

3. Investment Risks

a. Risk Factors

This section details the major details that we believe may become risks factors with respect to investment in the Units or investment corporation bonds. The following is not an exhaustive list and there are risks other than those described below. Please also refer to *V Management*, *(2) Investment Assets*, *(III) Other Major Investment Assets* below for the risks specific to real estate that comprises the trust assets of beneficial interests of individual trusts that the Investment Corporation has already acquired.

The Investment Corporation endeavors as much as possible to avoid these risks and to handle the risks if they eventuate; however, no assurances can be given that this avoidance and handling is ultimately sufficient. If any of the risks described below arise, the market value of the Units or the Bonds declines or the amount of dividend decreases, potentially resulting in losses for the investors.

Each investor should carefully consider this section and other matters described in other sections of this Report at its own responsibility before making investment decisions regarding the Units or the Bonds. Matters described in this Report include those regarding the future including the targets and intentions of the Investment Corporation and the Asset Manager. Unless otherwise stated, however, these descriptions are based on judgments, targets, and certain assumptions and hypotheses of the Investment Corporation and the Asset Manager as of the date of this Report, and may differ from actual results.

The risks set forth in this Report are as follows.

- (I) Risks Regarding Products Features of Units and Bonds
 - (A) Risk Regarding Market Price Fluctuations for Units and Bonds
 - (B) Risk Regarding Market Transactions for Units
 - (C) Dividend Risk
 - (D) Risk Regarding Fluctuation in Revenue and Expenditure
 - (E) Risk Regarding Redemption and Interest Payment of Bonds
 - (F) Risk Regarding Dilution in case of the Issuance of New Units
- (II) Risks Regarding Management Policy of Investment Corporation
 - (A) Risk Arising from Inclusion of Retail Properties in a Significant Portion of the Portfolio
 - (B) Risk Regarding Concentration of Tenants
 - (C) Risk Regarding Single and Core Tenant Property
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 - (B) Risk Regarding Funding Through New Units and Through Borrowings and Investment Corporation Bonds
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- (IV) Risks Regarding Investment Corporation's Related Persons and Structure
 - (A) Risk Regarding Dependency on KKR & Co. Inc. (together with its subsidiaries, hereafter "KKR") and Conflicts of Interest
 - (B) Risk Regarding Dependency on Investment Corporation's Related Persons and Conflicts of Interest
 - (C) Risk of Investment Corporation Depending on Asset Manager's Personnel

- (D) Risk Regarding Amendments to Investment Corporation's Investment Policy
- (E) Risk Investment Corporation Goes Bankrupt or Registration Be Cancelled
- (V) Risks Regarding Real Estate and Trust Beneficial Interests
 - (A) Risk Regarding Faults or Defects
 - (B) Risk Regarding Lease Agreements
 - (C) Risk of Damaged, Destroyed or Deteriorated Building due to Natural Disaster
 - (D) Risk Regarding Owner Responsibility and Repair and Maintenance Costs for Real Estate
 - (E) Risk Regarding Disproportionate Geographical Spread of Real Estate
 - (F) Risk Regarding Land Boundaries, etc.
 - (G) Risk Regarding Administrative Regulations and Prefectural or Municipal Ordinances for Real Estate
 - (H) Risk Regarding Establishment or Change of Laws and Regulations
 - (I) Risk Arising from Seller's Insolvency
 - (J) Risk Regarding Sublease
 - (K) Risk Regarding Master Lease Agreement
 - (L) Risk Regarding Status of Use and Management of Real Estate by Tenants
 - (M) Risk Regarding Deterioration of Surrounding Environment
 - (N) Risk Regarding Co-owned Property
 - (O) Risk Regarding Unit-Owned Buildings
 - (P) Risk Regarding Land with Leasehold Interest
 - (Q) Risk Regarding Property on Leased Land
 - (R) Risk Regarding Leased Houses
 - (S) Risk Regarding Property under Development
 - (T) Risk Regarding Harmful Materials
 - (U) Risk Specific to Real Estate Owned as Beneficial Interests
 - (V) Risk Regarding Forward Commitment, etc.
 - (W) Risk Regarding Application of Asset Impairment Accounting
- (VI) Risks Regarding Investment in Mezzanine Loan Obligations
- (VII) Taxation Risks
 - (A) General Risk Regarding Maintenance of Conduit Requirements
 - (B) Risk of Not Satisfying Requirements for Payment Resulting from Tax Burden
 - (C) Risk Regarding Conduit Requirements for Borrowings
 - (D) Risk of Conduit Requirements for Close Corporations Beyond Investment Corporation Control
 - (E) Risk of Number of Unitholders Holding Units Beyond Investment Corporation Control
 - (F) Risk of Additional Tax Burden Due to Retrospective Tax Adjustment Following Tax Audit
 - (G) Risk of Reduced-Tax System for Acquisition of Real Estate Not Applying
 - (H) Risk Regarding General Amendments to Taxation System
- (VIII) Miscellaneous Risks
 - (A) Risk of Relying on Professional Opinions
 - (B) Risk that the Tax Burden Will Increase Due to Inconsistency of Accounting Processing and Tax Processing
 - (C) Risks Regarding Investment in Capital Contribution of Anonymous Partnerships
 - (D) Risk Regarding Investment in Units

- (E) Risk associated with occurrence of goodwill and reversal of voluntary reserves or distributions in excess of earnings equivalent to the amount of goodwill amortization

- (I) Risks Regarding Products Features of Units and Bonds

- (A) Risk Regarding Market Price Fluctuations for Units and Bonds

The Units are closed-end type that investors cannot redeem upon their request, and measures for Unitholders to realize Units are limited, in principle, to sales of Units to a third party.

The market price of Units and Bonds is influenced by balance of investor supply and demand at the financial instruments exchange and fluctuates as a reflection of interest rates, economic conditions, real estate market conditions and other various factors related to the markets.

Therefore, there is no guarantee that the investors can sell the Units or the Bonds at their purchase price, potentially resulting in losses for Unitholders or Bondholders.

- (B) Risk Regarding Market Transactions for Units

If the gross assets of the Investment Corporation decrease, the Investment Corporation's trade volume for units declines, or any other matter happens which meets the delisting criteria set forth in the listing regulations of the Tokyo Stock Exchange, the Units will be delisted. If the Units are delisted, the sale price of the Units may be low compared to the net asset value of the Investment Corporation, or the sale of the Units may be effectively impossible because the Unitholders do not have realization measures other than to the transfer of the Units out of the market, potentially resulting in losses by the Unitholders.

- (C) Dividend Risk

Although the Investment Corporation intends to distribute money to Unitholders in accordance with dividend policy as described "*II Investment Policy, (3) Dividend Policy*", the dividend or the amount to be distributed is not guaranteed. The dividend amount to Unitholders may increase or decrease reflecting significant fluctuation in periodical profit and loss due to profits and losses on sales of real estate and underlying real estate to real-estate-backed assets (collectively "Real Estate" in this section entitled "a. Risk Factors") or losses on retirement upon reconstruction.

- (D) Risk Regarding Fluctuation in Revenue and Expenditure

The Investment Corporation produces revenue mainly from rent of real estate acquired by the Investment Corporation. Rent with respect to the Real Estate may significantly decrease reflecting lower occupancy ratio of the Real Estate (including due to reconstruction and large-scale renovation), reduced sales of tenants when the turnover rent is adopted, or may decrease upon consultation with or request from the lessee, or may not increase in accordance with agreements between the parties (please refer to *(V) Risks Regarding Real Estate and Trust Beneficial Interests, (B) Risk Regarding Lease Agreement* below for the risks related to rent income with respect to the Real Estate). There are no assurances that the past status of rent income from individual assets conform to the future status of rent income. The rent set out under lease agreements executed with respect to the Real Estate is not always appropriate compared to general rent level.

Not only may revenue drop, an increase in repayment of deposited security deposits (*shiki-kin*) and guarantee deposits to vacating tenants, costs necessary for large-scale renovation, significant capital expenditure, costs necessary for Real Estate acquisition, and other expenditure with respect to the Real Estate may also reduce the cash flow.

As described above, the revenue with respect to the Real Estate may decrease and the expenditure may increase, which means the past profit and loss of individual assets and entire assets under management does not always conform to future profits and losses or show similar trends. If any change occurs to the profits and losses for any reason whatsoever, the dividend amount to Unitholders may decrease or the market value of the Units may decline.

(E) Risk Regarding Redemption and Interest Payment of Bonds

There is the risk that payment of principle or interest for the Bonds is delayed or the Investment Corporation becomes insolvent due to a worsened credit status or other reasons.

(F) Risk Regarding Dilution in case of the Issuance of New Units

The Investment Corporation intends to issue new Units from time to time. Issuance of new Units will result in decreasing the holding ratio of existing Unitholders. If the Investment Corporation makes dividends for the units issued during the Investment Corporation's accounting period the same amount to be paid for units existing since the beginning of the accounting period, the existing Unitholders may be adversely affected compared to if new Units had not been issued.

In addition, issuance of new Units may affect the net asset value per Unit of the Investment Corporation and the supply and demand balance in the market.

(II) Risks Regarding Management Policy of Investment Corporation

(A) Risk Arising from Inclusion of Retail Properties in a Significant Portion of the Portfolio

The main investment target of the Investment Corporation includes metropolitan retail properties. Our performance therefore tends to depend on the general consumption trend, general trends in the retail industry, competition within the trade area that a retail facility owned by the Investment Corporation is located and demographic trends. Depending on circumstances, tenants may become unable to pay the rent as agreed, terminate or not renew and vacate the premises, or request rent deduction, which may adversely affect the Investment Corporation's revenue.

If the Investment Corporation and a tenant have adopted rent based on a percentage of sales revenue, the rate of rent is floating and a drop in the tenant's sales will have a direct, adverse effect on the rent income.

Further, the retail facilities in which the Investment Corporation invests include large customer-attraction facilities. If these facilities fall within the "Specific Large-scale Building" defined in the city planning law (Law No. 100 of 1968, as amended) (the "City Planning Law"), the facilities may become so-called "existing non-conforming" buildings under the Building Standards Law (Law No. 201 of 1950, as amended) ("Building Standards law") because of the amendment to the City Planning

Law effective as of November 2007 depending on the zoning of the location of the relevant facilities. Please refer to (V) *Risks Regarding Real Estate and Trust Beneficial Interests*, (G) *Risk Regarding Administrative Regulations and Prefectural or Municipal Ordinances for Real Estate* below for risks related to so-called existing non-conforming buildings.

