



**JINUSHI
REIT**



**JINUSHI
Business**

Results of Operations

for the First Half of the Fiscal Year Ending March 31, 2018

December 6, 2017

Securities code: 3252 (TSE/NSE, First Sections)



Nippon Commercial Development Co., Ltd.

1. 1H of FY3/18 Financial Highlights
2. Major Purchases
3. JINUSHI REIT
4. New Real Property and Overseas Growth
5. FY3/18 Earnings Forecast
6. Appendix

1

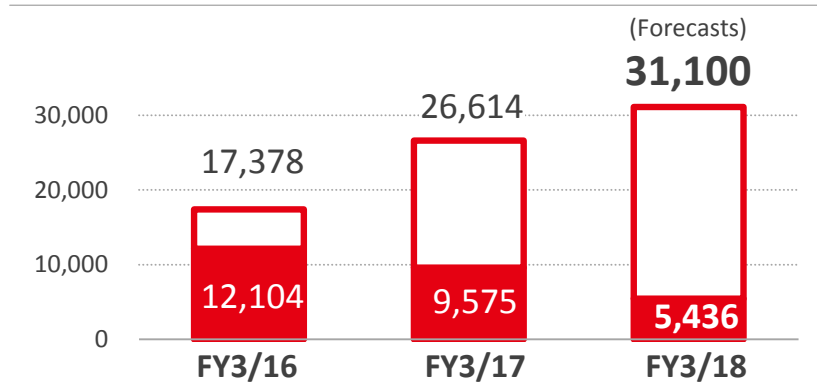
1H of FY3/18 Financial Highlights

Highlights

- First half performance was as planned regarding the FY3/18 forecast.
- Most property sales in the Real Estate Investment Business will be in the fourth quarter.
- Recorded an equity-method loss due to a valuation loss caused by a higher interest rate on loans payable in Australia.
- Earnings for FY3/17 included a gain on bargain purchase due to the acquisition of New Real Property.

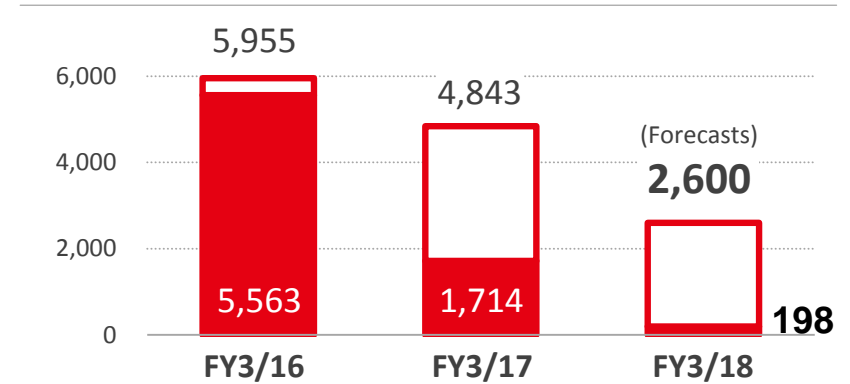
■ 1H □ 2H

Net sales

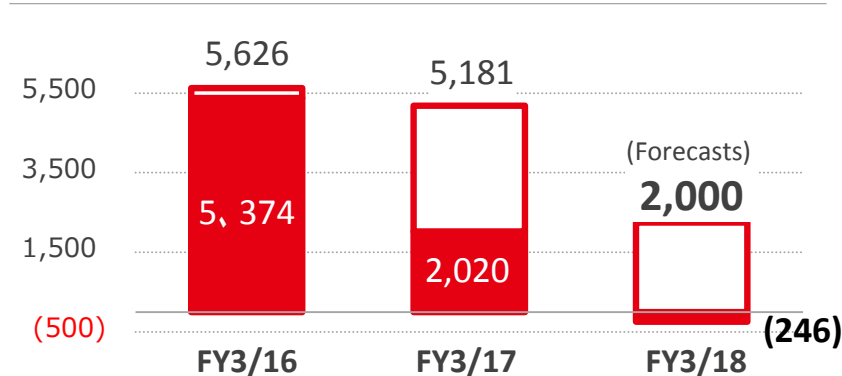


Operating profit

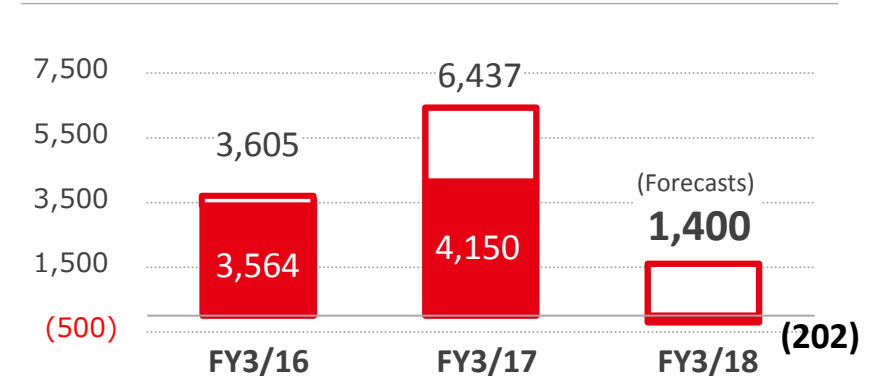
(Millions of yen)



