Investment Risks

a. Risk Factors

This section details the major details that we believe may become risk factors with respect to investment in the units or investment corporate bonds. The following is not an exhaustive list and there are risks other than those described below.

The Industrial & Infrastructure Fund Investment Corporation (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 distribution decreases, potentially resulting in losses for the unitholders or the bondholders.

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.

(I) Risks Regarding Products Features of Units and Bonds

(A) Risk Regarding Market Price Fluctuations for Units

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. In particular, the spread of the global infectious diseases of the new Corona Virus (COVID-19), which were identified in China at the end of 2019, has had a serious impact on the global economy, including Japan. Concerns over such impacts temporarily affected the market prices of the Investment Securities or the Securities, including the Investment Corporation Bonds. In the future, if further adverse effects occur due to the spread of the new Corona Virus (COVID-19), etc., the market prices of the Investment Securities or the Investment Corporation Bonds may decline.

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 and 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 substantially 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) Distribution Risk

Although the Investment Corporation intends to distribute money to unitholders in accordance with its distribution policy, the distribution or the amount to be distributed is not guaranteed. The distribution 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.

Furthermore, as described above at "2. Investment Policy, (3) Dividend Policy, (ii) The amount of distributions exceeds the amount of profit," the Investment Corporation may temporarily distribute amounts of excess profit. However, since distributions exceeding the amount of profit are equivalent to a return of capital, such a distribution would result in a decrease in the net assets of the Investment Corporation. In addition, since this would also result in a decrease in cash on hand, the Investment Corporation may have insufficient cash on hand if it is required to make capital expenditure for an unanticipated event, or for it to experience capital constraints in acquiring properties in a flexible and timely manner.

(D) Risk Regarding Fluctuation in Revenue and Expenditure

The Investment Corporation's revenue consists mainly of real estate rent revenue. Real estate rent revenue may decrease sharply due to factors like a decline in the occupancy ratio (including causes attributable to rebuilding and large-scale repairs). In addition, rents may have to be reduced or may not be increased according to the contracted terms as a result of negotiations with, or requests from, tenants. (For risks associated with real estate rental income, please refer to "(v) Risks Regarding Real Estate and Trust Beneficial Interests, (B) Risk Regarding Lease Agreement") There is no guarantee that the past status of rents received on individual assets will be the same as future status of rents receivable on the same assets. In addition, rents under certain real estate lease contracts may not necessarily be at an adequate level as compared with the rent level in general.

Meanwhile, apart from a reduction in rent revenue, return of security deposits and guarantee money to vacating tenants, expenditures related to large-scale repairs, a substantial amount of capital expenditures, costs associated with real estate acquisitions, and other real estate-related expenditures may increase

depending on the circumstances and may consequently cause cash flows to decrease.

Thus, as revenue from real estate may decrease while expenditures on real estate may increase, the past status of revenue and expenditure on individual assets and overall invested assets may not necessarily be the same as, or exhibit the same trend as, the future status of revenue and expenditure. If, for any reason, such revenue and expenditure change, distributions to investors may decrease or the market price of the investment securities 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 distributions 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) Risk Regarding Management Policy of Investment Corporation

- (A) Risk Due to Specializing in Investment in Industrial and Infrastructure Properties
 Our strategy of investing in industrial and infrastructure properties may entail risks uncommon to other J
 REITs that invest primarily in a broader range of real estate or real estate-related assets.
- a. Risk of Decrease in Overall Demand for Industrial and Infrastructure Properties

The performance of our portfolio depends heavily on the performance of the Japanese manufacturing and transportation industries, the shifts to the overseas production of goods, the level of new capital investment and the construction of new manufacturing and research and development facilities. Trends in these aspects of the Japanese economy may negatively affect the demand for properties designed or designated primarily for industrial or infrastructure purposes. This decline in demand may reduce the amount of revenue we can generate from such properties and any such reductions in revenues may have a material adverse effect on our ability to achieve continuous growth in unitholder value.

Risk of Decrease in Demand for Specific Types of Industrial and Infrastructure Properties
 Particular categories or sectors in which we may invest may become affected in a materially adverse way
 by future developments or changes to Japan's industrial structure or infrastructure. If, for example, a

development in transportation or telecommunication networks were to materialize making current logistics services obsolete, any portfolio still consisting largely of properties primarily designed and used to meet such obsolete logistics needs would suffer material adverse effects to its financial condition and results of operations. Likewise, the demand for properties primarily used in the infrastructure and natural resources sectors, such as natural gas terminals and coal-fired power plants, may be particularly affected if the demand for energy from such natural resources were to decrease or become obsolete due to the introduction of new technologies or changes in consumer preferences. Such specific shifts in demand to a particular category or sector of industrial and infrastructure properties may have a material adverse effect on our business, financial condition and results of operations.

c. Risk of Decrease in Demand for Individual Industrial and Infrastructure Properties

It is possible that the demand for a specific industrial or infrastructure property that we acquire may decline, even while the overall demand for industrial and infrastructure properties—or any particular category or sector—remains unchanged. For example, the development or redevelopment of an area surrounding a particular property for residential or urban use may change the usability of such area for industrial production or as an infrastructure facility. Whether by restrictive laws, regulations or negative public sentiment, such property may become devalued as a property for industrial production or infrastructure services, thereby having a material adverse effect on our business, financial condition and results of operations.

d. Risk Developed Due to Restrictions in Usage or to a Single or Limited Number of Tenants Each of the properties in our portfolio and the properties we intend to acquire is leased to a single or limited number of tenants. If a lessee were to vacate a property, the pool of potential replacement lessees may be limited due to a number of factors unique to industrial and infrastructure properties, including the large area of the lease space or the specific use and configuration of the facility.

