

# REIT Financial Report for 24th Fiscal Period

December 15, 2017

REIT Securities Issuer: Starts Proceed Investment Corporation  
 Securities Code: 8979  
 Listing: Tokyo Stock Exchange  
 URL: <http://www.sp-inv.co.jp>  
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Scheduled date of submission of securities report: January 29, 2018  
 Scheduled date of commencement of distribution payout: January 16, 2018  
 Preparation of supplementary explanatory materials on financial results: ☒ Yes / No  
 Holding of briefing session on financial results: ☒ Yes / No  
 (for analysts and institutional investors)

[Amounts are rounded down to the nearest million yen]

## 1. Status of Management and Assets in 24th Fiscal Period

*Starts Proceed Investment Corporation's 24th fiscal period is the period from May 1, 2017 to October 31, 2017.*

### (1) Management Status

[% figures represent the increase (decrease) compared with the previous period]

| Fiscal period | Operating revenue |      | Operating income |      | Ordinary income |      | Net income  |      |
|---------------|-------------------|------|------------------|------|-----------------|------|-------------|------|
|               | million yen       | %    | million yen      | %    | million yen     | %    | million yen | %    |
| 24th          | 3,173             | 6.5  | 1,488            | 15.1 | 1,288           | 13.9 | 1,286       | 13.9 |
| 23rd          | 2,980             | 32.7 | 1,292            | 40.8 | 1,130           | 54.4 | 1,129       | 54.6 |

| Fiscal period | Net income per unit | Ratio of net income to equity<br>[Return on equity] | Ratio of ordinary income to total assets<br>[Return on assets] | Ratio of ordinary income to operating revenue |
|---------------|---------------------|---|--|---|
|               | yen                 | %   | %  | %   |
| 24th          | 5,009               | 3.0   | 1.5  | 40.6  |
| 23rd          | 4,559               | 3.0   | 1.5  | 37.9  |

### (2) Distributions Status

| Fiscal period | Distribution per unit<br>[excluding distribution in excess of earnings] | Total distributions<br>[excluding distributions in excess of earnings] | Distribution in excess of earnings per unit | Total distributions in excess of earnings | Distribution payout ratio | Ratio of distributions to net assets |
|---------------|---|--|---|---|---------------------------|--------------------------------------|
|               | yen   | million yen  | yen   | million yen                               | %                         | %                                    |
| 24th          | 4,624   | 1,187  | 0   | 0   | 92.3                      | 2.7                                  |
| 23rd          | 4,397   | 1,129  | 0   | 0   | 100.0                     | 2.5                                  |

Note 1: Distribution payout ratio is rounded down to one decimal place.

Note 2: The discrepancy between distribution per unit and net income per unit for the 24th fiscal period is attributable to making a provision of reserve for reduction entry of 99 million yen.

Note 3: Distribution payout ratio for the 23rd fiscal period is calculated using the following formula due to change in the number of investment units during the period from having conducted a capital increase through public offering during the period.

Distribution payout ratio = Total distributions [excluding distributions in excess of earnings] ÷ Net income × 100

### (3) Financial Position

| Fiscal period | Total assets | Net assets  | Equity ratio | Net assets per unit |
|---------------|--------------|-------------|--------------|---------------------|
|               | million yen  | million yen | %            | yen                 |
| 24th          | 87,480       | 43,516      | 49.7         | 169,473             |
| 23rd          | 87,373       | 43,359      | 49.6         | 168,860             |

### (4) Status of Cash Flows

| Fiscal period | Net cash provided by (used in) operating activities | Net cash provided by (used in) investing activities | Net cash provided by (used in) financing activities | Cash and cash equivalents at end of period |
|---------------|---|---|---|--|
|               | million yen   | million yen   | million yen   | million yen                                |
| 24th          | 3,725   | (158)   | (1,125)   | 5,781                                      |
| 23rd          | 1,648   | (25,669)  | 24,296  | 3,340                                      |

## 2. Forecast for Management Status in 25th Fiscal Period and 26th Fiscal Period

Starts Proceed Investment Corporation's 25th fiscal period is the period from November 1, 2017 to April 30, 2018.

Starts Proceed Investment Corporation's 26th fiscal period is the period from May 1, 2018 to October 31, 2018.

[% figures represent the increase (decrease) compared with the previous period]

| Fiscal period | Operating revenue |       | Operating income |       | Ordinary income |       | Net income  |       |
|---------------|-------------------|-------|------------------|-------|-----------------|-------|-------------|-------|
|               | million yen       | %     | million yen      | %     | million yen     | %     | million yen | %     |
| 25th          | 3,136             | (1.2) | 1,397            | (6.1) | 1,190           | (7.6) | 1,188       | (7.6) |
| 26th          | 3,046             | (2.8) | 1,315            | (5.8) | 1,111           | (6.7) | 1,109       | (6.7) |

| Fiscal period | Distribution per unit<br>[excluding distribution in excess of earnings] |       | Distribution in excess of earnings per unit |     |
|---------------|---|-------|---|-----|
|               |   | yen   |   | yen |
| 25th          |   | 4,630 |   | 0   |
| 26th          |   | 4,320 |   | 0   |

[Reference] Forecast net income per unit      25th fiscal period: 4,630 yen      26th fiscal period: 4,320 yen

## 3. Other

### (1) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatement

- (a) Changes in accounting policies accompanying amendments to accounting standards, etc.: None
- (b) Changes in accounting policies other than in (a): None
- (c) Changes in accounting estimates: None
- (d) Retrospective restatement: None

### (2) Total Number of Investment Units Issued and Outstanding

- (a) Total number of investment units (including own investment units) issued and outstanding at end of period
  - 24th fiscal period: 256,777 units      23rd fiscal period: 256,777 units
- (b) Number of own investment units at end of period
  - 24th fiscal period: 0 units      23rd fiscal period: 0 units

### \* Presentation of the status of implementation of audit procedures

At the time of disclosure of this financial report, audit procedures for financial statements pursuant to the Financial Instruments and Exchange Act have not been completed.

