



Nippon Accommodations Fund Inc.

NAF REPORT

38th Period

September 1, 2024 – February 28, 2025

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)
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	38th Period September 1, 2024 to February 28, 2025
Total revenues	¥ 12,828	¥ 12,703	¥ 12,586	\$ 85,708
Rental revenues	12,302	12,112	12,087	82,194
Other revenues related to property leasing	526	590	498	3,514
Operating expenses	6,626	6,712	6,415	44,270
Income before income taxes	5,794	5,571	5,770	38,711
Net income (a)	5,793	5,570	5,769	38,705
Funds from operations (Note 2)	7,696	7,467	7,670	51,419
Net operating income from property leasing activities (Note 2)	9,557	9,318	9,485	63,853
Total amount of cash distribution (b)	5,792	5,570	5,769	38,698
Depreciation and amortization	1,903	1,897	1,900	12,714
Capital expenditures	1,067	1,183	938	7,129
Total assets (c)	326,912	325,693	327,134	2,184,218
Interest-bearing debt	167,000	166,000	167,500	1,115,788
Total net assets (d)	152,307	152,084	152,283	1,017,618
Total number of common units issued (Units) (e)	503,472	503,472	503,472	
Net assets per unit (Yen/\$) (d) / (e) (Note 3)	60,502	60,414	60,493	404.23
Distribution per unit (Yen/\$) (b) / (e)	11,506	11,064	11,459	76.87
Funds from operations per unit (Yen/\$) (Note 2)	15,286	14,832	15,234	102.13
ROA (Note 4)	1.8%	1.7%	1.8%	
(Annual rate)	(3.6%)	(3.4%)	(3.5%)	
ROE (Note 4)	3.8%	3.7%	3.8%	
(Annual rate)	(7.7%)	(7.3%)	(7.6%)	
LTV (Loan-to-value) ratio (Note 2)	51.1%	51.0%	51.2%	
Capital ratio (d) / (c)	46.6%	46.7%	46.6%	
Payout ratio (b) / (a) (Note 5)	100.0%	100.0%	100.0%	
Number of days in the period	181	184	182	
Number of investment properties (Note 6)	138	136	136	
Total rentable area (m ²)	547,528	542,534	542,534	
The occupancy rate at the end of the period (Note 6)	98.0%	96.8%	97.2%	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥149.67 = U.S.\$1.00, the approximate exchange rate as of February 28, 2025.

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. NAF implemented a five-for-one split of investment units with the effective date of March 1, 2025. "Net assets per unit" is calculated on the assumption that this split of investment units was implemented at the beginning of the period ended February 29, 2024.

4. 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 February 28, 2025: Amount for the period ÷ Actual days in the period (181) × 365 days

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

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

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

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

6. "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 February 28, 2025 (the “38th Period”), the Japanese economy continued to show signs of gradual recovery, although the economic recovery has continued to stall in some areas. Personal consumption was firm against a backdrop of improvement in the employment and income situation, continuing from the previous period, despite the impact of rising prices. On the other hand, the recovery in capital investment has progressed amid strong corporate earnings. In addition, a record-high number of foreign tourists visiting Japan was recorded in 2024, 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 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.

During the period under review, NAF acquired a total of 2 properties, Kuretake Inn Asahikawa in October 2024 and Park Cube Kameari in February 2025 (total acquisition price: ¥1,636 million).

As a result, NAF’s portfolio as of February 28, 2025 consisted of 138 properties valued at ¥343,774 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 97.8% at the end of the period under review, and rent change before and after turnover was 7.7 % at the time of tenant turnover which has been increasing for the last six 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” ^(Note), 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 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 Cube Kanda 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 February 28, 2025 remained at a high level of 98.0%.

