

December 15, 2022

Financial Report for the Fiscal Period Ended October 31, 2022

(For the Reporting Period from May 1, 2022 to October 31, 2022)

Name of REIT issuer: Sekisui House Reit, Inc. (“SHR”)
 Stock exchange listing: Tokyo Stock Exchange
 Securities code: 3309
 URL: <https://sekisuihouse-reit.co.jp/en/>
 Representative: Atsuhiko Kida, Executive Director

Asset management company: Sekisui House Asset Management, Ltd.
 Representative: Toru Abe, President & Representative Director
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Scheduled date to file securities report: January 30, 2023
 Scheduled date to commence distribution payment: January 20, 2023
 Preparation of supplementary material on financial report: Yes
 Holding of financial report presentation meeting: Yes (for institutional investors and analysts)

(Amounts truncated to the nearest million yen)

1. Summary of financial results for the fiscal period ended October 31, 2022

(May 1, 2022 – October 31, 2022)

(1) Operating results

(Percentages show changes from the previous period)

	Operating Revenue		Operating Income		Ordinary Income		Net Income	
Fiscal period ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
October 31, 2022	15,797	7.0	8,078	5.9	7,205	6.8	7,204	6.8
April 30, 2022	14,756	(14.7)	7,625	(19.0)	6,746	(20.8)	6,745	(20.8)

	Net Income per Unit	Return on Equity	Ordinary Income to Total Assets	Ordinary Income to Operating Revenue
Fiscal period ended	Yen	%	%	%
October 31, 2022	1,636	2.4	1.3	45.6
April 30, 2022	1,522	2.3	1.2	45.7

(Note) Net income per unit is calculated by dividing net income by the day-weighted average number of investment units outstanding during the period.

(2) Distributions

	Distributions per Unit (excluding Distributions in Excess of Earnings)	Total Distributions (excluding Distributions in Excess of Earnings)	Distributions in Excess of Earnings per Unit	Total Distributions in Excess of Earnings	Payout Ratio	Distributions to Net Assets
Fiscal period ended	Yen	Millions of yen	Yen	Millions of yen	%	%
October 31, 2022	1,714	7,509	—	—	104.8	2.5
April 30, 2022	1,698	7,524	—	—	111.6	2.5

(Note 1) Total distribution for the fiscal period ended October 31, 2022 is the amount obtained by adding 222 million yen of reversal of reserve for temporary difference adjustment (“RTA”) and 82 million yen of reversal of reserve for reduction entry to the unappropriated retained earnings.

(Note 2) Total distribution for the fiscal period ended April 30, 2022 is the amount obtained by adding 187 million yen of reversal of RTA and 590 million yen of reversal of reserve for reduction entry to the unappropriated retained earnings.

(3) Financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Unit
As of	Millions of yen	Millions of yen	%	Yen
October 31, 2022	570,999	294,484	51.6	67,211
April 30, 2022	579,931	298,782	51.5	67,428

(4) Cash flows

	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
Fiscal period ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
October 31, 2022	33,187	(15,694)	(16,922)	27,757
April 30, 2022	7,938	(36,833)	17,990	27,187

2. Forecasts of performance for the fiscal period ending April 30, 2023 (November 1, 2022 – April 30, 2023) and the fiscal period ending October 31, 2023 (May 1, 2023 – October 31, 2023)

(Percentages show changes from the previous period)

	Operating Revenue		Operating Income		Ordinary Income		Net Income		Distributions per Unit (excluding Distributions in Excess of Earnings)	Distributions in Excess of Earnings per Unit
Fiscal period ending	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
April 30, 2023	15,224	(3.6)	7,233	(10.5)	6,346	(11.9)	6,345	(11.9)	1,701	13
October 31, 2023	15,541	2.1	7,387	2.1	6,426	1.3	6,425	1.3	1,466	215

(Reference) Forecasted net income per unit (Forecasted net income / Forecasted number of investment units at end of period)

For the fiscal period ending April 30, 2023: 1,448 yen

For the fiscal period ending October 31, 2023: 1,466 yen

(Note) Forecasted distribution for the fiscal period ending April 30, 2023 is the amount added 58 million yen of allowance for temporary difference adjustment (“ATA”) and added 194 million yen of reversal of RTA and 911 million yen of reversal of reserve for reduction entry to the unappropriated retained earnings and forecasted distribution for the fiscal period ending October 31, 2023 is the amount added 940 million yen of ATA to the unappropriated retained earnings.

