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MC-UBS GROUP

Japan Metropolitan Fund Investment Corporation

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Notice Concerning Treatment of Goodwill Generated from the Merger and Revised Forecasts for Operating Results for August 2021 (39th) Fiscal Period

Japan Metropolitan Fund Investment Corporation ("JMF") has revised forecasts for the operating results for the August 2021 (39th) fiscal period (March 1, 2021 to August 31, 2021) announced on October, 16, 2020 in the "Japan Retail Fund Investment Corporation Summary of Financial Results for the Six Months Ended August 31, 2020" in accordance with a determination concerning the treatment of goodwill generated from the merger. Details are as follows.

1. Revised Forecasts for Operating Results for August 2021 (39th) Fiscal Period (March 1, 2021 to August 31, 2021)

	Operating revenues (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distributions per unit (yen) (exclusive of distributions in excess of retained earnings)	Distributions in excess of retained earnings per unit (yen)
Previous forecast (A)	39,633	16,640	14,592	41,855	2,286	0
Revised forecast (B)	40,510	17,122	15,071	15,071	2,286	0
Change (B - A)	876	481	478	-26,784	—	—
Rate of change ((B - A) / A)	2.2%	2.9%	3.3%	-64.0%	—	—

(Note 1) Number of investment units issued at the end of the period is 6,989,091 units.

(Note 2) Figures of less than one unit are truncated and "Rate of change" is calculated by rounding to the first decimal place.

(Note 3) Distributions for the August 2021 (39th) fiscal period in the "Previous forecast (A)" are calculated based on the assumption that a total of 15,977 million yen (distributions per unit: 2,286 yen), the amount after deducting the reversal of retained earnings for temporary difference adjustments amounting to 25,906 million yen (the balance after appropriating 1,357 million yen in merger compensation and merger related expenses to negative goodwill) included in the 27,263 million yen in negative goodwill from retained earnings at the end of the period amounting to 41,855 million yen plus reversal of retained earnings for temporary difference adjustment amounting to 31 million yen, will be distributed.

(Note 4) Distributions for the August 2021 (39th) fiscal period in the "Revised forecast (B)" are calculated based on the assumptions that a total of 15,977 million yen (distributions per unit: 2,286 yen), consist of retained earnings at the end of the period amounting to 15,071 million yen, plus reversal of reserve for temporary difference adjustment amounting to 448 million yen and reversal of reserve for reduction entry amounting to 457 million yen, will be distributed.

(Note 5) Forecasts may be revised if results are expected to deviate from the above forecasts beyond a certain level.

2. Reasons for Revision and Treatment of Goodwill Generated from Merger

With regard to the forecasts for the operating results for the fiscal period ending August 31, 2021 (the 39th fiscal period: from March 1, 2021 to August 31, 2021) announced on October, 16, 2020 in the "Japan Retail Fund Investment Corporation Summary of Financial Results for the Six Months Ended August 31, 2020", the negative goodwill from retained earnings to be recorded from the Merger, the acquisition price by the accounting acquiring corporation (the former Japan Retail Fund Investment Corporation) was expected to exceed the net assets at market value of the accounting acquired corporation (MCUBS MidCity Investment Corporation) at the time of the merger, and as a result, the forecasted net income for the fiscal period ending August 31, 2021 is expected to differ by at least 30%.

The negative goodwill expected to arise from the Merger will be recorded as an asset and amortized over 20 years using the straight-line methods in accordance with the Accounting Standard for Business Combinations (Corporate Accounting Standard No. 21, last amended on September 13, 2013). Amortization of goodwill is an item that gives rise to differences in account and tax treatment and is a factor that results in income taxes and so on. However, JMF plans to reduce the incidence of income taxes and so on by distributing amounts equivalent to such amortization through the reversal of voluntary reserves (reserves for adjustment of temporary differences, etc. or reserves for dividends) and distributions in excess of earnings (distributions equivalent to the increase in reserves for adjustment of temporary differences, etc.).

For details, please refer to "3. Assumptions Underlying the Forecast of Operation for August 2021 (39th) Fiscal Period" below.

3. Assumptions Underlying the Forecast of Operation for August 2021 (39th) Fiscal Period

Item	Assumption
Accounting period	August 2021 (39th) Fiscal Period (March 1, 2021 to August 31, 2021) (184 days)
Assets owned	・ We assume that 127 properties and interests in one silent partnership (*tokumei kumiai*) comprising the 125 properties and interests in one silent partnership as of the date of this release plus the two properties specified in the "Notice Concerning Acquisition of Trust Beneficiary Right in JMF-Bldg. Ichigaya 01 and G-Bldg. Shinsaibashi 05" dated April 14, 2021 will be under management. ・ Except the changes described above, we assume that no other (anticipated) changes (new property acquisitions and sales of owned properties etc., excluding reconstruction of current properties) of the acquisitions of new properties and dispositions of current portfolio properties, etc., will occur prior to the end of the August 2021 (39th) fiscal period. ・ The actual number may vary according to the acquisitions of new properties and dispositions of current portfolio properties in the portfolio, etc.
Issue of units	・ We assume that the number of issued investment units of JMF will be a total of 6,989,091 units, comprising the 5,204,966 units outstanding after the investment unit split effected on March 1, 2021 with a record date of February 28, 2021 plus 1,784,125 new units issued due to the Merger. ・ Moreover, we assume that no additional investment units will be issued and no treasury investment units will be acquired or cancelled through the end of the August 2021 (39th) fiscal period.
Interest-bearing debt	・ Interest-bearing debt as of today stands at 538,675 million yen, the breakdown of which is long-term debts of 486,175 million yen and investment corporation bonds (including Green Bonds) of 52,500 million yen. ・ Interest-bearing debt that will come due by the end of the August 2021 (39th) fiscal period amounts to 18,750 million yen in long-term borrowings and 1,500 million yen in investment corporation bonds, but it is assumed that the entire amount will be procured through borrowings as the source of funds for repayment.
Operating revenues	・ With respect to gain on sales of property, we assume that gain on sales of property of 2,101 million yen will be recorded for the August 2021 (39th) fiscal period from the disposition of AEON MALL Yamato (50% quasi-co-ownership interest) and AEON Takatsuki. ・ Rent and other operating revenues are calculated based on the lease contracts effective as of the date of this document. ・ The rent level and estimated rents for the parts of properties that are vacant are calculated taking into account the negotiations with our tenants and other relevant factors that took place until the date of this document. ・ We assume that there will be no arrears or nonpayment of rent by our tenants until the end of the August 2021 (39th) fiscal period. ・ Considering the state of negotiations with the tenants, etc. as of today, certain risks of a potential decrease in revenues due to the impact of COVID-19 are assumed to exist.

