

ITOCHU Advance Logistics Investment Corporation
Summary of Financial Results (Unaudited)
For the Third Fiscal Period Ended January 31, 2020
(For the Reporting Period from August 1, 2019 to January 31, 2020)
(Translated from the Japanese original)

Corporate Information

Code: 3493 Listing: Tokyo Stock Exchange

(URL: <https://www.ial-reit.com/en/>)

Representative: Junichi Shoji, Executive Director

Asset management company: ITOCHU REIT Management Co., Ltd.

Representative: Junichi Shoji, Representative Director, President & CEO

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Scheduled date to file securities report (Japanese only): April 27, 2020

Scheduled date to commence payment of distributions: April 13, 2020

Preparation of supplementary material on financial results: Yes

Financial report presentation meeting: Yes (for institutional investors and analysts)

(Amounts rounded to the nearest million yen)

1. Financial Results for the Fiscal Period Ended January 2020 (from August 1, 2019 to January 31, 2020)

(1) Operating conditions (Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal period ended January 2020	1,759	2.4	839	3.6	760	3.7	759	3.7
Fiscal period ended July 2019	1,718	32.1	810	9.9	733	40.6	732	40.8

	Net income per unit	Return on unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
	(Yen)	%	%	%
Fiscal period ended January 2020	2,126	2.1	1.2	43.2
Fiscal period ended July 2019	2,050	2.0	1.2	42.7

(Note) Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period.

(2) Distributions

	Distributions per unit (excluding surplus cash distribution (SCD))	Total distributions (excluding SCD)	SCD per unit	Total SCD	Distributions per unit (including SCD)	Payout ratio	Distributions to-net assets ratio
	(Yen)	(Millions of yen)	(Yen)	(Millions of yen)	(Yen)	%	%
Fiscal period ended January 2020	2,126	759	269	96	2,395	100.0	2.1
Fiscal period ended July 2019	2,050	732	261	93	2,311	100.0	2.0

(Note 1) Payout ratio = Distributions per unit (excluding SCD) ÷ Net income per unit × 100

(Note 2) The ratio of distributions to net assets was calculated using the following formula:

Distributions per unit (excluding SCD) ÷ [(Net assets per unit at the beginning of the period + Net assets per unit at the end of the period) ÷ 2] × 100

(Note 3) The entire amount of SCD for the fiscal period ended July 2019 is considered to be a refund of investment, which, for tax purposes, falls under a category of distribution as a reduction in unitholders' capital. Of the entire amount of SCD for the fiscal period ended January 2020, the amount of allowance for temporary difference adjustment is ¥7 million, and return of capital contribution that falls under return of capital distribution under taxation laws is ¥88 million.

(Note 4) The ratio of (i) reduced retained earnings to (ii) net asset value as of the end of the immediately preceding fiscal period, as a result of SCD (a refund of investment which, for tax purposes, falls under the category of distribution as a reduction in the unitholders' capital), is 0.003 for the fiscal period ended July 2019 and 0.002 for the fiscal period ended January 2020, respectively. The ratio was calculated in accordance with Article 23, Paragraph 1, Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965, as amended).

(3) Financial position

	Total assets	Net assets	Unitholders' equity ratio	Net assets per unit
	(Millions of yen)	(Millions of yen)	%	(Yen)
Fiscal period ended January 2020	61,739	36,067	58.4	100,989
Fiscal period ended July 2019	62,220	36,133	58.1	101,174

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal period ended January 2020	1,641	(17)	(1,477)	2,537
Fiscal period ended July 2019	3,739	(5,071)	1,974	2,389

2. Forecast of Financial Results for the Fiscal Period Ending July 31, 2020 and the Fiscal Period Ending January 31, 2021

(Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income		Distributions per unit (excluding SCD)	SCD per unit	Distributions per unit (including SCD)
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)	(Yen)	(Yen)
Fiscal period ending July 2020	2,405	36.7	1,173	39.9	1,015	33.6	1,014	33.7	2,088	294	2,382
Fiscal period ending January 2021	2,458	2.2	1,193	1.7	1,078	6.2	1,077	6.2	2,217	280	2,497

(Reference) Expected net income per unit (Forecast net income ÷ Expected number of investment units at end of period) is 2,088 yen for the fiscal period ending July 2020 and 2,217 yen for the fiscal period ending January 2021.

