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Policy on the Handling of Negative Goodwill

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) informs you that the board of directors’ meeting today resolved as below a policy on the handling of negative goodwill in association with partial amendments to the Ordinance on Accountings of Investment Corporations (hereinafter called “Accounting Rules”) and the Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations of The Investment Trusts Association, Japan.

1. Details of the Amendments

Investment corporations that have amount recorded as a gain on negative goodwill based on Accounting Rules prior to the above-mentioned amendments in voluntary reserve and unappropriated retained earnings on the balance sheets (excluding the amount allocated as cash dividends in the corresponding fiscal period) for the fiscal period that includes the date of enforcement (April 1, 2015) of the amendments to the Accounting Rules in accordance with Cabinet Office Ordinance No. 27 of 2015 are required to transfer the amount of gain on negative goodwill to “reserve for temporary difference adjustment,” and then reverse more than the equal amount every year for a certain period of time (maximum length 50 years) from the fiscal periods following those that investment corporations actually transfer the gain on negative goodwill in cash dividends statements in fiscal periods that end by the end of March 2017.

2. JHR’s Policy (*1)

In response to the above-mentioned amendments, JHR resolved at the board of directors’ meeting today to transfer the remaining balance of dividend reserve (¥13,127 million) attributable to the gain on negative goodwill in the cash dividends statements for the fiscal year ended December 2016 (17th period) to “reserve for temporary difference adjustment,” and reverse ¥262 million (hereinafter called “50-year amortization amount of negative goodwill”) (*2), which is an amount equivalent to 2% (1/50) of the remaining balance of the dividend reserve, to pay out as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year from the fiscal year ending December 2017 (18th period).

Also, in cases of incurrence of losses caused by property dispositions, impairment loss of assets or on retirement of fixed assets, etc. and in case of dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., JHR plans to pay extra amount in addition to the 50-year amortization amount of negative goodwill (¥262 million) and reverse the negative goodwill.

As for amortizations, etc. of fixed-term leasehold of land and asset retirement obligations, etc. (*3) of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA, which have been subject to the previous policy on handling of negative goodwill, JHR plans to include the amortizations, etc. in the 50-year amortization amount of negative goodwill instead of adding them to the 50-year amortization amount of negative goodwill to reverse the negative goodwill.

3. Forecast amount of additional amount to dividends by reversing negative goodwill

In response to the above-mentioned new policy, the amount to be added to dividends by reversing negative goodwill from the fiscal year ending December 2017 (18th period) plans to be 50-year amortization amount of negative goodwill (¥262 million) or more, with the maximum amount set at the remaining balance of the reserve for temporary difference adjustment.

As for the year ending December 2017 (18th period), JHR expects ¥332 million, which is the 50-year amortization amount (¥262 million) plus loss on retirement of noncurrent assets (¥70 million) as additional amounts to dividends by reversing the negative goodwill. For detail, please refer to the press release “Notice Concerning Revision of Operating Forecast and Forecast of Dividend for Fiscal Year Ended December 2016 (17th Period) and Operating Forecast and Forecast of Dividend for Fiscal Year Ending December 2017 (18th Period)” dated January 6, 2017.

- (*1) The policy may change due to a resolution of the board of directors, and it does not guarantee the method of reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.
- (*2) Since the remaining balance of dividend reserve and the 50-year amortization amount are the forecast amount after deducting the forecast amount of the reversal for the fiscal year ended December 2016 (17th period), these amounts may fluctuate in the future.
- (*3) The amount of amortizations, etc. for the fixed-term leasehold of land and asset retirement obligations of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA acquired in the fiscal year ended December 2016 (17th period) plans to be ¥112 million for the fiscal year ended December 2016 (17th period) and ¥152 million for the fiscal year ending 2017 (18th period).

* Website of Japan Hotel REIT Investment Corporation: <http://www.jhrth.co.jp/en/>