* Other

(1) Changes in accounting policies, changes in accounting estimates, and retrospective restatement

- a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
- b. Changes in accounting policies due to reasons other than a. above: None
- c. Changes in accounting estimates: None
- d. Retrospective restatement: None

(2) Number of investment units issued

- a. Number of investment units issued at end of period (including treasury investment units)
 - As of October 31, 2022: 4,381,482 units
 - As of April 30, 2022: 4,431,133 units
- b. Number of treasury investment units at end of period
 - As of October 31, 2022: – units
 - As of April 30, 2022: – units

* Status of audit procedures

This financial report is not subject to audit procedures by public accountants or audit corporations.

* Remarks on appropriate use of forecasts of performance and other special notes

- Forward-looking statements presented in this financial report, including forecasts of performance, are based on information currently available to SHR and on certain assumptions it deems to be reasonable. As such, actual operating and other results may differ materially from these forecasts as a consequence of numerous factors. These forecasts do not guarantee the distribution amount.

2. Financial Statements

(1) Balance Sheet

	(Thousands of yen)	
	15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
Assets		
Current assets		
Cash and deposits	11,154,608	11,416,266
Cash and deposits in trust	16,033,132	16,340,838
Operating accounts receivable	188,420	198,066
Prepaid expenses	259,778	300,452
Other	159,040	58,286
Allowance for doubtful accounts	(1,022)	(2,653)
Total current assets	27,793,958	28,311,256
Non-current assets		
Property, plant and equipment		
Buildings in trust	180,182,133	184,641,536
Accumulated depreciation	(21,399,288)	(23,440,710)
Buildings in trust, net	158,782,845	161,200,826
Structures in trust	1,587,002	1,620,073
Accumulated depreciation	(302,079)	(333,254)
Structures in trust, net	1,284,922	1,286,818
Machinery and equipment in trust	2,424,138	2,387,047
Accumulated depreciation	(385,167)	(433,368)
Machinery and equipment in trust, net	2,038,970	1,953,678
Vehicles in trust	153	—
Accumulated depreciation	(153)	—
Vehicles in trust, net	0	—
Tools, furniture and fixtures in trust	774,779	870,024
Accumulated depreciation	(218,587)	(276,299)
Tools, furniture and fixtures in trust, net	556,192	593,724
Land in trust	385,124,884	368,656,815
Construction in progress in trust	12,859	17,859
Total property, plant and equipment	547,800,674	533,709,723
Intangible assets		
Leasehold rights in trust	2,348,619	6,034,763
Other	4,876	3,622
Total intangible assets	2,353,495	6,038,385
Investments and other assets		
Investment securities	—	486,179
Lease and guarantee deposits	801,516	1,530,346
Long-term prepaid expenses	641,322	625,332
Other	369,782	157,179
Total investments and other assets	1,812,621	2,799,038
Total non-current assets	551,966,791	542,547,147
Deferred assets		
Investment corporation bond issuance costs	121,255	107,395
Investment unit issuance costs	49,105	33,602
Total deferred assets	170,361	140,997
Total assets	579,931,111	570,999,401

(Thousands of yen)

	15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
Liabilities		
Current liabilities		
Operating accounts payable	835,543	1,116,383
Short-term loans payable	13,700,000	7,700,000
Current portion of investment corporation bonds	3,000,000	—
Current portion of long-term loans payable	23,500,000	31,310,000
Accounts payable – other	1,043,814	1,169,452
Accrued expenses	190,432	217,054
Income taxes payable	580	584
Accrued consumption taxes	—	678,924
Advances received	697,331	712,064
Derivatives liabilities	26,049	10,052
Other	34,121	12,758
Total current liabilities	43,027,874	42,927,275
Non-current liabilities		
Investment corporation bonds	31,500,000	31,500,000
Long-term loans payable	191,942,000	187,732,000
Tenant leasehold and security deposits in trust	14,669,870	14,353,152
Derivatives liabilities	7,847	2,149
Other	871	—
Total non-current liabilities	238,120,589	233,587,302
Total liabilities	281,148,463	276,514,577
Net assets		
Unitholders' equity		
Unitholders' capital	161,283,304	161,283,304
Surplus		
Capital surplus	128,598,415	128,598,415
Deduction from capital surplus	—	*3 (3,999,964)
Capital surplus, net	128,598,415	124,598,450
Voluntary reserve		
Reserve for reduction entry	388,798	993,722
Reserve for special account for reduction entry	1,195,848	—
Reserve for temporary difference adjustments	*4 604,535	*4 417,038
Total voluntary reserve	2,189,182	1,410,761
Unappropriated retained earnings	6,745,643	7,204,510
Total surplus	137,533,240	133,213,722
Total unitholders' equity	298,816,545	294,497,026
Valuation and translation adjustments		
Deferred gains or losses on hedges	(33,897)	(12,202)
Total valuation and translation adjustments	(33,897)	(12,202)
Total net assets	*1 298,782,647	*1 294,484,824
Total liabilities and net assets	579,931,111	570,999,401