Ordinary profit



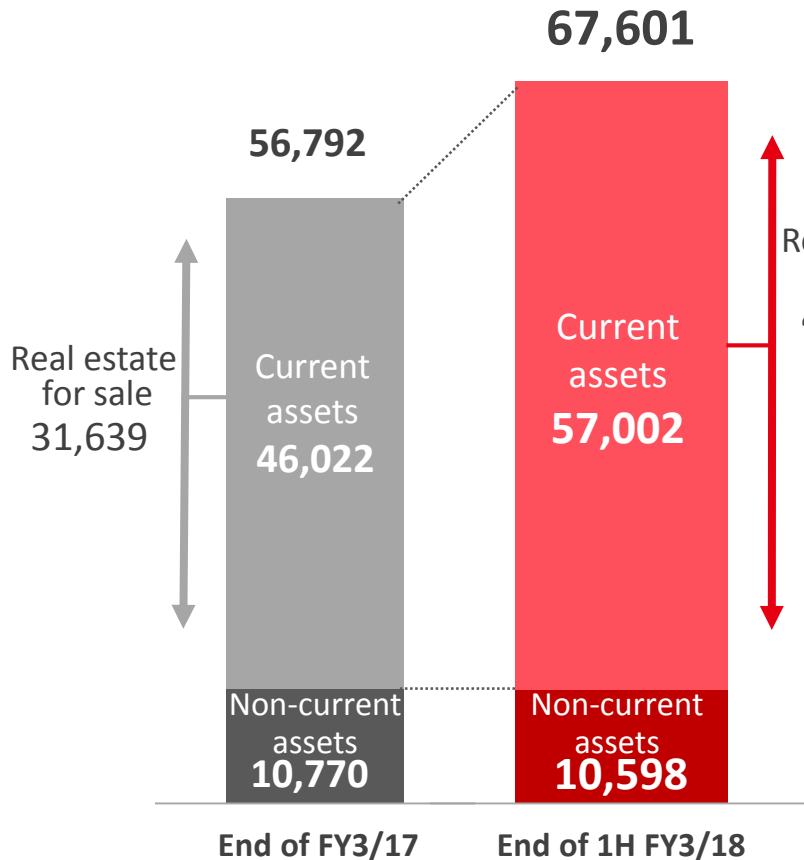
Profit attributable to owners of parent



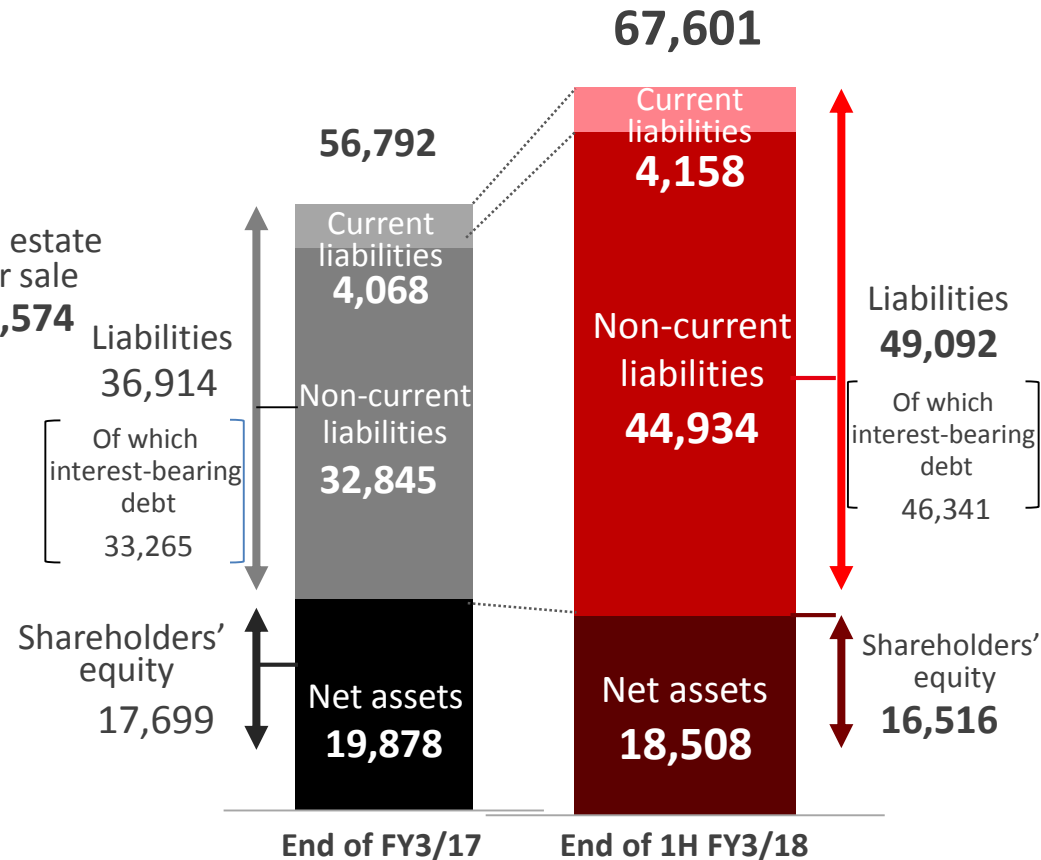
Highlights

- Real estate for sale was ¥14.9 billion higher than FY3/17-end.
- Total number of properties rose to 47 as investments to generate future earnings increased.
- Real estate for sale was ¥62.0 billion, including properties with preferential negotiating rights.

Total assets

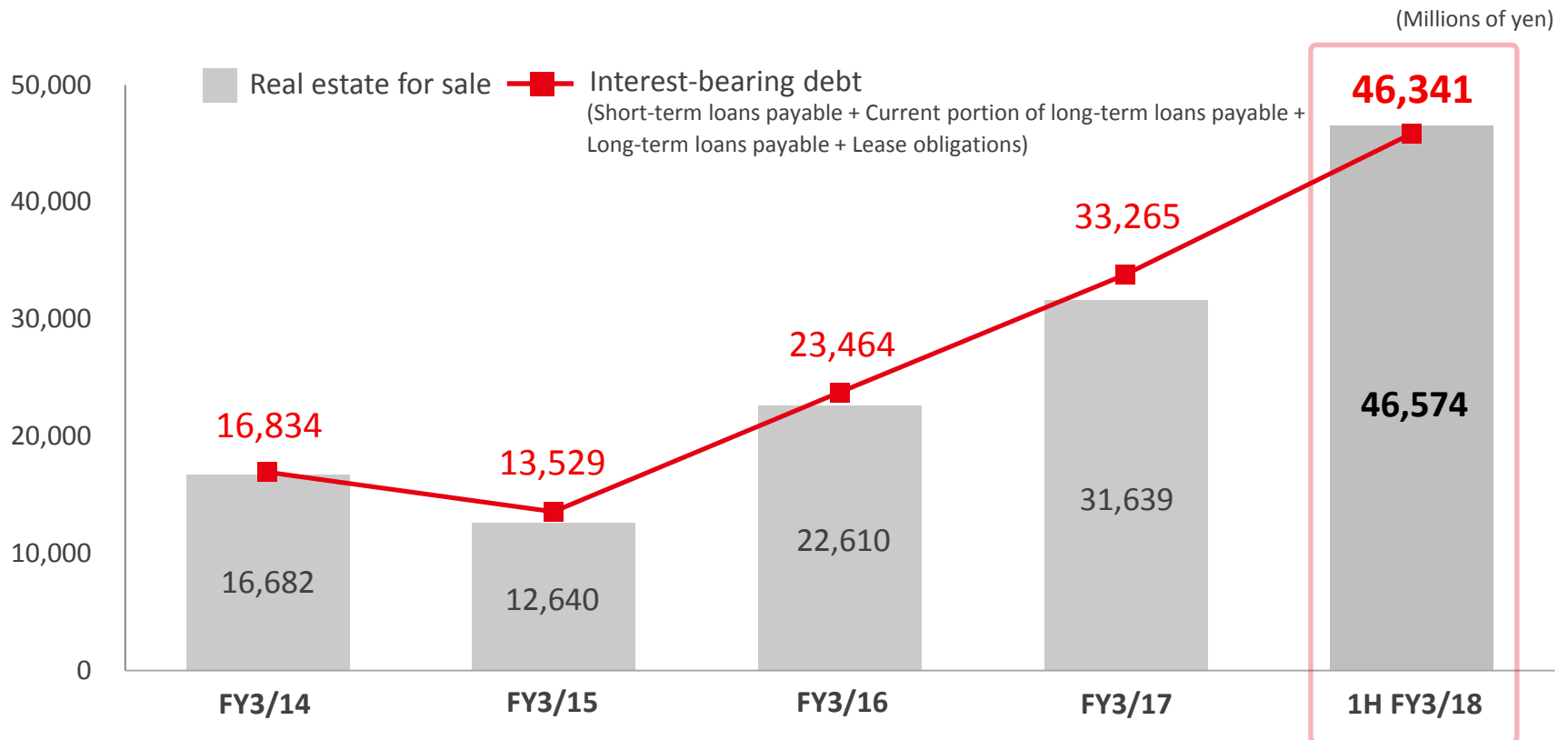


Total liabilities and net assets (Millions of yen)



Highlights

- Real estate for sale rose to an all-time high of approx. ¥62 billion, including purchase agreements that have not yet closed.
- Total number of properties rose to 47 as investments to generate future earnings increased.
- Continued the following actions involving bank loans: (1) increased credit lines, (2) extended length of long-term bank loans, (3) received loans with no financial restrictions or other covenants, and (4) increased the number of banks used for obtaining loans



2

Major Purchases

Real Estate Investment Business

- JINUSHI REIT is making it possible to increase the number of existing property purchases.
- The second property purchased by using the warehousing function of JINUSHI REIT.
- Plan to expand property acquisitions by purchasing existing properties, too.