As a consequence, any such affected property may remain vacant for a prolonged period, or we may be forced to decrease the rent in order to secure a replacement lessee, any of which may adversely affect our business, financial condition and results of operations.

e. Risk Regarding Regulation by Environmental Laws and a Change Thereof

There is a high possibility that industrial and infrastructure properties will be exposed to issues such as soil or groundwater contamination or use of hazardous materials due to characteristics of their locations and usage. Therefore, these properties are subject to various regulations based on environmental laws such as the Soil Contamination Countermeasures Act (Law No. 53 of 2002 and ensuing revisions; hereinafter called, the "Soil Contamination Countermeasures Act"). The Investment Corporation may be liable for any problem even if it is caused by someone other than the Investment Corporation (e.g., tenants). If regulations based on environmental laws are strengthened, we may need to bear significant

costs in order to comply with them, which may have an adverse effect on our business.

f. Risk Regarding Laws and Regulations on Industrial and Infrastructure Properties

Industrial and infrastructure properties are also subject to a number of stringent safety regulations according to their usage, in addition to regulations based on environmental laws. These regulations are likely to be strengthened in the future, and this may have an adverse effect on the Investment Corporation's business. Furthermore, restrictions on usage or change or enhancement of regional regulations regarding industrial and infrastructure properties may have an adverse effect on our business.

- g. Risk Regarding Accidents Unique to Industrial and Infrastructure Properties
 - At industrial and infrastructure properties the Investment Corporation invests in, activities of a dangerous nature such as plant operation and transportation of hazardous materials may be conducted, and if accidents such as fires and explosions (hereinafter called "accidents") occur, properties may be damaged, deteriorated, impaired or reduced in value. In such a case, we may need to bear a substantial amount of expenses required to repair damaged, deteriorated or impaired parts or experience a decrease in rent revenue due to a temporary stoppage of the facilities. Or unitholders or bondholders may incur a loss as a result of a potential decrease in the value of such real estate. Our business may be adversely affected, and unitholders or bondholders may incur a loss when 1) no insurance contract is signed due to circumstances unique to a specific property, 2) the actual amount of loss exceeds the limit of insurance coverage, 3) an accident that is not covered by an insurance contract occurs or 4) payment by an insurance company based on an insurance contract is not made, or is reduced or delayed for some reason.

As for infrastructure properties, it is assumed that the general public widely uses them. When an accident occurs that causes damage to a third party, we may be liable based on a liability for structures on land as stipulated by the Civil Code (Law No. 89 of 1896 and ensuing revisions; hereinafter called, the "Civil Code") even when we have no intent or are not negligent. As a result, we may incur a loss (for details, please see "V. Legal Risks Regarding Real Estate and Trust Beneficial Interests, (D) Risk Regarding Owner Responsibility and Repair and Maintenance Costs for Real Estate" below).

In addition, when an accident occurs at one of the properties in our portfolio, society's valuation of us (i.e., our reputation) may be damaged, and unitholders or bondholders may incur a loss as a result even when we have no legal responsibilities or when a loss is covered by nonlife insurance, etc.

h. Risk Regarding Equipment or Fixtures Installed in Industrial and Infrastructure Properties

The specific use and configuration of industrial and infrastructure properties may cause us to incur significant unexpected costs when a lessee vacates a property. For example, even if the installation, maintenance and repair of any equipment or fixtures installed at our facilities are the responsibility of the lessee under the lease agreement, we may have to purchase the installed equipment or fixtures at a significant cost when the lessee vacates the property in order to maintain its usefulness. Even if we were

to receive such equipment or fixtures without charge, we may be required to incur additional costs to maintain and repair the equipment or fixtures, which may adversely affect our business, financial condition and results of operations.

(B) Risk that Investment in the Public Sector Does Not Proceed As Planned

The Investment Corporation will continuously consider investing in industrial and infrastructure properties the public sector owns since the need for bodies in the private sector like us to acquire and own such properties will increase in the future.

However, in acquiring properties owned by the public sector, revision of relevant laws and regulations, deregulation and coordination with the government, local authorities and other organizations may be required. In such a case, such deregulation and coordination may not proceed as we assume.

Therefore, there is a risk that we will be unable to acquire such properties as planned in spite of our investment policy.

In addition, even when we acquire these properties, rent may be regulated by the government, local authorities and other organizations, and this may have an adverse effect on our business.

Furthermore, we may not be able to acquire industrial and infrastructure properties owned by a third party other than the public sector as planned in spite of our investment policy due to legal and economic restrictions unique to these properties.

(C) Risk Regarding Dependency on Limited Number of Tenants

The Investment Corporation leases a significant portion of its assets under management to a limited number of tenants, and the Investment Corporation's revenues depend greatly on these tenants. If operational or financial conditions of any tenant deteriorate, the tenant delays in rent payment, or the tenant vacates the property, the revenue of the Investment Corporation may be materially and adversely affected.