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

(2) Statement of Income and Retained Earnings

(Thousands of yen)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)		16th Fiscal Period (From May 1, 2022 to October 31, 2022)	
Operating revenue				
Rent revenue – real estate	*1	14,355,305	*1	14,623,738
Other lease business revenue	*1	401,481	*1	459,098
Gain on sale of real estate properties		—	*2	710,583
Gain on investments in silent partnership		—		3,650
Total operating revenue		14,756,787		15,797,070
Operating expenses				
Expenses related to rent business	*1	5,892,357	*1	6,275,960
Asset management fees		910,076		1,021,403
Asset custody fees		10,387		10,679
Administrative service fees		48,100		49,974
Directors' compensation		3,600		3,600
Provision of allowance for doubtful accounts		—		1,693
Bad debt expenses		154		—
Other operating expenses		266,172		355,107
Total operating expenses		7,130,848		7,718,418
Operating income		7,625,938		8,078,652
Non-operating income				
Interest income		160		131
Reversal of distribution payable		693		588
Interest on refund		—		539
Reversal of allowance for doubtful accounts		892		—
Total non-operating income		1,745		1,258
Non-operating expenses				
Interest expenses		609,966		639,740
Interest expenses on investment corporation bonds		77,431		76,266
Borrowing related expenses		124,916		122,424
Amortization of investment unit issuance costs		51,013		15,502
Amortization of investment corporation bond issuance costs		15,183		13,860
Other		2,924		7,001
Total non-operating expenses		881,435		874,796
Ordinary income		6,746,248		7,205,115
Income before income taxes		6,746,248		7,205,115
Income taxes – current		605		605
Total income taxes		605		605
Net income		6,745,643		7,204,510
Unappropriated retained earnings		6,745,643		7,204,510

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

(3) Statement of Changes in Net Assets

15th Fiscal Period (From November 1, 2021 to April 30, 2022)

(Thousands of yen)

	Unitholders' equity					
	Unitholders' capital	Surplus				
		Capital surplus	Voluntary reserve			Total voluntary reserve
			Reserve for reduction entry	Reserve for special account for reduction entry	Reserve for temporary difference adjustments	
Balance at beginning of period	149,210,081	128,598,415	726,488	—	675,138	1,401,626
Changes of items during period						
Issuance of new investment units	12,073,223					
Reversal of reserve for reduction entry			(337,690)			(337,690)
Provision of reserve for special account for reduction entry				1,195,848		1,195,848
Reversal of reserve for temporary difference adjustments					(70,602)	(70,602)
Distribution from surplus						
Net income						
Net changes of items other than unitholders' equity						
Total changes of items during period	12,073,223	—	(337,690)	1,195,848	(70,602)	787,555
Balance at end of period	*161,283,304	128,598,415	388,798	1,195,848	604,535	2,189,182

(Thousands of yen)

	Unitholders' equity			Valuation and translation adjustments		Total net assets
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Unappropriated retained earnings	Total surplus				
Balance at beginning of period	8,520,020	138,520,062	287,730,143	(87,376)	(87,376)	287,642,766
Changes of items during period						
Issuance of new investment units			12,073,223			12,073,223
Reversal of reserve for reduction entry	337,690	—	—			—
Provision of reserve for special account for reduction entry	(1,195,848)	—	—			—
Reversal of reserve for temporary difference adjustments	70,602	—	—			—
Distribution from surplus	(7,732,464)	(7,732,464)	(7,732,464)			(7,732,464)
Net income	6,745,643	6,745,643	6,745,643			6,745,643
Net changes of items other than unitholders' equity				53,479	53,479	53,479
Total changes of items during period	(1,774,377)	(986,821)	11,086,401	53,479	53,479	11,139,880
Balance at end of period	6,745,643	137,533,240	298,816,545	(33,897)	(33,897)	298,782,647

16th Fiscal Period (From May 1, 2022 to October 31, 2022)

(Thousands of yen)