Store name	HANKYU OASIS Takadono
Location	Takadono 4-chome, Asahi-ku, Osaka
Site area	2,865.01m ² (866.66 tsubo)

Highlight 1

A high-density residential district in central Osaka with a railway station to begin operating in early 2019

Public transportation in this neighborhood will be even more convenient when the Noe Station (provisional name) of the JR Osaka Higashi Line opens early in 2019. Located about 500 meters south of the station, this property is surrounded by condominium buildings, houses and office buildings. As a result, the property can be easily converted to residential or another use.

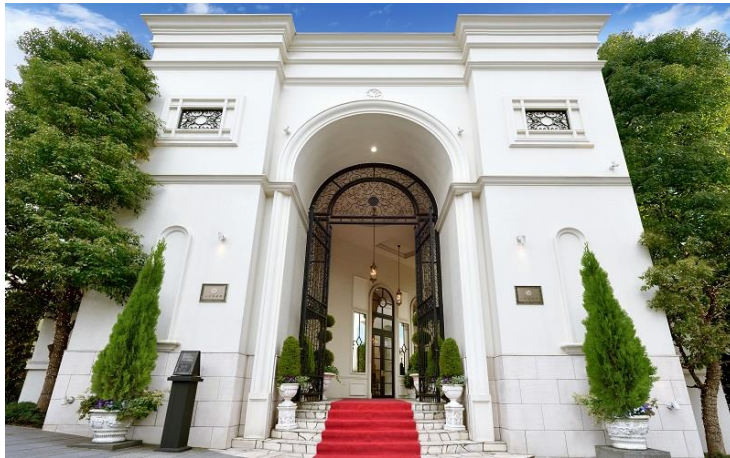
Highlight 2

Warehousing function used for this acquisition

Warehousing entails the temporary ownership of a property by Nippon Commercial Development (NCD), a sponsor of JINUSHI REIT, until the REIT buys the property from NCD. Using this scheme ensures that real estate investment opportunities, which can emerge at any time, will not be missed.

Real Estate Investment Business

- **NCD's first real estate investment in the city of Fukuoka, this property consists of almost 1,600m² of land and a tenant-occupied building in the center of Hakata-ku. Very few properties of this type exist in this district.**



Property name	Arferique Geihinkan
Location	Gion-machi, Hakata-ku, Fukuoka
Site area	1,595.10m ² (482.51 tsubo)
Total floor area	976.33m ² (295.33 tsubo)

Highlight 1 One of the very few large tracts of land (almost 1,600m²) in the center of Hakata-ku

This property is located directly in front of a new Fukuoka Subway Line station that is scheduled to begin operating in FY2020. The expected growth in the number of people who will use this location is likely to further raise the value of this property that is highly unusual in this part of Fukuoka.

Highlight 2 NCD's first real estate investment in the city of Fukuoka

Fukuoka has one of the highest population growth rates in Japan and excellent prospects for the future. NCD plans to continue buying properties in Kyushu, with emphasis on Fukuoka, that can be easily converted to other uses.

Real Estate
Investment
Business

- **Consolidated subsidiary New Real Property made additional investments to buy two condominium units for leasing in Manhattan, New York City (These are leased properties with land, not JINUSHI Business properties.)**



Area	Midtown, Manhattan, New York City
Location	416 West 52 nd Street, New York
Type of property	Condominium (residence for leasing)

Highlight 1 Carefully selected properties in prime Manhattan locations

The properties are in the Midtown area, the preeminent business district of Manhattan. Demand is very strong for leasing and purchasing residences. Adding these two condominium units, which have an extremely stable return, increases the number of units owned to eight.

Highlight 2 Sound framework for maintenance

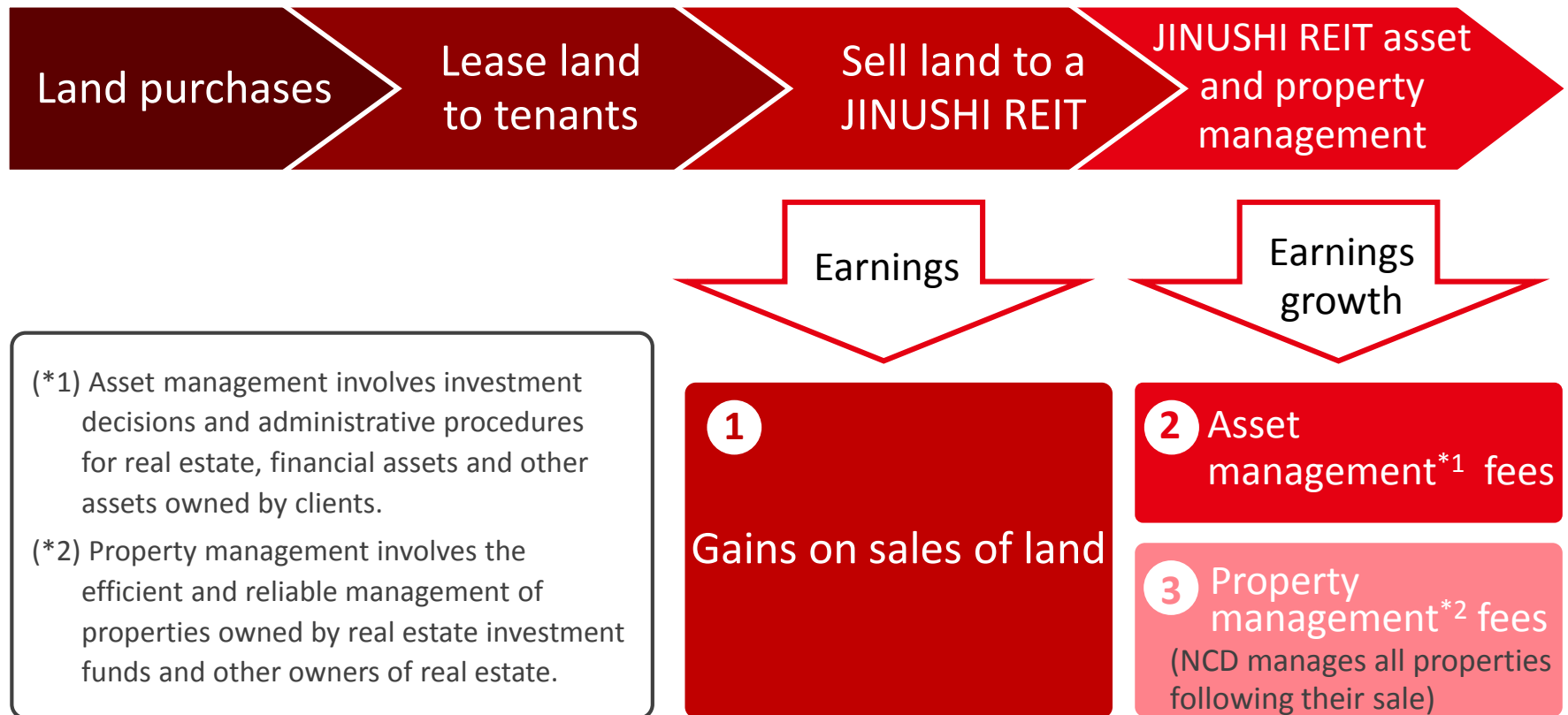
The main goal for these condominiums is a subsequent sale to Japanese investors. During ownership, New Real Property has a highly experienced staff that provides excellent support for the maintenance and other aspects of the oversight of these condominiums. This creates a sound base for keeping occupancy rates high and receiving consistent rental income.