3. Other

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

- (a) Changes in accounting policies associated with revision of accounting standards, etc.: None
- (b) Changes in accounting policies associated with other than (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements: None

(2) Total number of investment units issued and outstanding

- (a) Total number of investment units issued and outstanding at the end of the fiscal period (including treasury investment units)
- (b) Total number of treasury investment units at the end of the fiscal period

Fiscal period ended January 2020	357,143	Fiscal period ended July 2019	357,143
Fiscal period ended January 2020	0	Fiscal period ended July 2019	0

Audit status

This Summary of Financial Results is not subject to audit by certified public accountant or audit firm.

Other special instructions

(Note on forward-looking statements)

Forward-looking statements presented in this document are based on information currently available to ITOCHU Advance Logistics Investment Corporation ("IAL") and on certain assumptions deemed by management to be reasonable. As such, actual operating and other results may differ materially from these forecasts as a consequence of various factors. The above forecast does not guarantee the amount of the distribution.

Assumptions Underlying the Forecast for the Fiscal Periods Ending July 2020 and January 2021

Item	Assumption																																	
Calculation period	<ul style="list-style-type: none">• The fourth fiscal period ending July 2020 (February 1, 2020 to July 31, 2020) (182 days)• The fifth fiscal period ending January 2021 (August 1, 2020 to January 31, 2021) (184 days)																																	
Investment assets	<ul style="list-style-type: none">• It is assumed that, in addition to the real estate trust beneficiary interests held by IAL as of January 31, 2020 (total of eight (8) properties) (“Currently Owned Assets”), the real estate trust beneficiary interests in “i Missions Park Kashiwa 2” (70% quasi-co-ownership interest) are acquired on February 3, 2020 and the real estate trust beneficiary interests in “i Mssions Park Inzai” (20% quasi-co-ownership interest) are additionally acquired on April 1, 2020 (the two properties are hereinafter collectively referred to as the “Assets to be Acquired”), and that as a result, IAL’s portfolio assets will be 9 properties (Note), and that thereafter there will be no changes to the assets under management (such as acquisition of new properties or disposition of existing properties) until the end of the fiscal period ending January 2021.• Despite the assumption above, however, there may be changes to the assets under management due to acquisition of new properties or disposition of existing properties. <p>(Note) As for i Missions Park Inzai, IAL will additionally acquire remaining quasi co-ownership interests excluding those already acquired by IAL. Therefore, it is counted as one property together with quasi co-ownership interests that have already been acquired, when counting the number of properties after acquisition of the Assets to be Acquired. The same applies hereinafter.</p>																																	
Operating revenues	<ul style="list-style-type: none">• Forecasted leasing business revenues for the Currently Owned Assets were calculated taking into consideration the content of lease agreements which have been executed and are effective as of January 31, 2020, as well as tenant and market trends, among other things.• Forecasted leasing business revenues for the Assets to be Acquired were calculated based on information provided by the current beneficiary owner, etc., taking into consideration the content of lease agreements which have been executed, as well as tenant and market trends, among other things.• It is assumed that no rent defaults or unpaid leases on the part of tenants will occur during the period of these forecasts.• These forecasts are based on the assumptions that there will be no profit or loss from the sale of real estate or other assets.																																	
Operating expenses	<ul style="list-style-type: none">• Main items included under operating expenses are as follows:<div>(Millions of yen)</div><table><tr><th></th><th>Fiscal period ending July 2020</th><th>Fiscal period ending January 2021</th></tr><tr><td>Expenses related to rent business</td><td></td><td></td></tr><tr><td> Facility management expenses</td><td>26</td><td>28</td></tr><tr><td> Property management contract expenses</td><td>12</td><td>11</td></tr><tr><td> Utility expenses</td><td>30</td><td>31</td></tr><tr><td> Repair expenses</td><td>6</td><td>6</td></tr><tr><td> Taxes and public dues</td><td>161</td><td>161</td></tr><tr><td> Depreciation costs</td><td>638</td><td>655</td></tr><tr><td>General and administrative expenses</td><td></td><td></td></tr><tr><td> Asset management fees</td><td>272</td><td>291</td></tr><tr><td> Sponsor support agreement expenses</td><td>16</td><td>16</td></tr></table>• With the exception of depreciation costs, the forecast of real estate leasing business expenses, which are to be IAL’s main operating expenses, were calculated taking into consideration variable factors of expenses, based on historical data in case of the Currently Owned Assets, and based on information provided by current property owner in case of the Assets to be Acquired.• Although the amount of fixed property tax and city planning tax in a transaction of real estate, etc., is generally calculated on a pro-rata basis based on the relevant period, and settled at the time of acquisition with the current owner, IAL includes such amount in the cost of acquisition and does not recognize it as expense. Accordingly, fixed property tax and city planning tax on the Assets to be Acquired will be recognized as expense starting from fiscal period ending July 2021. For such Assets to be Acquired, total amount of the fixed property tax and city planning tax to be added to the cost, is estimated at ¥134 million.• Forecast repair expenses for buildings were estimated based on medium- to long-term repair plans developed by IRM. Actual repair expenses, however, may substantially differ from the forecasted amount, due to property damage caused by factors that are difficult to predict, among other things. Furthermore, actual repair expenses may also differ due to the fact that they vary significantly from one fiscal year to another, and they are not incurred on a regular basis.• Forecast depreciation costs were calculated using the straight-line method, and include ancillary and other expenses.		Fiscal period ending July 2020	Fiscal period ending January 2021	Expenses related to rent business			Facility management expenses	26	28	Property management contract expenses	12	11	Utility expenses	30	31	Repair expenses	6	6	Taxes and public dues	161	161	Depreciation costs	638	655	General and administrative expenses			Asset management fees	272	291	Sponsor support agreement expenses	16	16
	Fiscal period ending July 2020	Fiscal period ending January 2021																																
Expenses related to rent business																																		
Facility management expenses	26	28																																
Property management contract expenses	12	11																																
Utility expenses	30	31																																
Repair expenses	6	6																																
Taxes and public dues	161	161																																
Depreciation costs	638	655																																
General and administrative expenses																																		
Asset management fees	272	291																																
Sponsor support agreement expenses	16	16																																