	Unitholders' equity						
	Unitholders' capital	Surplus					
		Capital surplus			Voluntary reserve		
		Capital surplus	Deduction from capital surplus	Capital surplus, net	Reserve for reduction entry	Reserve for special account for reduction entry	Reserve for temporary difference adjustments
Balance at beginning of period	161,283,304	128,598,415	—	128,598,415	388,798	1,195,848	604,535
Changes of items during period							
Reversal of reserve for special account for reduction entry						(1,195,848)	
Provision of reserve for reduction entry					1,195,848		
Reversal of reserve for reduction entry					(590,923)		
Reversal of reserve for temporary difference adjustments							(187,497)
Distribution from surplus							
Net income							
Acquisition of own investment units							
Cancellation of own investment units			(3,999,964)	(3,999,964)			
Net changes of items other than unitholders' equity							
Total changes of items during period	—	—	(3,999,964)	(3,999,964)	604,924	(1,195,848)	(187,497)
Balance at end of period	*161,283,304	128,598,415	(3,999,964)	124,598,450	993,722	—	417,038

	Unitholders' equity					Valuation and translation adjustments	
	Surplus			Own investment units	Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments
	Voluntary reserve	Unappropriated retained earnings	Total surplus				
	Total voluntary reserve						
Balance at beginning of period	2,189,182	6,745,643	137,533,240	—	298,816,545	(33,897)	(33,897)
Changes of items during period							
Reversal of reserve for special account for reduction entry	(1,195,848)	1,195,848	—		—		
Provision of reserve for reduction entry	1,195,848	(1,195,848)	—		—		
Reversal of reserve for reduction entry	(590,923)	590,923	—		—		
Reversal of reserve for temporary difference adjustments	(187,497)	187,497	—		—		
Distribution from surplus		(7,524,063)	(7,524,063)		(7,524,063)		
Net income		7,204,510	7,204,510		7,204,510		
Acquisition of own investment units				(3,999,964)	(3,999,964)		
Cancellation of own investment units			(3,999,964)	3,999,964	—		
Net changes of items other than unitholders' equity						21,695	21,695
Total changes of items during period	(778,420)	458,867	(4,319,518)	—	(4,319,518)	21,695	21,695
Balance at end of period	1,410,761	7,204,510	133,213,722	—	294,497,026	(12,202)	(12,202)

(Thousands of yen)

	Total net assets
Balance at beginning of period	298,782,647
Changes of items during period	
Reversal of reserve for special account for reduction entry	—
Provision of reserve for reduction entry	—
Reversal of reserve for reduction entry	—
Reversal of reserve for temporary difference adjustments	—
Distribution from surplus	(7,524,063)
Net income	7,204,510
Acquisition of own investment units	(3,999,964)
Cancellation of own investment units	—
Net changes of items other than unitholders' equity	21,695
Total changes of items during period	(4,297,823)
Balance at end of period	294,484,824

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

(4) Statement of Cash Distributions

Item	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022, to October 31, 2022)
I. Unappropriated retained earnings	6,745,643,069yen	7,204,510,234yen
II. Reversal of voluntary reserve		
Reversal of reserve for reduction entry	590,923,444yen	82,441,009yen
Reversal of reserve for temporary difference adjustments	* 187,497,321yen	* 222,908,905yen
III. Cash distributions	7,524,063,834yen	7,509,860,148yen
[Cash distributions per unit]	[1,698yen]	[1,714yen]
IV. Retained earnings carried forward	— yen	— yen
Method for calculating cash distributions	<p>The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR.</p> <p>Based on such policy, SHR decided to distribute 7,524,063,834 yen, which is obtained by adding a reversal of the reserve for temporary difference adjustments (187,497,321yen) and a reversal of the reserve for reduction entry (590,923,444 yen) to unappropriated retained earnings, as distribution of earnings.</p> <p>SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.</p>	<p>The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR.</p> <p>Based on such policy, SHR decided to distribute 7,509,860,148yen, which is obtained by adding a reversal of the reserve for temporary difference adjustments (222,908,905yen) and a reversal of the reserve for reduction entry (82,441,009yen) to unappropriated retained earnings, as distribution of earnings.</p> <p>SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.</p>