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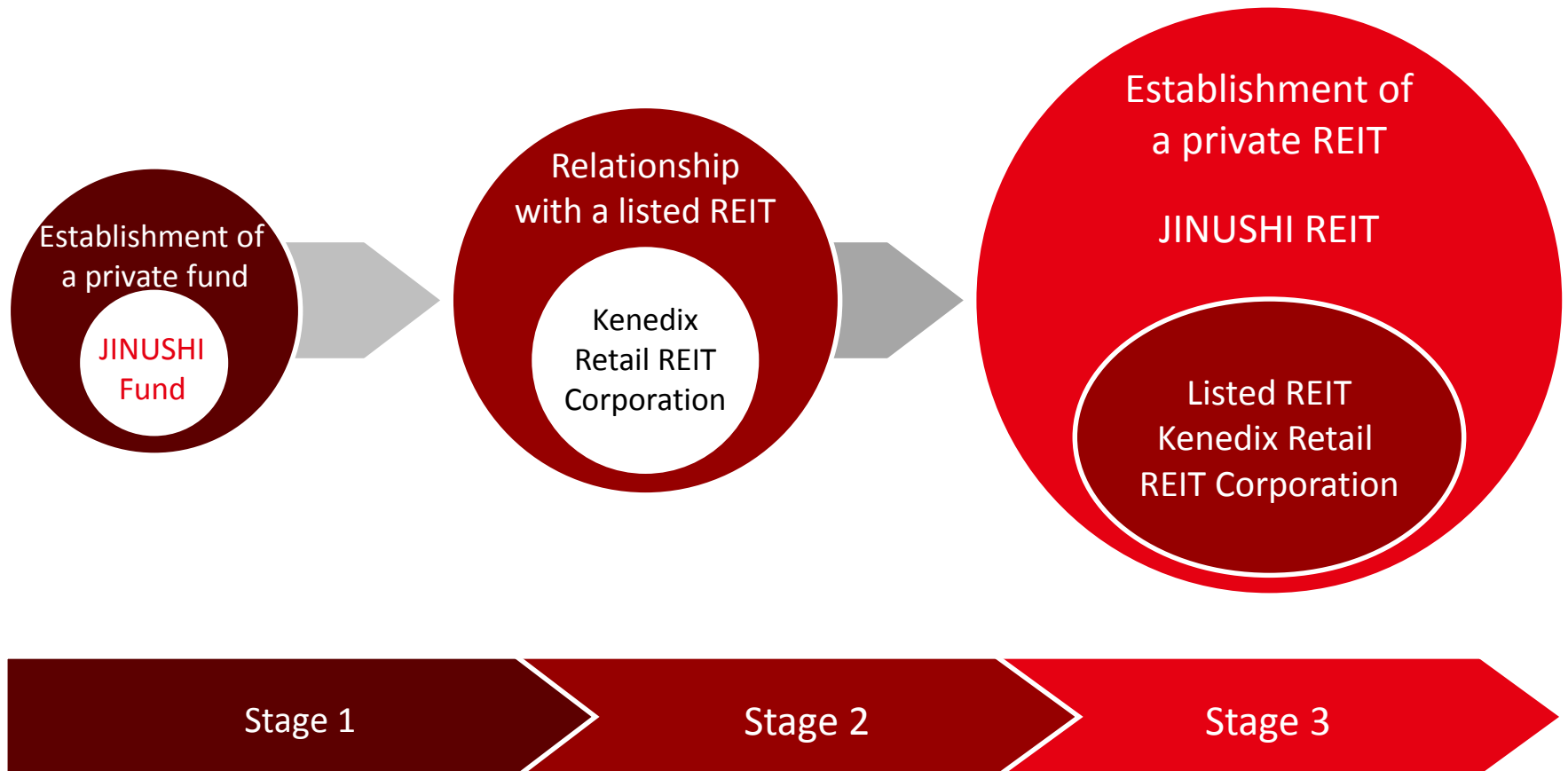
JINUSHI REIT

(JINUSHI Private REIT Investment Corporation)

With the establishment of JINUSHI REIT, NCD Group now has a complete infrastructure for the JINUSHI Business

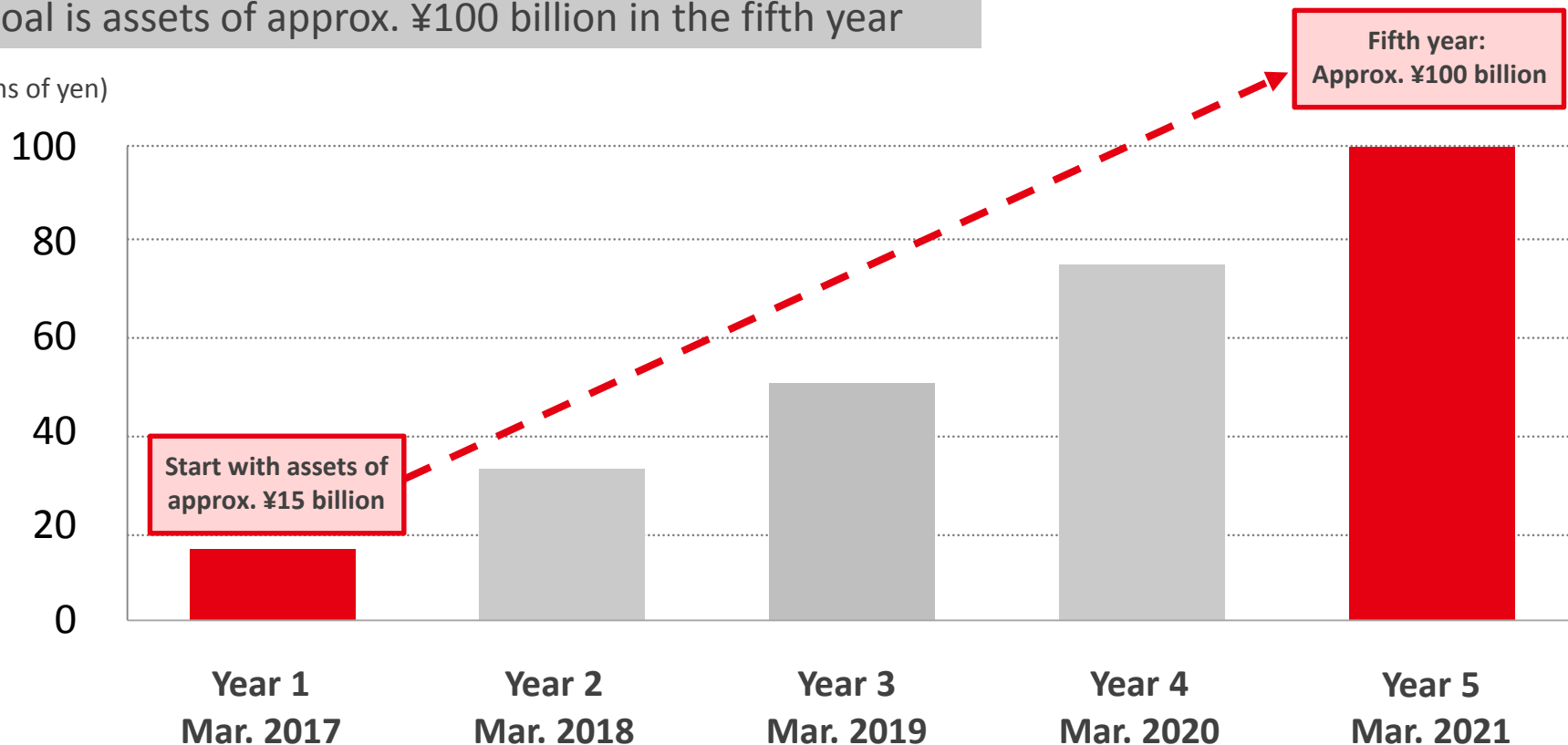


By using JINUSHI REIT as an exit strategy, the plan is for the JINUSHI Business to continue advancing to more growth stages