(B) Risk Regarding Concentration of Tenants

If the Investment Corporation leases a significant portion of its assets under management to a single tenant or a limited number of tenants, that the tenant delays in rent payment and vacates the property, as the result of deterioration in operational or financial conditions of the tenant, may impact the revenue of the Investment Corporation.

(C) Risk Regarding Single and Core Tenant Property

Some of the assets managed by the Investment Corporation are so-called single tenant properties with a single tenant or core tenant properties with a limited number of major core tenants.

For these assets, if the tenant vacates the property, there are few prospective alternative tenants because of the large leased area and special specifications tailored to individual tenants, and as a result, the property may remain vacant for a long period of time until an alternative tenant moves in. Consequently, the occupancy rate of the property may substantially decline or the Investment Corporation may be forced to reduce the rent level in order to ensure an alternative tenant, which may materially impact the Investment Corporation's rent income.

(D) Risk Regarding Asset Replacement

In certain circumstances, the Investment Corporation enhances the quality of its portfolio by replacing or selling some of the properties it owns as necessary taking into consideration the current status of the portfolio, but there is no guarantee that replacement or sale of the relevant portfolio assets can be implemented as anticipated by the Investment Corporation. The Investment Corporation may not be able to dispose of portfolio assets at the prices or timing or under other conditions desired by the Investment Corporation, and even in the case where agreement is reached regarding the sale of assets, there is a possibility that disposal cannot be performed because of failure to satisfy the conditions stipulated in the purchase and sale agreement. In the case where replacement or sale of some portfolio assets does not proceed as intended by the Investment Corporation, enhancement of portfolio quality may not occur, and the Investment Corporation may not be able to develop a portfolio of assets that it believes is optimal for increasing returns, stabilizing income, and so on.

(E) Risk Regarding Redevelopment of Properties Owned

Under the Investment Trusts Act, the Investment Corporation may not directly construct buildings, but with the exception of certain cases such as the case where changes in cash flows caused by tenant vacation during a construction period has an excessive impact on the portfolio as a whole, it is believed that the Investment Corporation can become the ordering party under a subcontracting agreement relating to building construction. As a result, the Investment Corporation may generally become the ordering party under a subcontracting agreement relating to building construction and may engage in the real estate redevelopment business.

The redevelopment business, however, entails various risks relating to real estate development (development risks, permit and approval risks, completion risks, tenant risks, price fluctuation risks, risks regarding fluctuations in interest rates during development, risks regarding the occurrence of large-scale natural disasters, and so on), and consequently, it is possible that development may be delayed, unavoidably modified, or suspended or that additional expenses may be incurred as a result of changes in supply and demand conditions or other economic circumstances, difficulty acquiring tenants or securing necessary capital, changes in regulations applicable to real estate due to statutory amendment, discovery of buried structures at the redevelopment site, the occurrence of disputes with neighboring residents during development, and a variety of other factors. In these instances, the Investment Corporation may not be able to carry out the redevelopment plan as intended or may not be able to complete the redevelopment project as initially planned, and as a result, it is possible that the Investment Corporation will not be able to acquire properties at the timing or with the particulars planned. Furthermore, even if a redevelopment project is carried out, it is possible that operation will not proceed as expected because cash flows from the constructed building may be affected by supply and demand or other economic circumstances.

It is possible that as a result of these factors, income and so on from a redevelopment project will be substantially below the Investment Corporation's forecasts, income will not be obtained for the planned period, no income will be received at all, or the Investment Corporation will incur unplanned expenses, damage, or losses, and it is possible that this will have an adverse impact on the Investment Corporation's income and that dividends received from the Investment Corporation will be substantially reduced.

Moreover, in the case where an asset owned by the Investment Corporation is demolished in conjunction with a redevelopment project, losses may be incurred in conjunction with the removal of that asset, and therefore, it is possible that the losses will be extremely high and that the dividends that investors receive will be substantially reduced.

(III) General Risks Regarding Investment Corporation's Operations

(A) Risk Investment Corporation Cannot Acquire or Dispose of Real Estate

Real Estate investment made by real estate investment trusts (REIT) and other trusts, and other investors become active, and competition has increased. Therefore, no assurances are given that the Investment Corporation is always able to acquire the Real Estate or the assets which the Investment Corporation wishes. Even if the Investment Corporation is able to acquire those assets, the Investment Corporation may not be able to effect the transaction at the price, timing, or under other conditions that it wishes to from the aspect of investment profits. Even in the case where the Investment Corporation decides to acquire Real Estate and reaches agreement on transfer with the seller, in the case where the conditions stipulated in the purchase and sale agreement entered into with the seller with regard to the Real Estate are not satisfied, the Investment Corporation may not be able to acquire the Real Estate at the planned time. Further, if the Investment Corporation disposes of the Real Estate and the assets underlain by the Real Estate that it acquired, the Investment Corporation may not be able to effect the transaction at the price, timing, or under other conditions that it wishes to from the aspect of investment profits. As a result, the Investment Corporation may not be able to establish the asset portfolio it considers best in terms of a higher yield and stable profits.

(B) Risk Regarding Funding Through New Units and Through Borrowings and Investment Corporation Bonds

The terms of issuance of new Units and of borrowings and issuance of Investment Corporation Bonds will be subject to the Investment Corporation's economic creditworthiness, interest rates, and other factors, and therefore there is no guarantee that the Investment Corporation will be able to issue new Units, borrow funds, or issue Investment Corporation Bonds at the timing and terms it desires. As a result, the Investment Corporation may not be able to acquire assets as planned, may be forced to sell unscheduled assets, or may experience funding difficulties.

If the Investment Corporation borrows money or issues the Corporate Bonds, a financial restriction provision may be set to restrict distributions to Unitholders, security interests may be created on managed assets, or amendments to the Articles of Incorporation may be restricted. These restrictions may interfere with the operation of the Investment Corporation or adversely affect distributions to Unitholders.

In addition, in borrowing funds or issuing Investment Corporation Bonds, the Investment Corporation may be required to comply with financial covenants such as maintaining certain levels of financial indicators based on its assets and liabilities, maintaining evaluation of its credit standing at certain levels, restricting dividends to Unitholders, setting collaterals for investment assets, or restricting change of the Articles of Incorporation.

These restrictions may hinder operation of the Investment Corporation or adversely affect dividends to Unitholders. In addition, if the Investment Corporation breaches these restrictions, it may be required to establish additional collaterals or bear costs, or lose the benefit of time on borrowings regarding said loan agreement or principal and interest on Investment Corporation Bonds. Operations of the Investment Corporation may thereby be seriously affected.

Interest rates on borrowings or Corporate Bonds reflect market trends when the borrowing or issuance takes effect, and future market trends in the case of floating rates. If interest rates on borrowings or Corporate Bonds rise or the principal amount of borrowings or Corporate Bonds increases, the Investment Corporation pays more interest. This may adversely affect the amount to be distributed to Unitholders.

(C) Risk Regarding Security Deposit and Guarantee Deposit

Lessees of retail facilities often deposit a large amount of security deposit and guarantee deposit for a long period of time with little or no interest. The Investment Corporation does and intends to continue to take advantage of these deposits as part of the funds for acquisition of property and capital expenditures for property. However, in the case when the Investment Corporation is required to return a security deposit or guarantee deposit at an unexpected time due to early termination of a lease agreement, the Investment Corporation is forced to procure necessary funds through borrowings, as a result of which the Investment Corporation's revenue may be adversely affected.

(IV) Risks Regarding Investment Corporation's Related Persons and Structure

(A) Risk Regarding Dependency on KKR and Conflicts of Interest

76KK, an subsidiary of KKR, holds 100% of the issued and outstanding shares of the Asset Manager as of the date of this Report, and officers of the Asset Manager include those from subsidiaries, etc of KKR. Therefore, if KKR's interests differ from those of the Investment Corporation or the Investment

Corporation's other Unitholders, it would give rise to conflict of interest. KKR may exercise its influence on the Investment Corporation if the Investment Corporation acquires assets or leases properties to, or carries out other business with, KKR or its affiliated companies. The Investment Corporation may compete with KKR or its affiliated companies directly or indirectly in acquiring assets or other business. It may materially and adversely affect the business, financial conditions or operational results of the Investment Corporation and the unit price of or dividend amount by the Investment Corporation may decrease.

(B) Risk Regarding Dependency on Investment Corporation's Related Persons and Conflicts of Interest

In accordance with the Investment Trust Law, the Investment Corporation makes material decisions at its board of directors meetings consisting of an executive director and supervisory directors, and delegates its asset management functions to the Asset Manager, asset custody function to the Custodian, and administration function to the General Administrator. It is believed that the Investment Corporation is highly dependent on those persons', particularly the Asset Manager's ability, experience and know-how to carry out its business smoothly; however, there are no assurances that those persons are able to maintain personnel or the financial base necessary to conduct their duties. Although the Investment Trusts Act sets out duties and obligations of executive directors and supervisory directors and related persons of the Investment Corporation, the Unitholders may incur damage if any related person of the Investment Corporation violates the Investment Trusts Act or other laws or ordinances, or fails to take statutory measures.

If the Asset Manager, the Custodian or the General Administrator violates the statutory or contractual duty of care of a good manager, duty to faithfully carry out its duties for the benefit of the Investment Corporation (fiduciary duty), duty not to conduct acts with a conflict of interest, or any other duties, the Investment Corporation's existence and profit may be adversely affected and the Unitholders may incur losses. Particularly, there is a risk that the Asset Manager, which manages the assets for the benefit of the Investment Corporation, might effect a transaction that would prejudice the interests of the Investment Corporation for the benefit of interested parties of the Asset Manager. The Asset Manager has established the regulation on transactions with interested parties as its internal regulation (voluntary rule) to handle the risk properly (please refer to "*I Overview of the Investment Corporation (4) Organization of the Investment Corporation (III) Decision-making process of the Investment Corporation*" above and *Section II Investment Corporation Details, Part III Management and Operation, 2 Restrictions on Transactions with Interested Parties, (2) Rules for Conflict of Interest Transactions Regarding Investment Corporation* below); however, there is no guarantee that the measures set out in this regulation work perfectly.