(5) Statement of Cash Flows

(Thousands of yen)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Cash flows from operating activities		
Income before income taxes	6,746,248	7,205,115
Depreciation and amortization	2,490,587	2,574,622
Amortization of investment corporation bond issuance costs	15,183	13,860
Amortization of investment unit issuance costs	51,013	15,502
Interest income	(160)	(131)
Interest expenses	687,397	716,007
Decrease (increase) in operating accounts receivable	(24,399)	(9,646)
Decrease (increase) in consumption taxes receivable	(156,161)	156,161
Decrease (increase) in prepaid expenses	(24,812)	(40,674)
Decrease (increase) in long-term prepaid expenses	(76,433)	15,990
Increase (decrease) in operating accounts payable	(128,589)	181,951
Increase (decrease) in accounts payable – other	(459,575)	124,450
Increase (decrease) in accrued consumption taxes	(492,221)	678,924
Increase (decrease) in advances received	8,972	14,733
Decrease due to sale of property, plant and equipment in trust	—	22,309,047
Other, net	33,923	(61,136)
Subtotal	8,670,970	33,894,779
Interest income received	160	131
Interest expenses paid	(731,910)	(707,296)
Income taxes paid	(606)	(600)
Net cash provided by operating activities	7,938,613	33,187,013
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(37,539,645)	(10,421,309)
Purchase of intangible assets in trust	—	(3,726,416)
Purchase of intangible assets	(2,472)	(420)
Purchases of investment securities	—	(482,529)
Payments for lease and guarantee deposits	—	(728,830)
Proceeds from tenant leasehold and security deposits in trust	1,027,185	344,981
Repayments of tenant leasehold and security deposits in trust	(307,660)	(661,699)
Decrease (increase) in other investments	(10,811)	(18,585)
Net cash provided by (used in) investing activities	(36,833,404)	(15,694,808)
Cash flows from financing activities		
Proceeds from short-term loans payable	13,700,000	—
Repayments of short-term loans payable	—	(6,000,000)
Proceeds from long-term loans payable	26,830,000	16,000,000
Repayments of long-term loans payable	(26,830,000)	(12,400,000)
Redemption of investment corporation bonds	—	(3,000,000)
Proceeds from issuance of investment units	12,022,819	—
Purchase of own investment units	—	(3,999,964)
Dividends paid	(7,731,990)	(7,522,876)
Net cash provided by (used in) financing activities	17,990,829	(16,922,840)
Net increase (decrease) in cash and cash equivalents	(10,903,961)	569,364
Cash and cash equivalents at beginning of period	38,091,702	27,187,740
Cash and cash equivalents at end of period	* 27,187,740	* 27,757,104

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

(6) Notes on Assumption of Going Concern

Not applicable

(7) Summary of Significant Accounting Policies

1. Standards and methods for valuation of assets	Securities Other securities Silent partnership equity interests The amount equivalent to the share of the net profit or loss of the silent partnership will be incorporated.
2. Method of depreciation and amortization of non-current assets	(1)Property, plant and equipment (including assets in trust) Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows: Buildings 3-69 years Structures 6-52 years Machinery and equipment 8-61 years Tools, furniture and fixtures 2-15 years (2)Intangible assets Intangible assets are amortized utilizing the straight-line method. Leasehold rights in trust are amortized on a straight-line basis over the remaining life of each fixed-term land lease contract. (3)Long-term prepaid expenses Long-term prepaid expenses are amortized utilizing the straight-line method.
3. Accounting for deferred assets	(1) Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized utilizing the straight-line method over the redemption periods. (2) Investment unit issuance costs Investment unit issuance costs are amortized utilizing the straight-line method (over 3 years).
4. Standards for recording allowance	Allowance for doubtful accounts To prepare for possible losses arising from default on receivables, the estimated uncollectable amount is recorded by examining collectability on a case-by-case basis for doubtful and other specific receivables.
5. Standards for revenue and expense recognition	(1)Revenue recognition The details of the main performance obligations relating to revenue arising from contracts with customers and the timing (usual timing of revenue recognition) when such performance obligations are satisfied areas follows. 1) Sale of real estate, etc. With regard to the sale of real estate, etc., income is calculated based on when the buyer gains control over the real estate, etc., at the point in time the delivery obligation stipulated in the contract relating to the sale of the real estate is satisfied. 2) Utilities revenue Utilities revenue mainly represents water utility revenue. With regard to water utility revenue, revenue is calculated based on the provision of electricity, water, etc. to lessees, as customers, under lease contracts for real estate, etc., and the agreements that are attached to the contracts. As for the water utility revenue when SHR is deemed to be acting as an agent in the transaction, revenue is recognized at the net amount after deducting the amount to be paid to other parties from the amount received as the payment for electricity, gas, etc. supplied by those other parties. Rent revenue SHR generally recognizes rent revenue, including fixed rent revenues, variable rent revenues and common area charges, on an accrual basis over the term of each lease agreement. Other lease business Other lease business revenue is recognized in accordance with Japanese GAAP, typically as the amounts under the relevant agreements become due.