Item	Assumption
Non-operating expenses	<ul style="list-style-type: none"> The forecast of non-operating expenses is ¥157 million in the fiscal period ending July 2020, and ¥118 million in the fiscal period ending January 2021. It is expected that interest expenses and other borrowing-related expenses will be ¥118 million for the fiscal period ending July 2020 and ¥115 million for the fiscal period ending January 2021.
Interest-bearing debt	<ul style="list-style-type: none"> It is assumed that total interest-bearing debt will amount to ¥36,153 million at the end of the fiscal period ending July 2020, and ¥34,640 million at the end of the fiscal period ending January 2021. Interest-bearing debt was calculated assuming that IAL borrows additional ¥12,213 million in total (i.e., ¥6,700 million on February 3, 2020, and ¥5,513 million on March 31, 2020). In addition, as IAL expects to receive a refund of consumption taxes in the period ending January 2021, for the Assets to be Acquired, interest-bearing debt is calculated also assuming that IAL will use such refund and other funds to repay the loan of ¥1,513 million in the period ending January 2021. The loan-to-value (LTV) ratio is expected to be around 40.7% at the end of the fiscal period ending July 2020, and 39.6% at the end of the fiscal period ending January 2021. The LTV ratio is calculated by the following formula: $\text{LTV} = \text{total interest-bearing debt} \div \text{total assets} \times 100$
Total number of investment units outstanding	<ul style="list-style-type: none"> It is assumed that the total number of investment units issued and outstanding as of the date hereof (i.e., 486,000 units) remains the same until the end of the period ending January 2021. Distributions per unit (excluding SCD) and SCD per unit were calculated based on the expected total number of investment units issued and outstanding at the end of the fiscal period ending July 2020 and at the end of the fiscal period ending January 2021 (i.e., 486,000 units).
Distributions per unit (excluding SCD)	<ul style="list-style-type: none"> The forecast distributions per unit (excluding SCD) was calculated according to IAL's distribution policy described in its Articles of Incorporation, assuming that the entire amount of profits will be distributed. Despite the above, actual distributions per unit (excluding SCD) may differ for a variety of reasons, such as changes in assets under management, fluctuations in leasing business revenues due to tenant movements or other factors, or unforeseen events requiring repairs and maintenance.
SCD per unit	<ul style="list-style-type: none"> SCD per unit was calculated based on the policies stipulated in IAL's Articles of Incorporation and the asset management guidelines contained in the internal rules of IRM. Total SCD are estimated at ¥142 million in the fiscal period ending July 2020, and ¥136 million in the fiscal period ending January 2021. It is assumed that general economic conditions, trends in the real estate market in Japan, and IAL's financial position will not deteriorate substantially during the periods of these forecasts. In principle, IAL plans to pay SCD every fiscal period, and aims to set the total amount of distributions including SCD at an amount equivalent to 70% of funds from operations (FFO). SCD to be distributed in each fiscal period, however, shall be capped at an amount equivalent to 30% of depreciation costs in the applicable fiscal period. In addition to the payment of SCD, additional SCD may be paid to even out the amount of distributions per unit, if the amount of distributions per unit is expected to be temporarily reduced at a significant rate due to funds procurement through issuance of new investment units, or any other factors. IAL may decide against distributing cash in excess of distributable amount, if it deems it inappropriate to make such distributions in light of economic conditions, trends in Japan's real estate and leasing markets, or the status of its property portfolio and financial position. If appraised LTV (Note) is expected to exceed 60% after cash distribution, IAL does not distribute SCD in order to ensure stable finances. (Note) Appraised LTV = $A/B \times 100$ A = Total interest-bearing debt as of the closing date of the applicable fiscal period B = Total assets on the balance sheet as of the closing date of the applicable fiscal period – amount of book value of owned real estate after depreciation, as of the closing date of the applicable fiscal period + appraised value of owned real estate as of the closing date of the applicable fiscal period
Other	<ul style="list-style-type: none"> Financial calculations and operating forecasts are based on the assumption that there will be no changes in legislation, taxation, accounting standards, regulations imposed on publicly listed companies by the Tokyo Stock Exchange, or rules or requirements imposed by the Investment Trusts Association, Japan, in any way that would impact the aforementioned forecasts. Financial calculations and operating forecasts are also based on the assumption that there will be no substantial changes in general economic trends or real estate market conditions in Japan.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	2nd fiscal period (as of July 31, 2019)	3rd fiscal period (as of January 31, 2020)
Assets		
Current assets		
Cash and deposits	1,184,413	1,196,051
Cash and deposits in trust	2,134,580	2,270,747
Operating accounts receivable	68,946	62,873
Accounts receivable - other	-	330
Consumption taxes receivable	156,796	-
Prepaid expenses	38,765	33,502
Other	510	-
Total current assets	3,584,013	3,563,503
Non-current assets		
Property, plant and equipment		
Buildings in trust	34,908,809	34,916,922
Accumulated depreciation	(702,807)	(1,112,548)
Buildings in trust, net	34,206,002	33,804,374
Structures in trust	1,235,508	1,235,508
Accumulated depreciation	(56,736)	(89,701)
Structures in trust, net	1,178,772	1,145,807
Machinery and equipment in trust	1,005,404	1,005,404
Accumulated depreciation	(33,496)	(53,156)
Machinery and equipment in trust, net	971,907	952,248
Tools, furniture and fixtures in trust	1,751	1,751
Accumulated depreciation	(24)	(171)
Tools, furniture and fixtures in trust, net	1,726	1,579
Land in trust	22,128,070	22,128,070
Total property, plant and equipment	58,486,480	58,032,080
Intangible assets		
Software	4,776	4,219
Total intangible assets	4,776	4,219
Investments and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	135,236	117,749
Deferred tax assets	13	15
Total investments and other assets	145,250	127,764
Total non-current assets	58,636,506	58,164,064
Deferred assets		
Investment corporation bond issuance expenses	-	12,338
Total deferred assets	-	12,338
Total assets	62,220,520	61,739,906