The Investment Trusts Act does not prohibit the Asset Manager from undertaking asset management for the benefit of multiple investment corporations. KJR Management, the Asset Manager of the Investment Corporation, undertakes asset management of the Industrial & Infrastructure Fund Investment Corporation and private funds, etc. in addition to the Investment Corporation (For details, please refer to "*I Overview of the Investment Corporation (4) Organization of the Investment Corporation (II) Investment System of the Investment Corporation*" above.). Moreover, the Industrial & Infrastructure Fund Investment Corporation is an investment corporation that invests in industrial

real estate, and the Investment Corporation principally invests in retail facilities, office buildings, residences, hotels and mixed-use properties for these purposes. Accordingly, as of the date of this Report, the investment targets of the Industrial & Infrastructure Fund Investment Corporation are different from those of the Investment Corporation. The Asset Manager prepares a checklist to prevent conflicts of interest from arising among the funds when undertaking each fund's asset management, but the checklist may not function as anticipated.

Moreover, investment decision making by the Metropolitan Division, which manages assets relating the Investment Corporation, by the Industrial Division, which manages assets relating the Industrial & Infrastructure Fund Investment Corporation, and by the Private Solutions Division, which engages in asset management relating to private funds, etc. are to be performed independently, but the Investment Division, which is responsible for identifying assets for investment, managing and allocating information, and negotiating the acquisition and disposal and the Corporate Division do not distinguish between these asset categories. Also, the Investment Manager has adopted rules on preferential consideration rights relating to investment information with regard to competition for opportunities to acquire investment properties that arises among the Metropolitan Division, Industrial Division, and the Private Solutions Division (For details, please refer to "*I Overview of the Investment Corporation (4) Organization of the Investment Corporation (II) Investment System of the Investment Corporation (c) Rules on Preferential Consideration Rights Regarding Investment Information*" above), but the possibility that acquisition of properties will be considered in violation of those rules cannot be denied. Furthermore, those rules may be revised in the future, and it is possible that as a result of those revisions, the Investment Corporation will not be able to obtain the same property acquisition opportunities as at the time of this Report. In such case, the Investment Corporation's acquisition opportunities may decrease, and it is possible that it will become more difficult for the Investment Corporation to establish a portfolio that it believes to be desirable, which may have an adverse effect on Investment Corporation's profitability and asset status. If not only the Metropolitan Division but also the Industrial Division or the Private Solutions Division of the Asset Manager act inappropriately, the Asset Manager will be subject to administrative disposition, which may adversely affect the Investment Corporation's asset management or harm its reputation. In addition, there is a Property Management Company and a building management company that undertake duties delegated by the Asset Manager or the Investment Corporation or trustee with respect to the beneficial interests as assets under management. Although the Investment Corporation depends highly on their ability, experience and know-how to improve its profitability, there are no assurances that they are able to maintain personnel or the financial base necessary to perform their duties. If any of these companies fails to perform its duties, violates its obligations or becomes unable to perform its duties, the Investment Corporation's existence and revenue may adversely be affected.

(C) Risk of Investment Corporation Depending on Asset Manager's Personnel

The Investment Corporation delegates asset management to the Asset Manager, and the operation of asset management depends largely on the Asset Manager's personnel. Therefore, the loss of personnel of the Asset Manager may adversely affect operations of the Investment Corporation.

(D) Risk Regarding Amendments to Investment Corporation's Investment Policy

Amendments to basic matters such as investments and investment policy set out in the Investment Corporation's Articles of Incorporation require approval from the general meeting of unitholders; however, a more detailed investment policy set out by the Investment Corporation's and the Asset Manager's board of directors may be amended without sanction by the general meeting of unitholders. This means the investment policy may be amended without reflecting the unitholders' intent.

(E) Risk Investment Corporation Goes Bankrupt or Registration Be Cancelled

The Investment Corporation might be subject to bankruptcy procedure based on the Bankruptcy Law (Law No. 75 of 2004, as amended) (the "Bankruptcy Law"), rehabilitation procedure based on the Civil Rehabilitation Law (Law No. 225 of 1999, as amended) (the "Civil Rehabilitation Law") and special liquidation proceedings under the Investment Trusts Act (Article 164 of the Investment Trusts Act).

The Investment Corporation is registered as an investment corporation under the Investment Trusts Act and the registration may be cancelled in accordance with Article 216 of the Investment Trusts Act if a certain event occurs. In this case, the Units become delisted, the Investment Corporation is dissolved and commences liquidation proceedings.

When the Investment Corporation is liquidated, the Unitholders may collect their investment amount from dividends of residual assets only after the Investment Corporation has completed repayment to all creditors (including redemption of the Investment Corporation Bonds). Therefore the Unitholders may not be able to collect all or part of their investment amount.

(V) Risks Regarding Real Estate and Trust Beneficial Interests

Primary assets managed by the Investment Corporation are the Real Estate and assets underlain by the Real Estate. As of the date of this Report, assets under management by the Investment Corporation include a great amount of beneficial interests in real estate. Holders of beneficial interests in the Real Estate trust and other Real-Estate-backed assets will be in almost the same financial situation as if they were to directly own the Real Estate that constitutes the trust assets or the underlying Real Estate. Therefore, the risks related to Real Estate described below apply in much the same way to beneficial interests of the Real Estate in trust and other Real-Estate-backed assets.

Please refer to *(U) Risk Specific to Real Estate Owned as Beneficial Interests* below for the risks particular to the Trust.

(A) Risk Regarding Faults or Defects

There may be faults or defects regarding rights, soil, the geological condition, or the structure of the Real Estate, which may be discovered after the acquisition of the Real Estate. There is no guarantee that Real Estate that went through the procedures required under administrative laws and regulations including the Building Standards Law has the safety and bearing force prescribed in regulations regarding building standards. Latent structural or other faults and defects that the Investment Corporation does not anticipate at the time of acquisition may be found out after the acquisition.

The Investment Corporation plans to require previous owners or trustees to make statements and guarantees regarding certain matters, and impose a defect liability on them according to the circumstances. However, there is a possibility that the Investment Corporation may not be able to have them make statements and guarantees or impose a defect liability on them. In addition, even if the

Investment Corporation succeeds in holding them accountable for liability for damages or defect liability on the grounds that the facts stated and guaranteed are not true, it is customary that the term and amount of these liabilities will be confined to certain ranges, or may not be effective because the previous owners or trustees have been liquidated or run out of funds. Such risk is considered high when they are special-purpose companies.

In this case, the Investment Corporation as the purchaser may be forced to bear the unexpected cost of repairing faults and defects or other costs in order to prevent a decline in the property value of the relevant Real Estate depending on the extent of faults or defects, which may in turn damage the Unitholders.

The Investment Corporation will be regarded as building lots and buildings transaction business based on the Building Lots and Buildings Transaction Law (Law No. 176 of 1952 and ensuing revisions) (the Building Lots and Buildings Transaction Law) when it sells real estate assets. Based on said law, therefore, the Investment Corporation will be subject to restrictions on setting special provisions disadvantageous to buyers regarding defect liability in real estate sales agreement unless the counterparty to the sale is building lots and buildings transaction business. In selling real estate assets, the Investment Corporation may be forced to bear unexpected costs regarding repairs of faults and defects and other costs regarding the real estate assets it has sold, and thereby causing Unitholders to suffer losses.

In addition, because the rights and obligations with respect to the Real Estate are complicated, any rights with respect to the Real Estate may be restricted by a third party's rights or administrative regulations or it may be learned at a later date that the rights violate a third party's rights. As a result, the Investment Corporation's revenue may be adversely affected.

If a purchaser carries out a transaction based on the information on the Real Estate registration, the purchaser may not be able to acquire rights with respect to the Real Estate. Not only the matters regarding rights but also the matters regarding the description of the Real Estate in the Real Estate registration may not correspond with the current status. In this case, the Investment Corporation may claim the seller is liable to the extent statutorily or contractually permitted; however, there is no guarantee that it will be effective.

(B) Risk Regarding Lease Agreements

a. Risk Regarding Lease Agreement Termination and Renewal

If a lessee reserves the right to terminate the lease agreement, the lease agreement may terminate during the term of the agreement or may not be renewed when it expires. If vacancies occur because of this or for other reasons, the Investment Corporation will make efforts to attract new tenants, but competition for new tenants is fierce, and if new tenants cannot be found quickly, vacancy at the relevant Real Estate may become protracted, the occupancy rate may decline, and rental income may fall.

In addition, even if the right of cancellation is restricted during the term of the agreement through a non-cancellation clause or cancellation penalty clause or renewal fees are set, reduction of the rent from the amount agreed when the lease was executed may be unavoidable as a result of negotiations with tenants, and a court may decide to reduce the prescribed amount or deny the validity of such clauses.

If the rent income declines due to the abovementioned circumstances, the Investment Corporation's revenue, etc., may be adversely affected and Unitholders or Bondholders may incur damage.

b. Risk Regarding Non-payment of Rent

If a lessee's financial status deteriorates or a lessee becomes subject to bankruptcy proceedings on the Bankruptcy Law, civil rehabilitation proceedings on the Civil Rehabilitation Law, corporate reorganization proceedings on the Corporate Rehabilitation Law (Law No. 154 of 2002, as amended) or other insolvency proceedings, payment of rent under the lease agreement may be delayed. If the total receivables including delayed rent exceed the amount secured by the security deposit and guarantee deposit, Unitholders or Bondholders may incur damage.

c. Risk Regarding Revision of Rent

For some relatively long lease agreements with a tenant, the terms and conditions of the lease agreement including the rent may need to be reviewed on a regular basis. In these cases, there is no guarantee that the rent as of the date of this Report will remain the same in the future. If the rent is reduced due to revision of the rent, Unitholders or Bondholders may incur damages.

Even if a lease agreement sets out to increase the rent and other fees on a regular basis, the rent may not always increase as provided depending on negotiations with the lessee.

d. Risk Regarding Exercise by Lessee of Right to Claim Rent Reduction

A lessee of any building may request a reduction in the rent in accordance with Article 32 of the Land and House Lease Law (Law No. 90 of 1991 and ensuing revisions) ("The Land and Building Lease Act") unless a fixed-term building lease agreement sets out a special condition to exclude the application of the claim to reduce the rent in accordance with the same Article.