Assets of approx. ¥15 billion in the first year
Plan to increase equity by approx. ¥17 billion in Jan.
2018, the second year
Goal is assets of approx. ¥100 billion in the fifth year

(Billions of yen)



Note: This pattern for asset growth is a current outlook based on certain assumptions and a specific length of time. This is not a guarantee concerning asset growth. Actual asset growth may differ from this example due to changes in the real estate market and a variety of other reasons.

4

New Real Property and its Overseas Growth

NRP consists of three businesses: Real estate business, Overseas PFI business, and Golf business.

Real estate business

Japan

- Sale of housing sites, etc.
- Operation of leased properties, other activities

Overseas

- Operation of leased properties

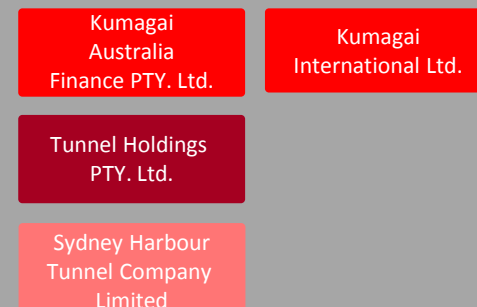
Affiliated companies



Overseas PFI business

- Ownership and operation of Sydney Harbour Tunnel
 - Operation of Hong Kong Eastern Harbour Crossing
- * In a private finance initiative, a private-sector company's funds and management and technical expertise are used to construct, own, maintain and operate a public-service infrastructure facility.

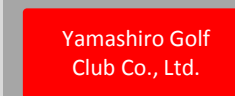
Affiliated companies



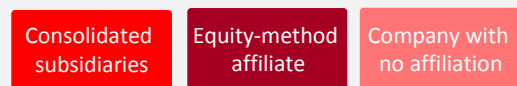
Golf business

- Operation of the Yamashiro Golf Club in Ishikawa prefecture

Affiliated company



Legend

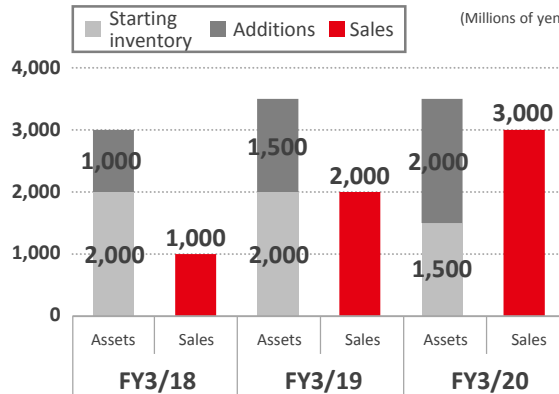


Use overseas real estate investments to increase earnings

New York



Projected growth of condominium investments and sales



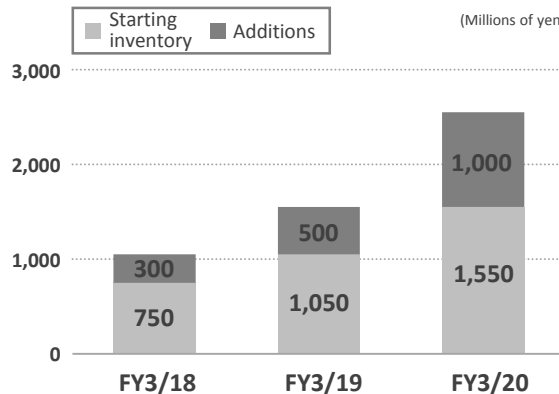
- Currently own 15 condominiums in Manhattan with a total value of approx. ¥2 billion
- Started selling U.S. properties in FY3/18 targeting investors in Japan and U.S.
- Goal for FY3/20 is assets of ¥4.5 billion and sales of ¥3 billion

Investments in Manhattan townhouses (approx. ¥2 to ¥5 billion) for Japanese investors interested in making even larger investments

Sydney



Projected growth in assets



- Currently own five properties with a total value of approx. ¥750 million
- Plan to sell these properties after three to five years while making substantial new investments
- Goal for FY3/20 is assets of approx. ¥2,500 million

Plans include the possibility of acquisitions of properties in the ¥1 billion to ¥5 billion range, primarily in central Sydney

5

FY3/18

Earnings Forecast

Net sales	Forecast a 16.9% increase in sales to a record high due to the rising number of property sales and sales to JINUSHI REIT, the result of growth in property purchases as more people are hired to purchase properties
Operating profit	Forecast a 46.3% decrease caused by a downturn in the gross profit margin resulting from higher expenses due to more sales personnel and the increase in land price
Ordinary profit	Forecast a 61.4% decrease , the result of the lower operating profit and the inclusion in FY3/17 of a one-time valuation gain on shares of subsidiaries and associates held by an Australian subsidiary of NRP, a one-time contribution to non-operating income (equity-method income)
Profit attributable to owners of parent	Forecast a 78.3% decrease because of the lower operating and ordinary profit and the inclusion in FY3/17 of gain on bargain purchase of ¥2.79 billion and other one-time factors
Dividends	Plan to pay a dividend of ¥55 per share, the same as the FY3/17 dividend

(Millions of yen)	FY3/17 Results	FY3/18 forecasts (Announced on May 10)	YoY change	
			Amount	%
Net sales	26,614	31,100	4,486	16.9%
Operating profit	4,834	2,600	(2,243)	(46.3)%
Ordinary profit	5,181	2,000	(3,181)	(61.4)%
Profit attributable to owners of parent	6,437	1,400	(5,037)	(78.3)%
Dividends (yen)	55	55	-	-

More tenant categories

Expansion to more categories of tenants

Current tenants

- Supermarkets
- Home improvement stores
- Drug stores
- Wedding facilities
- Service stations, others



New tenant categories

- Schools
- Certified nursery schools
- Funeral facilities
- Hotels
- Factories, warehouses, others

