

# **Asset Management Report**

**For the Year Ended December 31, 2017**

**Japan Hotel REIT Investment Corporation**



Dear Investors,

Thank you for your support and patronage to Japan Hotel REIT Investment Corporation (JHR) and its asset management company, Japan Hotel REIT Advisors Co., Ltd.

Having settled the accounts for the 18th fiscal period (from January 1, 2017 to December 31, 2017) of JHR, we are pleased to present you with the asset management status and settlement of accounts for the period.

Looking at the environment surrounding JHR, the number of foreign tourists visiting Japan (inbound tourists) has continued to increase significantly, while domestic leisure demand remained solid. Despite the impacts of new hotel supply and *minpaku* (accommodation at private residences for a fee) observed in certain areas, many of JHR's hotels achieved better operating performance, led by the rooms department. This, combined with the effects of cost reductions and other measures, resulted in an increase in the variable rent, etc. received by JHR.

In terms of external growth, JHR conducted capital increase through a public offering of new investment units in July 2017, which was the eighth such arrangement since the merger that created JHR, and used the procured funds to acquire Hilton Tokyo Narita Airport (acquisition price: ¥13,175 million) and International Garden Hotel Narita (acquisition price: ¥9,125 million) in the Narita area and Hotel Nikko Nara (acquisition price: ¥10,373 million) in the Nara area. Each of these properties is a large-scale full-service hotel with high-competitiveness. With the acquisition of the three hotels, JHR's asset size (total acquisition price) grew to ¥319.4 billion.

On top of an increase in rent income with the new property acquisitions, such factors as an increase in the variable rent, etc. and reduction of expenses in existing properties helped JHR to post operating revenue of ¥25,475 million, ordinary income of ¥14,006 million and net income of ¥14,005 million for the 18th fiscal period. Dividend per unit came to ¥3,683, up 7.7% from the previous fiscal period.

The increase in the number of inbound tourists has been driving the growth of Japan's tourism industry and expansion of its hotel market. Given this growth trend, we at JHR, Japan's largest REIT specializing in hotel properties, and Japan Hotel REIT Advisors Co., Ltd., its asset management company, will strive for JHR's further growth and enhancement of its attractiveness.

We would appreciate your continued support for us.

Kaname Masuda  
Executive Director  
Japan Hotel REIT Investment Corporation

Hisashi Furukawa  
Representative Director and President  
Japan Hotel REIT Advisors Co., Ltd.

# JAPAN HOTEL REIT INVESTMENT CORPORATION

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This section (P1-P45) is the translation of the Asset Management Report for the 18th Period released on March 20, 2018 except for, if any, the update on 6. Significant subsequent events in Outline of Asset Management Operation. This English translation is provided for information purposes only. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

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# I. ASSET MANAGEMENT REPORT

## Outline of Asset Management Operation

### 1. Operating results and financial position, etc.

Fiscal period Account closing date		14th period December 2013	15th period December 2014	16th period December 2015	17th period December 2016	18th period December 2017
Operating revenue (Note 1)	JPY1M	11,472	12,760	17,343	22,107	25,475
[Real estate operating revenue]	JPY1M	[11,472]	[12,760]	[17,033]	[22,107]	[25,475]
Operating expenses	JPY1M	6,105	5,214	6,354	8,221	9,717
[Real estate operating costs]	JPY1M	[3,870]	[4,163]	[5,002]	[6,589]	[7,911]
Operating income	JPY1M	5,367	7,545	10,988	13,885	15,757
Ordinary income	JPY1M	3,740	5,776	9,295	12,220	14,006
Net income (Note 2)	JPY1M	3,233	5,774	9,294	12,123	14,005
Total assets	JPY1M	170,727	188,091	240,356	317,878	352,183
[Period-on-period change]	[%]	[22.3]	[10.2]	[27.8]	[32.3]	[10.8]
Net assets	JPY1M	89,756	100,342	129,914	181,989	201,963
[Period-on-period change]	[%]	[30.1]	[11.8]	[29.5]	[40.1]	[11.0]
Unitholders' capital	JPY1M	48,845	59,024	85,470	134,829	153,516
Number of investment units issued and outstanding	Units	2,621,281	2,791,281	3,144,227	3,761,907	4,010,847
Net assets per unit	JPY	34,241	35,948	41,318	48,376	50,354
Net income per unit (Note 3)	JPY	1,307	2,159	3,036	3,462	3,606
Total dividends	JPY1M	5,082	6,015	9,354	12,865	14,771
Dividend per unit	JPY	1,939	2,155	2,975	3,420	3,683
[Earnings dividend per unit]	JPY	1,939	2,155	2,975	3,420	3,683
[Dividend per unit resulted from excess of earnings]	JPY	—	—	—	—	—
Ratio of ordinary income to total assets (Note 4)	%	2.4	3.2	4.3	4.4	4.2
Return on unitholders' equity (Note 5)	%	4.1	6.1	8.1	7.8	7.3
Ratio of net assets to total assets (Note 6)	%	52.6	53.3	54.1	57.3	57.3
[Period-on-period change]	[%]	[3.2]	[0.8]	[0.7]	[3.2]	[0.1]
Payout ratio (Note 7)	%	157.2	104.2	100.6	106.1	105.5
[Additional information]						
NOI (Note 8)	JPY1M	9,907	11,002	14,829	18,829	21,424
FFO per unit (Note 9) (Note 10)	JPY	2,759	2,930	3,748	4,103	4,454
FFO multiple (Note 10) (Note 11)	Times	18.2	26.3	23.9	19.2	17.0
Debt service coverage ratio (Note 10) (Note 12)	Times	4.5	5.1	9.1	14.2	15.6
Interest-bearing debt	JPY1M	74,784	81,089	102,772	126,179	140,399
Ratio of interest-bearing debt to total assets (Note 13)	%	43.8	43.1	42.8	39.7	39.9
Number of investment properties	Properties	28	30	36	41	44
Total leasable area	m <sup>2</sup>	349,162.63	386,826.71	493,758.78	587,481.02	687,124.54
Number of tenants at end of period (Note 14)	Tenants	38	57	113	128	131
Occupancy rate at end of period (Note 15)	%	100.0	99.9	99.9	99.9	99.9
Depreciation	JPY1M	2,297	2,400	2,772	3,294	3,725
Capital expenditures	JPY1M	854	1,306	1,811	2,619	2,898
Number of operating days	Days	365	365	365	366	365

(Note 1) Operating revenue does not include consumption tax, etc.

(Note 2) Net income for the 14th fiscal period includes loss on sale of real estate properties (¥1,189 million) and impairment loss (¥516 million). Net income for the 16th fiscal period includes gain on sale of real estate properties (¥305 million).

(Note 3) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.

(Note 4) Ratio of ordinary income to total assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100

- (Note 5)  $\text{Return on unitholders' equity} = \text{Net income} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
- (Note 6)  $\text{Ratio of net assets to total assets} = \text{Net assets at end of period} / \text{Total assets at end of period} \times 100$
- (Note 7)  $\text{Payout ratio} = \text{Total dividends (excess of earnings exclusive)} / \text{Net income} \times 100$
- (Note 8)  $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$
- (Note 9)  $\text{FFO per unit} = (\text{Net income} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)}) / \text{Number of investment units issued and outstanding}$
- (Note 10) For the 14th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding loss on sale of real estate properties (¥1,189 million) and impairment loss, etc. (¥516 million). For the 16th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥305 million).
- (Note 11)  $\text{FFO multiple} = \text{Investment unit price at end of period} / \text{Annualized FFO per unit}$
- (Note 12)  $\text{Debt service coverage ratio} = (\text{Net Income before income taxes} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)} + \text{Amortization of investment corporation bond issuance costs} + \text{Amortization of investment unit issuance expenses} \pm \text{Gain or loss on derivative instruments} + \text{Interest expense} + \text{Interest expense on investment corporation bonds}) / (\text{Interest expense} + \text{Interest expense on investment corporation bonds} + \text{Total of contracted principal repayments (excluding lump-sum principal repayments)})$
- (Note 13)  $\text{Ratio of interest-bearing debt to total assets} = \text{Interest-bearing debt at end of period} / \text{Total assets at end of period} \times 100$
- (Note 14) Number of tenants at end of period indicates the total number of tenants based on the lease contracts for respective real estate properties in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total number of the end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 15) Occupancy rate at end of period indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period.

## 2. Asset management operation for the fiscal period under review

### (1) Brief history and principal activities

Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) section of the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

JHR entrusts the asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves real estate wholly or partially used as hotels or real estate equivalents of such real estate, or which are backed by such real estate or real estate equivalents.

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”), merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”) and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger, JHR has carried out eight public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 24 properties amounting to ¥210,022 million (on an acquisition price basis) in total in approximately a little less than six years since the Merger. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 44 properties with a combined acquisition price of ¥319,474 million and the total number of investment units issued and outstanding stood at 4,010,847 units.