In order to have the effect of the fixed term building lease contract recognized, the requirements prescribed under Article 38 of the Land and House Lease Law must be fulfilled. Therefore, even in the case where a fixed term building lease contract is newly concluded or the existing building lease contract is amended to a fixed term lease contract, and a special clause to exclude the right to request a decrease in rent under Article 38 of the Act on Land and Building Leases is set, the right to request a decrease in rent cannot be eliminated absent fulfillment of the requirements prescribed under Article 38 of the Land and House Lease Law. If the request is accepted, rental income from real estate will decrease, creating a potentially adverse affect on the earnings of the Investment Corporation. As a result, Unitholders and Bondholders may incur losses.

A lessee of any land who intends to own a building on it may also request a reduction in the land rent based on Article 11 of the Land and House Lease Law.

As a result, rent income arising from the relevant Real Estate would drop and Unitholders and Bondholders may incur damage.

e. Risk Arising from Right of First Refusal, Preemptive Rights or Other Agreement

The Investment Corporation's investment targets include single tenant properties with a single tenant and core tenant properties with a limited number of major core tenants. Lease agreements with respect to these properties may include a provision to give the lessee the right to preferentially or exclusively purchase the lessor's ownership of the property or beneficial interests (so-called right

of first refusal and preemptive right) upon agreement with the lessee on first refusal or no-disposition (details vary). The lease agreement also may restrict free sale or disposition of property, and amendment of trust agreement and other contracts by the lessor. Such agreements exist with respect to properties that the Investment Corporation currently owns, which may result in more time and more expenses to acquire and sell the properties and contract modification, or increase factors that decrease property value.

(C) Risk of Damaged, Destroyed or Deteriorated Building due to Natural Disaster

Real Estate may be damaged, deteriorated or destroyed or interfered with normal operation due to fire, earthquake, earthquake liquefaction, tsunami, storm, flood, lightning, volcano eruption, surge, tornado, war, riot, disturbance, terrorism, epidemic or nuclear power plant accident (“Disaster”), which may decrease the revenue or increase the expense, and affect the value of the Real Estate. In case of a Disaster, the rent revenue declines because the building becomes unavailable for a certain period of time to repair the damage, deterioration or destruction, or Unitholders and Bondholders may be damaged due to a decline in the value of the Real Estate. If an insurance contract for the Real Estate is not executed for certain reasons, any damages exceeding the limit set out in an insurance contract arise, any Disaster that is not covered under an insurance contract occurs or the payment by an insurance company in accordance with an insurance contract fails, is reduced or is delayed for any reason whatsoever, the Investment Corporation may be adversely affected.

(D) Risk Regarding Owner Responsibility and Repair and Maintenance Costs for Real Estate

If the life, body or property of a third party is harmed due to the Real Estate being the assets under management, damages may be incurred and the Investment Corporation may consequently be unexpectedly damaged. In particular, the owner of the building on the land bears liability without fault under the Civil Code (Law No. 89 of 1896, as amended) (the “Civil Code”). If an insurance contract for the Real Estate is not executed for certain reasons, any damages exceeding the limit set out in an insurance contract arise, any Disaster that is not covered under an insurance contract occurs or the payment by an insurance company in accordance with an insurance contract fails, is reduced or is delayed for any reason whatsoever, the Investment Corporation may be adversely affected.

(E) Risk Regarding Disproportionate Geographical Spread of Real Estate

If the Real Estate owned by the Investment Corporation disproportionately located in a certain area, an earthquake or other disaster, regional economical downturn, lower occupancy rate, declined rent level or other factor in that area may materially and adversely affect the entire revenue of the Investment Corporation.

(F) Risk Regarding Land Boundaries, etc.

Undetermined land boundaries are not rare in Japan, and in cases where boundary confirmations or other documents confirming boundaries cannot be obtained from the owners or occupants of adjacent properties and in cases where Real Estate is acquired without confirming the boundaries, material impediments may arise at the time of disposal of the real estate, boundary disputes may occur, reduction of the land area owned may arise, liability to pay compensation for damage may be incurred, and unexpected expenses or losses may be incurred with regard to the Real Estate in the future.

Similarly, the existence of encroachments may restrict use of the Real Estate and have an adverse impact on rents, the Investment Corporation may incur additional expenses for removal of the encroachments and so on, and there may be an adverse impact on the Investment Corporation's income.

(G) Risk Regarding Administrative Regulations and Prefectural or Municipal Ordinances for Real Estate

Provisions of the Building Standards Law, or orders or ordinances under the Building Standards Law that are effective or applicable generally do not apply to existing non-conforming buildings (including those under construction) or the land on which those buildings are located (so-called "Existing Non-conforming Buildings"). However, the provisions in effect apply when reconstructing the Existing Non-conforming Buildings. Therefore the Existing Non-conforming Buildings may need to be reformed to conform to the provisions in effect, which may require additional costs. Moreover, it may not be able to build the building to the same scale as it currently exists.

Various administrative regulations and prefectural or municipal ordinances regarding Real Estate may apply to the Real Estate that constitutes assets under management. For example, City Planning Law, restriction of construction in landscape area by regulation of local government, restriction of new construction for workpiece in river maintenance area by River Act (Law No. 167 of 1964), the Law for the Protection of Cultural Properties (Law No. 214 of 1950, as amended) sets out the obligation to conduct exploratory excavation, build houses at a certain ratio, establish parking lots, establish welfare facilities, promote afforestation, and establish facilities to control rain water runoff. When these obligations are imposed, it may be difficult to actually dispose of or reconstruct the relevant Real Estate, or additional costs may be incurred to comply with these obligations. In addition, if the area in which the Real Estate that constitutes assets under management is located is subject to city planning such as road construction, construction restrictions may be imposed on the area subject to the city planning or the area of the land for the building may be decreased. Consequently it may not be possible to build the building to the same scale as it currently exists when reconstructing the relevant Real Estate. Furthermore, laws and regulations may impose on the owners of real estate that satisfies certain conditions a duty to report greenhouse gas emissions or to restrict emissions as countermeasures against global warming. In the case where the Investment Corporation is not able to perform its duties to reduce emissions, expenditures relating to emissions rights may unavoidably be incurred.

(H) Risk Regarding Establishment or Change of Laws and Regulations

In addition to the Soil Contamination Countermeasures Law (Law No. 53 of 2002 and ensuing revisions)("the Soil Contamination Countermeasures Law"), laws and regulations on environmental protection may be established and executed in the future, and obligation for investigation, removal and compensation regarding pollution of air, soil and groundwater of real estate may be imposed regardless of whether or not we are negligent.

In addition to the above, the Investment Corporation may be incurred higher real estate management costs than at present due to revisions of the Fire Service Act (Law No. 186 of 1948 and ensuing revisions) and other relevant laws and regulations that affect management of real estate assets, or additional costs as a result of enactment or revision of laws and regulations and ordinances that are

aimed at reducing energy consumption and greenhouse effect gasses. Amendments to the Building Standards Law and the City Planning Law, establishment of new laws, expropriation, redevelopment, land readjustment or other administrative action may restrict the rights related to Real Estate. These laws, regulations and administrative actions or any amendment thereto may adversely affect the Investment Corporation's revenue.

Some of our properties may include tenants that operate their businesses under special laws or authorizations. Changes in such special laws or the rescindment of such authorizations may prevent such tenants from continuing to operate their businesses in the same manner, which may in turn adversely affect the competitiveness and profitability of such properties. For example, one of the properties on the portfolio, DFS T GALLERIA OKINAWA, has been specially designated in conformity with the Act on Special Measures for the Promotion and Development of Okinawa (Law No. 14 of 2002 and ensuing revisions) and has been granted the right to generally sell imported items at duty free prices. The tenant, DFS OKINAWA, operates its duty-free business in accordance with an authorization from the Director General of Okinawa Regional Customs. Changes in the special laws under which DFS T GALLERIA OKINAWA or any of our other properties operate or the rescindment of the authorization granted to DFS OKINAWA or any of our other tenants may have a material adverse effect on our business, financial condition or results of operations.

(I) Risk Arising from Seller's Insolvency

When the Investment Corporation acquires real estate from a party that is recognized as or is suspected of being in a financial crisis such as having excessive liabilities, trading of the real estate may be cancelled (cancellation of prejudicial acts) by a creditor of a seller. In addition, when bankruptcy proceedings of a seller start after we acquire such seller's real estate, trading of the real estate may be denied by a trustee, oversight committee member or receiver.

If the Investment Corporation purchases Real Estate without noticing that the seller is experiencing a material financial crisis such as insolvency, the transaction may be cancelled by the seller's creditors (avoidance of a fraudulent act). If bankruptcy proceedings, civil rehabilitation proceedings or corporate reorganization proceedings are commenced against the seller after the Investment Corporation purchases the Real Estate, the purchase of the Real Estate may be denied by the administrator in bankruptcy, supervisory member or administrator.

The Investment Corporation carefully considers various circumstances regarding risk that a trustee or such like denies or cancels trading of a property and makes efforts to avoid such risk as much as practically possible. However, it is difficult to completely eliminate this risk.

The type of transaction carried out between the seller and the Investment Corporation for the Real Estate may be deemed a secured transaction, the Real Estate may be deemed to constitute bankruptcy estate of a seller in bankruptcy or to belong to the assets of the seller as a company under reorganization or rehabilitation debtor (the risk that the transaction is not deemed a true sale).

In addition, the Investment Corporation may pay a deposit to the seller at the time a sales and purchase agreement is executed, but if bankruptcy proceedings of a seller start after the Investment Corporation pays the deposit and before the property transfer date, the Investment Corporation may not be able to receive a full refund of the deposit paid.

(J) Risk Regarding Sublease

If the Investment Corporation authorizes a lessee (including a sub-lessee) to sublease all or part of the Real Estate, the Investment Corporation may no longer be able to select or remove a tenant of the Real Estate of its own will. In addition, if the rent paid by the lessee is linked to the sublease rent, the credibility of the sub-lessee may adversely affect the Investment Corporation's revenue.

Even if the lease agreement is terminated by agreement or due to default by either party, the obligation to repay the security deposit or other money may be succeeded by the lessor if the lease agreement sets out that the obligation that the sub-lessor owes to the sub-lessee is succeeded by the lessor. In this case, the lessor must repay the security deposit and other money from its own funds, as a result of which the Investment Corporation's revenue may be adversely affected.

(K) Risk Regarding Master Lease Agreement

The Investment Corporation may acquire properties that, based on master lease agreements entered into between the master lease company and the trustee, are leased to each end tenants in the form of a subleased master lease.