(D) Risk Regarding Geographic Concentration or Concentration in Specific Types of Properties

The properties in our portfolio are primarily located in the greater Tokyo area is approximately 66.9% of our anticipated portfolio on an appraisal value as of January 31, 2022 basis. Because of this geographic concentration, our business will remain highly susceptible to circumstances and developments that may adversely impact the greater Tokyo area, including changes in industrial structure and population, natural disasters such as earthquakes, regional increases in utilities and other costs associated with our properties and any deterioration of the regional economy, any of which may have a material adverse effect on our business, financial condition and results of operations.

(E) Risk Regarding Growth Strategy of Investment Corporation

The Asset Manager conducts aggressive proposal-based acquisition activities in order to increase the number of properties in our portfolio, but such activities may not succeed. The Investment Corporation, in cooperation with Mitsubishi Corporation and other appropriate partners, also works on creating a framework to acquire properties with a low occupancy rate or properties not completed yet by forward commitment, etc. (a forward commitment contract, etc. is defined as any sale and purchase agreement or other type of agreement that is signed a month or more in advance of the actual date of the settlement or delivery pursuant to the agreement. The same shall apply hereinafter.), but such framework may not be established as we desire.

In addition, we position acquisition of properties in cooperation with Mitsubishi Corporation and others as one of our external growth strategies, but there is no agreement with Mitsubishi Corporation that regulates such cooperation. Therefore, we may not be able to acquire a property we deem appropriate from Mitsubishi Corporation and others.

Moreover, we position expansion and renovation of the properties in our portfolio as one of our internal growth strategies, but such expansion and renovation may not be implemented as desired due to legal restrictions or for other reasons.

(F) Risk Regarding Redevelopment of Properties Owned

While investment corporations are not allowed to construct buildings on their own under the Investment Trust Law, it is considered that they are able to become an orderer of contracts for building constructions, except for certain cases such as when change in cash flows due to removal of tenants during the constructions has a huge impact on the entire portfolio. Therefore, there is possibility of investment corporations to engage in real estate redevelopment by becoming a general orderer of contracts for building constructions.

The Investment Corporation plans to redevelop properties it owns if it is considered necessary in view of its property portfolio. However, since redevelopment projects are accompanied by various risks associated with real estate development (development risk, permit approval risk, inauguration risk, tenant risk, price fluctuation risk, interest rate fluctuation risk during development, and large natural disaster occurrence risk), there is possibility of delay or change in development, cancellation of redevelopment, or bearing of additional costs because of changes in the supply and demand conditions and other economic conditions, difficulties in finding tenants or securing necessary funds, changes in regulations applicable to real estate by revision of laws and regulations, discovery of objects installed underground, occurrence of conflicts with neighbors during development and various other reasons. In these cases, the Investment Corporation may not be able to acquire the properties that it plans to acquire as originally scheduled because the Investment Corporation cannot implement the planned redevelopment plan, or complete it as initially planned. Moreover, even if the redevelopment project is implemented, it may not operate as

expected because the cash flows of the constructed buildings are influenced by the supply and demand conditions and other economic situations.

As a result, in addition to potentially gaining substantially lower profits from redevelopment projects than expected, the Investment Corporation may not obtain profits at the planned timing, may obtain no profits, or may incur or have to compensate for unforeseen expenses, damages or losses. Consequently, profits of the Investment Corporation could be adversely affected, possibly substantially decreasing distributions to its unitholders. Moreover, if the properties owned by the Investment Corporation are liquidated for redevelopment projects, loss will be incurred due to retirement, and with said loss becoming enormous, it could substantially decrease distributions to its unitholders.

(G) Risk of Treating Infrastructure Facilities as Investment Targets

While the Investment Corporation invests in facilities to be developed as infrastructure for industrial activities that includes transportation, telecommunications, energy, water supply, and public facilities (hereinafter in this section referred to as the "Infrastructure Facilities"), some Infrastructure Facilities are institutionally difficult for the Investment Corporation to invest in as of the date of this Report. In addition, as of the date of this Report, a part of Infrastructure Facilities (those of a public nature including airports, port facilities, railroad facilities, roads/expressways, water supply, sewage systems, and heat supply facilities) is designated as investment targets in the infrastructure fund market that was established by the Tokyo Stock Exchange on April 30, 2015.

As of the date of this Report, although there are no material overlaps between investment targets of the Investment Corporation and funds listed in the said market, an increase in funds listed in the said market could result in the emergence or increase in listed funds in which there is effectively some overlap between the investment targets of these funds and those of the Investment Corporation. In this case, investment in Infrastructure Facilities targeted by the Investment Corporation may become invigorated, possibly expanding demand for Infrastructure Facilities. However, demand for Infrastructure Facilities may not necessarily increase in this case, and even supposing that such demand does increase, the Investment Corporation may not be able to acquire the Infrastructure Facilities that it wishes to acquire if the expanded demand leads to increased competition for acquiring Infrastructure Facilities. Moreover, even if the Investment Corporation is able to acquire those assets, the Investment Corporation may not be able to acquire those assets, the Investment Corporation may not be able to acquire those assets, the Investment Corporation may not be able to acquire those assets, the Investment Corporation may not be able to acquire those assets, the Investment Corporation may not be able to acquire those assets the Investment Corporation may not be able to acquire those assets the Investment Corporation may not be able to acquire those assets the Investment Corporation may not be able to acquire those assets the Investment Corporation may not be able to acquire those assets the Investment Corporation may not be able to execute the transaction at the price, timing, or under other conditions that it wishes to from the aspect of investment profits.