## (2) Investment performance for the fiscal period under review

During the fiscal year under review (12-month period from January 1, 2017 through December 31, 2017), the Japanese economy continued to show a moderate recovery trend backed by moderate pickup in personal consumption and improvement in corporate earnings, while the employment and income environment continued to improve. As to the environment surrounding the tourism market, as the Japanese government promotes measures for making Japan a tourism nation, the number of foreign visitors to Japan (“inbound visitors”) in 2017 continued to grow rapidly to reach 28.69 million (up 19.3% from the previous year). Accordingly, demand for accommodation by inbound tourists remained high while such demand by domestic tourists remained also stable, creating a favorable environment overall.

The hotel investment market continued to be in a brisk state with continual expectations for growth of Japan’s tourism industry and hotel industry. JHR has been pursuing expansion of asset size through continuous property acquisitions by leveraging such strengths as high recognition as Japan’s largest REIT specializing in hotel properties and the ability to propose diverse acquisition schemes and execute transactions. During the fiscal year under review, JHR conducted public offering for capital increase in July 2017, the eighth since the Merger, and acquired Hilton Tokyo Narita Airport (acquisition price: ¥13,175 million) and International Garden Hotel Narita (acquisition price: ¥9,125 million) in the Narita area, and Hotel Nikko Nara (acquisition price: ¥10,373 million) in Nara. In terms of portfolio, JHR has worked to improve the quality of the portfolio through such measures as promoting geographical diversification of the portfolio, diversifying parties entrusted with operation (“operator(s)”) and expanding international brands.

The hotels owned by JHR saw some signs of impact of new hotel supply and *minpaku* (accommodation at private residences for a fee) in some areas including Tokyo and Osaka. However, many of the hotels in major regional cities achieved strong operating performance, mainly in the rooms department, as a result of JHR implementing active asset management, which is the aggressive and proactive pursuit of greater profitability and asset value of owned hotels. With regard to status of operations during the fiscal year under review of the five hotels that JHR leases to Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) under variable rent contracts (hereinafter referred to as the “Five HMJ hotels”) (Note 1) and the hotels which JHR leases to HMJ Group companies under variable rent contracts (namely, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), Hotel Centraza Hakata and Holiday Inn Osaka Namba, and hereinafter collectively referred to together with the Five HMJ hotels as the “Nine HMJ hotels”) (Note 1), these hotels overall have posted increase over the previous year both in sales and GOP (gross operating profit), led by the rooms department. The rooms department aimed to generate greater earnings through such means as flexible pricing in line with each hotel’s accommodation market condition in order to maximize RevPAR (Revenue Per Available Room). For further details of sales, GOP and other management indicators for the Twelve HMJ hotels (Note 1), please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2017” and “<Reference 2> <1> Sales and GOP of the Twelve HMJ hotels” in 7. Reference information.

Moreover, at the six hotels (Note 2) for which AAPC Japan K.K. (hereinafter referred to as “Accor”), a Japanese subsidiary of Accor Hotels headquartered in Paris, France, serves as the operator (hereinafter referred to as the “Six Accor hotels”), successfully attracting leisure demand mainly from inbound visitors, the Six Accor hotels as a whole posted an increase from the previous year both in sales and GOP despite being affected by suspension of sales due to renovation at some hotels. For further details of sales, GOP and other management indicators for the Six Accor hotels, please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2017” and “<Reference 2> <2> Sales and GOP of the Six Accor hotels” in 7. Reference information.

On the other hand, at the Six *the b* hotels (Note 3), which are leased to subsidiaries of the Ishin Hotels Group with a variable rent structure, despite efforts made to address changes in the circumstances, such as inbound tourists’ shifting from group tours to independent travel and a corresponding increase in the percentage of online bookings, and such factors as the impact of new hotel supply and *minpaku* in the Tokyo area led to the hotels in Tokyo posting decrease from the previous year both in sales and GOP and, consequently, the Six *the b* hotels overall also posting decrease over the previous year both in sales and GOP. For further details of sales, GOP and other management indicators for the Six *the b* hotels, please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2017” and “<Reference 2> <3> Sales and GOP of the Six *the b* hotels” in 7. Reference information.

In addition to efforts to increase revenue by increasing variable rent linked with improved performance of these hotels, JHR has worked to increase dividend by reducing the costs of each item under real estate operating costs, general and administrative expenses and borrowing costs through persistent talks with relevant parties and other measures.

- (Note 1) The Five HMJ hotels represent the five hotels, namely, Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima. The Nine HMJ hotels represent the nine hotels comprising the Five HMJ hotels plus Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel, which is the major facility of ACTIVE-INTER CITY HIROSHIMA, Hotel Centraza Hakata and Holiday Inn Osaka Namba. The Twelve HMJ hotels represent the 12 hotels comprising the Nine HMJ hotels plus Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara. The same shall apply hereinafter.
- (Note 2) Represents the six hotels, namely, ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha and Mercure Yokosuka. The same shall apply hereinafter.
- (Note 3) Represents the six hotels, namely, the b Suidobashi, the b Akasaka-Mitsuke, the b Ikebukuro, the b Ochanomizu, the b Hachioji and the b Hakata. The same shall apply hereinafter.

### (3) Funding conditions

JHR procured ¥4,000 million in short-term loans and ¥11,000 million in long-term loans, in addition to ¥18,686 million by way of capital increase through public offering in June 2017 and third-party allotment in August 2017, and acquired three properties, Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara, in July and August 2017. Upon taking out loans, JHR newly added The Nishi-Nippon City Bank, Ltd. to lending banks to further diversify lenders.

Furthermore, JHR refinanced existing loans of ¥10,750 million in February, September and November 2017, which were due for repayment. In addition, JHR issued investment corporation bonds of ¥1,000 million for institutional investors in November 2017 for the purpose of making partial early repayment of existing short-term loans.

Consequently, as of the end of the fiscal year under review, balance of interest-bearing debt totaled ¥140,399 million, including short-term loans payable of ¥3,000 million, current portion of long-term loans payable of ¥15,022 million, long-term loans payable of ¥98,777 million and investment corporation bonds of ¥23,600 million, and the ratio of interest-bearing debt to total assets at end of year (Note 4) stood at 39.9%.

JHR reduced borrowing costs and extended maturity dates through the aforementioned series of fund procurement. Along with such, JHR concluded loans with fixed interest rates as well as interest rate swap contracts to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio (including the interest rate cap purchase portion) on total interest-bearing debt at end of year to around 94%.

(Note 4) Ratio of interest-bearing debt to total assets at end of period = Balance of interest-bearing debt at end of period / Total assets at end of period x 100

As of December 31, 2017, JHR's issuer ratings were as follows.

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd.	A +	Stable
Rating and Investment Information, Inc.	A	Stable

### (4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥25,475 million, ¥15,757 million and ¥14,006 million, respectively, for the fiscal period under review (12-month period from January 1 to December 31, 2017). Net income was ¥14,005 million.

With regard to dividends, it was decided that ¥14,774 million, which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥769 million to unappropriated retained earnings of ¥14,005 million, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, ¥14,771 million will be distributed and the dividend per unit came to ¥3,683.

For details of the appropriation for dividends for the fiscal period under review, please refer to “<Reference 3> Dividend per unit and appropriation for dividends” in 7. Reference information.

### 3. Changes in unitholders' capital, etc.

The table below indicates increases (decreases) in the number of investment units issued and outstanding and unitholders' capital of JHR in the past five years.

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (JPY1M)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
April 17, 2013	Capital increase through public offering of investment units	510,000	2,621,281	20,585	48,845	(Note 1)
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 2)
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 3)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 4)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 5)
July 23 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 6)
January 20 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 7)
February 17 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 8)
July 27 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 9)
August 23 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 10)
July 5 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 11)
August 2 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 12)

(Note 1) New investment units were issued through public offering with an issue price per unit of ¥41,778 (issue value of ¥40,363) in order to raise funds for the acquisition of new properties, etc.

(Note 2) New investment units were issued through public offering with an issue price per unit of ¥61,912 (issue value of ¥59,880) in order to raise funds for the acquisition of new properties, etc.

(Note 3) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to raise funds for the acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 5) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to raise funds for the acquisition of new properties, etc.

(Note 6) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 7) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to raise funds for the acquisition of new properties, etc.

(Note 8) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to raise funds for the acquisition of new properties, etc.

(Note 9) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to raise funds for the acquisition of new properties, etc.

(Note 10) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 11) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to raise funds for the acquisition of new properties, etc.

(Note 12) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.



[Fluctuation in market price of investment units]

The highest and lowest prices (closing price) during each fiscal period of the investment units of JHR on the Tokyo Stock Exchange REIT section are as follows:

(yen)

Fiscal period Account closing month	14th period December 2013	15th period December 2014	16th period December 2015	17th period December 2016	18th period December 2017
Highest price	51,500	82,400	93,800	103,400	81,200
Lowest price	23,670	45,350	70,600	70,900	71,100
Price at end of period	50,400	77,000	89,500	78,600	75,600

#### 4. Dividends, etc.

Earnings dividend for the period under review was decided in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation to exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. And ¥14,774,998,197, which was calculated by adding a reversal of the reserve for temporary difference adjustment (appropriation for dividends) of ¥769,508,609 to unappropriated retained earnings of ¥14,005,489,588 as of end of the fiscal period under review, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥3,683.