### \* Explanation of the appropriate use of the forecast for management status, and other matters of special note

The outlook for management status and other forward-looking statements contained in this report are based on information currently available to and certain assumptions deemed reasonable by Starts Proceed Investment Corporation. Accordingly, actual management status and other results may differ materially due to a variety of factors. In addition, the forecast is not a guarantee of the amount of distributions.

For the assumptions underlying the forecast for management status, please refer to "Assumptions Underlying Forecast for Management Status in 25th Fiscal Period and 26th Fiscal Period" presented on pages 8 to 9.

1. Related Parties of Starts Proceed Investment Corporation

Disclosure is omitted because there are no significant changes from the “Structure of the Investment Corporation” set out in the most recent securities report (submitted on July 27, 2017).

2. Management Policy and Management Status

A. Management Policy

Disclosure is omitted because there are no significant changes from the “Investment Policy,” “Investment Targets” and “Distribution Policy” set out in the most recent securities report (submitted on July 27, 2017).

B. Management Status

(1) Overview of Fiscal Period under Review

(a) Brief Background of the Investment Corporation

Starts Proceed Investment Corporation (“Starts Proceed”) was established on May 2, 2005 with 150 million yen in capital (750 units) based on the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951; including amendments thereto) (the “Investment Trust Act”), completed registration with the Kanto Local Finance Bureau based on Article 187 of the Investment Trust Act on June 15, 2005 (Registration No. 37 issued by the Director-General of the Kanto Local Finance Bureau), implemented additional issuance of investment units through public offering (21,600 units) on November 29, 2005, and listed on JASDAQ Securities Exchange, Inc. (currently, Tokyo Stock Exchange, Inc. JASDAQ Market) (Securities Code: 8979) on the next day. After three capital increases through public offering and other developments since listing on the JASDAQ Market, Starts Proceed listed on the Tokyo Stock Exchange, Inc. Real Estate Investment Trust Securities Market (Securities Code: 8979) on July 27, 2010 and this was accompanied by an application for delisting being filed with the JASDAQ Market on August 10, 2010 and the delisting from the JASDAQ Market taking effect on October 1, 2010.

Starts Proceed entrusts asset management to Starts Asset Management Co., Ltd. (the “Asset Management Company”) and sets the focus of management on investment in real estate of which the principal use is use as rental housing (“rental housing”) and monthly rental apartments, serviced apartments, hotels, residential facilities for the elderly, etc. (collectively referred to together with “rental housing” as “rental housing, etc.”), as well as specified assets (the meaning provided in Article 2, Paragraph 1 of the Investment Trust Act; the same hereinafter) backed mainly by rental housing, etc. In investment in rental housing, etc., Starts Proceed adopts the basic policy of particularly setting rental housing for average-income households, the demand for which Starts Proceed believes to be the most stable, as the primary investment target. In addition, Starts Proceed takes measures, such as leveraging the capabilities of the Starts Group, to achieve enhancement of management efficiency, in an aim to secure steady growth and stable revenue of assets under management over the medium to long term.

As at the end of the fiscal period under review (24th fiscal period: from May 1, 2017 to October 31, 2017), the total number of investment units issued and outstanding was 256,777 units, total assets was 87,480 million yen and unitholders’ capital was 42,230 million yen.

(b) Investment Environment

In the 24th fiscal period, the Japanese economy continued to be on a moderate recovery trend. This was evident in the corporate sector with capital investment continuing to be on a moderate increasing trend and exports, R&D investment and production, too, showing signs of increase, and evident also in the household sector with favorable supply-demand conditions in the labor market amid which individual consumption, too, showed signs of moderate expansion.

As to demand trends in the rental housing market, vacancy rates have risen, though limited to some areas, due to excess of supply caused by the increased supply of wooden and light-gauge steel rental apartments constructed as part of inheritance tax planning. However, the Tokyo metropolitan areas and other major metropolitan areas in which Starts Proceed invests saw limited supply of prime rental housing, and coupled with ongoing population inflow from other areas, increase in the number of households brought about by increase in one-person and married-couple-only households, and other factors, supply-demand for rental condominiums in J-REIT portfolios remained well balanced.

In the secondary real estate market, while the appetite of investors is robust due to diversification of market players, strong occupancy status, anticipation for rent rise, etc. amid the ongoing favorable fund procurement environment, competition in property acquisition has intensified with limited supply of new quality properties and transaction prices continue to remain at a high level. As cap rates keep falling in this manner, the main buyers are also changing from J-REITs to real estate developers, etc.

(c) Management Performance

In the 24th fiscal period, disposition of five properties, including (G-1) Proceed Hondori, on September

29, 2017, disposition of (G-12) Proceed Higashiohata on October 16, 2017 and disposition of (G-16) Proceed Ohorikoen on October 31, 2017 (total disposition price: 1,946 million yen) were conducted as part of efforts for asset replacement to enhance the competitiveness of the portfolio. As a result, Starts Proceed's portfolio as of the end of the 24th fiscal period was 104 properties with acquisition prices totaling 80,471 million yen and total leasable floor area of 183,634.47 m<sup>2</sup>.

In addition, in close collaboration with the property management company Starts Amenity Co., Ltd., the Asset Management Company also made efforts for reduction of building maintenance and management costs, while striving to raise rent and increase the receipt of key money and other revenue. Furthermore, efforts were made to restore vacant space to its original state ready to be put into service in a prompt manner, along with carrying out finely tuned leasing activities that are based on the characteristics of the region and individual properties, in an aim for greater stability of the occupancy rate. These measures proved effective in maintaining the occupancy rate of the entire portfolio at a stable level of over 95% throughout the period and resulting in a period-average occupancy rate of 95.5% and period-end occupancy rate of 96.1%.