Consequently, for the 38th Period, NAF recorded total revenues of ¥12,828 million, operating income of ¥6,202 million, income before income taxes of ¥5,794 million and net income of ¥5,793 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 February 28, 2025 increased from August 31, 2024 by ¥1,218 million to ¥326,912 million. Total current assets increased by ¥97 million to ¥15,243 million and total investment properties net of accumulated depreciation increased by ¥1,153 million to ¥309,625 million compared with August 31, 2024 as a result of NAF's acquisition of 2 properties (acquisition price of ¥1,636 million), in addition to 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 ¥167,000 million, the long-term debt ratio was 98.8%, the long-term fixed-rate debt ratio was 91.6%, and the loan-to-value (LTV) ratio was 51.1%. The average remaining maturity of long-term interest-bearing debt was 4.1 years and the number of financial institutions from which NAF procures funds was 28. Furthermore, the weighted average interest rate at the end of the period was 0.54%.

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 ¥152,307 million as of February 28, 2025. Unitholders' capital was unchanged at ¥145,449 million, and retained earnings increased to ¥6,857 million as of February 28, 2025 from ¥6,635 million as of August 31, 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 38th Period, cash distributions totaled ¥5,792,948,832, or ¥11,506 per unit.

Yen in thousands, except per unit amounts			
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024
Retained earnings	¥5,793,145	¥5,570,459	¥5,769,486
Undistributed earnings	197	45	200
Total cash distribution	5,792,948	5,570,414	5,769,285
(Per unit)	11,506	11,064	11,459
Distribution of retained earnings	5,792,948	5,570,414	5,769,285
(Per unit)	11,506	11,064	11,459
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 February 28, 2025, 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
March 1, 2025	Split of investment units	2,013,888	2,517,360	–	145,449	Note 3

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.

3. NAF implemented a five-for-one split of investment units with the effective date of March 1, 2025.

Market Price of Units

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

	38th Period September 1, 2024 to February 28, 2025	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
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Highest	¥665,000 (Note) 115,700	¥677,000	¥667,000	¥682,000	¥688,000
Lowest	563,000 (Note) 115,200	566,000	568,000	577,000	566,000

Note: Unit prices are for the term following the ex-rights date (February 27-28, 2025) for the investment unit split.

Borrowings

Borrowings from financial institutions as of February 28, 2025 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	0.83682%	May 30, 2025	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
Total short-term loans	¥2,000					

Long-term loans (Note 8)

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
Sumitomo Mitsui Banking Corporation	¥ 1,500	0.73318% (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	0.68818% (Note 5)	August 31, 2027			
	2,000	0.22000%	September 30, 2025			
	1,500	0.74955% (Note 6)	August 31, 2028			
	1,000	0.73500%	September 28, 2029			
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.	1,500	0.29000%	May 29, 2026			
	1,000	0.48000%	March 31, 2031			
	1,000	0.53000%	June 30, 2031			
	1,000	1.24300%	August 31, 2034			
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	0.24000%	January 5, 2026			
	1,000	0.36000%	June 28, 2028			
	2,000	0.68800%	July 31, 2031			
	1,000	1.07300%	November 29, 2030			
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	0.92455% (Note 6)	May 31, 2034			
	2,000	0.92455% (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	0.26930%	January 31, 2028			
	3,000	0.38178%	December 29, 2028			
	2,000	0.96390% (Note 7)	January 31, 2034			
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	0.80455% (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			
The Iyo Bank, Ltd.	1,000	0.80455% (Note 6)	March 31, 2032			
The Yamanashi Chuo Bank, Ltd.	1,000	0.31630%	June 30, 2026			
	1,000	0.45000%	December 17, 2029			
	1,000	0.65000%	December 16, 2031			

Lender	Balance (Yen in millions)	Interest rate (Note 1)	Date of maturity	Repayment method	Use of funds	Notes
The 77 Bank, Ltd.	¥ 1,000	0.40500%	June 30, 2028	Bullet payment	(Note 3)	Unsecured/ unguaranteed/ pari passu (Note 4)
	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			
Kansai Mirai Bank, Limited	1,000	1.41600%	January 31, 2035			
Saitama Resona Bank, Limited	1,000	1.43700%	January 31, 2035			
Total long-term loans	¥157,000					
Total loans	¥159,000					

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 February 28, 2025 to March 30, 2025.