(yen)

Classification	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)
Unappropriated retained earnings	3,235,030,032	5,776,116,820	9,296,121,922	12,126,057,948	14,005,489,588
Retained earnings	1,236,316	1,444,427	2,894,304	411,048	3,048,696
Total cash dividends	5,082,663,859	6,015,210,555	9,354,075,325	12,865,721,940	14,771,949,501
[Dividend per unit]	[1,939]	[2,155]	[2,975]	[3,420]	[3,683]
Of the above, total earnings dividends	5,082,663,859	6,015,210,555	9,354,075,325	12,865,721,940	14,771,949,501
[Earnings dividend per unit]	[1,939]	[2,155]	[2,975]	[3,420]	[3,683]
Of the above, total return of capital contributions	—	—	—	—	—
[Return of capital contributions per unit]	[—]	[—]	[—]	[—]	[—]
Of total return of capital contributions, total distributions from allowance for temporary difference adjustment	—	—	—	—	—
[Of return of capital contributions per unit, distributions from allowance for temporary difference adjustment per unit]	[—]	[—]	[—]	[—]	[—]
Of total return of capital contributions, total distributions from the unitholders' capital for tax purpose	—	—	—	—	—
[Of return of capital contribution per unit, distributions from the unitholders' capital for tax purpose per unit]	[—]	[—]	[—]	[—]	[—]

## 5. Investment policies and issues to be addressed

### General investment outlook

In 2018, the Japanese economy is expected to be on a moderate recovery, due in part to the effects of various government policies, while the employment and income environment continues to improve. On the other hand, attention must be paid to the trends of U.S. government policies, the economic outlook for China and other emerging Asian economies as well as impacts of uncertainties of said policies, the impact of fluctuations in the financial and capital markets, geopolitical risks and other factors.

In the environment surrounding the tourism industry, expansion of national tourism policies continues to be anticipated as introduction of the departure tax (tax levied upon leaving Japan) is being discussed to allocate the revenue for tourism-related policies, etc. Moreover, needs for overseas travels especially among the middle-income group and the wealthy group in the fast-growing Asian region have expanded and the number of tourists to Japan has continued to rise. Japan being favorably chosen as a travel destination is not a temporary phenomenon, but is likely to be mostly attributable to factors such as progress in information and communications technology (ICT) allowing tourists to enjoy travelling in Japan without language barriers, and travelers communicating charms of Japan with abundant tourism resources through SNS to the world. The further increase in the number of inbound tourists and the solid domestic leisure demand due to such structural shifts are expected to work favorably for JHR. On the other hand, however, close attention should be paid to the changes in supply-demand balance going forward, including an increase in supply from new development of hotels following trends of increase in inbound visitors, and the impact of the private house lodging business law (new *minpaku* law) to be enforced in June 2018. Under such circumstances, JHR intends to work with the Asset Management Company to manage assets based on the approach described below aiming to enhance the attractiveness of investing in JHR.

### Internal growth

JHR will work to maximize variable rent and income from management contracts receivable by JHR. JHR aim to maximize variable rent from the Twelve HMJ hotels and the Six *the b* hotels, etc., and boost sales and GOP of the Six Accor hotels that are mainly operated under a management contract structure.. To achieve this goal, JHR will focus efforts on seeking the cooperation of relevant parties in shifting from competition based on price to competition based on value in an aim to differentiate itself in the market, in terms of both facilities and services, through active asset management. This will include requesting lessees, operations support companies and operators of respective hotels to implement marketing initiatives to attract a wider range of demand, measures to maintain and increase room rates, etc., and implementing strategic capital expenditures.

For hotels with fixed rent only contracts, JHR will increase its efforts to monitor operating conditions and, by paying careful attention to each tenant's ability to bear the rent costs, conduct negotiations with the hotels at which the ability to bear rent costs has been enhanced through better performances so that the improvement in hotel earnings would lead to an increase in JHR's earnings, such as revising rents upward and introducing revenue sharing structure.

In addition, JHR will carry out an ongoing program of facility maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

### External growth

In terms of external growth strategy, JHR will keep its focus on acquiring highly-competitive hotels in areas which can expect "domestic and inbound leisure demand" over the medium to long term as JHR has done to date. As to hotel types, the policy is that limited-service hotels, full-service hotels and resort hotels are all investment targets, but JHR will only acquire properties with competitive advantages in terms of both buildings, facilities, etc. (infrastructure) and the capabilities of the hotel lessee and operator (services).

In the hotel investment market, harsh competition over acquisitions is ongoing due in part to the listing of new J-REITs specializing in hotels and formation of non-listed private J-REITs. JHR will aim for expansion of asset size that accompanies an improvement in the quality of its portfolio by acquiring highly competitive properties while leveraging its strength and advantages and also utilizing the HMJ platform in some cases.

### Finance strategy

JHR presses ahead with diversification of the means of financing while maintaining and enhancing the relationships of trust with financial institutions with which it does business, under the basic policy of carrying out conservative financial strategy which places importance on securement of financial stability and soundness. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger

than 50% as in the past. In addition, when seeking new funding for property acquisitions or refinancing existing debt, JHR will work to further reinforce and expand its base of lenders and further diversify funding methods, including issuance of investment corporation bonds, while considering the balance between the dispersion of the maturity dates of its debt and borrowing costs.

Furthermore, while monitoring the conditions of the interest rate market, JHR aims to further improve its financial foundation by managing risk of interest rates market through extending maturity dates and fixing rates, etc.

### **Policy on handling of negative goodwill**

Starting from the fiscal year under review (the fiscal year ended December 31, 2017 (18th period)), JHR started appropriation for dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan.

Specifically, JHR reverses ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the initial balance of the reserve for temporary difference adjustment (¥13,127 million), to pay out as dividends, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount, for every year from the fiscal year under review.

Furthermore, in cases of incurrence of losses caused by property dispositions, impairment loss of assets, dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., loss on retirement of noncurrent assets, and suspension of sales and such due to large-scale renovations with significant impact on revenues, JHR plans to reverse additional portion of the negative goodwill on top of the 50-year amortization amount of negative goodwill.

As for the fiscal year ending December 31, 2018 (19th period), JHR expects ¥565 million, which is the total of the 50-year amortization amount (¥262 million), loss on retirement of noncurrent assets (¥38 million) and the correspondence to the large-scale renovation at Hotel Centraza Hakata (¥265 million) as additional amounts to dividends by reversing the negative goodwill.

(Note) 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.

### **Initiatives for Sustainability**

In recent years, there has been growing importance of the risks and opportunities of ESG (Environment, Social and Governance) issues in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management based on consideration for ESG is important to enhance unitholder value and to further raise the attractiveness of JHR. In addition, JHR believes that it is indispensable to establish favorable relationships with its stakeholders including unitholders, hotel users (guests), lessees, operators, business partners including property managers, etc., local communities, officers and employees of the Asset Management Company and others and to fulfill our social responsibilities expected from each of them.

In order to put such ideas into practice, JHR, along with the Asset Management Company, established a “Sustainability Policy” in December 2017 as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at our portfolio properties based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for Hotel Nikko Alivila and Mercure Okinawa Naha on February 15, 2018 as first such cases for J-REIT’s hotel properties (Note). Furthermore, recognizing its social responsibility towards local communities as a J-REIT specializing in hotels, JHR will proactively carry out social contribution activities capitalizing on the characteristics of the hotel sector and each hotel.

(Note) Investigated by the Asset Management Company based on disclosed information

## 6. Significant subsequent events

Issuance of investment corporation bonds

JHR issued investment corporation bonds under the following terms and conditions.

Category	Tenth unsecured investment corporation bonds
Total amount of bonds	¥10,000 million
Issue price	¥100 for ¥100 of each bond
Interest rate	0.840% per year
Issue date	February 21, 2018
Maturity	February 21, 2028
Collateral	None
Use of proceed	The proceeds will be partially used to prepay the existing loans by the end of February, 2018. The residual funds will be used for future acquisition of specified assets, for repayment of loans or for repair cost and/or capital expenditure to maintain or improve competitiveness of the existing properties.