(Thousands of yen)

	2nd fiscal period (as of July 31, 2019)	3rd fiscal period (as of January 31, 2020)
Liabilities		
Current liabilities		
Operating accounts payable	19,940	91,669
Short-term loans payable	2,140,000	-
Accounts payable - other	15,735	7,822
Accrued expenses	225,252	238,948
Income taxes payable	891	914
Consumption taxes payable	-	133,923
Advances received	313,375	319,158
Other	2,145	10,314
Total current liabilities	2,717,340	802,751
Non-current liabilities		
Investment corporation bonds	-	1,500,000
Long-term loans payable	22,440,000	22,440,000
Tenant leasehold and security deposits in trust	929,571	929,553
Total non-current liabilities	23,369,571	24,869,553
Total liabilities	26,086,911	25,672,305
Net assets		
Unitholders' equity		
Unitholders' equity	35,498,833	35,498,833
Deductions from unitholders' capital	(97,500)	(190,714)
Unitholders' capital, net	35,401,333	35,308,119
Surplus		
Unappropriated retained earnings (undisposed loss)	732,274	759,482
Total surplus	732,274	759,482
Total unitholders' equity	36,133,608	36,067,601
Total net assets	36,133,608	36,067,601
Total liabilities and net assets	62,220,520	61,739,906

(2) Consolidated Statement of Income

(Thousands of yen)