In the case of such properties, if the financial conditions of the master leasing company deteriorate, the payment of rent from the master leasing company to the trustees may fall behind even if the end tenants duly pay rents to the master leasing company because of the seizure of rent claim against the sublessee of the master lessee by creditors of the master lessee.

(L) Risk Regarding Status of Use and Management of Real Estate by Tenants

Depending on the status of use and management of Real Estate by tenants, conformity of said real estate to laws and regulations may be undermined and adversely affect asset value of said Real Estate or revenue of the Investment Corporation. Depending on the attributes of the sub-lessee or assignee of the leasehold, attributes of tenants of the Real Estate that constitutes the assets under management, may degrade and the rent level for the entire building may go down.

In the case where a lessor enters into a regular building lease contract with a lessee, or the effect of a fixed term building lease contract is denied because the requirements prescribed under Article 38 of the Land and House Lease Law are not fulfilled in the fixed term building lease contract, the lease contract with the lessee cannot be terminated unless it is recognized that there are justifiable grounds for doing so.

The Investment Corporation conducts tenant investigations in accordance with its original tenant investigation standards and regularly investigates the manner of Real Estate use by tenants in order to mitigate the risk; however, no guarantee is given that this risk will not eventuate.

(M) Risk Regarding Deterioration of Surrounding Environment

The surrounding environment of Real Estate, which constitutes assets managed by the Investment Corporation, may deteriorate due to reasons the Investment Corporation cannot control. In this case, revenue of Real Estate may decrease, or the value of said Real Estate may decline, resulting in adversely affecting the Investment Corporation's performance. Among reasons for the above are: generation of noise, vibration, etc., caused by reconstruction of nearby buildings; deterioration of the environment following the establishment of facilities that disturb the calm environment; and

deterioration of regional security due to degradation of the attributes of nearby buildings' owners, tenants, other related parties and users.

(N) Risk Regarding Co-owned Property

If Real Estate that constitutes assets under management is co-owned with a third party, various risks arise with respect to preservation, use or disposition that would not arise if it was owned solely by the Investment Corporation.

First of all, the management of property in co-ownership is determined by a majority portion of the co-ownership, unless otherwise determined among the co-owners (Article 252, Paragraph 1 of the Civil Code). If the Investment Corporation does not hold a majority portion of the co-ownership, it may not be able to reflect the Investment Corporation's intent in the management and operation of the Real Estate. Further, because each co-owner may use the entire property in co-ownership in proportion to their portion (Article 249, Paragraph 1 of the Civil Code), the Investment Corporation may be prevented from owning or using the Real Estate by other co-owners' exercise of their right.

In addition, an owner may be subject to a claim by the other co-owners for division of the property in co-ownership at any time (Article 256, Paragraph 1 of the Civil Code) or be subject to a court order to sell the entire property in co-ownership at auction (Article 258, Paragraph 3 of the Civil Code), which may result in the risk that the entire property would be disposed of by the other co-owners' exercise of their right regarding division of property despite a specific co-owner's intent.

A special agreement among the co-owners not to exercise the right regarding division of property is valid, though it will remain effective only for five years. Even if there is a registered agreement between the co-owners to the effect that the property will not be divided, the administrator may claim for a division of the property to ensure its right of realization if a party to the special agreement is subject to insolvency proceedings. A co-owner may purchase part of the property in co-ownership owned by another co-owner that becomes insolvent for reasonable consideration (Article 52 of the Bankruptcy Law, Article 60 of the Corporate Reorganization Law and Article 48, Paragraph 1 of the Civil Rehabilitation Law).

If a mortgage is created on the portion owned by another co-owner, it is believed that, if the co-owned property is divided, the mortgage applies to all of the divided property in proportion to the portion of the co-ownership owned by the co-owner (mortgagor). Therefore, even if a mortgage is not created on the portion of co-owned property that constitutes the assets under management, if a mortgage is created on the portion owned by another co-owner and the co-owned property is divided, there is the risk that the mortgage is applied to the assets under management after the division in proportion to the other co-owner's portion in the co-owned property.

It is understood that a co-owned portion can be disposed of as with a solely owned property. For co-owned properties, if there is an agreement among co-owners on preferential purchase right or preemptive right of a co-owned portion, a co-owner may assume an obligation to provide other co-owners with an opportunity or a right to buy a co-owned portion on a preferential basis or exclusive basis, and unrestricted sales and disposals of other properties may be restricted when a co-owner sells such portion to a third party.

It is generally understood that when a co-owner of real estate is a lessor, security deposit refund obligations are indivisible obligations, and it is also possible that rent receivable would be interpreted as an indivisible claim. Co-owners may be affected by the credit risk of other co-owners (i.e., lessors).

There is a case where an agreement is made among co-owners that one co-owner grants a right to another co-owner to lease a co-owned property and receive consideration from this other co-owner, but in this case, revenue of the co-owner is exposed to the credit risk of other co-owners (i.e., lessors). In order to avoid it, an agreement may be made to deposit rents from tenants in a bank account of a co-owner who is not a lessor. However, even with this kind of agreement, the credit risk of other co-owners cannot be eliminated completely since creditors of other co-owners (i.e., lessors) may seize rent receivable from each tenant of other co-owners (i.e., lessors). When multiple co-owners grant a right to another co-owner to lease a co-owned property, the allocated rent receivable of such multiple co-owners from this other co-owner may be understood as indivisible, and a co-owner may be affected by the credit risk of this other co-owner.

We may also acquire a quasi co-ownership interest for rights other than ownership interests. Similar limitations and risks as discussed above apply to such cases as well.

For co-owned real estate, more time and cost may be necessary for acquisition and sale due to the abovementioned restrictions and risk compared to solely owned properties. Factors causing a decrease in property value may increase.

(O) Risk Regarding Unit-Owned Buildings

Unit-owned buildings are buildings subject to the Law on Unit Ownership of Buildings (Law No. 69 of 1962, as amended) (“Law on Unit Ownership of Buildings”), which consists of exclusively-owned portions that are solely owned (living spaces, etc.) and common-use portions (entrances, etc.), and the land where the building is located. In accordance with the Law on Unit Ownership of Buildings, the method of management with respect to unit-owned buildings is determined in accordance with statutory management methods and regulations (if any). The method of managing property in co-ownership is different from that of solely owned property, which is not subject to the Law on Unit Ownership of Buildings, and has consequent restrictions. Unlike solely owned properties that are not subject to the Law on Unit Ownership of Buildings, there are restrictions on management procedures. For example, establishment, change or abolition of a management rule requires approval by more than three-quarters of unit owners and voting rights (ratio of exclusively-owned floor area of a unit owner unless otherwise provided for by the rule) at a unit owners meeting, and reconstruction requires approval by more than four-fifths of unit owners and voting rights at a meeting (Article 31 and 62 of the Law on Unit Ownership of Buildings).

Exclusively-owned portions of unit-owned buildings may be freely disposed of, however, unit owners may execute an agreement on preferential purchase right, preemptive right or prohibition of disposition, as is the case with respect to owners of co-ownership property.

Following are risks that accompany unit-owned buildings and land where those buildings are located. Right to use land means the right that a unit owner has to the land to own an exclusively-owned portion of a unit-owned building. Under Article 22 of the Law on Unit Ownership of Buildings, a unit owner is prohibited, in principle, from separately disposing of the exclusively-owned portion and the rights to use the land related to that exclusively-owned portion in order to maintain the unity of the exclusively-owned portion and the rights to use the land. If the rights for the land are not registered, the restriction against separate disposal may not be asserted against a third party without its knowledge of that restriction and separate disposal is valid in this case (Article 23 of the Law on Unit Ownership of Buildings). If the land of the unit-owned building is divided into several lots and a unit owner

individually and exclusively has the ownership and leasing rights as rights to use the land with respect to one or more lots of the land (the so-called right to use land divided into lots), the land and the unit-owned building may be disposed of separately. If the exclusively-owned portion and the rights to use the land relating to that exclusively-owned portion are separately disposed of as described above, there may be a unit owner who does not have the right to use the land.

In addition if the right to use the land is a leasehold interest for use without rent or any other similar right, the unit owner may not be able to assert the prior rights to use of the land against a third party that purchased the land or is assigned the land by auction.

Reflecting the relationship between unit-owned buildings and the land may incur more time and cost more to acquire or sell a unit-owned building or increase factors that decrease property value.

(P) Risk Regarding Land with Leasehold Interest

The Investment Corporation may acquire so-called land with limited proprietary rights, which is land leased to the third party which owns buildings on the land. Properties built on land with limited proprietary rights have risk specific to such properties. Fixed-term leaseholds will automatically be extinguished when the lease agreements expires and ordinary leaseholds will be extinguished only if the Investment Corporation rejects renewal of the leaseholds when the lease agreement expires with proper reason to reject the renewal. If the leaseholds are extinguished, their land lease right holders may demand the Investment Corporation to purchase buildings on said land at their prevailing market prices (Article 13 of the Land and Building Lease Act and Article 4 of the Land Lease Law (Law No. 49 of 1921 and ensuing revisions) (the Land Lease Law). In the case of ordinary leaseholds, it is impossible for the Investment Corporation to accurately forecast whether or not the above-mentioned proper reason for rejecting renewal of the leasehold at the end of the leasehold period is approved. In addition, there is no guarantee that, when the land lease right holder demands the Investment Corporation to purchase buildings on said land at their prevailing market prices, the prices will be equal to or lower than the acquisition prices desired by the Investment Corporation. In addition, there is the possibility that deterioration of financial conditions or other insolvency proceedings will result in delinquency in payment of rent on land based on the lease agreements. If the total amount of rent in arrears exceeds the amount covered by the deposit and guarantee money, Unitholders or Bondholders may suffer losses. In many cases, land lease agreements require revision of the detail of the agreements including rent on a regular basis. If rents are reduced as a result of revision of rent, Unitholders or Bondholders may suffer losses. Land lease right holders are allowed to request reduction of rent on lease based on Article 11 of the Land and Building Lease Act. As a result, rent revenue from said land with limited proprietary right of the Investment Corporation may decrease, which will result in losses to Unitholders or Bondholders.