## 7. Reference information

### <Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2017

The following tables indicate the figures related to the hotel business of the Twelve HMJ hotels, the Six Accor hotels and the Six *the b* hotels for the operating period from January 1, 2017 through December 31, 2017, based on the data provided by the hotel lessees, etc. Furthermore, while the indicators of the hotels are among the indicators that show the operating status of the rooms departments, they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the daily rates of the respective rooms available for sale and profit margins, etc. are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

#### (a) The Twelve HMJ hotels

(millions of yen)

	Kobe Meriken Park Oriental Hotel		Oriental Hotel tokyo bay		Namba Oriental Hotel		Hotel Nikko Alivila		Oriental Hotel Hiroshima		The Five HMJ hotels Total/Average	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	84.1%	—	98.7%	—	95.7%	—	87.0%	—	85.0%	—	91.0%	—
ADR (Note 1)	17,005	—	19,456	—	19,852	—	28,314	—	9,749	—	19,856	—
RevPAR (Note 2)	14,296	—	19,200	—	18,998	—	24,636	—	8,287	—	18,060	—
Total sales	5,381	100.0%	6,838	100.0%	2,887	100.0%	6,389	100.0%	2,153	100.0%	23,647	100.0%
Rooms department	1,836	34.1%	3,889	56.9%	1,970	68.2%	3,958	61.9%	756	35.1%	12,409	52.5%
Food & beverage department	3,256	60.5%	2,459	36.0%	124	4.3%	1,919	30.0%	1,332	61.9%	9,090	38.4%
Tenant department	63	1.2%	237	3.5%	754	26.1%	2	0.0%	23	1.0%	1,079	4.6%
Other departments (Note 3)	226	4.2%	252	3.7%	38	1.3%	510	8.0%	42	1.9%	1,068	4.5%
GOP	1,245	23.1%	1,985	29.0%	1,776	61.5%	2,346	36.7%	414	19.2%	7,765	32.8%

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel		Hotel Centraza Hakata		Holiday Inn Osaka Namba		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		Ratio to total sales	(Note 4)	Ratio to total sales		Ratio to total sales		Ratio to total sales	(Note 5)	Ratio to total sales	(Note 6)	Ratio to total sales
Occupancy rate	85.8%	—	89.7%	—	94.6%	—	96.5%	—	85.5%	—	82.9%	—
ADR (Note 1)	21,348	—	17,698	—	11,707	—	18,362	—	10,208	—	7,221	—
RevPAR (Note 2)	18,314	—	15,874	—	11,071	—	17,725	—	8,725	—	5,985	—
Total sales	4,151	100.0%	3,348	100.0%	2,464	100.0%	2,074	100.0%	3,238	100.0%	1,438	100.0%
Rooms department	2,663	64.1%	1,543	46.1%	866	35.1%	2,033	98.0%	1,947	60.1%	1,112	77.4%
Food & beverage department	1,044	25.2%	1,704	50.9%	1,357	55.1%	—	—	1,192	36.8%	314	21.9%
Tenant department	63	1.5%	—	—	225	9.1%	30	1.5%	52	1.6%	6	0.4%
Other departments (Note 3)	382	9.2%	101	3.0%	16	0.6%	11	0.5%	46	1.4%	5	0.3%
GOP	1,440	34.7%	968	28.9%	942	38.3%	1,341	64.7%	929	28.7%	567	39.5%

	Hotel Nikko Nara		The Twelve HMJ hotels Total/Average	
	(Note 7)	Ratio to total sales	(Note 8)	Ratio to total sales
Occupancy rate	79.6%	—	88.5%	—
ADR (Note 1)	12,510	—	16,251	—
RevPAR (Note 2)	9,963	—	14,382	—
Total sales	2,970	100.0%	43,329	100.0%
Rooms department	1,327	44.7%	23,900	55.2%
Food & beverage department	1,592	53.6%	16,294	37.6%
Tenant department	34	1.2%	1,491	3.4%
Other departments (Note 3)	16	0.5%	1,644	3.8%
GOP	713	24.0%	14,666	33.8%

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms sold during the period. Holiday Inn Osaka Namba, the Six Accor hotels and the Six *the b* hotels do not request service charges. Described in unit of yen. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms available for sale during the period. Revenue per available room equals the product of ADR and occupancy rate. Described in unit of yen. The same shall apply hereinafter.

(Note 3) Figures for the Other departments include sales of the Product sales department.

(Note 4) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 5) For Hilton Tokyo Narita Airport, which JHR acquired on July 12, 2017, the annual figures are for throughout the year including those prior to the acquisition.

(Note 6) For International Garden Hotel Narita, which JHR acquired on July 12, 2017, the annual figures are for throughout the year including those prior to the acquisition.

(Note 7) For Hotel Nikko Nara, which JHR acquired on August 1, 2017, the annual figures are for throughout the year including those prior to the acquisition.

(Note 8) For Total/Average of the Twelve HMJ hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel operators or hotel lessees.

(Note 9) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place. The same shall apply hereinafter.

(b) The Six Accor hotels

(millions of yen)

	ibis Tokyo Shinjuku		ibis Styles Kyoto Station		ibis Styles Sapporo		Mercure Sapporo		Mercure Okinawa Naha		Mercure Yokosuka		Total/Average (Note)	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	74.1%	—	94.6%	—	89.5%	—	84.6%	—	82.9%	—	84.6%	—	85.3%	—
ADR	12,636	—	11,697	—	10,882	—	13,127	—	11,412	—	12,230	—	11,944	—
RevPAR	9,369	—	11,066	—	9,741	—	11,110	—	9,464	—	10,345	—	10,185	—
Total sales	773	100.0%	977	100.0%	1,219	100.0%	1,351	100.0%	1,096	100.0%	1,037	100.0%	6,454	100.0%
Rooms department	704	91.1%	868	88.8%	988	81.1%	1,156	85.5%	898	81.9%	604	58.3%	5,219	80.9%
Food & beverage department	55	7.2%	100	10.3%	206	16.9%	184	13.6%	169	15.4%	418	40.3%	1,133	17.6%
Other departments	14	1.8%	9	0.9%	24	2.0%	12	0.9%	29	2.6%	15	1.4%	102	1.6%
GOP	379	49.0%	551	56.4%	639	52.4%	631	46.7%	491	44.8%	311	30.0%	3,004	46.5%

(Note) For Total/Average, figures are calculated by JHR as reference since no figures have been provided by the hotel operators or hotel lessees.

(c) The Six *the b* hotels

(millions of yen)

	the b suidobashi		the b akasaka -mitsuke		the b ikebukuro		the b ochanomizu		the b hachioji		the b hakata		Total/Average (Note)	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	89.1%	—	87.4%	—	90.1%	—	92.9%	—	90.4%	—	92.3%	—	90.4%	—
ADR	10,851	—	11,051	—	10,623	—	10,739	—	7,044	—	8,565	—	9,445	—
RevPAR	9,667	—	9,654	—	9,573	—	9,977	—	6,369	—	7,908	—	8,535	—
Total sales	351	100.0%	433	100.0%	617	100.0%	263	100.0%	548	100.0%	509	100.0%	2,721	100.0%
Rooms department	349	99.6%	430	99.2%	611	99.2%	262	99.6%	456	83.1%	505	99.2%	2,614	96.0%
Food & beverage department	—	—	—	—	—	—	—	—	88	16.0%	—	—	88	3.2%
Other departments	2	0.4%	3	0.8%	5	0.8%	1	0.4%	5	0.9%	4	0.8%	20	0.7%
GOP	164	46.7%	235	54.2%	331	53.6%	119	45.1%	189	34.4%	268	52.6%	1,304	47.9%

(Note) For Total/Average, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees.

<Reference 2>

Of the hotels that have adopted variable rent, the following presents sales and GOP of the Twelve HMJ hotels, the Six Accor hotels and the Six *the b* hotels. The numerical figures are based on figures obtained from hotel lessees, etc. Please note that these numbers have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the numbers and information. Sales and GOP are rounded off to the nearest millions of yen. Comparison with the previous period is rounded off to one decimal place.

<1> Sales and GOP of the twelve HMJ hotels

(1) Sales by hotel

(millions of yen)

Sales of the Twelve HMJ hotels		Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Kobe Meriken Park Oriental Hotel	First half	2,465	1.7%	2,431	(1.4)%
	Second half	2,896	2.4%	2,950	1.9%
	Full year	5,361	2.1%	5,381	0.4%
Oriental Hotel tokyo bay	First half	3,454	1.7%	3,319	(3.9)%
	Second half	3,817	(2.8)%	3,518	(7.8)%
	Full year	7,271	(0.7)%	6,838	(6.0)%
Namba Oriental Hotel	First half	1,386	16.6%	1,394	0.6%
	Second half	1,491	11.1%	1,492	0.1%
	Full year	2,877	13.7%	2,887	0.3%
Hotel Nikko Alivila	First half	2,421	1.8%	2,568	6.1%
	Second half	3,734	4.6%	3,821	2.3%
	Full year	6,155	3.5%	6,389	3.8%
Oriental Hotel Hiroshima	First half	1,025	3.4%	993	(3.0)%
	Second half	1,216	6.4%	1,159	(4.7)%
	Full year	2,240	5.0%	2,153	(3.9)%
Total for the five HMJ hotels	First half	10,751	3.6%	10,706	(0.4)%
	Second half	13,154	2.7%	12,941	(1.6)%
	Full year	23,905	3.1%	23,647	(1.1)%
Okinawa Marriott Resort & Spa	First half	1,607	(0.4)%	1,692	5.3%
	Second half	2,326	(3.2)%	2,459	5.7%
	Full year	3,933	(2.1)%	4,151	5.6%
Sheraton Grand Hiroshima Hotel	First half	1,369	1.7%	1,601	17.0%
	Second half	1,627	8.3%	1,747	7.4%
	Full year	2,996	5.2%	3,348	11.8%
Hotel Centraza Hakata	First half	1,155	2.8%	1,266	9.5%
	Second half	1,265	5.0%	1,198	(5.3)%
	Full year	2,421	3.9%	2,464	1.8%
Holiday Inn Osaka Namba	First half	1,104	32.7%	1,011	(8.4)%
	Second half	1,103	(2.7)%	1,063	(3.6)%
	Full year	2,206	12.3%	2,074	(6.0)%
Total for the nine HMJ hotels	First half	15,985	4.5%	16,276	1.8%
	Second half	19,476	2.2%	19,408	(0.3)%
	Full year	35,461	3.3%	35,684	0.6%
Hilton Tokyo Narita Airport	First half	1,420	(0.8)%	1,542	8.6%
	Second half	1,566	2.8%	1,696	8.3%
	Full year	2,986	1.1%	3,238	8.4%
International Garden Hotel Narita	First half	734	11.9%	705	(4.1)%
	Second half	718	8.5%	733	2.1%
	Full year	1,453	10.2%	1,438	(1.0)%
Hotel Nikko Nara	First half	1,483	(1.4)%	1,458	(1.7)%
	Second half	1,521	(2.4)%	1,512	(0.6)%
	Full year	3,003	(1.9)%	2,970	(1.1)%

(millions of yen)

Sales of the Twelve HMJ hotels		Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Total for the Twelve HMJ hotels	First half	19,622	3.9%	19,980	1.8%
	Second half	23,281	2.1%	23,349	0.3%
	Full year	42,903	2.9%	43,329	1.0%

(Note 1) Hotel Centraza Hakata and Holiday Inn Osaka Namba were acquired on April 1, 2016 and August 1, 2016, respectively. The figures for the fiscal year ended December 2016 are for the entire year including the periods prior to the acquisition.