	2nd fiscal period (from February 1, 2019 to July 31, 2019)	3rd fiscal period (from August 1, 2019 to January 31, 2020)
Operating revenues		
Leasing business revenues	1,681,133	1,730,922
Other leasing business revenues	36,924	28,766
Total operating revenues	1,718,058	1,759,688
Operating expenses		
Expenses related to rent business	676,237	683,445
Asset management fees	193,237	201,362
Asset custody and administrative service fees	9,067	6,038
Directors' compensations	2,640	2,640
Other operating expenses	26,841	26,998
Total operating expenses	908,023	920,484
Operating income	810,034	839,204
Non-operating income		
Interest income	10	15
Interest on tax refund	5,346	75
Subsidy income	-	330
Total non-operating income	5,357	421
Non-operating expenses		
Interest expenses	59,794	63,189
Amortization of investment corporation bond issuance expenses	-	425
Borrowing related expenses	22,210	13,232
Other non-operating expenses	244	2,511
Total non-operating expenses	82,248	79,359
Ordinary income	733,142	760,266
Income before income taxes	733,142	760,266
Income taxes - current	893	916
Income taxes - deferred	14	△1
Total income taxes	907	915
Net income	732,234	759,350
Retained earnings brought forward	40	131
Unappropriated retained earnings (undisposed loss)	732,274	759,482

(3) Consolidated Statement of Unitholders' Equity

Second fiscal period (from February 1, 2019 to July 31, 2019)

(Thousands of yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Unitholders' equity Total	
	Unitholders' capital	Deductions from unitholders' capital	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	35,498,833	-	35,498,833	520,040	520,040	36,018,873	36,018,873
Changes of items during period							
Surplus cash distribution		(97,500)	(97,500)			(97,500)	(97,500)
Distributions of retained earnings				(520,000)	(520,000)	(520,000)	(520,000)
Net income				732,234	732,234	732,234	732,234
Total changes of items during period	-	(97,500)	(97,500)	212,234	212,234	114,734	114,734
Balance at end of current period	35,498,833	(97,500)	35,401,333	732,274	732,274	36,133,608	36,133,608

Third fiscal period (from August 1, 2019 to January 31, 2020)

(Thousands of yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Unitholders' equity Total	
	Unitholders' capital	Deductions from unitholders' capital	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	35,498,833	(97,500)	35,401,333	732,274	732,274	36,133,608	36,133,608
Changes of items during period							
Surplus cash distribution		(93,214)	(93,214)			(93,214)	(93,214)
Distributions of retained earnings				(732,143)	(732,143)	(732,143)	(732,143)
Net income				759,350	759,350	759,350	759,350
Total changes of items during period	-	(93,214)	(93,214)	27,207	27,207	(66,006)	(66,006)
Balance at end of current period	35,498,833	(190,714)	35,308,119	759,482	759,482	36,067,601	36,067,601

(4) Consolidated Statement of Cash Flows

	(Thousands of yen)	
	2nd fiscal period (from February 1, 2019 to July 31, 2019)	3rd fiscal period (from August 1, 2019 to January 31, 2020)
Cash flows from operating activities		
Profit before income taxes	733,142	760,266
Depreciation costs	447,635	463,069
Amortization of investment corporation bond issuance expenses	-	425
Interest income	(10)	(15)
Interest expenses	59,794	63,189
Decrease (increase) in operating accounts receivable	7,717	6,073
Decrease (increase) in consumption taxes refund receivable	2,494,740	156,796
Decrease (increase) in prepaid expenses	(8,383)	5,262
Decrease (increase) in long-term prepaid expenses	(23,108)	17,486
Increase (decrease) in operating accounts payable	415	73,620
Increase (decrease) in accounts payable - other	1,282	(902)
Increase (decrease) in accrued expenses	61,726	13,078
Increase (decrease) in consumption taxes payable	-	133,923
Increase (decrease) in advances received	26,874	5,783
Other	(942)	7,329
Subtotal	3,800,885	1,705,387
Interest income received	10	15
Interest expenses paid	(60,373)	(62,572)
Income taxes paid	(1,501)	(893)
Net cash used in operating activities	3,739,021	1,641,936
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(5,071,860)	(17,014)
Net cash used in investing activities	(5,071,860)	(17,014)
Cash flows from financing activities		
Increase in short-term loans payable	260,000	1,500,000
Repayments of short-term loans payable	(2,690,000)	(3,640,000)
Proceeds from long-term loans payable	5,020,000	-
Proceeds from issuance of investment corporation bonds	-	1,487,236
Distributions paid	(615,408)	(824,336)
Net cash provided by financing activities	1,974,591	(1,477,100)
Net increase (decrease) in cash and cash equivalents	641,751	147,822
Cash and cash equivalents at beginning of period	1,747,670	2,389,422
Cash and cash equivalents at end of period	2,389,422	2,537,244