Operating expense (excluding goodwill amortization)	・ We assume that taxes and public charge of 3,410 million yen in the August 2021 (39th) fiscal period, respectively. ・ With respect to property taxes, city planning taxes and depreciable assets taxes ("taxes on property and equipment") on properties owned by JMF, the tax amount assessed and payable for the corresponding accounting periods has been calculated as property related expenses. However, should any need arise for settlement, such as a need to pay settlement amount for taxes on property and equipment, in relation to new property acquisitions to be made during the year in which the period falls ("amounts equivalent to taxes on property and equipment"), such amounts are taken into account in the acquisition cost of the properties and therefore are not recorded as expenses for the period. Therefore, with respect to taxes on property and equipment pertaining to the properties to be acquired in 2021 (JMF-Bldg. Ichigaya 01 and G-Bldg. Shinsaibashi 05), the tax amounts assessed and payable for the relevant accounting periods will be recorded as property-related expenses from 2022 and onwards. We have assumed that the amounts equivalent to taxes on property and equipment included in the acquisition cost of JMF-Bldg. Ichigaya 01 and G-Bldg. Shinsaibashi 05 to be equivalent to 77 million yen in total. ・ We assume that repair and maintenance will be 993 million yen for the August 2021 (39th) fiscal period. However, repair and maintenance expenses may vary substantially from the estimate since such expenses may be incurred due to unforeseeable reasons. ・ We assume that depreciation will be 6,217 million yen for the August 2021 (39th) fiscal period. ・ We assume that property management fees will be 815 million yen for the August 2021 (39th) fiscal period, and facility management fees will be 2,396 million yen for the August 2021 (39th) fiscal period. ・ We assume that we will incur losses of 44 million yen in the August 2021 (39th) fiscal period, respectively, on disposal of property related to the facility update, etc. at each property. With respect to the loss on disposal of property described above, those related to properties whose estimated useful lives are determined to be subject to review as a result of the change in the estimate from an accounting perspective will be treated as depreciation. ・ Asset management fees are based on the assumption that the ongoing asset management fee structure of JMF will not be changed. ・ We assume that included in asset management fees for the August 2021 (39th) fiscal period, merger fees of 1,000 million yen and merger-related expenses of 372 million yen will be incurred as temporary expenses related to the Merger.

Goodwill amortization	・ We assume that the goodwill will arise due to the Merger, and such goodwill will be recorded as an asset and amortized over 20 years using the straight-line methods in accordance with the Accounting Standard for Business Combinations (Corporate Accounting Standard No. 21, last amended on September 13, 2013). We assume that the amount of goodwill to be recorded will be 16,081 million yen, and goodwill amortization for the August 2021 (39th) fiscal period will be 402 million yen. ・ Amortization of goodwill is an item that gives rise to differences in account and tax treatment and is a factor that results in income taxes and so on. However, JMF plans to reduce the incidence of income taxes and so on by distributing amounts equivalent to such amortization through the reversal of voluntary reserves (reserves for adjustment of temporary differences, etc. are reserves for dividends) and distributions in excess of earnings (distributions equivalent to the increase in reserves for adjustment of temporary differences, etc.).
Non-operating expenses	・ We assume that non-operating expenses (including interest expense, loan-related costs, interest expenses on investment corporation bonds, etc.) will be 2,050 million yen for the August 2021 (39th) fiscal period. We assume that for the fiscal period ending on August 2021 (39th), an amount of 22 million yen will be deducted as reversal of deferred revenues from interest expenses. The amount of such deferred revenues is equal to the market value of interest-rate swaps of MMI as of February 28, 2021, which is 151 million yen.
Distributions per unit	・ The distributions per unit are determined in accordance with the cash distribution policy stipulated in the Articles of Incorporation of JMF. ・ It is assumed that the distributions for the August 2021 (39th) fiscal period are calculated based on the assumptions that a total of 15,977 million yen (distributions per unit: 2,286 yen), consist of retained earnings at the end of the period amounting to 15,071 million yen, plus reversal of reserve for temporary difference adjustment amounting to 448 million yen and reversal of reserve for reduction entry amounting to 457 million yen. ・ It is assumed that retained earnings for temporary difference adjustment of JMF will be reversed in at least a 50-year equal payment (31 million yen) each fiscal period starting in the 31st fiscal period ended August 2017. ・ We assume that additional tax imposition that results from the inconsistencies between tax and accounting treatment would be avoided by reversing of retained earnings for temporary difference adjustments.
Distributions in excess of profit per unit	・ We do not plan to make distributions in excess of profits for the moment.
Other	・ We assume that there will be no amendment of laws, accounting standards and the tax system in Japan that will impact the aforementioned forecasts and no unforeseen, significant changes will occur in general economic trends and property market movements in Japan.