(Note 2) For the properties acquired during the fiscal year ended December 2017 (Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara), the figures for the fiscal year ended December 2016 and the fiscal year ended December 2017 are for the entire year including the periods prior to the acquisition.

## (2) Hotel GOP

(millions of yen)

GOP and ratio of GOP (Note 1) of the Twelve HMJ hotels		Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Total for the Nine HMJ hotels	GOP	12,010	10.1%	12,457	3.7%
	Ratio of GOP	33.9%	2.1%	34.9%	1.0%
Total for the Twelve HMJ hotels	GOP	14,124	10.4%	14,666	3.8%
	Ratio of GOP	32.9%	2.2%	33.8%	0.9%

(Note 1) Ratio of GOP refers to the ratio of GOP to sales. The same shall apply hereinafter.

(Note 2) Hotel Centraza Hakata and Holiday Inn Osaka Namba were acquired on April 1, 2016 and August 1, 2016, respectively. The figures for the fiscal year ended December 2016 are for the entire year including the periods prior to the acquisition.

(Note 3) For the properties acquired during the fiscal year ended December 2017 (Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara), the figures for the fiscal year ended December 2016 and the fiscal year ended December 2017 are for the entire year including the periods prior to the acquisition.

## <2> Sales and GOP of the Six Accor hotels

### (1) Sales by hotel

(millions of yen)

Sales of the Six Accor hotels		Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
		Actual	Comparison with previous period	Actual	Comparison with previous period
ibis Tokyo Shinjuku	First half	406	(10.3)%	365	(10.1)%
	Second half	426	1.3%	408	(4.1)%
	Full year	832	(4.7)%	773	(7.1)%
ibis Styles Kyoto Station	First half	464	30.0%	482	3.7%
	Second half	513	12.3%	496	(3.4)%
	Full year	977	20.1%	977	0.0%
ibis Styles Sapporo	First half	490	14.3%	548	11.9%
	Second half	633	7.1%	671	6.1%
	Full year	1,122	10.1%	1,219	8.6%
Mercure Sapporo	First half	546	9.3%	596	9.3%
	Second half	708	5.3%	755	6.6%
	Full year	1,254	7.0%	1,351	7.8%
Mercure Okinawa Naha	First half	489	20.2%	532	8.7%
	Second half	560	8.6%	564	0.8%
	Full year	1,049	13.7%	1,096	4.5%



Mercure Yokosuka	First half	569	3.5%	551	(3.2)%
	Second half	502	(2.0)%	486	(3.1)%
	Full year	1,071	0.8%	1,037	(3.2)%
Total	First half	2,965	10.0%	3,074	3.7%
	Second half	3,341	5.5%	3,380	1.2%
	Full year	6,306	7.6%	6,454	2.4%

## (2) Hotel GOP

(millions of yen)

GOP and ratio of GOP of the Six Accor hotels	Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
	Actual	Comparison with previous period	Actual	Comparison with previous period
Total for Six Accor hotels	2,885	14.9%	3,004	4.1%
Ratio of GOP	45.8%	2.9%	46.5%	0.8%

## <3> Sales and GOP of the Six *the b* hotels

### (1) Sales by hotel

(millions of yen)

Sales of the Six <i>the b</i> hotels		Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
		Actual	Comparison with previous period	Actual	Comparison with previous period
the b akasaka-mitsuke	First half	242	9.4%	215	(11.2)%
	Second half	226	(6.7)%	218	(3.4)%
	Full year	468	1.0%	433	(7.5)%
the b ikebukuro	First half	323	7.3%	306	(5.3)%
	Second half	312	(3.7)%	311	(0.4)%
	Full year	635	1.6%	617	(2.9)%
the b ochanomizu	First half	131	(0.8)%	130	(0.9)%
	Second half	135	3.5%	133	(1.1)%
	Full year	266	1.3%	263	(1.0)%
the b hachioji	First half	291	9.0%	266	(8.5)%
	Second half	273	(6.1)%	282	3.2%
	Full year	564	1.1%	548	(2.8)%
the b hakata	First half	230	20.6%	244	5.9%
	Second half	249	15.5%	266	6.9%
	Full year	478	17.9%	509	6.4%
the b suidobashi	First half	177	—	173	(2.1)%
	Second half	174	—	177	1.9%
	Full year	351	—	351	(0.2)%
Total for Six <i>the b</i> hotels	First half	1,394	—	1,333	(4.3)%
	Second half	1,369	—	1,388	1.4%
	Full year	2,763	—	2,721	(1.5)%

(Note) The b suidobashi was rebranded from Dormy Inn Suidobashi on July 1, 2015. Therefore, comparison with previous period for the fiscal year ended December 2016 for the b suidobashi and the total for Six *the b* hotels are not indicated.

**(2) Hotel GOP**

(millions of yen)

GOP and ratio of GOP of the Six <i>the b</i> hotels	Fiscal year ended Dec. 31, 2016		Fiscal year ended Dec. 31, 2017	
	Actual	Comparison with previous period	Actual	Comparison with previous period
Total for the Six <i>the b</i> hotels	1,370	—	1,304	(4.8)%
Ratio of GOP	49.6%	—	47.9%	(1.7)%

(Note) The b suidobashi was rebranded from Dormy Inn Suidobashi on July 1, 2015. Therefore, comparison with previous period for the fiscal year ended December 2016 for the b suidobashi and the total for Six *the b* hotels are not indicated.

### <Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal year ended December 31, 2016 and December 31, 2017 was calculated based on the assumptions described below.

(millions of yen)		
	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Unappropriated retained earnings	12,126	14,005
Total of reserve for temporary difference adjustments (Note 1) (negative goodwill) used	740	769
Negative goodwill – 50-year amortization amount (Note 1) (Note 2)	-	262
Loss on retirement of noncurrent assets	16	132
Amortization, etc. of fixed-term leasehold of land and asset retirement obligations (Note 2)	112	-
Adjustment for dilution (Note 3)	611	374
Total dividends	12,865	14,771
Number of investment units issued and outstanding (Units)	3,761,907	4,010,847
Dividend per unit (JPY)	3,420	3,683

(Note 1) Starting from the fiscal year ended December 31, 2017 (18th period), JHR commenced appropriation for dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. Specifically, JHR transferred the remaining balance of dividend reserve (¥13,127 million) attributable to the gain on negative goodwill to “reserve for temporary difference adjustment” through appropriation of profit for the fiscal year ended December 31, 2016 (17th period) and plans to reverse ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the initial balance of the reserve for temporary difference adjustment, to payout as dividends, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount, for every year from the fiscal year ended December 31, 2017 (18th period).

(Note 2) The amounts recognized as amortization, etc. related to fixed-term leasehold of land and asset retirement obligations for Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA were added to the dividends through appropriation of the dividends reserve (negative goodwill) for the fiscal year ended December 2016 but these amounts are included in the 50-year amortization amount of negative goodwill for the fiscal year ended December 2017.

(Note 3) Adjustment to compensate for dilution of dividend per unit due to issuance of new investment units.

### <Reference 4> Balance of reserve for temporary difference adjustment (negative goodwill)

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal year ended December 2017 is as follows.

(millions of yen)	
Balance of reserve for temporary difference adjustment as of December 31, 2017	13,127
Appropriation for dividends for the fiscal year ended December 31, 2017	(769)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal year ended December 31, 2017	12,357

## Overview of JHR

### 1. Unitholders' capital

Account closing date	14th period As of December 31, 2013	15th period As of December 31, 2014	16th period As of December 31, 2015	17th period As of December 31, 2016	18th period As of December 31, 2017
Total number of authorized units (Units)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Number of investment units issued and outstanding (Units)	2,621,281	2,791,281	3,144,227	3,761,907	4,010,847
Unitholders' capital (JPY1M)	48,845	59,024	85,470	134,829	153,516
Number of unitholders (Persons)	17,073	22,866	25,182	31,371	35,046

### 2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2017 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	609,417	15.19%
Japan Trustee Services Bank, Ltd. (Trust Account)	563,882	14.05%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	186,334	4.64%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	183,404	4.57%
The Bank of New York, Non-Treaty JASDEC Account	83,266	2.07%
STATE STREET BANK AND TRUST COMPANY 505012	71,916	1.79%
Shikoku Railway Company	58,311	1.45%
STATE STREET BANK AND TRUST COMPANY 505223	55,442	1.38%
CBNY DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	53,933	1.34%
STATE STREET BANK WEST CLIENT TREATY 505234	47,924	1.19%
Total	1,913,829	47.71%

(Note) The percentage indicates the ratio of the number of units held to the number of units issued and outstanding, rounded down to the two decimal places.