(III) General Risk Associated with Investment Corporation's Investments

(A) Risk that Real Estate Cannot be Acquired or Disposed of

Industrial properties that the Investment Corporation invests in offer less acquisition opportunities in general compared to other types of properties such as offices, residential properties and commercial

properties. In addition, the trading market for infrastructure properties is not yet mature. Meanwhile, investment in real estate by REITs, other real estate funds and investors is getting active, and demand for industrial and infrastructure properties may increase.

Therefore, no assurances are given that the Investment Corporation is always able to acquire the Real Estate or the assets underlain by the Real Estate that it wishes to acquire. 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. In addition, even if the Investment Corporation may not be able to acquire the seller on the transfer, the Investment Corporation may not be able to acquire the said real estate on the planned date in a case where certain conditions prescribed in the sales agreement on real estate concluded with the seller are not fulfilled. Further, if 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 the transaction at the price, timing, or under other comporation 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. As a result of this risk, the Investment Corporation may not be able to build a portfolio of assets that is deemed to be optimal for improvement of yields and stabilization of revenue.

(B) Risk Regarding Funding Through New Units and Through Borrowing and Investment Corporation Bonds Feasibility and conditions of borrowings and issuance of the corporate bonds are influenced by the Investment Corporation's financial credibility, interest rates and other factors. There is no guarantee that the Investment Corporation will be able to borrow money or issue corporate bonds at the timing and under the conditions that the Investment Corporation wishes to. As a result, the Investment Corporation may not be able to acquire assets as anticipated, may be forced to sell assets it did not intend to sell, or its cash flow may deteriorate. In addition, if the Investment Corporation is unable to raise funds through new borrowings or other means even though it had planned to raise funds for the repayment of existing borrowings and investment corporation bonds, it may be in default due to the inability to repay existing borrowings or other means.

If the Investment Corporation borrows money or issues the corporate bonds, a financial restriction provision may be set to restrict distributions to unitholders or to keep the rating to safe level, 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.

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. In Japan, a low-interest rate environment has continued over the past 10 years or more. Going forward, it is possible that the

applicable interest rate may rise, causing a rise in interest rates on new borrowings or new issuances of Corporate Bonds as well as applicable 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 Tenant Leasehold Deposit and Security Deposit

Tenant leasehold and security deposits are generally interest-free. Therefore, to the extent that we decide to use such deposits to finance the acquisition of additional properties (after obtaining the necessary approval of the trustees), such deposits may effectively reduce our cost of capital.

However, we may be responsible for returning tenant leasehold and security deposits as a condition for using such leasehold and deposits, and we may obtain borrowings to finance the return of such leasehold and deposits. In such case, if the size of these deposits decreases, or if we need to repay them more quickly, we may be required to obtain funding at a higher effective cost in relation to property acquisitions or the operation of our existing properties.

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

- (A) Risk Regarding Dependency on Mitsubishi Corporation and UBS AG and Conflicts of Interest Mitsubishi Corporation and UBS Asset Management AG, a member of the UBS AG group, respectively hold 51% and 49% of the issued and outstanding shares of the Asset Manager as of the date of this Report, and some of the Asset Manager's officers have also worked at Mitsubishi Corporation and subsidiaries of UBS AG. Therefore, if Mitsubishi Corporation and UBS AG's interests differ from those of the Investment Corporation or the Investment Corporation's other unitholders, it would give rise to conflict of interest. Mitsubishi Corporation and UBS AG may exercise their influence on the Investment Corporation if the Investment Corporation acquires assets or leases properties to, or carries out other business with Mitsubishi Corporation, UBS AG or their affiliated companies, and furthermore the influence may be more strong when both Mitsubishi Corporation and UBS AG are involved in the transaction. The Investment Corporation may compete with Mitsubishi Corporation, UBS AG or their 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 distribution 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 Trust Law sets out duties and obligations of executive directors and supervisory directors and related persons of the Investment Corporation, the unitholders or the bondholders may incur damage if any related person of the Investment Corporation violates the Investment Trust Law 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 or the bondholders 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; however, there is no guarantee that the measures set out in this regulation work perfectly.

The Investment Trust Law does not prohibit the Asset Manager from undertaking asset management for the benefit of multiple investment corporations. Mitsubishi Corp.-UBS Realty Inc., the Asset Manager of the Investment Corporation, undertakes to manage assets of the Japan Metropolitan Fund Investment Corporation in addition to the Investment Corporation. Japan Metropolitan Fund Investment Corporation is an investment corporation, which invests in retail facilities, office buildings, residences, hotels and mixed-use properties. Accordingly, as of the date of this Report, the investment targets of Japan Metropolitan Fund Investment Corporation are different from those of the Investment Corporation, which invests in industrial properties. The Asset Manager prepares a checklist to prevent conflicts of interest from arising among investment corporations when managing each investment corporation's assets, but the checklist may not function as anticipated.

The Asset Manager separately makes decision about operation of the assets in the Industrial Division, under which assets with respect to the Investment Corporation are managed; the Metropolitan Business Division, under which assets with respect to the Japan Metropolitan Fund Investment Corporation are managed. However, the Corporate Division do not distinguish between these funds. In the light of the situation where possible conflicts over opportunities to acquire investment real estate properties may arise among the Industrial Division and the Metropolitan Business Division at the time of property acquisition, the Asset Manager has established rules regarding preferential consideration rights on investment information. However, there is a possibility that property acquisition may be considered outside of the

aforementioned rules. Furthermore, the rules may be amended in the future and due to the amendment, there is a possibility that the Investment Corporation may not be able to achieve the same investment opportunity, which the Investment Corporation has as of the date of this document. In such case, due to the decrease of investment opportunities, the Investment Corporation may face difficulty in building desirable portfolio, and as a result, it may negatively affect the profitability and condition of the assets.