(d) Status of Fund Procurement

In the 24th fiscal period, a 4,190 million yen long-term loan (floating rate; term: 5 years and 6 months) was borrowed to allocate to repayment of a total amount of 4,190 million yen due for repayment on May 24, 2017.

As a result, as of the end of the 24th fiscal period, the current portion of long-term loans payable was 6,500 million yen and long-term loans payable was 36,246 million yen for a period-end interest-bearing liabilities balance of 42,746 million yen and LTV ratio of 48.9%.

As of the date of this document, Starts Proceed has acquired the following credit rating.

| Credit rating agency                      | Credit rating                          |
|---|--|
| Japan Credit Rating Agency, Ltd.<br>(JCR) | Long-term issuer rating<br>A- (Stable) |

(e) Overview of Business Performance and Distributions

As a result of the management described above, business performance recorded for the 24th fiscal period was operating revenue of 3,173 million yen, operating income of 1,488 million yen, ordinary income of 1,288 million yen and net income of 1,286 million yen.

Concerning distributions, to ensure that the maximum amount of distributions of earnings would be included in deductible expenses based on application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; including amendments thereto) (the "Special Taxation Measures Act"), Starts Proceed decided to distribute the entire amount of unappropriated retained earnings, after deduction of the provision of reserve for reduction entry by utilizing the "Special Provisions for Taxation in the Event of Advance Acquisition of Land, etc. in 2009 and 2010" provided in Article 66-2 of the Special Taxation Measures Act and the deferred income taxes attributable to the reserve for reduction entry, excluding fractions of the distribution per investment unit that are less than 1 yen. Accordingly, Starts Proceed declared a distribution per investment unit of 4,624 yen.

(2) Outlook for Next Fiscal Period

(a) Management Policy and Challenges to Address

a. Investment Environment

In the 25th fiscal period, the Japanese economy is believed to basically continue with a trend of moderate expansion backed by stronger foreign demand against the backdrop of recovery of the world economy as well as by ongoing strong individual consumption and capital investment. However, with also mounting geopolitical risks, such as U.S. trade policy impacts and North Korea's movements, and other concerns, close attention needs to be paid to the downside risks of these overseas factors.

In the secondary real estate market, the harsh environment for acquisition of quality properties is expected to continue, as the shortage on the supply side remains unchanged while strong investment demand is likely to continue against the backdrop of a favorable fund procurement environment. Transaction prices are thus likely to remain at a high level. In such an environment, the plan is to continue making efforts to enhance the competitiveness of the portfolio into the 25th fiscal period. The efforts involve disposition of old assets and small assets that have relatively high expense rates, and replacement with assets featuring a combination of profitability, growth potential and stability by striving for acquisition of quality properties while leveraging the extensive collaborative relationship with the Starts Group led by Starts Corporation Inc., which are the sponsor companies of Starts Proceed.

## b. External Growth Strategy

Based on the extensive collaborative relationship with the Starts Group, which is formed by agreements such as a pipeline support agreement concluded between the Asset Management Company and each of Starts Corporation Inc., Starts Development Corporation and Starts Amenity Co., Ltd. as well as a property information provision agreement concluded between the Asset Management Company and Starts CAM Co., Ltd., Starts Proceed strives to increase opportunities to newly acquire prime investment real estate. Through such efforts, Starts Proceed will consider acquisition of quality newly built or relatively newly built properties that have the potential to generate stable revenue over the medium to long term, while carefully assessing trends in the financial market as well as the primary and secondary real estate markets, in addition to acquiring properties developed by the Starts Group, with an aim to expand asset size and enhance portfolio quality. On the other hand, along with the progress in external growth, Starts Proceed will simultaneously investigate sales of some properties that are small in size or were built long ago, etc.

## c. Internal Growth Strategy

Following on from the 24th fiscal period, under close collaboration with the property management company Starts Amenity Co., Ltd. and Starts Pitat House Co., Ltd., to which leasing business operations are re-entrusted, efforts will be made to enhance convenience and comfort for residents through the provision of high-quality management services, along with not stopping at uniform management but conducting finely tuned management suited to the respective area's real estate leasing market trends and individual property characteristics, in order to enhance the revenues and occupancy rates of assets under management and cut costs.

## d. Financial Strategy

With sights set on smooth fund procurement upon asset acquisition and reduction of refinancing risks, Starts Proceed will promote ongoing favorable relationships with financing banks, along with enhancing the financing bank formation, reducing financing cost, extending loan periods, laddering repayment deadlines and shifting borrowings to fixed-interest loans as needed, in an aim to further strengthen the financial base.

## (b) Significant Subsequent Events

Not applicable.

## (Reference Information)

## A. Acquisition of Assets

The following specified assets (trust beneficiary interests) were acquired on November 1, 2017 and December 15, 2017.

| Property No. | Property name           | Location           | Seller (Note 1)                | Acquisition date  | Acquisition price (thousand yen) (Note 2) |
|--------------|-------------------------|--------------------|--------------------------------|-------------------|---|
| C-77         | Proceed Kinshicho       | Sumida-ku, Tokyo   | Starts Development Corporation | November 1, 2017  | 2,140,000                                 |
| C-78         | Proceed K2              | Kashiwa-shi, Chiba | Starts Development Corporation | December 15, 2017 | 1,170,000                                 |
| C-79         | Proceed K3 Annex        | Kashiwa-shi, Chiba | Starts Development Corporation | December 15, 2017 | 283,000                                   |
| C-80         | Proceed K5              | Kashiwa-shi, Chiba | Starts Development Corporation | December 15, 2017 | 269,000                                   |
| G-34         | Proceed Sendai Kamisugi | Sendai-shi, Miyagi | Starts Development Corporation | December 15, 2017 | 1,560,000                                 |
| Total        |                         |                    |                                |                   | 5,422,000                                 |

Note 1: All transactions have been determined after following appropriate procedures based on the internal rules of the Asset Management Company and pursuant to standards stipulated by laws and regulations.