(Q) Risk Regarding Property on Leased Land

There are specific risks regarding leaseholds and buildings on the leased property that would not arise for buildings on owned land. Unlike ownership, leaseholds do not perpetually survive and are extinguished automatically on the maturity date (in the case of fixed-term leaseholds) or if the person granting the leasehold refuses to renew the leasehold with reasonable cause (in the case of ordinary leasehold). In addition, leaseholds may be extinguished due to cancellation of the land lease agreements from nonpayment of rent or other reasons. If the land leaseholds are extinguished, said

land must be returned to the lessors upon demolishing the buildings on the leased land except in cases where purchase of the buildings on said land at their prevailing market prices can be requested (Article 13 of the Land and Building Lease Act, Article 4 of the Land Lease Law.) In case of ordinary leasehold, it is impossible for the Investment Corporation to accurately predict at the time of acquiring the property whether or not the abovementioned reasonable cause is permissible as a cause to refuse the renewal of the matured leasehold. Even if the lessee may claim to purchase the building, no guarantee is given that the purchase price will be higher than the Investment Corporation's expectations.

Ownership of the land that the Investment Corporation or trustees has leasehold to may be resold or assigned to a third party upon exercising a mortgage already created on the land at the time of establishment of the leasehold. If leasehold is not perfected against a third party in accordance with applicable laws and ordinances, the Investment Corporation or trustees may not be able to assert the leasehold against the new owner of the land and may be forced to vacate the land.

In addition, if leasehold is a leasing right, transfer of the leasehold requires approval from the person granting the leasehold, in principle. When transferring ownership of a building on the leased property, approval from the person granting the leasehold right is required, in principle, because the leasing right regarding the leased property is transferred together with the ownership of the building. A lessee may have promised the person granting the leasehold in advance to pay a fee for approval or, if not promised, the person granting the leasehold may in practice claim an approval fee from the lessee as a condition for approval (the person granting the leasehold is not lawfully and automatically permitted to claim an approval fee from the lessee).

The deteriorated financial condition or insolvency of the person granting the leasehold may lead to all or part of the security deposit and guarantee deposit deposited to the person granting the leasehold not being returned. Generally speaking, security interest or guarantee is not created to secure the right to claim a refund of the security deposit and guarantee deposit deposited with the person granting the leasehold.

There are more restrictions and risks regarding leaseholds and buildings on leased property compared with buildings on owned land as described above. Therefore, more time and costs may be required to acquire and sell the properties or factors that decrease property value may increase.

(R) Risk Regarding Leased Houses

The Investment Corporation may lease or cause a trustee to lease a building (including co ownership or unit ownership) and sublease the leased portion to tenant separately or together with the building owned directly or through the trustee.

Similar to the risks regarding property on leased land described in the previous section, the lessor's deteriorated financial situation or insolvency may result in all or part of the security deposit and guarantee deposit deposited with the lessor not being returned.

If a lease agreement that the Investment Corporation executes with a third party directly or through a trustee is terminated for any reason whatsoever in accordance with the Civil Code, the sublease agreement between the Investment Corporation or the trustee and the tenant will, in principle, be terminated. This may result in a claim for damages by the tenant in accordance with the termination of the sublease agreement.

(S) Risk Regarding Property under Development

The Investment Corporation may execute a sales and purchase agreement to acquire property while the property is under development in accordance with the investment policy set out in the Articles of Incorporation.

We may acquire a vacant lot in order to construct a new building or invest in a special-purpose company that engages in real estate development in accordance with the investment policy set out in the Articles of Incorporation. In addition to the above, we may be involved in development projects by participating as a partner in urban redevelopment projects based on the Urban Renewal Act (Act No. 38 of 1969, as amended), or by other means. In such cases, unlike acquisitions based on a sales and purchase agreement regarding developed property, the Investment Corporation may not be able to acquire the property as set out in the agreement due to delay in, change to or cancellation of the development due to various causes and may bear various risks associated with other real estate development (development risk, permit approval risk, inauguration risk, tenant risk, price fluctuation risk, risk of interest rate fluctuation during development, and large natural disaster risk). Even if the agreements cover to eliminate or reduce these risks, no assurances can be given that it is sufficient. As a result, revenue from the property under development may be substantially lower than the Investment Corporation's expectations, revenue may not be generated at the scheduled time, or revenue may not be generated at all, or the Investment Corporation may incur unexpected costs, damage or loss. This would materially and adversely affect the Investment Corporation's revenue.

(T) Risk Regarding Harmful Materials

If the Investment Corporation acquires land, leasing or surface rights or beneficial interests with respect thereto, harmful materials such as industrial waste may be buried in the land, which would reduce the value of the land. If soil replacement or washing is required in order to remove harmful materials, more time and costs may be incurred than expected. If the harmful materials cause damage a third party, the Investment Corporation may be obligated to compensate the third party for the damage directly or indirectly through a trustee.

A prefectural governor may order the owner, manager or occupant of the land to investigate and report on the soil contamination level for lead, arsenic, trichloroethylene and other specific harmful materials in accordance with the Soil Contamination Countermeasures Law (Law No. 53 of 2002, as amended) ("Soil Contamination Countermeasures Law"). If soil contamination by specific harmful materials harms or is likely to harm human health, the prefectural governor may order the removal of the contamination or take any other necessary measures to prevent harm to any person. This may cost the Investment Corporation a substantial amount and the Investment Corporation is not always able to be reimbursed by the party that caused the contamination or any other party for the cost that the Investment Corporation is forced to pay.

If the Investment Corporation acquires a building or beneficial interests with respect to the building, and materials used in the building contain or are likely to contain asbestos or other harmful materials, or polychlorinated biphenyl (PCB) is kept in the building, the value of the building may drop. If it becomes necessary to replace all or part of the materials in order to remove the harmful elements, more time and costs may be incurred than expected. If the harmful materials cause damage to a third party, the Investment Corporation may be directly or indirectly obligated to compensate the third party for the damage.

A law or ordinance for environmental protection may be established and enacted in the future, in accordance with which an obligation to investigate air, soil and groundwater for Real Estate, an obligation to remove the harmful elements, an obligation to provide compensation for damage or any other obligation, regardless of the existence of any negligence, may be imposed.

(U) Risk Specific to Real Estate Owned as Beneficial Interests

The assets owned by the Investment Corporation include beneficial interests of trust assets. The trustee owns and manages the Real Estate, leasing rights or surface rights thereto as trust assets for the benefit of the beneficiary. Any economical profit or loss would ultimately be attributable to the beneficiary. Consequently, when the Investment Corporation holds beneficial interests, it may bear substantially the same risk through the trustee as if the asset under management were Real Estate.

Transfer of the beneficial interests under a trust agreement usually requires approval from the trustee. In addition, because beneficiary rights regarding Real Estate, leasing or surface rights thereto are not securities under the civil law unless beneficiary certificates are issued, shall be transferred in the same manner as receivables, and there is no liquidity as with securities under the civil law.

If the trustee becomes subject to bankruptcy under the former Trust Law (Law No. 62 of 1922, as amended, before amendment under the Law Concerning Improvement of Laws and Ordinances in accordance with Trust Law (Law No. 109 of 2006)) and the Trust Law (Law No. 108 of 2006, as amended), it is necessary to register the creation of the trust on the Real Estate that are the object of the beneficial interests in order to perfect against a third party including the bankruptcy administrator that the Real Estate is a trust asset. If the perfection of the registration is not perfected, the Investment Corporation may not assert against the third party that the Real Estate is the object of the beneficial interests.

If the trustee of the trust assets disposes of the Real Estate that constitutes the trust assets in violation of the purpose of the trust or bears any obligation using the Real Estate as trust assets as security, the Investment Corporation holding beneficial interests may incur unexpected damage.

If the initial settlor is liable to the trustee of the trust assets for faults or defects relating to the trust property that already existed at the commencement of the trust period, and if the trustee fails to or is unable to properly trace its liability, the Investment Corporation may incur unexpected damage and cause damage to Unitholders or Bondholders.

If a leasehold is a trust asset, even when an owner of such leasehold does not consent to transfer its beneficial interest though such consent is required, a transferee of the beneficial interest cannot utilize a non-contentious procedure for leased land as stipulated in the Land and House Lease Law against the owner of this leasehold.

When we have quasi-co-ownership of a beneficial interest, approximately the same risk exists as with the case of a co-owned property. Execution of a quasi-co-owned beneficial interest for management of a trust asset requires approval by a majority of the quasi-co-owners except as otherwise agreed among quasi-co-owners (Article 264 and 252, Paragraph 1 of the Civil Code). So if we do not own a majority of beneficial interests, we may not be able to reflect our opinion in execution of such interests. It is understood that disposal of a quasi-co-owned interest can be done freely as with a solely owned interest except as otherwise agreed among quasi-co-owners, but as for a quasi-co-owned beneficial interest, its transfer or disposal may require the consent of other quasi-co-owners or a quasi-co-owner may be required to provide an opportunity to other quasi-co-owners to preferentially purchase a quasi-

co-ownership of a beneficial interest when this quasi-co-owner sells his or her ownership of a beneficial interest to a third party based on an agreement among quasi-co-owners. Beneficial rights of which we have quasi-co-ownership have the abovementioned restrictions and risk compared to a case of sole ownership, and this may result in more time and more expenses being needed to acquire and sell the properties or increase the number of factors that decrease property value.

(V) Risk Regarding Forward Commitment, etc.

The Investment Corporation may enter into so-called forward commitment (post-dated sales agreements for making settlement and delivering properties after the expiration of a certain period of time after the conclusion of the agreement) in acquiring Real Estate or Real Estate trust beneficiary interests. The September 30, 2016 Trust Beneficiary Interest Purchase and Sale Agreement between the seller and Investment Corporation relating to the Kasugai (land with leasehold interest) real property trust beneficiary interest constitutes a forward commitment, which is stipulated in the comprehensive supervision policy for financial instruments business operators. The Investment Corporation may enter into forward commitments when acquiring Real Estate or Real Estate trust beneficiary interests other than Kasugai (land with leasehold interest) in the future. If the Real Estate sales agreement is canceled owing to circumstances of purchasers, the purchasers will be liable for damages on default. In addition, there are a number of cases in which agreement on penalty of a certain percentage of sale price of Real Estate or Real Estate trust beneficiary interests will be made regardless of whether proof of amount of damage exists or not. In the case of forward commitment, there is a certain period of time between conclusion of agreement and settlement and delivery of properties. Therefore, if the Investment Corporation is forced to cancel the sales agreement due to reasons such as it is no longer able to raise funds for acquiring said Real Estate due to changes in the market environment during the period, financial conditions of the Investment Corporation may be adversely affected due to payment of penalty.