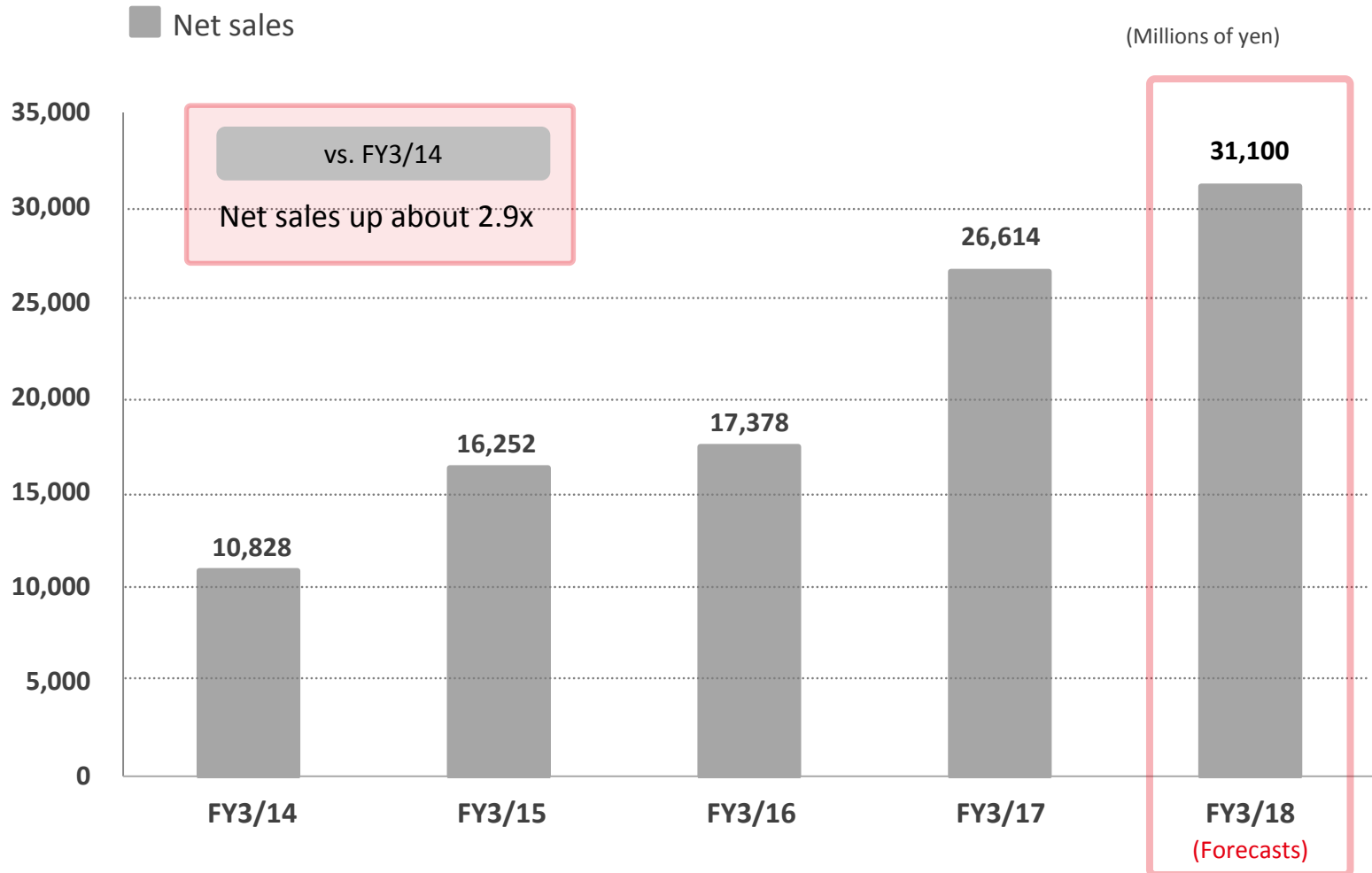
Growth of the JINUSHI Business

More people and properties

	FY3/17	1H FY3/18
Sales force	25	32
Properties	26	47
Real estate for sale (including properties based on preferential negotiating rights)	Approx. ¥40 billion	Approx. ¥62 billion

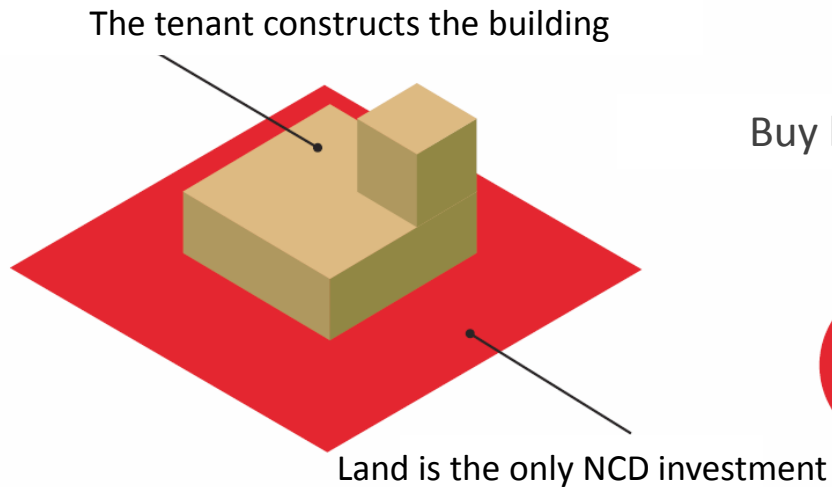
Net sales

Forecast sixth consecutive year of record sales



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Appendix



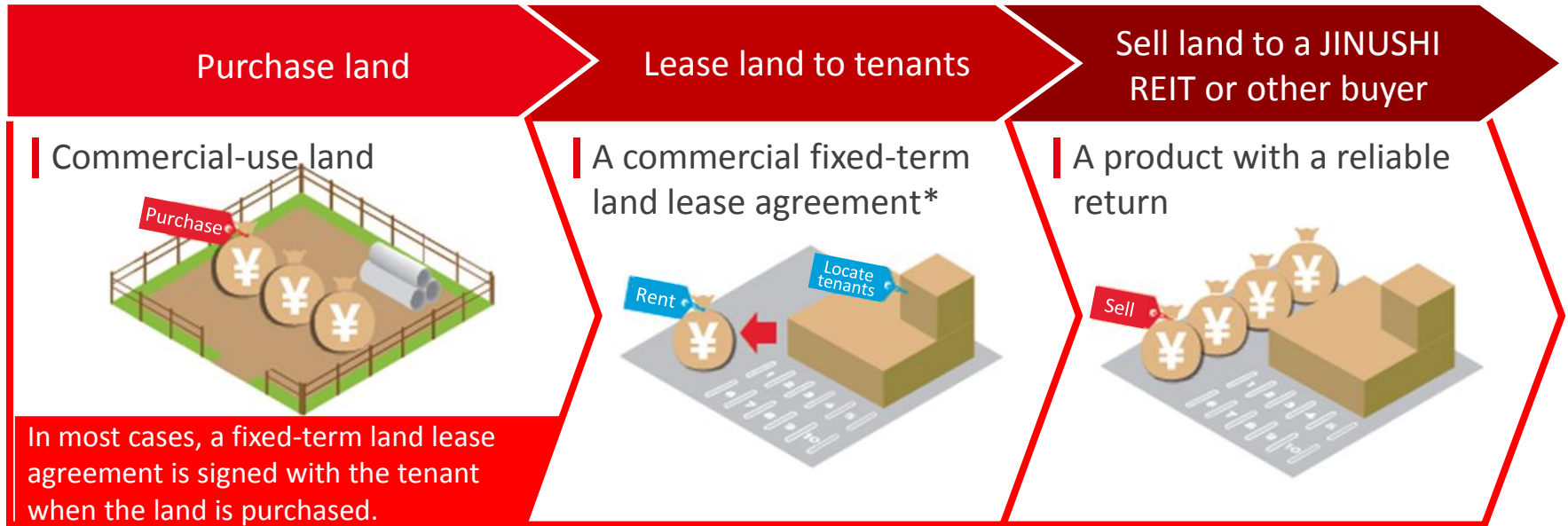
Buy land. Lease land. Sell leased land.