Note 2: "Acquisition price" does not include miscellaneous acquisition related expenses, fixed property taxes, city planning taxes, consumption taxes and local consumption taxes.

## B. Disposition of Assets

The following specified assets (trust beneficiary interests) were disposed on December 8, 2017.

| The following specified assets (trust beneficiary interests) were disposed on December 8, 2017: |                        |                             |   |                                   |  |
|---|------------------------|-----------------------------|---|-----------------------------------|--|
| Property No.  | Property name          | Buyer                       | Disposition price (thousand yen) (Note 1) | Assumed book value (thousand yen) | Amount of difference between disposition price and assumed book value (thousand yen) |
| G-6   | Proceed Hakozaikigu II | A domestic company (Note 2) | 91,500                                    | 79,323                            | 12,176   |
| G-7   | Proceed Hakozaikigu I  |                             | 83,500                                    | 76,655                            | 6,844  |
| G-10  | Proceed Nakagawa       |                             | 221,857                                   | 150,117                           | 71,739   |
| Total   |                        |                             | 396,857                                   | 306,096                           | 90,760   |

Note 1: "Disposition price" does not include miscellaneous disposition related expenses, fixed property taxes, city planning taxes, consumption taxes and local consumption taxes.

Note 2: The buyer is a domestic company, but has not agreed to the disclosure and is thus not disclosed.

## C. Borrowing of Funds (Refinancing)

Starts Proceed borrowed Term Loan 2J as follows to allocate to part of the repayment of Term Loan W (loan balance: 4,000 million yen). The Bank of Yokohama, Ltd. has been newly added to the line-up of lenders with it joining the existing lenders of Term Loan W in the borrowing this time in order to further diversify financing sources.

|                            | Term Loan 2J  |
|----------------------------|---|
| Lender                     | The Bank of Yokohama, Ltd.<br>Resona Bank, Limited<br>Mizuho Bank, Ltd.<br>Sumitomo Mitsui Banking Corporation<br>The Chiba Bank, Ltd.<br>The Musashino Bank, Ltd.<br>Aozora Bank, Ltd.<br>Sumitomo Mitsui Trust Bank, Limited<br>ORIX Bank Corporation<br>The Kagawa Bank, Ltd.              |
| Loan Amount                | 4,000 million yen   |
| Drawdown Date              | November 24, 2017   |
| Principal Repayment Date   | November 24, 2023   |
| Interest Rate (Note)       | Floating rate<br>(Base interest rate (JBA 1-month Japanese Yen TIBOR) + 0.70%)  |
| Interest Payment Date      | The first interest payment date shall be the last day of November 2017, and for subsequent payments, the last day of every month thereafter (however, in the event that one of these days is not a business day, the business day immediately preceding it) and the principal repayment date. |
| Principle Repayment Method | Lump-sum repayment on repayment date  |
| Collateral                 | Unsecured   |
| Guarantee                  | Unguaranteed  |

Note: The base interest rate applicable to the calculation period for the interest payable on an interest payment date shall be the JBA 1-month Japanese Yen TIBOR two business days prior to the interest payment date immediately preceding the respective interest payment date (except for the first interest payment, in which case it shall be the drawdown date).

## D. Borrowing of Funds (New Borrowing)

Starts Proceed borrowed Term Loan 2K as follows to allocate to part of the funds for the acquisition and the related expenses of the new specified assets.

|                            | Term Loan 2K  |
|----------------------------|---|
| Lender                     | Resona Bank, Limited<br>Aozora Bank, Ltd.<br>Mizuho Bank, Ltd.<br>Sumitomo Mitsui Banking Corporation<br>Sumitomo Mitsui Trust Bank, Limited<br>The Kagawa Bank, Ltd.<br>The Higashi-Nippon Bank, Limited<br>Mizuho Trust & Banking Co., Ltd.                                     |
| Loan Amount                | 2,900 million yen   |
| Drawdown Date              | December 15, 2017   |
| Principal Repayment Date   | May 24, 2022  |
| Interest Rate (Note)       | Floating rate<br>(Base interest rate (JBA 1-month Japanese Yen TIBOR) + 0.60%)  |
| Interest Payment Date      | The first interest payment date shall be December 28, 2017, and for subsequent payments, the last day of every month thereafter (however, in the event that one of these days is not a business day, the business day immediately preceding it) and the principal repayment date. |
| Principle Repayment Method | Lump-sum repayment on repayment date  |
| Collateral                 | Unsecured   |
| Guarantee                  | Unguaranteed  |

Note: The base interest rate applicable to the calculation period for the interest payable on an interest payment date shall be the JBA 1-month Japanese Yen TIBOR two business days prior to the interest payment date immediately preceding the respective interest payment date (except for the first interest payment, in which case it shall be the drawdown date).