Under the Trust Beneficiary Interest Purchase and Sale Agreement relating to the Kasugai (land with leasehold interest) real property trust beneficiary interest, if the Investment Corporation, which is the purchaser, breaches material terms of that agreement or it is discovered that a representation and warranty that the Investment Corporation made as purchaser under that agreement is false or inaccurate or gives rise to misunderstanding in a material respect, the seller may demand payment of a penalty in the amount of 20% of the sale price by the Investment Corporation as purchaser. The purchase and sales agreement of a portion of the underlying land does not include the completion of the purchaser's financing as a condition to the purchase; therefore, if the Investment Corporation fails to fulfill the obligation under the purchase and sales agreement for any reason, the Investment Corporation will need to pay the penalty, which as a result may significantly affect earnings and financial condition of the Investment Corporation.

(W) Risk Regarding Application of Asset Impairment Accounting

Following the mandatory application of accounting standards for impairment of fixed assets ("Statement of Opinion, Accounting for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidance on Accounting Standard for Impairment of Fixed Assets" (ASBJ Guidance No. 6, October 31, 2003) from the beginning of a business year that starts on April 1, 2005 or thereafter, the Investment Corporation has applied impairment accounting. Impairment accounting

is an accounting technique mainly for writing down book values of Real Estate for business use such as land and buildings whose profitability has decreased with little probability of recovering investment in such a way as to reflect collectability of investment under certain conditions. Following the application of impairment accounting, accounting impairment losses may occur depending on trends of land prices and revenue conditions of assets under management, and may adversely affect profit and loss or dividend-paying capacity of the Investment Corporation. In addition, deductible expenses are not recognized for tax purposes until sale of said assets (excluding cases in which requirements for inclusion in deductible expense for valuation loss are met or the amount equal to depreciation expenses on tax purposes of the total impairment loss.) Therefore, there will be inconsistency between tax processing and accounting processing, which may result in the tax burden of the Investment Corporation increasing.

Pursuant to revisions to the tax system made in the 2015 fiscal year, it is possible to avoid additional tax burdens relating to impairment losses by making an allowance for temporary difference adjustments and distributing excess profit, but it is not always possible to distribute excess profit, and no promise is made that it will be possible to avoid additional tax burdens.

(VI) Risks Regarding Investment in Mezzanine Loan Obligations

While mezzanine loan obligations generally have a higher interest rate than senior loan debt, the bad debt risk is higher than it is for senior loan debt as the order of repayment is subordinate to senior loan debt.

In addition, as the source for payment of principal and interest of mezzanine loan obligations is the income from rent, etc. arising from the Real Estate underlying the loan as well as the proceeds of sale of the Real Estate, in the event that the risks listed in *(V) Risks Regarding Real Estate and Trust Beneficial Interests* referred to above materialize in relation to the relevant Real Estate, it may adversely affect the payment of the principal and interest to the mezzanine loan obligations. For example, in cases such as exercising of security rights, etc. based on a default, etc. by a special purpose company (SPC), when the value of the underlying Real Estate falls below the investment amount of the equity investor providing capital to the SPC and the Real Estate is sold but the proceeds are insufficient to pay the total amount of the principal and interest and other costs, etc. of the senior loan debt and mezzanine loan obligations that the SPC is obliged to pay, it is possible that the capital and interest of the mezzanine loan obligations may not be repaid in full or in part.

Furthermore, if the appraised value of the underlying Real Estate of the mezzanine loan obligations falls, it may be necessary to post an allowance for bad debt in the mezzanine loan obligations holder. Meanwhile, even if the value of the underlying Real Estate rises, the mezzanine loan obligations holder cannot receive payment in excess of the expected principal and interest.

In addition, compared to shares and other securities which have established secondary markets such as financial instruments exchanges, the liquidity of mezzanine loan obligations is low and there is the possibility that the Investment Corporation will find it difficult to transfer mezzanine loan obligations to third parties at the timing and prices that it considers to be proper.

Also, in the event that the amount of assets pertaining to the mezzanine loan obligations exceeds 5% of the total assets at the end of each accounting period and does not fall below 5% within one year, it is possible that it will meet the delisting criteria in the rules of the Tokyo Stock Exchange and lead to delisting.

(VII) Taxation Risks

(A) General Risk Regarding Maintenance of Conduit Requirements

An investment corporation that meets certain requirements under taxation law in Japan (the “Conduit Requirements”) is permitted to calculate dividends described in *4 Fees and Taxes, (5) Tax Treatment* below for managing taxes in the investment corporation’s losses so that the Investment Corporation and Unitholders avoid double taxation. Certain Conduit Requirements must be fulfilled every business period. The Investment Corporation strives to continually satisfy the Conduit Requirements, but there may be business periods in the future in which the Conduit Requirements are not able to be met for reasons such as the number of Unitholders in the Investment Corporation decreasing, funds for dividend payments being insufficient or laws being revised. The current taxation law does not set forth relief measures for cases where it is unavoidable that the Conduit Requirements are not met. This means that in cases such as becoming a close corporation described in (D) below, where the requirements could not be met for unavoidable reasons not anticipated by the Investment Corporation, dividends cannot be calculated in the Investment Corporation’s losses and the Investment Corporation’s tax burden increases, resulting in the possibility of a decrease in the amount to be distributed to Unitholders and in the net asset value, which may affect the market value of Units or Investment Corporation Bonds. Please refer to *4 Fees and Taxes, (5) Tax Treatment* below for managing taxes.

(B) Risk of Not Satisfying Requirements for Payment Resulting from Tax Burden

Of the Conduit Requirements for each business period that ends on or after April 1, 2009, the requirement to pay distributable income or the distributable amount in excess of 90% set out in Article 39-32-3 of the Enforcement Ordinance of the Special Taxation Measures Law (Cabinet Ordinance No. 43 of 1957 and ensuing revisions) (“Act on Special Measures concerning Taxation”) (“Dividend Requirement”) is determined based on the investment corporation’s net accounting income for that fiscal year before tax. Accordingly, it may be difficult to satisfy this requirement in a business period if a discrepancy in the accounting and tax treatment results in an increase in the tax burden for the Investment Corporation and a decrease in the income that can be actually distributed (accounting income for that fiscal year after tax), or if the taxation authorities’ understanding, treatment and handling of the calculation of the 90% is different from the Investment Corporation’s judgment.

With regard to business periods commencing on or after April 1, 2015, the cash distribution equivalent to the amount of the increase in the allowance for temporary difference adjustments (set aside within the range of the difference between accounting treatment and tax treatment) may be included in deductible expenses as the amount of dividends.

(C) Risk Regarding Conduit Requirements for Borrowings

One of the aforementioned Conduit Requirements under Japanese taxation law to be met each business period requires that borrowings only be made from institutional investors (provided for in Article 67-15 of the Special Taxation Measures Law; same in throughout this section *(VI) Taxation Risks*). Accordingly, if for any reason the Investment Corporation has no choice but to borrow from a party other than an institutional investor, or if it is interpreted that all or part of a security deposit or guarantee deposit is classified as a borrowing from a tenant, this Conduit Requirement cannot be satisfied. As a

result, the Investment Corporation's tax burden may increase and the dividend amount to Unitholders and the net asset value may decrease.

(D) Risk of Conduit Requirements for Close Corporations Beyond Investment Corporation Control

There is the risk that a business period will arise in which the Conduit Requirement that an investment corporation is not a close corporation set forth under Article 39-32-3 of the Enforcement Regulations of the Special Taxation Measures Law when the business period ends (that more than 50% of the total outstanding units or total voting rights is not owned by one investor or its special related parties; i.e., the close corporation requirement) is not met as a result of the Investment Corporation not having sufficient control due to the circulation of the Units in the market.

(E) Risk of Number of Unitholders Holding Units Beyond Investment Corporation Control

One of the Conduit Requirements under Japanese taxation law necessitates that only institutional investors or that 50 or more Unitholders hold units in an investment corporation at the end of a business period. However, because the Investment Corporation cannot control the sale and purchase of units by Unitholders, it is possible that the Investment Corporation's units may be held by less than 50 Unitholders (excluding when only held by institutional investors).

(F) Risk of Additional Tax Burden Due to Retrospective Tax Adjustment Following Tax Audit

If the Investment Corporation undergoes a tax investigation, following which a retrospective, additional tax adjustment of disapproved tax matters is made in calculations for taxable income for the past year due to a dispute with tax authorities over tax claims, additional, unforeseen tax may arise. Therefore the Investment Corporation's tax burden may increase and the dividend amount to Unitholders and the net asset value may decrease.

(G) Risk of Reduced-Tax System for Acquisition of Real Estate Not Applying

It is believed that, as of the date of this Report, the Investment Corporation can be entitled to measures to reduce real estate acquisition tax, registration and license taxes if it directly acquires Real Estate, on the premise that the Investment Corporation provides certain investment policies in its Articles of Incorporation and satisfies other requirements under taxation law. However, if the Investment Corporation cannot satisfy the requirements under the reduction measures, or if the requirements under the reduction measures are amended or the reduction measures abolished, the Investment Corporation may no longer be entitled to those measures.

(H) Risk Regarding General Amendments to Taxation System

If the taxation system in relation to Real Estate, trust beneficial interests or any other assets managed by investment corporations, the taxation system in relation to investment corporations, or interpretation, treatment or dealing of investment corporations under the taxation system is changed, public taxes and duties may increase, adversely affecting the Investment Corporation's income. Furthermore, if the taxation system regarding dividends for, return of capital for or transfer of investment securities, or interpretation, treatment or dealing under the taxation system changes, the amount of proceeds for owning or selling Units may decrease.

(VIII) Miscellaneous Risks

(A) Risk of Relying on Professional Opinions

The appraised value of the Real Estate under the real estate appraisal and the investigated amount under the real estate price investigation remain expressions of opinions regarding evaluations at the time of analysis, based on individual analyses by real estate appraisers, and may differ from objective and appropriate real estate appraisal. Even if an appraisal or investigation of that same property is carried out, the appraiser, evaluation or investigation method, or timing may mean that the appraised value and the investigated amount differ. Also, the result of that appraisal does not guarantee or ensure the possibility of a sale or purchase of the property at that appraised value and investigated amount now or in the future.