	<p>(2)Accounting for property taxes</p> <p>In accounting for property tax, city planning tax, depreciable asset tax, etc. on real estate, etc., of the tax amount assessed and determined, the amount corresponding to the applicable calculation period is expensed as expenses related to rent business.</p> <p>Reimbursement of property tax, paid to the seller upon the acquisition of real estate or trust beneficiary interests of real estate as assets in trust, is not recognized as expenses related to rent business in the corresponding fiscal period but included in the acquisition cost of the property.</p> <p>Property taxes capitalized as a part of the acquisition cost amounted to 54,790 thousand yen for the 16th fiscal period and 12,201 thousand yen for the 15th fiscal period.</p>
6. Method of hedge accounting	<p>(1)Method of hedge accounting</p> <p>Deferral hedge accounting is applied. However, the special accounting treatment is applied to interest rate swaps that meet the criteria for the special accounting treatment.</p> <p>(2)Hedging instruments and hedged items</p> <p>Hedging instruments: Interest rate swap transactions</p> <p>Hedged items: Interest on loans</p> <p>(3)Hedging policy</p> <p>SHR conducts derivative transactions for the purpose of hedging the risks set forth in its Articles of Incorporation based on its basic risk management policy.</p> <p>(4)Method for assessing the effectiveness of hedging</p> <p>Interest rate swaps meet the criteria for the special accounting treatment and an assessment of the effectiveness is thus omitted.</p> <p>(5)Special accounting treatment</p> <p>Under the special accounting treatment, interest rate swaps are not measured at fair value, but the differential paid or received under the swap agreements is recognized and included in or deducted from interest expense. Any amounts received under interest rate swaps subject to such accounting treatment are not recognized as income on the accompanying statements of income and retained earnings but rather have the effect of decreasing interest expenses.</p>
7. Scope of funds in the statement of cash flows	<p>The funds (cash and cash equivalents) in the statement of cash flows consist of cash on hand and cash in trust; deposits that can be withdrawn at any time and deposits in trust; and short-term investments with a maturity of three months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of price fluctuation.</p>
8. Other significant matters serving as basis for preparation of financial statements	<p>(1)Accounting for trust beneficiary interests of real estate, etc. as assets in trust</p> <p>Concerning trust beneficiary interests of real estate, etc. as assets in trust, all accounts of assets and liabilities within assets in trust as well as all accounts of revenue and expenses from the assets in trust are recognized in the relevant account items on the balance sheet and the statement of income and retained earnings.</p> <p>The following material items of the assets in trust recognized in the relevant account items are separately listed on the balance sheet.</p> <ol style="list-style-type: none"> 1) Cash and deposits in trust 2) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust; Leasehold rights in trust 3) Tenant leasehold and security deposits in trust

(8) Notes to Financial Statements

(Notes to Balance Sheet)

*1. Minimum net assets designated in Article 67-4 of the Investment Trust Act

(Thousands of yen)

15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
50,000	50,000

2. Commitment line agreement

SHR has entered into a commitment line agreement with three financial institutions in order to secure flexible and stable financing.

(Thousands of yen)

	15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
Total amount of commitment line	15,000,000	15,000,000
Balance executed as loans	—	—
Unused line of credit	15,000,000	15,000,000

*3. Status of cancellation of own investment units

	15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
Total number of units cancelled	—	49,651 units
Total amount cancelled	—	3,999,964 thousand yen

*4. Matters concerning accounting for reserve and reversal of reserve for temporary difference adjustments

(Thousands of yen)

	15th Fiscal Period (As of April 30, 2022)	16th Fiscal Period (As of October 31, 2022)
Gain on negative goodwill (*)		
Initial amount	1,556,827	1,556,827
Balance at beginning of period	675,138	604,535
Reserve amount during period	—	—
Reversal amount during period	70,602	187,497
Balance at end of period	604,535	417,038
Reason for reserve and reversal	Appropriated for distributions	Appropriated for distributions

(*) Reserve of a part of gain on negative goodwill that arose in the previous fiscal period; SHR plans to drawdown at least 1% of the reserve for each fiscal period (corresponding to the amount of the reserve expensed equally over 50 years) and appropriate the amount for cash distributions, starting from the fiscal period following the fiscal period in which the reserve was made.