## (c) Outlook for Management Status

Starts Proceed expects the following management status in the 25th fiscal period (from November 1, 2017 to April 30, 2018) and 26th fiscal period (from May 1, 2018 to October 31, 2018). For the assumptions underlying this outlook for management status, please refer to "Assumptions Underlying Forecast for Management Status in 25th Fiscal Period and 26th Fiscal Period."

|   | 25th Fiscal Period<br>From: Nov. 1, 2017<br>To: Apr. 30, 2018 | 26th Fiscal Period<br>From: May 1, 2018<br>To: Oct. 31, 2018 |
|---|---|--|
| Operating revenue                           | 3,136 million yen   | 3,046 million yen  |
| Operating income                            | 1,397 million yen   | 1,315 million yen  |
| Ordinary income                             | 1,190 million yen   | 1,111 million yen  |
| Net income                                  | 1,188 million yen   | 1,109 million yen  |
| Distribution per unit                       | 4,630 yen   | 4,320 yen  |
| Distribution in excess of earnings per unit | 0 yen   | 0 yen  |

Note: The forecast figures above are the current forecast calculated based on certain assumptions. Accordingly, actual operating revenue, operating income, ordinary income, net income and distribution per unit may vary due to future additional acquisition or sale of real estate, etc., changes in the real estate market, etc., changes in the management environment or other circumstances surrounding Starts Proceed and other factors. In addition, the forecast is not a guarantee of actual business performance or the amount of distributions.

Assumptions Underlying Forecast for Management Status in 25th Fiscal Period and 26th Fiscal Period

| Item                    | Assumption  |
|-------------------------|---|
| Business period         | 25th fiscal period: from November 1, 2017 to April 30, 2018 (181 days)<br>26th fiscal period: from May 1, 2018 to October 31, 2018 (184 days)   |
| Assets under management | <ul style="list-style-type: none"> <li>The forecast assumes assets are the already-acquired assets in the Starts Proceed portfolio as at the end of the 24th fiscal period (October 31, 2017) (the "already-acquired assets") to which the disposition of Proceed Hakozaikigu II, Proceed Hakozaikigu I and Proceed Nakagawa on December 8, 2017 (the "Disposition") and the acquisition of Proceed Kinshicho on November 1, 2017 and Proceed K2, Proceed K3 Annex, Proceed K5 and Proceed Sendai Kamisugi on December 15, 2017 (the "Acquisition") are reflected to total 106 properties in the Starts Proceed portfolio as of today, and assumes that there will be no changes (acquisition of new properties, disposition of existing properties, etc.) through to the end of the 26th fiscal period. The actual assets under management may vary due to changes in assets under management.</li> </ul>  |
| Operating revenue       | <ul style="list-style-type: none"> <li>Real estate rent revenue includes rent, common area maintenance charges, parking revenue, incidental revenue, etc. and is calculated based on historical data and future forecast.</li> <li>Gain on sales of real estate properties from the Disposition is presumed to be 73 million yen for the 25th fiscal period.</li> </ul>   |
| Operating expenses      | <ul style="list-style-type: none"> <li>Expenses related to rent business other than depreciation and amortization are calculated for the already-acquired assets based on historical data and future forecast and by reflecting factors that may cause fluctuations in expenses, and calculated for the assets from the Acquisition based on historical data on the basis of materials provided by the previous owner, etc. and by reflecting factors that may cause fluctuations in expenses.</li> <li>Management expenses are expected to be 192 million yen for the 25th fiscal period and 192 million yen for the 26th fiscal period.</li> <li>Repair expenses, which are recognized as expenses in the amount presumed to be necessary in the business period, are expected to be 103 million yen for the 25th fiscal period and 83 million yen for the 26th fiscal period. However, repair expenses may differ materially from the forecast amount due to a variety of factors, including repair expenses possibly arising from unforeseen events, the variation in the amount depending on the fiscal year being large and repair expenses not being an amount that arises periodically.</li> <li>Concerning fixed asset tax, city planning tax and depreciable asset tax, etc. on portfolio properties, in principle, of the tax amount assessed and determined, the amount of tax payable during the business period (in the case of fixed asset tax, city planning tax and depreciable asset tax, etc. on properties that have a different number of installment tax payments every period, the amount of the number of annual tax payments corresponding to the business period) is calculated as expenses related to rent business. The amount is expected to be 171 million yen for the 25th fiscal period and 172 million yen for the 26th fiscal period. As for the fixed asset tax, city planning tax and depreciable asset tax, etc. on the assets from the Acquisition, it is general practice in the transaction of real estate, etc. to calculate and reimburse the pro rata portion of fixed asset tax and city planning tax based on number of days of ownership to the previous owner and settle them at the time of acquisition. However, Starts Proceed includes the amount equivalent to the reimbursed amount in the acquisition costs and thus does not recognize them as expenses at the time of acquisition. The amount equivalent to the reimbursed amount for fixed asset tax, city planning tax and depreciable asset tax, etc. to be included in the acquisition costs for the assets from the Acquisition is presumed to be 6 million yen, and the amount to be paid in April 2018 or after will be recognized as expenses.</li> <li>Depreciation and amortization, which is calculated using the straight-line method inclusive of incidental expenses at the time of acquisition and future additional capital expenditures, is expected to be 615 million yen for the 25th fiscal period and 620 million yen for the 26th fiscal period.</li> <li>Operating expenses other than expenses related to rent business (asset management fee, asset custody fee, administrative service fees, etc.) are expected to be 396 million yen for the 25th fiscal period and 415 million yen for the 26th fiscal period.</li> </ul> |