### 3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2017 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (JPY1000)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	5,400
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,000
Supervisory Director	Hiroto Kashii (Note1)	–	3,000
Independent auditor	KPMG AZSA LLC (Note 2)	–	44,050

(Note 1) None of the Executive Director and the Supervisory Directors own investment units of JHR in their own name or another person's name. Moreover, although the Supervisory Directors may be officers in corporations other than those listed above, there are no conflicts of interest between those corporations including those listed above and JHR.

(Note 2) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥19,000 thousand, such as preparation of comfort letters associated with the capital increase through the public offerings on July 5, 2017 and the issuance of investment corporation bonds on November 24, 2017.

(Note 3) Following the resolution made at the 8th General Meeting of Unitholders held on November 22, 2017, Hiroshi Matsuzawa resigned from office of Supervisory Director as of the date. Furthermore, the total remuneration for the services he provided as Supervisory Director during the fiscal year through his resignation amounted to ¥2,750 thousand.

(Note 4) In case the number of Executive Director does not meet the requirement stipulated by laws and regulations, Hisashi Furukawa, Representative Director of the Asset Management Company, was elected as Substitute Executive Director, based on the resolution made by the 8th General Meeting of Unitholders of JHR held on November 22, 2017. The elected Substitute Executive Director owns 456 investment units of JHR.

(2) Policy for decisions on dismissal or non-reappointment of independent auditor

We have a policy to determine, at a General Meeting of Unitholders, whether to dismiss the independent auditor pursuant to provisions of the Investment Trusts Act, and to determine whether or not to reappoint the independent auditor taking into comprehensive consideration the audit quality, audit fees and other various matters.

### 4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2017 were as follows:

Consignment classification	Name
Asset management company	Japan Hotel REIT Advisors Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration of the unitholders' registry, book keeping, tax payments, organizational operations, etc., and administration of the special account management agency)	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration regarding investment corporation bonds)	Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited Mizuho Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation
General administrator (tax return preparation, etc.)	PwC Tax Japan

# Status of Investment Assets

## 1. Composition of assets

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	17th period (As of December 31, 2016)		18th period (As of December 31, 2017)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Limited-service hotel	Tokyo	ibis Tokyo Shinjuku	7,671	2.4	7,984	2.3
			CANDEO HOTELS UENO-KOEN	6,751	2.1	6,719	1.9
			the b ikebukuro	6,578	2.1	6,573	1.9
			the b akasaka-mitsuke	6,286	2.0	6,290	1.8
			Hotel Sunroute Shinbashi	4,854	1.5	4,840	1.4
			Comfort Hotel Tokyo Higashi Nihombashi	3,625	1.1	3,593	1.0
			the b hachioji	2,673	0.8	2,680	0.8
			the b ochanomizu	2,344	0.7	2,350	0.7
			Smile Hotel Nihombashi Mitsukoshimae	2,047	0.6	2,041	0.6
			R&B Hotel Ueno Hirokoji	1,764	0.6	1,751	0.5
			R&B Hotel Higashi Nihonbashi	1,512	0.5	1,495	0.4
			Hotel Vista Kamata Tokyo	1,467	0.5	1,464	0.4
			the b suidobashi	1,205	0.4	1,204	0.3
			Dormy Inn EXPRESS Asakusa	951	0.3	961	0.3
			Chisun Inn Kamata	797	0.3	789	0.2
		Osaka	Holiday Inn Osaka Namba	27,163	8.5	27,083	7.7
			Namba Oriental Hotel	14,656	4.6	14,595	4.1
		Hokkaido	ibis Styles Sapporo	6,724	2.1	6,659	1.9
			Mercure Sapporo	5,945	1.9	5,895	1.7
		Fukuoka	HOTEL ASCENT FUKUOKA	5,211	1.6	5,187	1.5
			the b hakata	2,330	0.7	2,335	0.7
			Hakata Nakasu Washington Hotel Plaza	2,054	0.6	2,040	0.6
			Toyoko Inn Hakata-guchi Ekimae	1,477	0.5	1,456	0.4
		Kyoto	ibis Styles Kyoto Station	6,701	2.1	6,682	1.9
		Okinawa	Mercure Okinawa Naha	2,916	0.9	2,889	0.8
		Kumamoto	Dormy Inn Kumamoto	2,199	0.7	2,185	0.6
		Nara	Nara Washington Hotel Plaza	1,871	0.6	1,835	0.5
		Subtotal		129,783	40.8	129,588	36.8
	Full-service hotel	Chiba	Oriental Hotel tokyo bay	18,267	5.7	18,002	5.1
			Hilton Tokyo Narita Airport	-	-	13,318	3.8
			International Garden Hotel	-	-	9,222	2.6
			Hotel Francs	3,145	1.0	3,155	0.9
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 4)	17,778	5.6	17,620	5.0
			Oriental Hotel Hiroshima	4,071	1.3	4,091	1.2
		Aichi	Hilton Nagoya	15,530	4.9	15,588	4.4
		Nara	Hotel Nikko Nara	-	-	10,525	3.0
		Hyogo	Kobe Meriken Park Oriental Hotel	9,947	3.1	9,893	2.8
		Fukuoka	Hotel Centraza Hakata	7,506	2.4	7,341	2.1
		Kanagawa	Mercure Yokosuka	1,643	0.5	1,636	0.5
		Subtotal		77,891	24.5	110,397	31.3
	Resort hotel	Okinawa	Hotel Nikko Alivila	18,267	5.7	18,128	5.1
			Okinawa Marriott Resort & Spa	14,861	4.7	14,722	4.2
			The Beach Tower Okinawa	6,831	2.1	6,749	1.9
		Chiba	Hilton Tokyo Bay	26,180	8.2	26,192	7.4
		Osaka	Hotel Keihan Universal City	5,982	1.9	5,984	1.7
		Kanagawa	Hakone Setsugetsuka	3,747	1.2	3,798	1.1

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	17th period (As of December 31, 2016)		18th period (As of December 31, 2017)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
			Subtotal	75,871	23.9	75,576	21.5
			Real estate in trust – Total	283,546	89.2	315,561	89.6
			Deposits and other assets (Note 5)	34,332	10.8	36,621	10.4
			Total assets	317,878	100.0	352,183	100.0

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 5) Includes machinery and installation, furniture, fixtures and equipment, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

## 2. Major portfolio assets

An overview of the portfolio assets of JHR (44 properties in total) as of December 31, 2017 was as follows.