6. The interest rate is applied from December 30, 2024 to March 30, 2025.

7. The interest rate is applied from January 31, 2025 to March 30, 2025.

8. The expected annual maturities of long-term loans within five years after the balance sheet date are as follows.

(Yen in millions)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount	¥19,500	¥23,500	¥23,000	¥20,000	¥16,500

Bonds

Issue	Issue date	Balance as of February 28, 2025 (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)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Unsecured Bonds	¥2,000	—	—	—	¥1,000

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 (September 1, 2024 to February 28, 2025)	Cumulative amount paid
			(Yen in millions)		
Okawabata Apartment Communities, River Point Tower	Large-scale repair works	From October 2025 to February 2027	¥520	¥—	¥—
Shibaura Island Air Tower	Large-scale repair works	From May 2024 to June 2026	351	83	104
Park Cube Itabashi Honcho	Large-scale repair works	From October 2025 to February 2026	135	—	—
Okawabata Apartment Communities, Okawabata Parking	Renewal of foam fire extinguishing system deluge valve (Phase III)	From November 2025 to February 2026	118	—	—
Park Cube Nihonbashi Suitengu	Large-scale repair works	From November 2024 to April 2025	99	49	49
Park Axis Shin Itabashi	Large-scale repair works	From April 2025 to September 2025	81	—	—
Okawabata Apartment Communities, River Point Tower and Other	Renovation of rentable areas	From March 2025 to August 2025	80	—	—
Dormy Kamisugi	Renovation of rentable areas	From April 2025 to August 2025	80	—	—

2. Capital Expenditures for the Current Period

The following table sets forth the capital expenditures for the current period. NAF posted ¥1,067 million in capital expenditures together with ¥588 million for repairs and maintenance expenses.

Name of property	Objective	Period	Expenditure (Yen in millions)
Okawabata Apartment Communities, Okawabata Parking	Renewal of foam fire extinguishing system deluge valve (Phase II)	From November 2024 to February 2025	¥125
Okawabata Apartment Communities, River Point Tower and Other	Renovation of 6 rentable areas	From September 2024 to February 2025	67
Park Cube Kanda	Large-scale repair works	From May 2024 to October 2024	59
Park Axis Asakusabashi Nichome	Large-scale repair works	From October 2024 to February 2025	56
Park Axis Tameike Sanno	Large-scale repair works	From April 2024 to September 2024	50
Dormy Naka Itabashi	Large-scale repair works	From April 2024 to September 2024	50
Other capital expenditures		From September 2024 to February 2025	657
Total			¥1,067

Expenses regarding Entrustment, etc.

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

	Yen in millions		
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024
Asset management fees	¥ 980	¥ 961	¥ 966
Asset custody fees	15	15	15
Agent fees (stock transfer, accounting and administrative)	30	30	30
Directors' remuneration	7	7	7
Auditor's fees	12	12	12
Other expenses	405	402	382
Total	¥1,452	¥1,429	¥1,413

Related Party Transactions

1. Transactions

None applicable

2. Fees Paid for the Period from September 1, 2024 to February 28, 2025

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	¥836	Mitsui Fudosan Residential Lease Co., Ltd.	¥836	100.0%
Building management fees	430	Mitsui Fudosan Residential Lease Co., Ltd.	425	98.7%
		Mitsui Fudosan Realty Co., Ltd.	5	1.3%
Operation management fees	4	Mitsui Fudosan Investment Advisors, Inc.	4	100.0%
Leasing-related service fees, etc.	156	RESIDENT FIRST CO., LTD.	14	9.1%
		Mitsui Fudosan Realty Tohoku Co., Ltd.	1	0.8%
		Mitsui Fudosan Realty Co., Ltd.	0	0.2%

3. Other Payments to Related Parties (Note 1)

Paid to	Amount of payment (Yen in millions)	Item
Accommodation First Co., Ltd.	¥22	Repair and maintenance costs
Mitsui Fudosan Facilities Co., Ltd.	14	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 February 28, 2025 and August 31, 2024