(Notes to Statement of Income and Retained Earnings)***1. Breakdown of property-related operating revenue and expenses**

(Thousands of yen)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)		16th Fiscal Period (From May 1, 2022 to October 31, 2022)	
A. Property-related operating revenue				
Rent revenue – real estate				
Rental income	14,008,141		14,263,700	
Other	347,164	14,355,305	360,038	14,623,738
Other lease business revenue				
Utilities revenue	180,119		241,565	
Other	221,361	401,481	217,532	459,098
Total property-related operating revenue		14,756,787		15,082,836
B. Property-related operating expenses				
Expenses related to rent business				
Subcontract expenses	569,716		597,696	
Property management fees	468,688		470,667	
Trust fees	44,248		43,221	
Utilities expenses	311,649		391,838	
Property and other taxes	1,017,039		1,065,322	
Insurance expenses	17,407		18,820	
Repair expenses	336,792		390,295	
Depreciation	2,489,720		2,573,621	
Other expenses related to rent business	637,094	5,892,357	724,475	6,275,960
Total property-related operating expenses		5,892,357		6,275,960
C. Property-related operating income [A – B]		8,864,429		8,806,876

***2. Breakdown of gain on sale of real estate properties**

15th Fiscal Period (From November 1, 2021 to April 30, 2022)

Not applicable.

16th Fiscal Period (From May 1, 2022 to October 31, 2022)

(Thousands of yen)

The Ritz-Carlton, Kyoto

Proceeds from sale of real estate property	23,000,000
Cost of real estate property	22,288,419
Other sales expenses	996
Gain on sale of real estate property	710,583

(Notes to Statement of Changes in Net Assets)***Total number of authorized investment units and total number of investment units issued**

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Total number of authorized investment units	20,000,000units	20,000,000units
Total number of investment units issued	4,431,133units	4,381,482units

(Notes to Statement of Cash Distributions)

*Reserve for temporary difference adjustments

15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
With regard to the reserve for temporary difference adjustments, SHR plans to drawdown at least 1% of the reserve for each fiscal period (corresponding to the amount of the reserve expensed equally over 50 years) and appropriate the amount for cash distributions, starting from the fiscal period following the fiscal period in which the reserve was made. SHR decided to drawdown 187,497,321 yen for the 15th fiscal period.	With regard to the reserve for temporary difference adjustments, SHR plans to drawdown at least 1% of the reserve for each fiscal period (corresponding to the amount of the reserve expensed equally over 50 years) and appropriate the amount for cash distributions, starting from the fiscal period following the fiscal period in which the reserve was made. SHR decided to drawdown 222,908,905 yen for the 16th fiscal period.

(Notes to Statement of Cash Flows)

*Reconciliation of cash and cash equivalents at end of period to the corresponding balance sheet items

(Thousands of yen)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Cash and deposits	11,154,608	11,416,266
Cash and deposits in trust	16,033,132	16,340,838
Cash and cash equivalents	27,187,740	27,757,104

(Transactions with Related Parties)

- Parent company and major corporate unitholders.
15th Fiscal Period (From November 1, 2021 to April 30, 2022)
Not applicable.
16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Not applicable.
- Subsidiaries and affiliates.
15th Fiscal Period (From November 1, 2021 to April 30, 2022)
Not applicable.
16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Not applicable.
- Sister companies.
15th Fiscal Period (From November 1, 2021 to April 30, 2022)
Not applicable.
16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Not applicable.
- Directors and major individual unitholders.
15th Fiscal Period (From November 1, 2021 to April 30, 2022)
Not applicable.
16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Not applicable.

(Revenue Recognition)

1. Breakdown of revenue from contracts with customers

15th Fiscal Period (From November 1, 2021 to April 30, 2022)

(Thousands of yen)

	Revenue from contracts with customers *1	Net sales to external customers
Sale of real estate, etc.	—	*2 —
Utilities revenue	180,119	180,119
Other	—	14,576,667
Total	180,119	14,756,787

*1 Rental revenue, etc. subject to ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” is not included in “Revenue from Contracts with Customers” because such revenue is excluded from the application of the revenue recognition standard. Revenues from contracts with major customers consist of revenues from the sale of real estate and other assets and utilities revenue.

*2 Regarding the sale of real estate, etc., in accordance with Article 48, Paragraph 2 of the Regulations on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47, 2006), gain on the sale of real estate properties, etc. is shown in the statement of income and retained earnings after deducting cost of real estate property and direct sales expenses from the proceeds from the sale of real estate, etc.

16th Fiscal Period (From May 1, 2022 to October 31, 2022)

(Thousands of yen)

	Revenue from contracts with customers *1	Net sales to external customers
Sale of real estate, etc.	23,000,000	*2 710,583
Utilities revenue	241,565	241,565
Other	—	14,844,921
Total	23,241,565	15,797,070

*1 Rental revenue, etc. subject to ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” is not included in “Revenue from Contracts with Customers” because such revenue is excluded from the application of the revenue recognition standard. Revenues from contracts with major customers consist of revenues from the sale of real estate and other assets and utilities revenue.