If not only the Industrial Division but also the Metropolitan Business 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 lower 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, portfolio structure policy and management guideline 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 is subject to the Bankruptcy Law (Law No. 75 of 2004; as amended) (the "Bankruptcy Law"), the Civil Rehabilitation Law (Law No. 225 of 1999; as amended) (the "Civil Rehabilitation Law") and special liquidation proceedings under the Investment Trust Law (Article 164 of the Investment Trust Law).

The Investment Corporation is registered as an investment corporation under the Investment Trust Law

and the registration may be cancelled in accordance with Article 216 of the Investment Trust Law 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 distributions of residual assets only after the Investment Corporation has completed repayment to all creditors (including redemption of the corporate 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 other assets. 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 legal 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.

(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 even real estate that has gone through the established procedures demanded by the Building Standards Act and other administrative statutes will have the safety or load-bearing structure required by the building standard regulations, and such real estate may have structural or other deficiencies or defects which are not expected at the time of acquisition but may become clear after acquisition. In addition, construction companies or their subcontractors that have contracted out the construction of buildings may not properly construct buildings, and there can be no assurance that there will not be any defects or non-conformance with the standards, such as the strength and functions of construction materials, including seismic isolation equipment and shock control equipment. Various physical, temporal and other constraints are placed on the Investment Corporation's pre-acquisition survey, and so there is no guarantee that the survey is thorough. Depending on the circumstances, the Investment Corporation plans to request representation and warranty for certain matters from a former owner or former trust beneficiary and lay defect contract nonconformity liability on them. However, there are cases where we cannot do that. When such representation and warranty turn out not to be true, we can examine their liability for damages and defect contract nonconformity liability. In general, however, the period or amount of such liability is limited, and such liability is not viable if the former owner or former trust beneficiary is dissolved or lacks sufficient funds. This type of risk tends to be high when a former owner or former trust beneficiary

is a special-purpose company.

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) 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 counter party 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 or bondholders 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 Agreement

a. Risk Lease Agreement is Terminated and Renewed

If a party to a lease agreement 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, which may result in a lower occupancy rate for and lower rent revenue from the Real Estate. 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 revenue 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

Terms such as rent of a real estate lease agreement are reviewed on a regular basis even when the period of such agreement is long.

Therefore, 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 damage.

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 or 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 revenue arising from the relevant Real Estate would drop and unitholders or bondholders may incur damage.

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

The Investment Corporation invests in single tenant property with a single tenant or core tenant property 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 first right of 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 by the lessor. The Investment Corporation has executed such agreements with respect to many properties that the Investment Corporation currently owns, which may result in more time and more expenses to acquire and sell the properties or increase factors that decrease property value.

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

Real Estate may be damaged, deteriorate, destroyed or interfered with normal operation due to fire, earthquake, earthquake liquefaction, tsunami, storm, flood, lightning, volcano eruption, surge, tornado, war, riot, disturbance, terrorism or nuclear power plant accident ("Disaster"), which may decreases the revenue or increases 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 or 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 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.

If the Real Estate is damaged, deteriorates or destroyed and needs to be repaired, rent revenue may decrease if it costs a substantial amount to repair or the facilities stop operating due to such repair. Further, if it is difficult or impossible to repair the Real Estate, the rent revenue arising from the relevant Real Estate would drop and the value of the Real Estate may decline.

(E) Risk Regarding the Boundaries of Properties

While it is not uncommon for the boundaries of properties to be ambiguous in Japan, if the boundary confirmation document from the owner or occupant of the adjacent properties or other documents to determine the boundaries cannot be obtained, or the said property is acquired without confirming the boundary markers, substantial obstacles may occur when disposing of such property, or unexpected costs or losses may be incurred on a later date, including the reduction of the area of the site owned or payment of liability for damages from a dispute occurred over borders. Similarly, existence of cross-border materials may limit the use of the property and thereby have an adverse effect on rent, or may incur an additional burden for the Investment Corporation, including the cost of removing cross-border materials and thereby have a negative impact on the profit of the Investment Corporation.

(F) 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 and local government regulation restricts construction in landscape area; River Act (Law No. 167 of 1964; as amended) and Land Readjustment Act (Law No. 119 of 1954; as amended) restrict new construction for workpiece and decision on collection of settlement money in river maintenance area, and in land readjustment project enforcement area, respectively; and 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, applicable laws or regulations may require certain parties, including property owners, to provide greenhouse gas emissions reports or impose greenhouse gas emission limits. If we are unable to meet such limits, we may be forced to incur additional costs such as the purchase of greenhouse gas emission rights.

(G) Risk Regarding Establishment or Change of Laws and Regulations In addition to the Soil Contamination Countermeasures Act and Law for Rationalized Use and Proper Management of Fluorocarbons (Law No. 64 of 2001; as amended), 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.

Amendment of the Fire Services Act and other laws and ordinances related to management of real estate may cause real estate management costs to increase, and establishment or amendment of the laws and ordinances aimed at reducing energy and greenhouse gas may cause additional costs to be incurred. 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.