The building environment investigative report and the soil environment assessment report also details opinions based on individual analyses by investigation companies, and depending on the evaluation and investigation methods, the contents of the risk assessment may vary. The report only states the results investigated by professionals and does not guarantee or ensure that there are no environment problems including soil contamination.

Market analyses and statistical information by third-party presented in market reports remain expressions of opinions regarding evaluations at the time of analysis, based on analyses by individual investigation companies, and may not correspond with the objectively appropriate characteristics of the area, supply and demand, the position in the market and market trends. Even if research analysis of that same property is carried out, the research analysis company, analysis or investigation method, or timing may mean that the contents of the market analysis differs.

The building engineering report and the investigative report by the investigation company regarding the structural calculation statement only state the results regarding the building condition and structure investigated by professionals and do not guarantee or ensure the that there is no fault or defect in the Real Estate. (Please refer to *(V) Risks Regarding Real Estate and Trust Beneficial Interests, (A) Risks Regarding Faults or Defects* for risks regarding faults or defects of Real Estate.) Furthermore, repair expenses estimated by research companies are based on their opinions, and the adequacy and accuracy of these expenses are not guaranteed. In the meantime, the Investment Corporation has requested an outside investigation company to check the quake resistance of some properties under management for which it does not have structural calculation statements. In consideration of the results of this investigation and the impact of recent earthquakes, the Investment Corporation plans to carry out reinforcing work on the properties as necessary. The probable maximum loss (PML) calculated for the Real Estate is the value estimated based on individual cases of professional analysis and shows the ratio of the loss to the replacement value of the estimated restoration costs. However, in the event of an earthquake in the future, it is possible that excessive restoration costs in excess of those expected may be required.

(B) Risk that the Tax Burden Will Increase Due to Inconsistency of Accounting Processing and Tax Processing

If there is inconsistency between accounting processing and tax processing, all or part of accounting expenses or losses are not included in deductible expenses in tax processing. As a result, the tax burden of the Investment Corporation may increase and thereby dividends to Unitholders may be adversely affected.

Pursuant to revisions to the tax system made in the 2015 fiscal year, systems relating to allowances for temporary difference adjustments and reserves for temporary difference adjustments were created, providing new means of avoiding additional tax burdens arising because of differences between accounting treatment and tax treatment, but it may not be possible to use these systems at all times, and no promise is made that it will be possible to avoid additional tax burdens.

(C) Risks Regarding Investment in Capital Contribution of Anonymous Partnerships

The Investment Corporation may make capital investment in anonymous partnerships such as Real Estate based on the Articles of Incorporation. Investment managers of such anonymous partnerships in which the Investment Corporation makes capital investment invests capital contribution of the Investment Corporation in Real Estate. If revenue regarding said Real Estate deteriorates or value of said Real Estate falls, the dividends and redemption of principals that the Investment Corporation will receive as anonymous partner will decrease. As a result, the Investment Corporation may suffer losses such as capital investment it has given to investment managers becoming unrecoverable. In addition, transfer of capital contribution in anonymous partnerships may be restricted based on contractual agreements, or there being no established secondary market. Therefore, the liquidity of such capital contributions in anonymous partnerships is low, and there is the possibility that the Investment Corporation will find it difficult to transfer the capital contribution at proper timing and prices even if it plans to transfer the capital contribution in anonymous partnerships.

(D) Risk Regarding Investment in Units

Based on the Investment Corporation's Articles of Incorporation, the Investment Corporation mainly invests in Real Estate and it may acquire units of another investment corporation (hereinafter, the "Investee Corporation"). In that case, if there are issues such as deterioration of revenue pertaining to the Real Estate held by the Investee Corporation, or the value of the Real Estate drops, the Investment Corporation may suffer a loss due to a decrease in the dividends obtained by the Investment Corporation as an investor or a decline in the value of the Investee Corporation's units. In addition, if the Investee Corporation is unlisted, as there are no established secondary markets for the units, the liquidity of its units will be low, and it may be difficult for the Investment Corporation to transfer the units at proper timing and prices even if it plans to transfer the units. Furthermore, in the case of unlisted Investee Corporations, from the viewpoint of ensuring the Conduit Requirements, it may be a condition of acquiring units that a written pledge be submitted consenting to the imposition of certain restrictions on transfer, etc. of units. In such cases, it is possible that it will also be difficult to transfer units due to submission of the written pledge. There may be provisions established in the articles of incorporation of the unlisted Investee Corporation for redemption of units on request from a unitholder. However, it is common for such Investee Corporations for provisions to be established in their articles of incorporation suspending the redemption of units in certain cases based on Article 67, Paragraph 2 of the Investment Trust Law. Also, it is usual to require a reasonable time for disposal of Real Estate that is the subject of investment by an Investee Corporation. Therefore, even if the Investment Corporation requests the redemption of units, redemption in the time desired by the Investment Corporation cannot be guaranteed.

- (E) Risk associated with occurrence of goodwill and reversal of voluntary reserves or distributions in excess of earnings equivalent to the amount of goodwill amortization

Goodwill may arise from a merger effected by JMF. The goodwill will be amortized over 20 years using the straight-line method, and JMF plans to reduce the incidence of income taxes and so on by distributing the amount equivalent to such amortization through reversal of voluntary reserves (reserves for adjustment of temporary differences, etc. or reserves for dividends) or other means such as distributions in excess of earnings (distributions equivalent to the increase in reserves for adjustment of temporary differences, etc.).

However, depending on future handling pertaining to the interpretation and operation of laws, regulations, and other rules on the handling of goodwill and reserves for adjustment of temporary differences, etc., unexpected restrictions may be imposed on JMF's activities or tax burden on JMF may be increased, adversely affecting JMF's profits, the amount of distributions to unitholders, and so on.

b. Management System Against Investment Risk

The Investment Corporation and the Asset Manager are developing the following risk management system based on investment risks such as those detailed above so that they can best respond to those risks.

However, it is not guaranteed that the risk management system will be sufficiently effective, and there is the concern that Unitholders will incur losses if the risk management system does not function appropriately. The Investment Corporation is operated by a board of directors made up of one executive director and two supervisory directors. The board of directors will prepare a schedule for one year at the beginning of the year and secure the dates so that all members may be present at the meetings of the board of directors which will be held twice each month. The Investment Corporation requests from the Asset Manager reports of the management situation and an explanation of each item on the agenda relating to asset management and confirms the status regarding the asset management business conducted by the Asset Manager at meetings of the board of directors. In addition, the Investment Corporation requests that the consultant law firm attends every meeting of the board of directors, in principle, in order to strengthen the supervisory function regarding compliance with laws and ordinances. The accounting auditor, as well as the consultant law firm, is also requested to attend board of director meetings for resolutions to approve financial statements, holding sufficient discussions regarding the situation of compliance with laws and ordinances and the internal management system.

In addition, the Investment Corporation causes the General Administrator and the Custodian to periodically report on the situation regarding performance, compliance with laws and ordinances, and the internal control system once every six months.

Furthermore, the Investment Corporation conducts the business audit led by the supervisory directors using outside professionals, in principle once two year, in order to improve the effectiveness of their supervisory function.

In contrast, the Asset Manager delegated by the Investment Corporation manages the risks of investment management and other risks at the necessary and appropriate levels in accordance with the details and extent of each risk, through numerous multilayered, and check and balance inspection systems such as those detailed below, and reports material matters to the board of directors.

First of all, the Asset Manager manages mainly under the Metropolitan Division and Investment Division the various risks in acquiring and disposing of assets (primarily risks relating to faults or defects in the Real Estate, risks following insolvency of the buyer, risks with co-ownership properties, risks regarding development property and risks related to harmful materials, etc.), the various risks in operating and managing assets (primarily risks regarding lease agreements, risks of destroyed, damaged or deteriorated property due to a Disaster or otherwise, risks of owners with respect to the Real Estate, and risks related to repair or maintenance fees), and the various risks related to funding the Investment Corporation. In addition to the above-mentioned risk management measures, the Compliance & Risk Management Office, under the President & CEO and the Chief Officer for Risk Management (Head of Compliance & Risk Management Office), establishes the structure of the risk management system of the Asset Manager from the company-wide viewpoint, checks the state of implementation and operation of the system, and oversees its improvement.

Next, the Asset Manager verifies and discusses the total risk of the entire portfolio regarding acquisition and disposal of assets, investment management policy and criteria, and budget and funding, and decides countermeasures against such risk, at the Investment Committee.

In addition, the Asset Manager has established a system where the Risk Management Committee, which is comprised of Head of Compliance & Risk Management Office as the chairperson, the President, Head of Metropolitan Division, Head of Industrial Division, Head of Private Solutions Division, Head of Investment Division, Head of Corporate Division, and Head of Strategic Planning Office, who serve as permanent committee, is held once every three months as a general rule and to grasp and examine the risks other than those of dependent to Investment Committee and formulate necessary countermeasures and management policies on a timely basis.

The statutory auditor may attend meetings of the Investment Committee and the Risk Management Committee and express its opinion. Head of Internal Audit Office may attend meetings of the Risk Management Committee and express its opinion. Please refer to “*1 Overview of the Investment Corporation (4) Organization of the Investment Corporation (II) Investment System of the Investment Corporation,*” described earlier for the overview of each committee.

Furthermore, the Internal Audit Office shall perform internal audits regularly based on the Internal Audit Regulations and prepare an internal audit report about risk management in the company and each division. In addition to the systems detailed above, the Asset Manager is attempting to improve the substantiality and effectiveness of the risk management system, while working to coordinate with the statutory auditor, through exhaustive internal controls such as confirmation of the Compliance & Risk Management Office’s checks on compliance with laws and ordinances, confirmation of whether there are any conflicts of interest with interested parties, and confirmation whether the risk management systems operated by the Internal Control Office of are consistent with internal regulations.

Regulations for transactions with interested parties have been established as the Asset Manager’s internal regulations (voluntary rules), and by complying with these regulations, transactions with interested parties are administered appropriately, establishing a system that allows the Asset Manager to completely perform the duty of care of a good manager and fiduciary duty to the Investment Corporation (please refer to *Section II Investment Corporation Details, Part III Management and Operation, 2 Restrictions on Transactions with Interested Parties, (2) Rules for Conflict of Interest Transactions Regarding Investment Corporation* below).

In this manner, an effective risk management system has been consolidated through the multilayered, and checks and balance inspection systems of the Investment Corporation and the Asset Manager delegated by the Investment Corporation in an effort to demonstrate the best results.