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| Item  | Assumption  |
|---|---|
| Non-operating expenses                                  | <ul style="list-style-type: none"> <li>Interest expenses are expected to be 153 million yen for the 25th fiscal period and 153 million yen for the 26th fiscal period.</li> <li>Borrowing related expenses are expected to be 48 million yen for the 25th fiscal period and 46 million yen for the 26th fiscal period.</li> <li>Expenses related to the public offering of investment units are recorded as deferred assets and assumed to be amortized over three years using the straight-line method. The amount is expected to be 4 million yen for the 25th fiscal period and 4 million yen for the 26th fiscal period.</li> </ul> |
| Loans   | <ul style="list-style-type: none"> <li>Of the loans balance as of today of 45,646 million yen, the forecast assumes that the loan due for repayment during the 26th fiscal period (2,500 million yen) will be refinanced in the entire amount and the loans balance will remain unchanged at 45,646 million yen through to the end of the 26th fiscal period.</li> </ul>  |
| Total number of investment units issued and outstanding | <ul style="list-style-type: none"> <li>The forecast assumes the total number of investment units issued and outstanding as of today of 256,777 units and assumes there will be no subsequent issuance of investment units through to the end of the 26th fiscal period.</li> </ul>  |
| Distribution per unit                                   | <ul style="list-style-type: none"> <li>Distributions (distribution per unit) are calculated by assuming the policy on cash distributions provided in the Articles of Incorporation of Starts Proceed.</li> <li>Distribution per unit may vary due to various factors, including fluctuation in leasing revenue accompanying change in assets under management, change in tenants, etc. and repair expenses possibly arising from unforeseen events.</li> </ul>  |
| Distribution in excess of earnings per unit             | <ul style="list-style-type: none"> <li>No distributions in excess of earnings (distribution in excess of earnings per unit) are scheduled at present.</li> </ul>  |
| Other   | <ul style="list-style-type: none"> <li>For other items, the forecast assumes that there will be no revision of laws and regulations, tax systems, accounting standards, listing regulations, rules of The Investment Trusts Association, Japan, etc. that will impact the forecast figures above.</li> <li>The forecast assumes that there will be no unforeseen material change in general economic trends and real estate market conditions, etc.</li> </ul>  |

## 3. Financial Statements

## (1) Balance Sheets

|   | [Unit: thousand yen] |                     |
|---|----------------------|---------------------|
|   | 23rd Fiscal Period   | 24th Fiscal Period  |
|   | As of Apr. 30, 2017  | As of Oct. 31, 2017 |
| Assets                                      |                      |                     |
| Current assets                              |                      |                     |
| Cash and deposits                           | 1,463,741            | 3,868,635           |
| Cash and deposits in trust                  | 1,876,787            | 1,913,186           |
| Operating accounts receivable               | 33,576               | 28,323              |
| Prepaid expenses                            | 101,130              | 100,655             |
| Deferred tax assets                         | 79                   | 80                  |
| Consumption taxes receivable                | 88,180               | -                   |
| Other                                       | 1,223                | 1,806               |
| Total current assets                        | 3,564,720            | 5,912,688           |
| Non-current assets                          |                      |                     |
| Property, plant and equipment               |                      |                     |
| Buildings in trust                          | 42,679,650           | 41,568,037          |
| Accumulated depreciation                    | (6,327,833)          | (6,609,210)         |
| Buildings in trust, net                     | 36,351,816           | 34,958,827          |
| Structures in trust                         | 1,192,932            | 1,188,743           |
| Accumulated depreciation                    | (510,781)            | (544,065)           |
| Structures in trust, net                    | 682,151              | 644,678             |
| Machinery and equipment in trust            | 5,376                | 5,376               |
| Accumulated depreciation                    | (2,540)              | (2,845)             |
| Machinery and equipment in trust, net       | 2,836                | 2,531               |
| Tools, furniture and fixtures in trust      | 307,343              | 300,626             |
| Accumulated depreciation                    | (156,663)            | (156,925)           |
| Tools, furniture and fixtures in trust, net | 150,680              | 143,701             |
| Land in trust                               | 45,874,027           | 45,096,455          |
| Total property, plant and equipment         | 83,061,512           | 80,846,193          |
| Intangible assets                           |                      |                     |
| Software                                    | 4,554                | 3,960               |
| Total intangible assets                     | 4,554                | 3,960               |
| Investments and other assets                |                      |                     |
| Lease and guarantee deposits                | 10,000               | 10,000              |
| Lease and guarantee deposits in trust       | 530,919              | 530,943             |
| Long-term prepaid expenses                  | 165,878              | 148,366             |
| Other                                       | 11,115               | 11,751              |
| Total investments and other assets          | 717,913              | 701,061             |
| Total non-current assets                    | 83,783,979           | 81,551,215          |
| Deferred assets                             |                      |                     |
| Investment unit issuance expenses           | 24,400               | 16,972              |
| Total deferred assets                       | 24,400               | 16,972              |
| Total assets                                | 87,373,100           | 87,480,876          |

Starts Proceed Investment Corporation (8979) Financial Report for 24th Fiscal Period

|  | [Unit: thousand yen] |                     |
|--|----------------------|---------------------|
|  | 23rd Fiscal Period   | 24th Fiscal Period  |
|  | As of Apr. 30, 2017  | As of Oct. 31, 2017 |
| Liabilities  |                      |                     |
| Current liabilities                                |                      |                     |
| Current portion of long-term loans payable         | 8,190,277            | 6,500,000           |
| Operating accounts payable                         | 223,128              | 137,740             |
| Accounts payable – other                           | 204,140              | 214,242             |
| Accrued expenses                                   | 2,543                | 810                 |
| Income taxes payable                               | 1,939                | 1,954               |
| Accrued consumption taxes                          | -                    | 58,220              |
| Advances received                                  | 1,684                | 1,987               |
| Other  | 183                  | 419                 |
| Total current liabilities                          | 8,623,897            | 6,915,376           |
| Non-current liabilities                            |                      |                     |
| Long-term loans payable                            | 34,556,000           | 36,246,000          |
| Tenant leasehold and security deposits in trust    | 707,096              | 675,045             |
| Asset retirement obligations                       | 126,543              | 127,586             |
| Total non-current liabilities                      | 35,389,639           | 37,048,631          |
| Total liabilities                                  | 44,013,537           | 43,964,007          |
| Net assets   |                      |                     |
| Unitholders' equity                                |                      |                     |
| Unitholders' capital                               | 42,230,457           | 42,230,457          |
| Surplus  |                      |                     |
| Unappropriated retained earnings (undisposed loss) | 1,129,105            | 1,286,411           |
| Total surplus                                      | 1,129,105            | 1,286,411           |
| Total unitholders' equity                          | 43,359,562           | 43,516,868          |
| Total net assets                                   | 43,359,562           | 43,516,868          |
| Total liabilities and net assets                   | 87,373,100           | 87,480,876          |