(H) 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 the administrator in bankruptcy, supervisory member or administrator.

If the Investment Corporation purchases Real Estate from a purchaser who has acquired the Real Estate from a seller, knowing at the time of the acquisition, certain facts suggesting the transaction between the seller and the buyer was an fraudulent act and that the transaction may be rescinded; the transaction between the seller and the buyer may be cancelled and the effect of the cancellation may be claimed against the Investment Corporation.

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).

(I) 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 lessee 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.

(J) Risk Regarding Master Lease Agreement

Under a master lease agreement, the master lessee has the primary leasehold interest in the property that is subleased to the end-tenants. Although we would retain our ownership interest in such property, we would be an unsecured creditor of the master lessee with respect to substantially all of our rents from the relevant property if the master lessee becomes insolvent before transferring the rent payments to us. Therefore, any insolvency of the master lessees of such properties would lead to losses and could have a material adverse effect on our business, financial condition and results of operations.

In addition, under a master lease agreement, if we give the master lessee a right to sublet the property in part or as a whole, we would not be able to choose end-tenants of the property or force tenants to leave. Further, if the rent payable by the master lessee is linked to the rents paid by end-tenants, we are exposed to the credit risks of end-tenants.

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

In real estate leasing, daily management is often entrusted to a tenant. Even if that is not the case, asset value of real estate and our business may be adversely affected depending on the status of use of real estate by a tenant. 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. As a result, it may not be possible to prevent deterioration of the tenant attribute of the real estate as an investment asset.

(L) Risk Regarding Co-owned Property

If Real Estate that constitutes assets under management is co-owned with a third party, various problems

may 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 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 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 of the Civil Code) or be subject to a court order to sell the entire property in co-ownership at auction (Article 258, Paragraph 2 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 generally assumed that a co-ownership interest can be disposed of just as freely as a solely owned interest. However, in the case of a jointly owned property, by mutual agreement upon preferential purchase right or preemptive right, one joint owner seeking to sell his/her own joint interest to a third party would be obligated to give the other co-owner(s) the opportunity or right to purchase said interest preferentially or exclusively, and restrictions may be placed upon otherwise unrestricted sale or disposition of the property.

When a co-owner of real estate is a lessor, it is generally understood that tenant leasehold received

becomes an indivisible obligation, and it is understood that there is a possibility that rent receivable becomes indivisible. 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.

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.

(M) 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 first right of refusal, 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 and the unit-owned building may be disposed of separately. If the exclusively-owned portion and the rights to use the land 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.

(N) 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). 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 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, bankruptcy proceedings, or

other insolvency proceedings, including rehabilitation proceedings and reorganization 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.

(O) 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 and 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 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 a leasehold is not perfected against a third party in accordance with applicable laws and ordinances, the Investment Corporation 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.

(P) 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.

(Q) Risk Regarding Property Built on Land Whose Permission to Use is Obtained

The Investment Corporation sometimes obtains permission to use certain land from the government or such like and then acquires properties built on such land. Usage of such land that requires permission to use is not subject to the Land and House Lease Law (Section 8 of Article 18 of the National Property Act (Law No. 73 of 1948 and ensuing revisions)). After the period of use stipulated in permission to use expires, there is no guarantee that such permission will be renewed. In some cases, conditions that are disadvantageous to us (e.g., one-sided cancellation of permission) may be attached to permission to use. As such, for properties built on land for which we obtain permission to use, a unique risk that is different from ordinary properties on leased land exists. Therefore, there is a possibility that we may not be able to continue to earn revenue from such properties or their profitability may decrease. Of the properties in our

portfolio, the IIF Haneda Airport Maintenance Center is a property built on land that we obtained permission to use from the government.

(R) Risk Regarding Property Under Development

The Investment Corporation may execute a sales and purchase agreement and other agreements to obtain the ownership of the buildings (hereinafter referred to as "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, depending on the circumstances of the properties owned, the Investment Corporation may demolish the existing buildings and redevelop its own properties after the Investment Corporation enters into construction contracts as a contractee. Such conditions, 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 and the construction due to various causes and to bear various risks associated with other real estate development such as possibility not to receive delivery of the properties as contracted (development risk, permit approval risk, inauguration risk, tenant risk, price fluctuation risk, risk of interest rate fluctuation during development, and large natural disaster risk, etc.). In addition, demolition costs shall be incurred when demolishing existing buildings, and there is a risk that the Investment Corporation may not receive rental income temporarily. 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.

(S) Risk Regarding Reclaimed Land

Some of our properties are located on reclaimed land, and such properties may be affected by potential risks associated with the use of reclaimed land. Such risks include contamination caused by pollutants in the soil and filling used to construct reclaimed land, and flooding due to the high exposure of reclaimed land to tidal surges, rising sea waters, tsunami and other calamities. These factors could also lead to building subsidence due to an increase in soil liquidity as well as an increased risk of damage in the event of an earthquake. If any of our properties were to suffer damage due to any of these factors, the value of such property would be adversely affected, which would have a material adverse effect on our business,

financial condition and results of operations.

(T) Risk Regarding Harmful Materials, etc.