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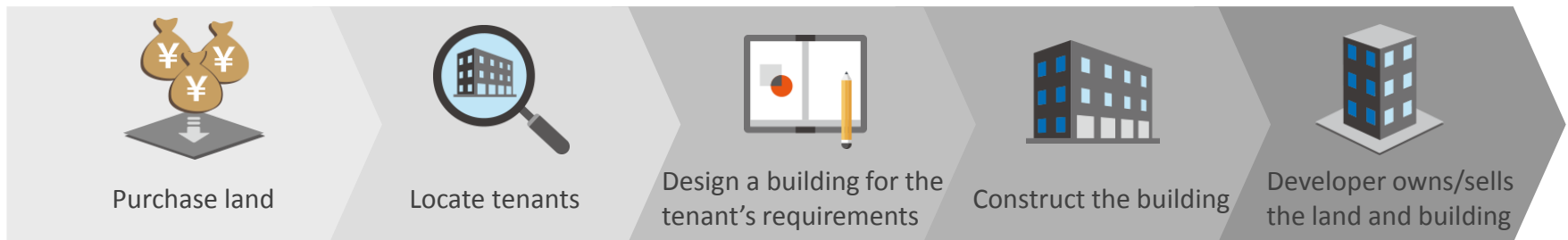
We call this **the JINUSHI Business** because our role is solely as the landowner. We buy and lease land and sell leased land, **but do not construct buildings.** We buy land and then **lease the property to a tenant** using a commercial fixed-term land lease. The tenant may be a grocery store or any other business. **This business model enables us to sell safe real estate investment products with leasing income.**

JINUSHI Business Flowchart



* The fixed-term land lease is a system created to protect the rights of landowners. The JINUSHI Business is a real estate investment scheme that is based on this land lease system.

Conventional commercial real estate development project



Locations

Focusing on areas where populations will not fall sharply: Tokyo area, Osaka area and core regional cities

Prime sites

Land suitable for many uses so that a new tenant can be found easily when an existing tenant leaves

Easy conversion

Land that can be easily converted to residential or another different use



Strict internal investment standards

Examples of JINUSHI Business Tenants



Supermarket
(LIFE CORPORATION)



Supermarket
(Seiyu GK.)



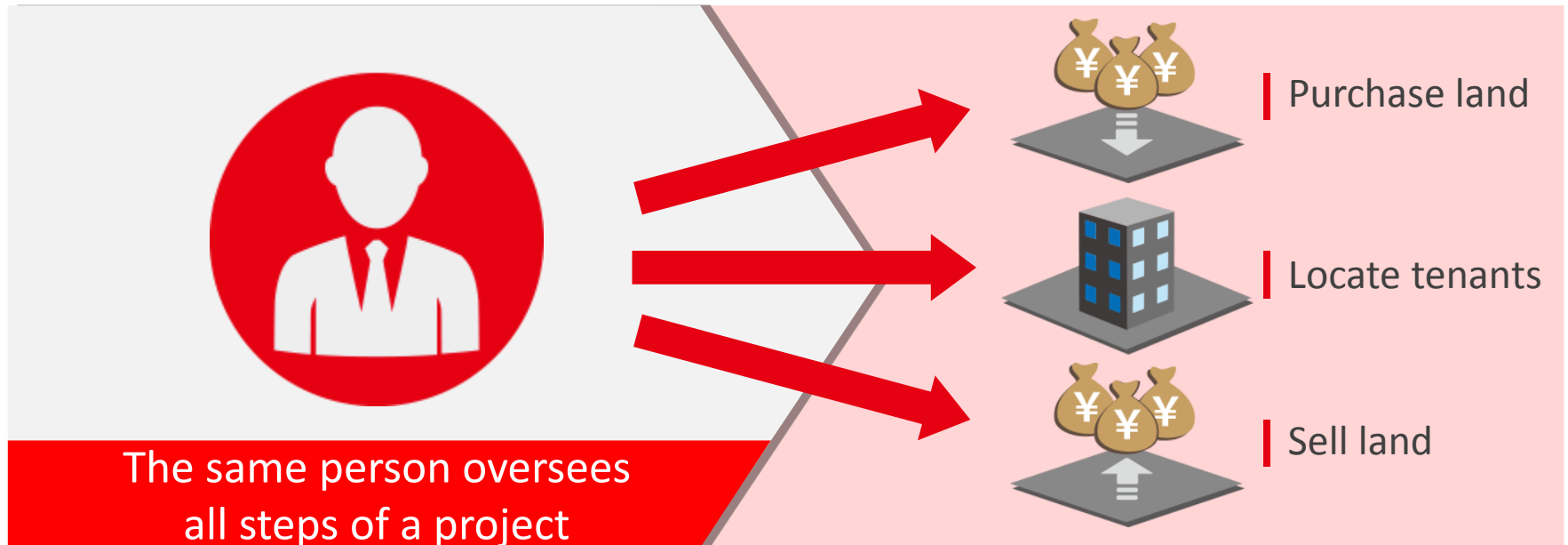
Drug store
(CREATE SD CO.,LTD.)



Hotel
(TAKE AND GIVE NEEDS Co., Ltd.)

We only purchase land in outstanding locations that can satisfy our strict standards for new investments.

JINUSHI Business Flowchart



At conventional commercial development projects, a different person is responsible for each step.

Purchase land

Locate tenants

Design/construct building

Sell or lease the building

Reason 1

Conventional real estate development projects usually construct buildings with many special facilities and features.

Reason 2

Very few real estate developers specialize in leased land. NCD is the pioneer in this category of real estate development.

Reason 3

NCD has strict standards for the acquisition of land and a single person oversees all steps of the purchasing and development process.

Reason 4

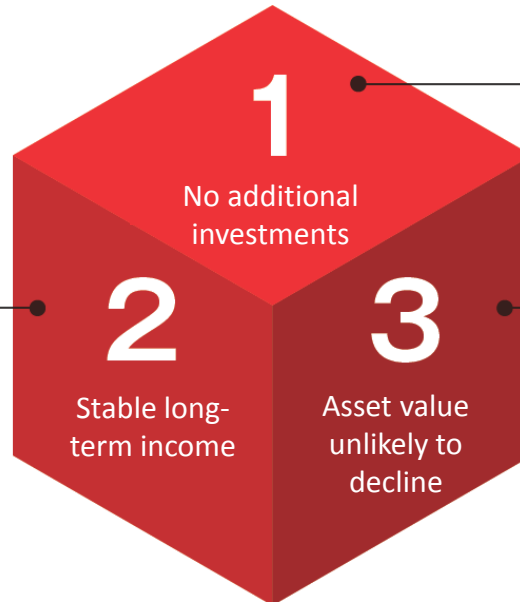
NCD has participated in many private funds, J-REITs and other investment schemes. The JINUSHI REIT structure facilitates property sales with greater stability and reliability.

For these reasons, NCD can retain its superiority even if competitors appear, continuing to make the JINUSHI Business even more competitive.