*2 Regarding the sale of real estate, etc., in accordance with Article 48, Paragraph 2 of the Regulations on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47, 2006), gain on the sale of real estate properties, etc. is shown in the statement of income and retained earnings after deducting cost of real estate property and direct sales expenses from the proceeds from the sale of real estate, etc.

2. Information to understand revenue from contracts with customers

15th Fiscal Period (From November 1, 2021 to April 30, 2022)

As stated in (7) Summary of Significant Accounting Policies”

16th Fiscal Period (From May 1, 2022 to October 31, 2022)

As stated in (7) Summary of Significant Accounting Policies”

3. Information on the relationship between performance obligations under contracts with customers and cash flows resulting from such contracts, and the amount and timing of proceeds expected to be recognized in the next fiscal period or thereafter from contracts with customers existing at the end of this fiscal period

(1) Balance of contract assets and contract liabilities, etc.

(Thousands of yen)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Claims arising from contracts with customers (Balance at beginning of period)	40,544	43,843
Claims arising from contracts with customers (Balance at end of period)	43,843	55,312
Contract assets (Balance at beginning of period)	—	—
Contract assets (Balance at end of period)	—	—
Contract liabilities (Balance at beginning of period)	—	—
Contract liabilities (Balance at end of period)	—	—

(2) Transaction prices allocated to the remaining performance obligations

With regard to utilities revenue, SHR recognizes proceeds in the amount that SHR has the right to claim in accordance with Clause 19 of the Accounting Standard for Revenue Recognition, because SHR has the right to receive from the lessee, as the customer, an amount of compensation directly corresponding to the value of the items provided up to the end of the fiscal period.

Accordingly, SHR applies the provisions of Clause 80-22(2) of Accounting Standard for Revenue Recognition and does not include related information in the notes on transaction prices allocated to the remaining performance obligations.

The property-related operating income in the 15th and 16th fiscal periods for investment and rental properties is presented in “(2) Statement of Income and Retained Earnings”.

(Segment Information)

1. Segment information

Segment information is omitted because SHR operates a single segment, which is the real estate leasing business.

2. Related information

15th Fiscal Period (From November 1, 2021 to April 30, 2022)

(1) Information about products and services

Information about products and services is omitted because net sales to external customers for a single products and services category are in excess of 90% of operating revenue on the statement of income and retained earnings.

(2) Information about geographic areas

1) Operating revenue

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of operating revenue on the statement of income and retained earnings.

2) Property, plant and equipment

Information about property, plant and equipment is omitted because the property, plant and equipment located in Japan is in excess of 90% of property, plant and equipment on the balance sheet.

(3) Information about major customers

(Thousands of yen)

Name of customer	Operating revenue	Name of related segment
Sekisui House, Ltd.	1,363,547	Real estate leasing business

16th Fiscal Period (From May 1, 2022 to October 31, 2022)

(1) Information about products and services

Information about products and services is omitted because net sales to external customers for a single products and services category are in excess of 90% of operating revenue on the statement of income and retained earnings.

(2) Information about geographic areas

1) Operating revenue

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of operating revenue on the statement of income and retained earnings.

2) Property, plant and equipment

Information about property, plant and equipment is omitted because the property, plant and equipment located in Japan is in excess of 90% of property, plant and equipment on the balance sheet.

(3) Information about major customers

(Thousands of yen)

Name of customer	Operating revenue	Name of related segment
Sekisui House, Ltd.	1,363,547	Real estate leasing business

(Per Unit Information)

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Net assets per unit	67,428yen	67,211yen
Net income per unit	1,522yen	1,636yen

(Note 1) Net income per unit is calculated by dividing net income by the daily weighted average number of investment units.
In addition, diluted net income per unit is not stated because there are no dilutive investment units.

The following is the basis for calculating net income per unit.

	15th Fiscal Period (From November 1, 2021 to April 30, 2022)	16th Fiscal Period (From May 1, 2022 to October 31, 2022)
Net income (Thousands of yen)	6,745,643	7,204,510
Amount not attributable to common unitholders (Thousands of yen)	—	—
Net income attributable to common investment units (Thousands of yen)	6,745,643	7,204,510
Average number of investment units during period (Units)	4,430,365	4,402,287

(Significant Subsequent Events)

Not Applicable