If the Investment Corporation acquires land, leasing or surface rights or beneficial interests with respect thereto, harmful materials such as industrial waste and radioactive substances, etc. may be buried in the land, harmful materials may be contained in the groundwater, or the said land may become contaminated by the harmful materials as a result of activities undertaken by an adjacent facility or tenant, any of which could reduce the value of the land. If measures are required to remove the harmful materials or prevent the spread of contamination caused by the harmful materials, such as soil replacement or washing, measurement of water quality, prevention of the spread of groundwater contamination through pumping or impermeable walls or ongoing monitoring, 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 Act ("Soil Contamination Countermeasures Act"). 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.

In addition to the above, if oil content in the soil gives rise to an oil odor, oil film or the like, the Investment Corporation may similarly be obliged to replace or wash the soil, even if it does not fall under the category of a designated hazardous substance in accordance with the Soil Contamination Countermeasures Act.

These 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. There can be no assurance enough to remove or reduce these risks if the Investment Corporation concluded contractual indemnity with seller or tenant.

In particular, the industrial and infrastructure properties we invest in may be located in areas where there are concerns about soil contamination such as an old factory site or factory neighborhood or activities that may raise a soil contamination issue may be conducted in such properties. The abovementioned risk may be relatively high compared to other types of properties that are acquired.

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. In such cases, there also can be no assurance enough to remove or reduce these risks if the Investment Corporation concluded contractual indemnity with seller or tenant.

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 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. We have a quasi-co-ownership of beneficial interests of the IIF Shinonome Logistics Center. According to the agreement among beneficiaries of this property, decision-making of beneficiaries requires the consent of all the quasi-co-owners in principle, and a quasi-co-owner cannot transfer or dispose of its ownership of interest without the consent of other quasi-co-owners. Preferential purchase right of quasi-co-owners is also stipulated (please see "I. Fund Information, 1, Fund Status, 5. Management Status, (2) Invested Assets, 3) Other Major Invested Assets, (C) Summary of Individual Asset, L-1 IIF Shinonome Logistics Center" of the securities report). 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.

In acquiring Real Estate or Real Estate trust beneficiary interests, the Investment Corporation may enter into forward commitment contracts specified in Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. 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 more than one month 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. The Real Estate purchase and sale agreement pertaining to the IIF Morioka Logistics Center II, which the Investment Corporation had concluded as of the date of this Report, states that, if the Investment Corporation breaches an agreed item stipulated in the purchase and sale agreement or if there are grounds that infringe the representations and warranties made by the Investment Corporation, and if it is clear that the objectives of the sales agreement cannot be fulfilled because of the said breach or infringement, the Investment Corporation shall pay to the seller an amount equivalent to 20% of the total the purchase price (exclusive of an amount equivalent to building consumption tax) as a penalty.

However, the said purchase and sale agreement states that the Investment Corporation shall be obliged to pay the transaction price on condition that the Investment Corporation has completed procurement of the funds necessary to pay the transaction price.

(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 distribution-paying capacity of the Investment Corporation.

(X) Risk Regarding Properties with Solar Power Generation Facilities

Solar power generation facilities have been installed at some of the properties in our portfolio, with the said solar power generation facilities either being leased to the tenants or other persons, or being used by a trustee in conducting the business of selling power. In cases where a trustee is engaged in the business of selling power, the economic results produced by the trustee selling electricity end up being returned to the Investment Corporation as the trust beneficiary (or according to the share of ownership in cases where the Investment Corporation has quasi-co-ownership of the beneficial interests). However, the business of selling power involves risks attributable to the weather, the competitive environment among power producers as well as national policies and regulations in relation to selling power and a variety of other factors, and these factors could adversely affect the Investment Corporation's income if there was a

decrease in revenue derived from selling electricity.

(VI) Taxation Risks

(A) Risk Regarding Conduit Requirements

According to the "Special Provisions for Taxation on Investment Corporations", investment corporations that meet certain requirements (hereinafter called the "Conduit Requirements") are allowed to include distributions in deductible expenses in order to eliminate double taxation on investment corporations and unitholders.

Principal conduit requirements for an investment corporation	
	The amount of distributions made to investors must exceed 90%
Distribution payment	of distributable revenue. (If the amount of distributions exceeds
requirement	the amount of profit, the amount of monetary distribution must
	exceed 90% of the distributable amount.)
Requirement for more	The articles of incorporation must stipulate or record that the
than 50% of domestic	issue price of domestically offered investment units accounts for
ownership of	more than 50% of the aggregate amount of the issue price of
investment units	investment units.
Lender requirement	No borrowing must be made from any party other than qualified
	institutional investors (meaning those financial institutions which
	are specified in Article 67-15, paragraph 1, item 1(b)(2) of the Act
	on Special Measures Concerning Taxation; the same shall apply
	in the ownership requirement below).
Ownership requirement	Issued and outstanding investment units must be owned by at least
	50 individuals or solely by qualified financial institutions at the
	end of the business term.
Non-family company requirement	The investment corporation must not be classified as a family
	company in which more than 50% of the aggregate number of
	issued and outstanding investment units or the aggregate number
	of voting rights are owned by one of the investors and his/her
	specially-related persons.
Requirement for	The investment corporation must not hold 50% or more of the shares or stake in equity of any other corporation.
prohibition of	
controlling shares	shares of stake in equity of any other corporation.