JINUSHI Business

Tenants invest in buildings through fixed-term land lease agreements, so **the risk of tenants leaving is small, and land can be expected to generate stable, long-term income.**



Tenants construct and own buildings, so there are **no additional investments for maintenance, repairs, renovations and other activities.**

No building ownership, so no exposure to aging structures and equipment. When the fixed-term land lease ends, **the site is returned to its original state, which means the maximum asset value is returned to the owner.**

Real estate needs of institutional investors



**JINUSHI
Business**

× Private REIT

Reliable source of long-term income

- Rising expectations for financial products able to generate a return higher than government bonds amid today's low interest rates.



- Reliable long-term income stream due to a commercial fixed-term land lease agreement.
- No additional investments for maintenance, repairs, renovations and other activities.
- The tenant makes the substantial expenditures for constructing a building, so there is very little risk of losing a tenant.
- A JINUSHI Fund invests only in the land, so there are only minimal risks involving fires and other disasters and the building's construction (compliance with laws and regulations).

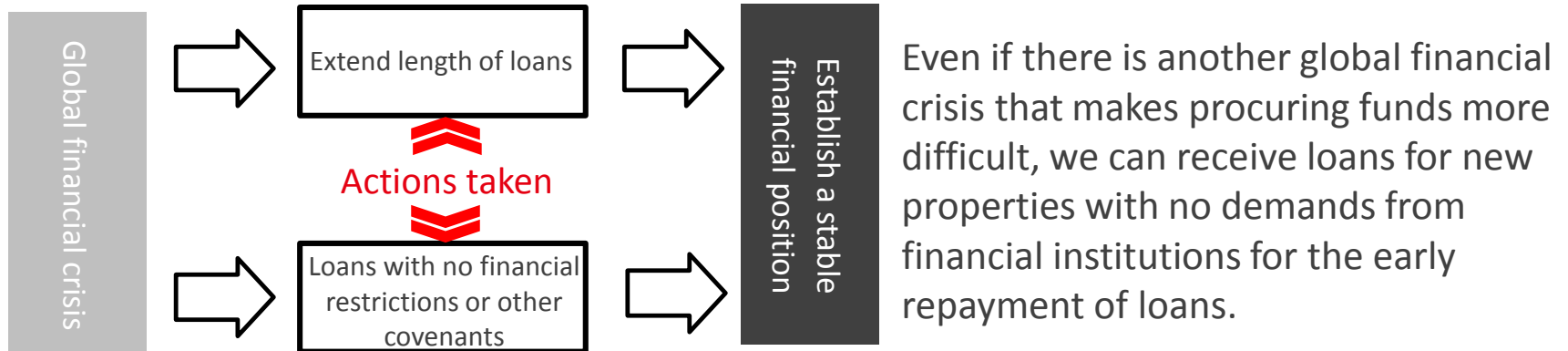
No big swings in value of the original investment

- Prices of many types of investments fell sharply during the global financial crisis and many institutional investors had to sell at losses and write down holdings. This is why investors like using a JINUSHI Fund to greatly reduce exposure to price volatility risk.



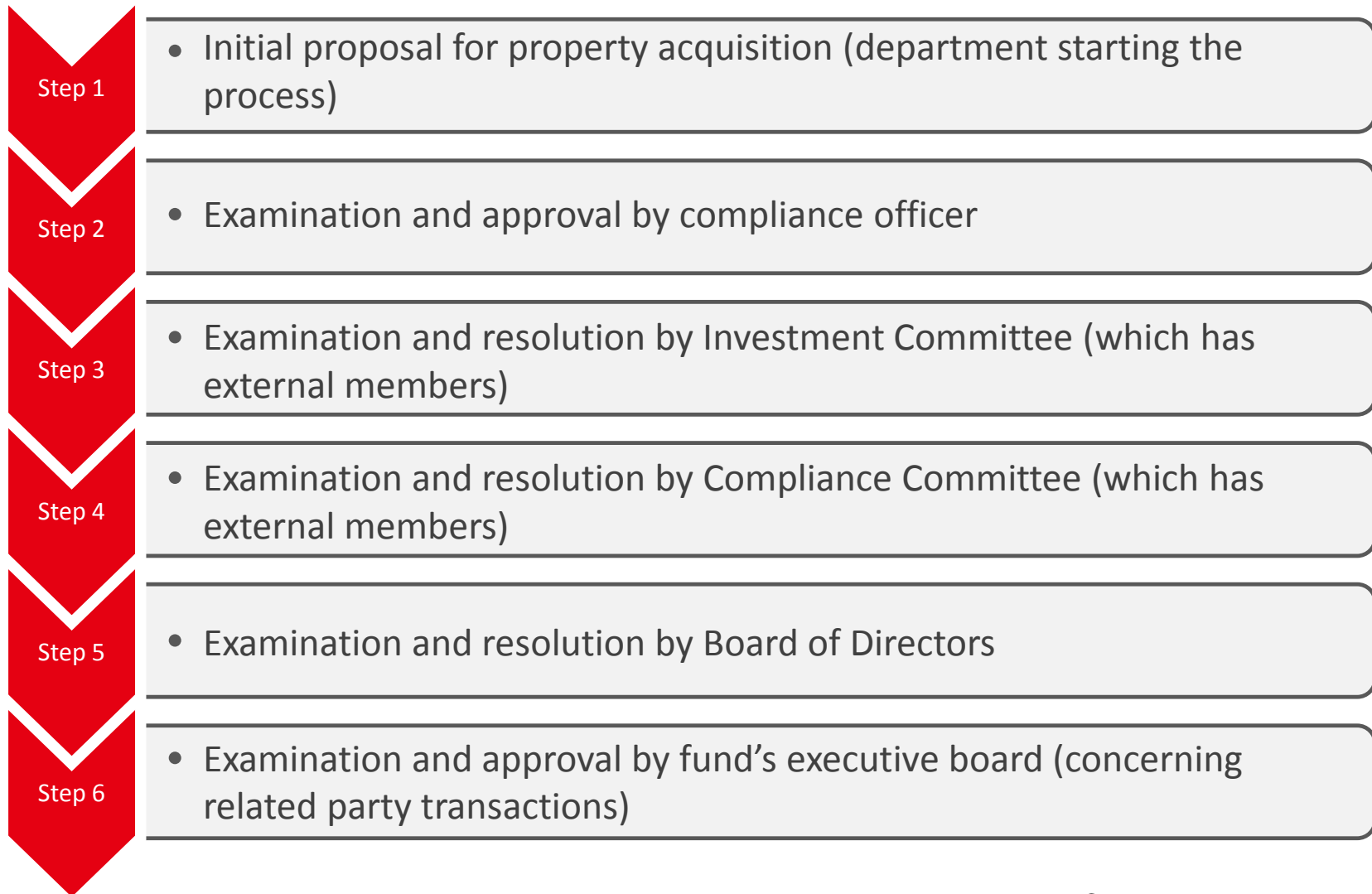
- Investment is only land, which does not age like a building and income is based on lease payments that do not fluctuate. The result is only negligible changes in the appraised value.
- When the fixed-term land lease ends, the site is returned to its original state, which means high liquidity is ensured. (There may be a capital gain, too.)
- Using a private REIT shields investments from capital market movements and allows valuing funds based on the value of real estate holdings.

Building an even sounder financial position



- (1) Establish large credit lines by using commitment lines and other measures backed by a large number of banks
- (2) Eliminate financial covenants, acceleration clause and other restrictions in loan contracts
- (3) Extend length of loans (10 to 30 years)
- (4) Obtain financing from more financial institutions

A highly transparent decision-making process for JINUSHI Asset Management Co., Ltd.



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JINUSHI
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