	Yen in millions		U.S. dollars in thousands (Note 1)
	38th Period As of February 28, 2025	37th Period As of August 31, 2024	38th Period As of February 28, 2025
Assets			
Current assets:			
Cash and cash equivalents (Note 2)	¥ 13,475	¥ 13,541	\$ 90,031
Rent receivables	1,641	1,489	10,964
Other current assets	126	115	841
Total current assets	15,243	15,146	101,844
Investment properties (Note 2, 3, 4):			
Land including trust accounts	215,804	214,477	1,441,865
Depreciable property and improvements including trust accounts	155,811	154,084	1,041,030
Accumulated depreciation	(61,991)	(60,089)	(414,184)
Total investment properties	309,625	308,472	2,068,717
Other assets (Note 3)	2,043	2,075	13,650
Total Assets	¥ 326,912	¥ 325,693	\$2,184,218
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Short-term loans (Note 5)	¥ 2,000	¥ 2,000	\$ 13,362
Bonds due within one year (Note 5, 12)	2,000	2,000	13,362
Long-term loans due within one year (Note 5, 12)	19,500	14,500	130,286
Accounts payable	1,560	1,666	10,422
Rent received in advance	2,097	2,038	14,010
Accrued expenses and other liabilities	224	237	1,496
Total current liabilities	27,382	22,442	182,949
Long-term liabilities:			
Long-term loans (Note 5, 12)	137,500	141,500	918,687
Bonds (Note 5, 12)	6,000	6,000	40,088
Tenant security deposits	3,722	3,666	24,868
Total long-term liabilities	147,222	151,166	983,644
Total Liabilities	¥ 174,605	¥ 173,608	\$1,166,599
Net Assets			
Unitholders' capital (Note 6)	¥ 145,449	¥ 145,449	\$ 971,797
Retained earnings	6,857	6,635	45,814
Total Net Assets	¥ 152,307	¥ 152,084	\$1,017,618
Total Liabilities and Net Assets	¥ 326,912	¥ 325,693	\$2,184,218

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

Statements of Income

Nippon Accommodations Fund Inc.

For the six-month periods ended February 28, 2025, August 31, 2024 and February 29, 2024

	Yen in millions			U.S. dollars in thousands (Note 1)
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	38th Period September 1, 2024 to February 28, 2025
Revenues				
Rental (Note 7, 14)	¥ 12,302	¥ 12,112	¥ 12,087	\$ 82,194
Other revenues related to property leasing (Note 7, 14)	526	590	498	3,514
Total revenues	12,828	12,703	12,586	85,708
Operating Expenses				
Property management fees (Note 7)	1,314	1,302	1,279	8,779
Real estate taxes and insurance (Note 7)	712	712	700	4,757
Repairs and maintenance (Note 7)	588	679	523	3,928
Other rental expenses (Note 7)	655	689	597	4,376
Depreciation and amortization (Note 7)	1,903	1,897	1,900	12,714
Asset management fees	980	961	966	6,547
Other expenses	471	468	447	3,146
Total operating expenses	6,626	6,712	6,415	44,270
Operating Income	6,202	5,991	6,170	41,437
Interest and other income	25	6	16	167
Interest expense	(420)	(414)	(402)	(2,806)
Other expenses	(12)	(12)	(14)	(80)
Income before Income Taxes	5,794	5,571	5,770	38,711
Current and deferred income taxes (Note 9)	0	0	0	0
Net Income	¥ 5,793	¥ 5,570	¥ 5,769	\$ 38,705

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 February 28, 2025, August 31, 2024 and February 29, 2024

	Number of Units (Note 6)	Yen in millions		
		Unitholders' Capital	Retained Earnings	Total
Balance as of September 1, 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
Cash distribution	—	—	(5,570)	(5,570)
Net income	—	—	5,793	5,793
Balance as of February 28, 2025	503,472	¥ 145,449	¥ 6,857	¥ 152,307