Starts Proceed Investment Corporation (8979) Financial Report for 24th Fiscal Period

(2) Statements of Income

|  | [Unit: thousand yen] |                    |
|--|----------------------|--------------------|
|  | 23rd Fiscal Period   | 24th Fiscal Period |
|  | From: Nov. 1, 2016   | From: May 1, 2017  |
|  | To: Apr. 30, 2017    | To: Oct. 31, 2017  |
| Operating revenue                                  |                      |                    |
| Rent revenue – real estate                         | 2,964,644            | 2,953,501          |
| Gain on exchange of real estate properties         | 15,545               | -                  |
| Gain on sales of real estate properties            | -                    | 220,399            |
| Total operating revenue                            | 2,980,189            | 3,173,900          |
| Operating expenses                                 |                      |                    |
| Expenses related to rent business                  | 1,339,712            | 1,275,672          |
| Asset management fee                               | 247,675              | 258,716            |
| Asset custody fee                                  | 8,403                | 8,407              |
| Administrative service fees                        | 27,093               | 26,772             |
| Directors' compensations                           | 1,200                | 1,200              |
| Other operating expenses                           | 63,152               | 114,683            |
| Total operating expenses                           | 1,687,237            | 1,685,451          |
| Operating income                                   | 1,292,951            | 1,488,449          |
| Non-operating income                               |                      |                    |
| Interest income                                    | 14                   | 16                 |
| Insurance income                                   | 2,488                | 3,959              |
| Reversal of distribution payable                   | 1,607                | 978                |
| Balance of consumption tax payments                | 50,826               | -                  |
| Other  | -                    | 46                 |
| Total non-operating income                         | 54,938               | 5,000              |
| Non-operating expenses                             |                      |                    |
| Interest expenses                                  | 152,743              | 148,397            |
| Amortization of investment unit issuance expenses  | 7,427                | 7,427              |
| Borrowing related expenses                         | 54,200               | 48,773             |
| Other  | 2,540                | 540                |
| Total non-operating expenses                       | 216,912              | 205,139            |
| Ordinary income                                    | 1,130,977            | 1,288,310          |
| Income before income taxes                         | 1,130,977            | 1,288,310          |
| Income taxes – current                             | 1,941                | 1,956              |
| Income taxes – deferred                            | (3)                  | (1)                |
| Total income taxes                                 | 1,938                | 1,955              |
| Net income   | 1,129,039            | 1,286,354          |
| Retained earnings brought forward                  | 65                   | 56                 |
| Unappropriated retained earnings (undisposed loss) | 1,129,105            | 1,286,411          |

## (3) Statements of Unitholders' Equity

|  | [Unit: thousand yen] |                    |
|--|----------------------|--------------------|
|  | 23rd Fiscal Period   | 24th Fiscal Period |
|  | From: Nov. 1, 2016   | From: May 1, 2017  |
|  | To: Apr. 30, 2017    | To: Oct. 31, 2017  |
| Unitholders' equity                                |                      |                    |
| Unitholders' capital                               |                      |                    |
| Balance at the beginning of current period         | 30,096,023           | 42,230,457         |
| Changes of items during the period                 |                      |                    |
| Issuance of new investment units                   | 12,134,434           | -                  |
| Total changes of items during the period           | 12,134,434           | -                  |
| Balance at the end of current period               | 42,230,457           | 42,230,457         |
| Surplus  |                      |                    |
| Unappropriated retained earnings (undisposed loss) |                      |                    |
| Balance at the beginning of current period         | 730,624              | 1,129,105          |
| Changes of items during the period                 |                      |                    |
| Dividends from surplus                             | (730,558)            | (1,129,048)        |
| Net income   | 1,129,039            | 1,286,354          |
| Total changes of items during the period           | 398,481              | 157,305            |
| Balance at the end of current period               | 1,129,105            | 1,286,411          |
| Total surplus                                      |                      |                    |
| Balance at the beginning of current period         | 730,624              | 1,129,105          |
| Changes of items during the period                 |                      |                    |
| Dividends from surplus                             | (730,558)            | (1,129,048)        |
| Net income   | 1,129,039            | 1,286,354          |
| Total changes of items during the period           | 398,481              | 157,305            |
| Balance at the end of current period               | 1,129,105            | 1,286,411          |
| Total unitholders' equity                          |                      |                    |
| Balance at the beginning of current period         | 30,826,647           | 43,359,562         |
| Changes of items during the period                 |                      |                    |
| Issuance of new investment units                   | 12,134,434           | -                  |
| Dividends from surplus                             | (730,558)            | (1,129,048)        |
| Net income   | 1,129,039            | 1,286,354          |
| Total changes of items during the period           | 12,532,915           | 157,305            |
| Balance at the end of current period               | 43,359,562           | 43,516,868         |
| Total net assets                                   |                      |                    |
| Balance at the beginning of current period         | 30,826,647           | 43,359,562         |
| Changes of items during the period                 |                      |                    |
| Issuance of new investment units                   | 12,134,434           | -                  |
| Dividends from surplus                             | (730,558)            | (1,129,048)        |
| Net income   | 1,129,039            | 1,286,354          |
| Total changes of items during the period           | 12,532,915           | 157,305            |
| Balance at the end of current period               | 43,359,562           | 43,516,868         |