The Investment Corporation works on meeting the Conduit Requirements but may not be able to meet them due to the factors mentioned below or other factors. When we fail to meet the Conduit Requirements, we cannot include distributions in deductible expenses, and this will lead to an increase in our tax burden. This may have an adverse effect on the distribution amount paid to unitholders.

a. Risk Due to Disaccord Between Accounting Treatment and Tax Treatment

If any disaccord occurs between accounting treatment and tax treatment, then a tax burden on corporation income tax and such like would be accrued on the grounds that, for tax purposes, it would not be possible to include the whole or a part of any expense or loss incurred for accounting purposes in non-deductible expenses, and hence accounting profit as the source of distributions would decrease. In light of the fact that the amount of distributable income (or distributable amount) for purposes of the distribution payment requirement is calculated on the basis of net income before taxes for accounting purposes, if a substantial amount of corporation income tax accrues, the investment corporation would find it impossible to make distributions in an amount exceeding 90% of the distributable income (or monetary distribution in an amount exceeding 90% of distributable amount), and may therefore find it difficult to fulfill its distribution payment requirement. While the FY2015 Tax Reform introduced a measure to mitigate such risk by preventing the occurrence of corporation income tax through the allocation of reserves for temporary difference adjustments and for discrepancies between accounting treatment and tax treatment, except for entertainment and social expenses, contributions, corporation income tax, etc., there remains a risk that the Investment Corporation would be unable to fulfill its distribution payment requirement in the event of a large penalty tax due to a retrospective tax adjustment for past business years (corporation income tax, etc. from previous years) because corporation income tax, etc. is not covered by the reserve for temporary difference adjustments.

b. Risk Regarding Lender Requirement

When the Investment Corporation has no choice but to obtain borrowings from a party other than institutional investors, when loan receivables for our existing borrowings is transferred to a party other than institutional investors or when deposits received from tenants are determined to be included in borrowings due to an unclear definition of borrowings for tax purposes under this requirement, we may fail to meet lender requirement.

- c. Risk that Transfer of Unitholders Get Out of Control of Investment Corporation Given the fact that the investment units remain negotiable in the marketplace, there is a risk that the ownership requirement or the non-family company requirement may not be fulfilled if the matter is outside the scope of the Investment Corporation's control.
- (B) Risk that Conduit Requirements Are Not Met Ex-post Facto Due to Correction by Tax Inspections When a correction is made to the Investment Corporation's treatment of the Conduit Requirements due to a difference of opinion with tax authorities as a result of tax inspections, the Conduit Requirements in previous years may not be met ex-post facto. In such a case, since distributions included in deductible expenses in previous years are denied inclusion for tax purposes, our tax burden may increase, and this

may have an adverse effect on the distribution amount paid to unitholders.

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

The Investment Corporation stipulates in the Articles of Incorporation that the ratio of the total value of specific real estate to the total value of specific assets owned should be higher than 75% (Section 2 of Article 13). We believe that the reduced-registration-license-tax system for direct acquisition of real estate is applied to us on the assumption that the abovementioned management policy is included in the Articles of Incorporation and that other requirements for tax purposes are satisfied.

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.

(D) 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 distributions 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.

(VII) 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 at that appraised value and investigated amount now or in the future.

The soil contamination risk 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 is no soil contamination.

Analyses and statistical information by third-party organizations regarding the market 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.

The probable maximum loss (PML) value calculated for the Real Estate is the value estimated based on individual professional analyses 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) 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 distributions 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. Though the Investment Corporation may make capital investment in anonymous partnerships such as Real Estate for the purpose of acquire preferential negotiate rights or preferential purchase rights related to real estate which investment manager owns, there can be no assurance that the Investment Corporation will be able to acquire such property.

(C) Risk of Reduced Distribution of Profits Due to Reversal of the Reserve for Temporary Difference Adjustments In cases where the Investment Corporation has recorded a reserve for temporary difference adjustments in the net assets section of its balance sheets, because this reserve is recorded to adjust when profit and loss are recognized for accounting and tax purposes, any adjustments need to be reversed at the time the discrepancy between the accounting treatment and tax treatment is resolved. Given that the reversal is made using the Investment Corporation's profits, applying the unappropriated retained earnings to the reserve for temporary difference adjustments could result in a reduction in the amount able to be distributed.

With respect to a reserve for temporary difference adjustments which is attributable to a deduction in net assets (mainly deduction of deferred gains or losses on hedges), since the profits covering the reversal are carried over from previous years, this reversal will not result in any decrease in dividend distribution corresponding to the current period's profits.

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 or bondholders 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 under the Industrial Division the various risks in acquiring and disposing of assets (primarily risks relating to faults or defects in the Real Estate, risks of being affected by the seller's bankruptcy, etc., risks with co-ownership properties, risks regarding development property and risks related to harmful materials), 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 Risk Management Division, under the President & CEO and the Chief Officer for Risk Management (Head of Corporate Division), 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, disposal and management of assets, investment management policy and criteria, operation and management policy and criteria, 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 Corporate Division as the chairperson, the President, Deputy President, COO (Chief Operating Officer), Head of Metropolitan Business Division, Head of Industrial Division, Head of Risk Management Division, Head of Compliance Office, and Head of Strategic Planning Office, who serve as permanent committee, is held once every two 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 full-time 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 full-time statutory auditor, through exhaustive internal control such as checks by the Compliance Office on compliance with laws and ordinances and whether there are any conflicts of interest with interested parties, and confirmation by the Internal Control Office on the compatibility of 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.

In this manner, an effective risk management system has been consolidated through the multilayered check 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.