	Number of Units (Note 6)	U.S. dollars in thousands (Note 1)		
		Unitholders' Capital	Retained Earnings	Total
Balance as of August 31, 2024	503,472	\$ 971,797	\$ 44,330	\$1,016,128
Cash distribution	—	—	(37,215)	(37,215)
Net income	—	—	38,705	38,705
Balance as of February 28, 2025	503,472	\$ 971,797	\$ 45,814	\$1,017,618

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 February 28, 2025, August 31, 2024 and February 29, 2024

	Yen in millions			U.S. dollars in thousands (Note 1)
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024	38th Period September 1, 2024 to February 28, 2025
Cash Flows from Operating Activities:				
Income before income taxes	¥ 5,794	¥ 5,571	¥ 5,770	\$ 38,711
Depreciation and amortization	1,903	1,897	1,900	12,714
Amortization of investment unit issuance expenses	—	—	2	—
Amortization of bond issue costs	3	3	3	20
Interest expense	420	414	402	2,806
(Increase) Decrease in rent receivables	(151)	124	(43)	(1,008)
Increase (Decrease) in accounts payable	(105)	223	(360)	(701)
Increase (Decrease) in rents received in advance	58	0	39	387
Cash payments of interest expense	(416)	(411)	(404)	(2,779)
Other, net	2	70	(3)	13
Net Cash Provided by Operating Activities	7,509	7,892	7,307	50,170
Cash Flows from Investing Activities:				
Payments for purchases of investment properties	(3,056)	(1,159)	(4,669)	(20,418)
Purchase of intangible assets	—	—	(39)	—
Payments for security deposits paid to lessors	—	(56)	0	—
Proceeds from tenant security deposits	282	300	266	1,884
Payments for tenant security deposits	(227)	(309)	(219)	(1,516)
Other, net	(3)	(11)	(3)	(20)
Net Cash Provided by (Used in) Investing Activities	(3,004)	(1,237)	(4,665)	(20,070)
Cash Flows from Financing Activities:				
Proceeds from short-term loans	4,000	4,000	4,000	26,725
Repayment of short-term loans	(4,000)	(4,000)	(4,000)	(26,725)
Proceeds from long-term loans	7,000	7,000	7,000	46,769
Repayment of long-term loans	(6,000)	(8,500)	(7,000)	(40,088)
Payment of distribution	(5,570)	(5,768)	(5,359)	(37,215)
Net Cash Provided by (Used in) Financing Activities	(4,570)	(7,268)	(5,359)	(30,533)
Net Change in Cash and Cash Equivalents	(65)	(613)	(2,717)	(434)
Cash and Cash Equivalents at the Beginning of the Period	13,541	14,154	16,872	90,472
Cash and Cash Equivalents at the End of the Period (Note 2)	¥ 13,475	¥ 13,541	¥ 14,154	\$ 90,031

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 February 28, 2025, August 31, 2024 and February 29, 2024

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 February 28, 2025, NAF had ownership and/or beneficiary interests in 138 properties containing approximately 547,528 square meters of rentable space. As of February 28, 2025, NAF had leased approximately 536,712 square meters to tenants. The occupancy rate for the properties was approximately 98.0%.

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 February 28, 2025, which was ¥149.67 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 28, 2025 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 February 28, 2025	As of August 31, 2024
Investment properties	¥309,625	¥308,472
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 about 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 February 28, 2025 and August 31, 2024 consisted of the following:

	Yen in millions					
	As of February 28, 2025			As of August 31, 2024		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 159,633	¥ —	¥ 159,633	¥ 158,305	¥ —	¥ 158,305
Land in trust	56,171	—	56,171	56,171	—	56,171
Land including trust total	215,804	—	215,804	214,477	—	214,477
Buildings and improvements	107,948	(39,793)	68,154	106,803	(38,469)	68,333
Buildings and improvements in trust	38,846	(15,877)	22,968	38,556	(15,462)	23,094
Buildings and improvements including those in trust total	146,794	(55,671)	91,123	145,360	(53,931)	91,428
Structures	1,806	(1,266)	539	1,802	(1,239)	563
Machinery and equipment	2,634	(2,043)	591	2,555	(2,000)	554
Tools, furniture and fixtures	1,775	(1,311)	464	1,701	(1,261)	439
Construction in process	81	—	81	82	—	82
Structures in trust	1,145	(635)	510	1,144	(619)	525
Machinery and equipment in trust	737	(567)	170	734	(558)	176
Tools, furniture and fixtures in trust	646	(495)	151	629	(479)	150
Construction in process in trust	188	—	188	73	—	73
Other investment properties total	9,017	(6,319)	2,697	8,723	(6,157)	2,566
Total	¥ 371,616	¥ (61,991)	¥ 309,625	¥ 368,561	¥ (60,089)	¥ 308,472