## (4) Statements of Cash Distributions

| Item   | Period | 23rd Fiscal Period   | 24th Fiscal Period   |
|--|--------|--|--|
|  |        | From: Nov. 1, 2016<br>To: Apr. 30, 2017  | From: May 1, 2017<br>To: Oct. 31, 2017   |
| I. Unappropriated retained earnings  |        | 1,129,105,402 yen  | 1,286,411,241 yen  |
| II. Amount of distributions<br>[Amount of distribution per investment unit]  |        | 1,129,048,469 yen<br>[4,397 yen]   | 1,187,336,848 yen<br>[4,624 yen]   |
| III. Voluntary retained earnings<br>Provision of reserve for reduction entry |        | -  | 99,000,000 yen   |
| IV. Retained earnings carried forward  |        | 56,933 yen   | 74,393 yen   |
| Method of calculation of amount of distributions                             |        | Pursuant to the policy on cash distributions provided in Article 35, Paragraph 1 of the Articles of Incorporation of Starts Proceed, the amount of distributions shall be in excess of an amount equivalent to 90% of the "amount of earnings available for distribution" provided in Article 67-15 of the Special Taxation Measures Act, but no more than the amount of earnings. Based on such policy, Starts Proceed decided to pay out distributions of earnings of 1,129,048,469 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (256,777 units) in an amount not in excess of unappropriated retained earnings. Starts Proceed shall not distribute the cash in excess of earnings provided in Article 35, Item 4 of the Articles of Incorporation of Starts Proceed. | Pursuant to the policy on cash distributions provided in Article 35, Paragraph 1 of the Articles of Incorporation of Starts Proceed, the amount of distributions shall be in excess of an amount equivalent to 90% of the "amount of earnings available for distribution" provided in Article 67-15 of the Special Taxation Measures Act, but no more than the amount of earnings. Based on such policy, Starts Proceed decided to pay out distributions of earnings of 1,187,336,848 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (256,777 units) for the amount remaining after deduction of the provision of reserve for reduction entry by the "Special Provisions for Taxation in the Event of Advance Acquisition of Land, etc. in 2009 and 2010" provided in Article 66-2 of the Special Taxation Measures Act from unappropriated retained earnings. Starts Proceed shall not distribute the cash in excess of earnings provided in Article 35, Item 4 of the Articles of Incorporation of Starts Proceed. |

## (5) Statements of Cash Flows

|   | [Unit: thousand yen] |                    |
|---|----------------------|--------------------|
|   | 23rd Fiscal Period   | 24th Fiscal Period |
|   | From: Nov. 1, 2016   | From: May 1, 2017  |
|   | To: Apr. 30, 2017    | To: Oct. 31, 2017  |
| Net cash provided by (used in) operating activities           |                      |                    |
| Income before income taxes                                    | 1,130,977            | 1,288,310          |
| Depreciation and amortization                                 | 577,363              | 596,599            |
| Difference resulting from exchange of real estate properties  | (17,305)             | -                  |
| Amortization of investment unit issuance expenses             | 7,427                | 7,427              |
| Interest income   | (14)                 | (16)               |
| Interest expenses   | 152,743              | 148,397            |
| Decrease (increase) in operating accounts receivable          | (12,793)             | 5,252              |
| Decrease (increase) in prepaid expenses                       | (16,077)             | 475                |
| Decrease (increase) in consumption taxes receivable           | (88,180)             | 88,180             |
| Increase (decrease) in accrued consumption taxes              | (2,452)              | 58,220             |
| Increase (decrease) in operating accounts payable             | 66,001               | (38,897)           |
| Increase (decrease) in accounts payable – other               | 55,399               | 7,612              |
| Decrease (increase) in long-term prepaid expenses             | (54,530)             | 17,511             |
| Decrease from sales of property, plant and equipment in trust | -                    | 1,698,622          |
| Other, net  | 2,426                | 61                 |
| Subtotal  | 1,800,984            | 3,877,758          |
| Interest income received                                      | 14                   | 16                 |
| Interest expenses paid  | (150,995)            | (150,130)          |
| Income taxes paid   | (1,891)              | (1,941)            |
| Net cash provided by (used in) operating activities           | 1,648,112            | 3,725,701          |
| Net cash provided by (used in) investing activities           |                      |                    |
| Purchase of property, plant and equipment in trust            | (25,806,252)         | (125,839)          |
| Proceeds from tenant leasehold and security deposits in trust | 192,322              | 38,516             |
| Repayments of tenant leasehold and security deposits in trust | (55,406)             | (70,567)           |
| Decrease (increase) in other investments                      | (636)                | (660)              |
| Net cash provided by (used in) investing activities           | (25,669,972)         | (158,550)          |
| Net cash provided by (used in) financing activities           |                      |                    |
| Increase in short-term loans payable                          | 12,960,000           | -                  |
| Decrease in short-term loans payable                          | (12,960,000)         | -                  |
| Proceeds from long-term loans payable                         | 16,409,000           | 4,190,000          |
| Repayments of long-term loans payable                         | (3,492,896)          | (4,190,277)        |
| Proceeds from issuance of investment units                    | 12,134,434           | -                  |
| Payments for investment unit issuance expenses                | (25,459)             | -                  |
| Dividends paid  | (728,736)            | (1,125,580)        |
| Net cash provided by (used in) financing activities           | 24,296,341           | (1,125,858)        |
| Net increase (decrease) in cash and cash equivalents          | 274,480              | 2,441,292          |
| Cash and cash equivalents at beginning of period              | 3,066,048            | 3,340,529          |
| Cash and cash equivalents at end of period                    | 3,340,529            | 5,781,821          |