
(1) Bonds due within one year	¥ 2,000	¥ 1,995	¥ (4)
(2) Long-term loans due within one year	14,500	14,509	9
(3) Bonds	6,000	5,797	(202)
(4) Long-term loans	¥ 141,500	¥ 139,975	¥ (1,524)

Notes: 1. Methods to estimate fair value of financial instruments

(1) Bonds due within one year, (2) Long-term loans due within one year, (3) Bonds and (4) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new financing was arranged. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates within a short period of time.

2. Repayment schedule for loans and bonds after August 31, 2024

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Bonds	¥ 2,000	¥ —	¥ —	¥ —	¥ —	¥ 6,000
Long-term loans	14,500	21,500	22,000	26,000	17,500	54,500
Total	¥ 16,500	¥ 21,500	¥ 22,000	¥ 26,000	¥ 17,500	¥ 60,500

(September 1, 2023 to February 29, 2024)

## 1. Status of Financial Instruments

Same as above.

## 2. Estimated Fair Value of Financial Instruments

Book value, fair value and the difference between the two as of February 29, 2024 were as follows. Notes on the fair values of “cash and cash equivalents” and “short-term loans” have been omitted as they are cash or the book value of these liabilities is considered to approximate fair value because these instruments are settled within a short period of time. The information on “tenant security deposits” has also been omitted as it is immaterial.

	Yen in millions		
	Book value	Fair value	Difference
(1) Long-term loans due within one year	¥ 14,500	¥ 14,549	¥ 49
(2) Bonds	8,000	7,832	(167)
(3) Long-term loans	¥ 143,000	¥ 142,130	¥ (869)

Notes: 1. Methods to estimate fair value of financial instruments

(1) Long-term loans due within one year, (2) Bonds and (3) Long-term loans

Fair values of fixed-rate instruments are based on the present value of principal and interest cash flows discounted at the current interest rate estimated to be applied if similar new financing was arranged. Fair values of variable-rate instruments are considered to be their book values because these instruments reflect market interest rates within a short period of time.

2. Repayment schedule for loans and bonds after February 29, 2024

	Yen in millions					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Bonds	¥ —	¥ 2,000	¥ —	¥ —	¥ —	¥ 6,000
Long-term loans	14,500	19,500	23,500	23,000	19,000	58,000
Total	¥ 14,500	¥ 21,500	¥ 23,500	¥ 23,000	¥ 19,000	¥ 64,000

## Note 14 Investment and Rental Properties

(March 1, 2024 - August 31, 2024)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of March 1, 2024	Change during the 37th Period	As of August 31, 2024	As of August 31, 2024
¥309,558	¥(586)	¥308,971	¥487,916

- Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.  
2. In "Change during the 37th Period," the main factor for the increase in book value was capital expenditures. The main factor for the decrease in book value was depreciation.  
3. "Fair value as of August 31, 2024" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended August 31, 2024 is disclosed in Note 7, Rental Revenues and Expenses.

(September 1, 2023 - February 29, 2024)

NAF owns rental properties including land located in Tokyo and other areas. The book value, net changes in the book value and the fair value of the investment and rental properties were as follows.

Yen in millions			
Book value			Fair value
As of September 1, 2023	Change during the 36th Period	As of February 29, 2024	As of February 29, 2024
¥307,043	¥2,514	¥309,558	¥479,203

- Notes: 1. "Book value" is the acquisition cost inclusive of acquisition expenses less accumulated depreciation and excluding expenses for construction in process.  
2. In "Change during the 36th Period," the main factor for the increase in book value was the acquisition of properties for ¥3,386 million. The main factor for the decrease in book value was depreciation.  
3. "Fair value as of February 29, 2024" is based on appraisals provided by independent real estate appraisers.

Information about profit and loss from investment and rental properties for the period ended February 29, 2024 is disclosed in Note 7, Rental Revenues and Expenses.

## Note 15 Revenue Recognition

(March 1, 2024 - August 31, 2024)

### Information on disaggregation of revenue from contracts with customers

For information on disaggregation of revenue from contracts with customers, please refer to Note 7 "Rental Revenues and Expenses." Note that revenues based on ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" are included in Note 7 "Rental Revenues and Expenses." Revenue from contracts with customers is primarily "utilities income."

(September 1, 2023 - February 29, 2024)

### Information on disaggregation of revenue from contracts with customers

For information on disaggregation of revenue from contracts with customers, please refer to Note 7 "Rental Revenues and Expenses." Note that revenues based on ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" are included in Note 7 "Rental Revenues and Expenses." Revenue from contracts with customers is primarily "utilities income."

(March 1, 2023 - August 31, 2023)

### Information on disaggregation of revenue from contracts with customers

For information on disaggregation of revenue from contracts with customers, please refer to Note 7 "Rental Revenues and Expenses" and Note 8 "Breakdown of Gain on Sale of Investment Properties." Note that revenues based on ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" are included in Note 7 "Rental Revenues and Expenses."

Revenue from contracts with customers is primarily "revenues from sale of investment properties" and "utilities income."

Note 16	Segment Information
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(March 1, 2024 - August 31, 2024)

### 1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

### 2. Related Information

#### (1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

#### (2) Information by Geographic Areas

##### 1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

##### 2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

#### (3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Residential Lease Co., Ltd.	¥12,007	Real estate leasing business

(September 1, 2023 - February 29, 2024)

### 1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

### 2. Related Information

#### (1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

#### (2) Information by Geographic Areas

##### 1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

##### 2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

#### (3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Residential Lease Co., Ltd.	¥11,890	Real estate leasing business

(March 1, 2023 - August 31, 2023)

### 1. Segment Information

Segment information has been omitted as NAF has only one segment, which is real estate leasing business.

### 2. Related Information

#### (1) Information by Products and Services

Disclosure of this information has been omitted as NAF has a single product/service line that accounts for more than 90% of total revenues.

#### (2) Information by Geographic Areas

##### 1) Operating revenues

Disclosure of this information has been omitted as total domestic revenues account for more than 90% of total revenues.

##### 2) Investment properties

Disclosure of this information has been omitted as total domestic investment properties account for more than 90% of the book value of total investment properties.

#### (3) Information on Major Tenants

Tenant	Operating revenues (Yen in millions)	Related segment
Mitsui Fudosan Residential Lease Co., Ltd.	¥11,867	Real estate leasing business

Note 17	Significant Subsequent Events
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None applicable

# Independent Auditor's Report



## Independent auditor's report

To the Board of Directors of Nippon Accommodations Fund Inc.:

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Nippon Accommodations Fund Inc. ("the Company"), which comprise the balance sheets as at August 31, 2024 and February 29, 2024, the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended August 31, 2024, February 29, 2024 and August 31, 2023, a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2024 and February 29, 2024, and its financial performance and its cash flows for each of the six months ended August 31, 2024, February 29, 2024 and August 31, 2023 in accordance with accounting principles generally accepted in Japan.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

The other information comprises the information included in the NAF Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. Supervisory Directors are responsible for overseeing the executive director's performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Supervisory directors are responsible for overseeing the executive director's performance of their duties with regard to the design, implementation and maintenance of the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the executive director regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the executive director with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with him all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

#### Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company for the six months from March 1, 2024 to August 31, 2024 are 12 million yen and 0.2 million yen, respectively.

#### Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended August 31, 2024 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

#### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/Jiro Tazawa

Designated Engagement Partner

Certified Public Accountant

/S/Takashi Matsui

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

November 27, 2024

#### Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.