Note 5 Short-Term Loans and Long-Term Debt

The annual interest rate on short-term loans as of February 28, 2025 was 0.8% and the rate as of August 31, 2024 was 0.5%. Long-term debt consists of the following:

	Yen in millions	
	As of February 28, 2025	As of August 31, 2024
Unsecured loans due 2025 to 2035 principally from banks and insurance companies with interest rates mainly ranging from 0.2% to 1.6%	¥157,000	¥156,000
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
	¥165,000	¥164,000

The annual maturities of long-term debt as of February 28, 2025 were as follows:

	Yen in millions
Due after one to two years	¥23,500
Due after two to three years	23,000
Due after three to four years	20,000
Due after four to five years	17,500
Due after five years	59,500

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 February 28, 2025.

Note 6 Unitholders' Capital

	As of February 28, 2025	As of August 31, 2024	As of February 29, 2024
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 February 28, 2025, August 31, 2024 and February 29, 2024 were as follows:

	Yen in millions		
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024
Revenues from Property Leasing:			
Rental:			
Rental revenues	¥ 11,774	¥ 11,587	¥ 11,563
Facility charge	528	524	523
Subtotal	12,302	12,112	12,087
Other revenues related to property leasing:			
Income from leasing rights, etc.	401	449	379
Utilities income	25	22	22
Other miscellaneous income	99	118	97
Subtotal	526	590	498
Total revenues from property leasing	12,828	12,703	12,586
Rental Expenses:			
Property management fees	1,314	1,302	1,279
Repairs and maintenance	588	679	523
Real estate taxes	679	679	667
Trust fees	9	9	9
Utilities	156	141	139
Insurance	32	33	32
Depreciation and amortization	1,903	1,897	1,900
Leasing-related service fees, etc.	156	181	133
Other rental expenses	333	356	314
Total rental expenses	5,174	5,282	5,001
Operating income from property leasing activities	¥ 7,654	¥ 7,421	¥ 7,584

Note 8 Leases

NAF leases some of its investment properties to outside parties under non-cancelable operating leases. As of February 28, 2025 and August 31, 2024, future minimum rental revenues under the non-cancelable operating leases were as follows:

	Yen in millions	
	As of February 28, 2025	As of August 31, 2024
Due within one year	¥ 699	¥ 668
Due after one year	2,449	2,066
Total	¥3,148	¥2,735

Note 9 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 0.02%, 0.01% and 0.02% for the periods ended February 28, 2025, August 31, 2024 and February 29, 2024, respectively. The following table summarizes the significant differences between the statutory tax rates and NAF's effective tax rates for financial statement purposes.

	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024
Statutory effective tax rate	31.46%	31.46%	31.46%
Deductible distributions paid	(31.45)	(31.46)	(31.45)
Others	0.01	0.01	0.01
Effective tax rate	0.02%	0.01%	0.02%

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of February 28, 2025 and August 31, 2024 were as follows:

	Yen in thousands	
	As of February 28, 2025	As of August 31, 2024
Deferred tax assets:		
Enterprise taxes	¥16	¥9
Total deferred tax assets	16	9
Net deferred tax assets	¥16	¥9

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 10 Per Unit Information

Information about earnings per unit for the periods ended February 28, 2025, August 31, 2024 and February 29, 2024 and net assets per unit as of February 28, 2025, August 31, 2024 and February 29, 2024 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		
	38th Period September 1, 2024 to February 28, 2025	37th Period March 1, 2024 to August 31, 2024	36th Period September 1, 2023 to February 29, 2024
Earnings per Unit:			
Net income	¥ 2,301	¥ 2,212	¥ 2,291
Weighted average number of common units outstanding	2,517,360	2,517,360	2,517,360
	As of February 28, 2025	As of August 31, 2024	As of February 29, 2024
Net Assets per Unit	¥ 60,502	¥ 60,414	¥ 60,493

Note: NAF implemented a five-for-one split of investment units with the effective date of March 1, 2025. "Net income per unit," "Weighted average number of common units outstanding" and "Net assets per unit" are calculated on the assumption that this split of investment units was implemented at the beginning of the period ended February 29, 2024.

Note 11 Transactions with Related Parties

(For the six-month period ended February 28, 2025)

- (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, 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

(September 1, 2024 - February 28, 2025)

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 February 28, 2025 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	¥ 1,996	¥ (3)
(2) Long-term loans due within one year	19,500	19,453	(46)
(3) Bonds	6,000	5,708	(291)
(4) Long-term loans	¥ 137,500	¥ 134,814	¥ (2,685)

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 February 28, 2025

	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	¥ —	¥ —	¥ —	¥ 1,000	¥ 5,000
Long-term loans	19,500	23,500	23,000	20,000	16,500	54,500
Total	¥ 21,500	¥ 23,500	¥ 23,000	¥ 20,000	¥ 17,500	¥ 59,500

(March 1, 2024 to August 31, 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 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

Note 13 Investment and Rental Properties

(September 1, 2024 - February 28, 2025)

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, 2024	Change during the 38th Period	As of February 28, 2025	As of February 28, 2025
¥308,971	¥1,038	¥310,010	¥491,885

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 38th Period," the main factor for the increase in book value was acquisition of properties for ¥1,774 million. The main factor for the decrease in book value was depreciation.
 3. "Fair value as of February 28, 2025" 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 28, 2025 is disclosed in Note 7, "Rental Revenues and Expenses."

(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."

Note 14 Revenue Recognition

(September 1, 2024 - February 28, 2025)

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, 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."

Note 15	Segment Information
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(September 1, 2024 - February 28, 2025)

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.	¥12,110	Real estate leasing business

(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

Note 16 Significant Subsequent Events

Investment Unit Split

As of February 28, 2025 as the record date and March 1, 2025 as the effective date, NAF conducted an investment unit split that divided each investment unit on a five-for-one basis.

1. Purpose of the split

Based on the introduction of the new Nippon Individual Savings Account ("New NISA") starting from January 2024, NAF implemented the split, aiming to create a more accessible investment environment for investors by lowering the amount per investment unit, thereby expanding investors base and improving the liquidity of our investment units.

2. Method of the split

As of February 28, 2025 as the record date, each of the investment units owned by the unitholders who were registered or recorded in the latest register of unitholders was divided on a five-for-one basis.

3. Number of investment units increased through the split

Number of investment units issued before the split:	503,472 units
Number of investment units increased through this split:	2,013,888 units
Number of investment units issued following the split:	2,517,360 units
Total number of units authorized to be issued following the split:	20,000,000 units

Please refer to Note 10, "Per Unit Information," for per unit data assuming that the split of investment units was implemented at the beginning of the period ended February 29, 2024.

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 February 28, 2025 and August 31, 2024, the statements of income, statements of changes in net assets and statements of cash flows for each of the six months ended February 28, 2025, August 31, 2024 and February 29, 2024, 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 February 28, 2025 and August 31, 2024, and its financial performance and its cash flows for each of the six months ended February 28, 2025, August 31, 2024 and February 29, 2024 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.

Emphasis of Matter

We draw attention to Note 16 to the financial statements, which states that the Company conducted an investment unit split.

Our opinion is not modified in respect of this matter.

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 provided to the Company for the six months from September 1, 2024 to February 28, 2025 are 14 million yen, and there are no fees paid or payable for non-audit services.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the period ended February 28, 2025 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/Rumiko Kutsuwada

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
May 28, 2025

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.