Property No.	Name of property, etc.	Book value (JPY1M) (Note 1)	Leasable area (m <sup>2</sup> ) (Note 2)	Leased area (m <sup>2</sup> ) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	10,065	32,663.90	32,663.90	100.0	4.7	Hotel
2	Oriental Hotel tokyo bay	18,172	44,833.11	44,833.11	100.0	6.8	Hotel
3	Namba Oriental Hotel	14,737	19,364.33	19,364.33	100.0	6.3	Hotel
4	Hotel Nikko Alivila (Note 6)	18,363	38,024.98	38,024.98	100.0	7.7	Hotel
5	Oriental Hotel Hiroshima	4,160	13,752.22	13,752.22	100.0	2.0	Hotel
6	ibis Tokyo Shinjuku	8,136	6,801.84	6,801.84	100.0	2.1	Hotel
8	The Beach Tower Okinawa (Note 7)	6,754	20,140.01	20,140.01	100.0	2.0	Hotel
9	Hakone Setsugetsuka	3,806	10,655.03	10,655.03	100.0	1.2	Hotel
10	Dormy Inn Kumamoto	2,185	7,701.19	7,701.19	100.0	0.8	Hotel
12	the b suidobashi	1,234	3,097.25	3,097.25	100.0	0.4	Hotel
13	Dormy Inn EXPRESS Asakusa	961	2,014.90	2,014.90	100.0	0.3	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,041	5,602.04	5,602.04	100.0	0.9	Hotel
15	Nara Washington Hotel Plaza	1,838	5,271.54	5,271.54	100.0	0.6	Hotel
16	R&B Hotel Ueno Hirokoji	1,751	3,060.31	3,060.31	100.0	0.4	Hotel
17	R&B Hotel Higashi Nihonbashi	1,495	3,800.77	3,800.77	100.0	0.5	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,593	5,765.27	5,765.27	100.0	1.1	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,041	3,167.82	3,167.82	100.0	0.6	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,456	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	0.6	Hotel
25	Hotel Vista Kamata Tokyo	1,465	3,831.80	3,831.80	100.0	0.4	Hotel
26	Chisun Inn Kamata	792	1,499.87	1,499.87	100.0	0.3	Hotel
29	Hotel Keihan Universal City (Note 8)	5,985	16,212.40	16,212.40	100.0	3.2	Hotel
30	Hotel Sunroute Shinbashi	4,840	5,246.66	5,246.66	100.0	1.6	Hotel
31	Hilton Tokyo Bay (Note 9)	26,192	64,931.94	64,931.94	100.0	7.6	Hotel
32	ibis Styles Kyoto Station	6,712	5,003.99	5,003.99	100.0	2.3	Hotel
33	ibis Styles Sapporo	6,686	14,992.49	14,896.40	99.4	2.8	Hotel
34	Mercure Sapporo	5,931	15,189.42	14,905.88	98.1	3.2	Hotel
35	Mercure Okinawa Naha	2,916	10,884.25	10,884.25	100.0	1.9	Hotel
36	the b akasaka-mitsuke (Note 10)	6,306	2,867.04	2,867.04	100.0	1.0	Hotel
37	the b ikebukuro (Note 10)	6,585	5,650.01	5,650.01	100.0	1.4	Hotel
38	the b ochanomizu (Note 10)	2,357	1,742.23	1,742.23	100.0	0.4	Hotel
39	the b hachioji (Note 10)	2,693	7,847.65	7,847.65	100.0	0.8	Hotel
40	the b hakata (Note 10)	2,354	3,986.09	3,986.09	100.0	1.0	Hotel
41	Hotel Francs	3,155	19,213.39	19,213.39	100.0	1.2	Hotel
42	Mercure Yokosuka (Note 11)	1,669	16,881.82	16,881.82	100.0	1.1	Hotel
43	Okinawa Marriott Resort & Spa	14,853	36,430.15	36,430.15	100.0	4.8	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,694	31,181.05	31,131.60	99.8	5.8	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,728	7,934.26	7,934.26	100.0	1.4	Hotel
46	Hotel Centraza Hakata	7,413	18,105.42	18,105.42	100.0	3.4	Hotel
47	Holiday Inn Osaka Namba	27,122	11,501.10	11,501.10	100.0	4.8	Hotel
48	HOTEL ASCENT FUKUOKA	5,187	8,238.75	8,238.75	100.0	1.7	Hotel
49	Hilton Nagoya (Note 14)	15,588	47,942.71	47,942.71	100.0	5.4	Hotel
50	Hilton Tokyo Narita Airport	13,383	56,817.28	56,817.28	100.0	1.6	Hotel
51	International Garden Hotel Narita	9,258	21,814.93	21,814.93	100.0	1.0	Hotel
52	Hotel Nikko Nara (Note 15)	10,558	21,011.31	21,011.31	100.0	1.1	Hotel
Total		317,229	687,124.54	686,694.46	99.9	100.0	



- (Note 1) Book value includes real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress, construction in progress in trust, and intangible assets.
- (Note 2) In principle, leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).
- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. The same shall apply hereinafter throughout this document.
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review. In calculating, the figures are rounded off to one decimal place.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a compartmentalized ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters). With regard to the portion of the building owned exclusively by Kobe City, the area rented by JHR from Kobe City with permission for use under Kobe City's ordinance for harbor facilities, etc. is 694.00 square meters and excluded from the above area of 32,663.90 square meters.
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) The building of Hotel Keihan Universal City is a building with compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 9) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,931.94 square meters (JHR owns 9/10 of co-ownership interest).
- (Note 10) The b akasaka-mitsuke, the b ikebukuro, the b ochanomizu, the b hachioji and the b hakata are properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle. The same shall apply hereinafter throughout this document.
- (Note 11) The building of Mercure Yokosuka is a building with compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, apartments, office spaces and parking lots, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 12) The building of ACTIVE-INTER CITY HIROSHIMA is a building with compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, stores, parking lots and bicycle parking lots etc., as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel, office spaces and stores is indicated.
- (Note 13) Leasable area and leased area of CANDEO HOTELS UENO-KOEN indicate the total floor area described in the certificate of inspection, based on the building lease agreement with the hotel lessee. Furthermore, the figure includes the floor area for the mechanical parking facilities.
- (Note 14) Building of Hilton Nagoya is a compartmentalized ownership of AMMNAT SQUARE, which consists of a hotel building (including retail space), office building and car parking space, etc., as a single building. Leasable area and leased area indicate the sum total of the leased area for the hotel building, the office building and the retail space described in the lease agreement.
- (Note 15) The building of Hotel Nikko Nara is a compartmentalized ownership of the entire building of Redeveloped Building 1 in front of JR Nara Station, which consists of hotel building, retail space and car parking space, etc. JHR's share of voting right of the building is 223/353 (approximately 63.2%).
- (Note 16) The omitted numbers are the numbers for assets that have been transferred.

### 3. Details of property assets, etc.

#### (1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2017 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	15,100	10,065	J
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	34,100	18,172	J
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	32,700	14,737	J
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	31,500	18,363	J
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,280	4,160	J
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	9,650	8,136	J
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	9,820	6,754	J
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,220	3,806	J
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,960	2,185	M
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	1,940	1,234	J
13	Dormy Inn EXPRESS Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,300	961	M
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,330	2,041	J
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,838	J
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,920	1,751	M
17	R&B Hotel Higashi Nihonbashi	15-6 Higashi-Nihonbashi 2-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,050	1,495	M
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,330	3,593	M
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	3,060	2,041	M
24	Toyoko Inn Hakata-guchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,670	1,456	T
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	2,000	1,465	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,430	792	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	13,600	5,985	R
30	Hotel Sunroute Shinbashi	10-2 Shinbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	8,740	4,840	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	36,100	26,192	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	11,300	6,712	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,500	6,686	J
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,500	5,931	J
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	7,760	2,916	J
36	the b akasaka-mitsuke	21-7 Akasaka 3-chome, Minato-ku, Tokyo	Beneficial interest in trust	6,010	6,306	J

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,330	6,585	J
38	the b ochanomizu	7-5 Kanda-awajicho 1-chome, Chiyoda-ku, Tokyo	Beneficial interest in trust	2,360	2,357	J
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,780	2,693	J
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,160	2,354	J
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,050	3,155	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	2,800	1,669	D
43	Okinawa Marriott Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	18,500	14,853	J
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	20,500	17,694	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,630	6,728	D
46	Hotel Centraza Hakata	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	8,490	7,413	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	27,200	27,122	J
48	HOTEL ASCENT FUKUOKA	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	5,560	5,187	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	15,700	15,588	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	13,400	13,383	J
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,430	9,258	J
52	Hotel Nikko Nara	8-1 Sanjyohonmachi, Nara-shi, Nara	Beneficial interest in trust	11,200	10,558	D
Total				439,390	317,229	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of valuation, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) and regulations set forth by The Investment Trusts Association, Japan.

(Note 2) Book value includes amounts of real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets.

(Note 3) The letters indicate the appraisers for the properties as follows:

J: Japan Real Estate Institute

M: Morii Appraisal & Investment Consulting, Inc.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

R: Rich Appraisal Institute Co., Ltd.

D: DAIWA REAL ESTATE APPRAISAL CO., LTD.

(Note 4) Due to the lack of a displayed address, "location" in the registration or registration record is shown.

(Note 5) The omitted numbers are the numbers for assets that have been transferred.

## (2) Transition of real estate leasing business, etc.

An overview of leasing business of real estate, etc. owned by JHR is as follows:

Property No.	Name of property, etc.	17th period (From January 1, 2016 to December 31, 2016)				18th period (From January 1, 2017 to December 31, 2017)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,103	5.0	1	100.0	1,195	4.7
2	Oriental Hotel tokyo bay	1	100.0	1,879	8.5	1	100.0	1,729	6.8
3	Namba Oriental Hotel	1	100.0	1,574	7.1	1	100.0	1,600	6.3
4	Hotel Nikko Alivila	1	100.0	1,804	8.2	1	100.0	1,951	7.7
5	Oriental Hotel Hiroshima	1	100.0	469	2.1	1	100.0	498	2.0
6	ibis Tokyo Shinjuku	4	100.0	722	3.3	4	100.0	539	2.1
8	The Beach Tower Okinawa	1	100.0	511	2.3	1	100.0	511	2.0
9	Hakone Setsugetsuka	1	100.0	294	1.3	1	100.0	294	1.2
10	Dormy Inn Kumamoto	1	100.0	194	0.9	1	100.0	194	0.8
12	the b suidobashi	1	100.0	121	0.6	1	100.0	114	0.4
13	Dormy Inn EXPRESS Asakusa	1	100.0	63	0.3	1	100.0	63	0.3
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	1.1	1	100.0	240	0.9
15	Nara Washington Hotel Plaza	2	100.0	151	0.7	2	100.0	151	0.6
16	R&B Hotel Ueno Hirokoji	1	100.0	98	0.4	1	100.0	97	0.4
17	R&B Hotel Higashi Nihonbashi	1	100.0	122	0.6	1	100.0	122	0.5
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	270	1.2	2	100.0	270	1.1
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	152	0.7	1	100.0	152	0.6
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	0.6	1	100.0	141	0.6
25	Hotel Vista Kamata Tokyo	1	100.0	115	0.5	1	100.0	109	0.4
26	Chisun Inn Kamata	1	100.0	79	0.4	1	100.0	78	0.3
29	Hotel Keihan Universal City	1	100.0	914	4.1	1	100.0	811	3.2
30	Hotel Sunroute Shinbashi	4	100.0	403	1.8	4	100.0	412	1.6
31	Hilton Tokyo Bay	1	100.0	1,959	8.9	1	100.0	1,929	7.6
32	ibis Styles Kyoto Station	2	100.0	587	2.7	2	100.0	597	2.3
33	ibis Styles Sapporo	5	99.4	635	2.9	5	99.4	707	2.8
34	Mercure Sapporo	14	98.1	745	3.4	14	98.1	818	3.2
35	Mercure Okinawa Naha	1	100.0	475	2.1	1	100.0	491	1.9
36	the b akasaka-mitsuke	2	100.0	285	1.3	2	100.0	249	1.0
37	the b ikebukuro	4	100.0	369	1.7	4	100.0	360	1.4
38	the b ochanomizu	1	100.0	115	0.5	1	100.0	108	0.4
39	the b hachioji	13	100.0	221	1.0	13	100.0	202	0.8
40	the b hakata	2	100.0	230	1.0	2	100.0	252	1.0
41	Hotel Francs	1	100.0	300	1.4	1	100.0	300	1.2
42	Mercure Yokosuka	1	100.0	271	1.2	1	100.0	291	1.1
43	Okinawa Marriott Resort & Spa	1	100.0	1,066	4.8	1	100.0	1,215	4.8
44	ACTIVE-INTER CITY HIROSHIMA	37	99.8	1,378	6.2	37	99.8	1,482	5.8
45	CANDEO HOTELS UENO-KOEN	1	100.0	309	1.4	1	100.0	350	1.4
46	Hotel Centraza Hakata	1	100.0	599	2.7	1	100.0	865	3.4
47	Holiday Inn Osaka Namba	1	100.0	539	2.4	1	100.0	1,215	4.8
48	HOTEL ASCENT FUKUOKA	6	100.0	158	0.7	6	100.0	436	1.7
49	Hilton Nagoya	4	100.0	430	1.9	4	100.0	1,388	5.4
50	Hilton Tokyo Narita Airport (Note 2)	—	—	—	—	1	100.0	398	1.6

Property No.	Name of property, etc.	17th period (From January 1, 2016 to December 31, 2016)				18th period (From January 1, 2017 to December 31, 2017)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
51	International Garden Hotel Narita (Note 2)	—	—	—	—	1	100.0	261	1.0
52	Hotel Nikko Nara (Note 3)	—	—	—	—	1	100.0	272	1.1
Total		128	99.9	22,107	100.0	131	99.9	25,475	100.0

(Note 1) Number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the number of end tenants is indicated. For properties with sub-lease-type master lease contracts in which JHR receives predetermined rents despite fluctuations in rents from end tenants, the number of the master lease companies is indicated as tenants.

(Note 2) Hilton Tokyo Narita Airport and International Garden Hotel Narita were acquired on July 12, 2017.

(Note 3) Hotel Nikko Nara was acquired on August 1, 2017.

(Note 4) The property numbers of assets that were transferred before the previous fiscal period are intentionally omitted.

#### 4. Details of securities assets

There are no applicable securities held by JHR as of December 31, 2017.

#### 5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2017 were as follows:

Classification	Transaction	Amounts of contract, etc. (JPY1M) (Note 1)		Fair value (JPY1M) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions			
	Payable fixed rate / Receivable floating rate	106,852	92,842	(404)
	Interest rate cap transactions	4,286	-	-
Total		111,139	92,842	(404)

(Note 1) Contractual amounts, etc. of interest rate swap transactions and interest rate cap transactions are based on notional principal amounts, etc.

(Note 2) Fair value is based on the price, etc. provided by counterparty financial institutions.

#### 6. Other assets

All of the beneficial interest in trust mainly invested in real estate held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments in the portfolio of JHR as of December 31, 2017.

#### 7. Asset holdings by country and region

There is nothing to be reported on countries and regions other than Japan.

## Capital Expenditures for Portfolio Properties

### 1. Planned capital expenditures (Note 1)

The following table shows major estimated capital expenditures for renovation work planned as of the end of the fiscal period under review for investment real estate properties (in trust) held by JHR. Expenditures are expected to total ¥3,250 million, which consists of capital expenditures of ¥3,186 million (Note 2) and repair expenses of ¥63 million, for the next fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)		
			Total amount	Payment for the period	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of telephone switchboard	From April 2018 to May 2018	50	-	-
Oriental Hotel Tokyo Bay (Urayasu-shi, Chiba)	Splitting of suite guestroom and relocation of Mama Salon	From October 2018 to November 2018	120	-	-
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th floor	From January 2018 to February 2018	78	-	-
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guest rooms	From September 2018 to December 2018	260	-	-
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th and 7th floors	From January 2018 to February 2018	58	-	-
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 12th floor	From June 2018 to June 2018	30	-	-
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of drainage for sewage and gray watercheck	From June 2017 to January 2018	55	-	-
Hotel Centraza Hakata (Fukuoka-shi, Fukuoka)	Renewal of the entire building	From October 2018 to March 2019	3,100	-	-
Total			3,753	-	-

(Note 1) For new construction and renewal work, estimated construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned repair work and whether or not the repair work will be performed may change.

(Note 2) The estimated construction costs for the renewal of the entire building of Hotel Centraza Hakata is not included in the capital expenditures for the next fiscal period, as the construction work will be completed in March 2019.

## 2. Capital expenditures during the period (Note)

For investment real estate properties (in trust) held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥2,898 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥49 million. In aggregate, ¥2,948 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of disaster prevention switchboard	From May 2017 to December 2017	45
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Relocation of bridal salon	From April 2017 to December 2017	76
Oriental Hotel Tokyo Bay (Urayasu-shi, Chiba)	Renewal of automatic fire alarm equipment	From January 2017 to July 2017	50
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 7th floor, etc.	From February 2017 to March 2017	77
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of piping	From May 2017 to August 2017	136
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of interior fittings and furniture in guest rooms on the 3rd through 10th floors	From May 2017 to August 2017	312
Hakone Setsugetsuka (Ashigarashimogun, Kanagawa)	Replacement of air-conditioning facilities within the building	From June 2017 to June 2017	99
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From May 2017 to July 2017	69
Total			867

(Note) For new construction and renewal work, construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures.

### 3. Cash reserves for the long-term repairs and maintenance plan (reserve for repairs and maintenance)

JHR accumulates cash reserves from cash flows for each fiscal period as detailed below to utilize for medium- to long-term future expenditures on large-scale repairs and maintenance projects based on long-term repairs and maintenance plans prepared for each property.

(millions of yen)

Fiscal period	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)
Balance at beginning of period	307	454	493	657	791
Provision during the period	184	46	185	133	154
Reversal during the period	37	7	20	-	-
Amount carried forward	454	493	657	791	946



## Expenses and Liabilities

### 1. Details of expenses related to asset management, etc.

(thousands of yen)

	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)
(a) Asset management fees	(Note 1) 1,307,381	(Note 2) 1,501,391
(b) Asset custody and administrative service fee (Note 3)	112,811	111,425
(c) Officers' compensation	14,400	14,150
(d) Other operating expenses	197,443	179,110
Total	1,632,036	1,806,078

(Note 1) For asset management fees for the 17th fiscal period, besides the above amounts, there are ¥458,079 thousand of fees included in the acquisition price of investment properties, etc. in acquiring properties.

(Note 2) For asset management fees for the 18th fiscal period, besides the above amounts, there are ¥245,047 thousand of fees included in the acquisition price of investment properties, etc. in acquiring properties.

(Note 3) Although asset custody and administrative service fee had previously been presented separately, they have been combined into a single item due to integration of the fee calculation, starting from the 18th fiscal period.

## 2. Loans Payable

The status of loans by contractual agreement and by financial institution as of December 31, 2017 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	February 29, 2016	1,700	—	0.33%	February 28, 2017	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		1,700	—					
	The Higo Bank, Ltd.	December 2, 2016	100	—	0.35%	November 30, 2017	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		100	—					
	Sumitomo Mitsui Banking Corporation	July 12, 2017	—	1,125	0.31%	June 29, 2018	Lump-sum repayment (Note 4)	(Note 5)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	750					
	Mizuho Bank, Ltd.		—	750					
	Sumitomo Mitsui Trust Bank, Limited		—	375					
	Subtotal		—	3,000					
	Short-term loans payable – Total		1,800	3,000					
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 19, 2012	1,200	—	1.47% (Note 2)	September 19, 2017	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Shinsei Bank, Limited		390	—					
	The Tokyo Star Bank, Limited		960	—					
	Subtotal		2,550	—					
	Shinsei Bank, Limited	November 15, 2012	2,000	—	1.38% (Note 2)	November 15, 2017	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		500	—					
	Sumitomo Mitsui Banking Corporation		4,000	—					
	Subtotal		6,500	—					
	Sumitomo Mitsui Trust Bank, Limited	March 29, 2013	479	—	0.86%	March 31, 2017	Repayment of ¥2,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 6)	Unsecured, unguaranteed
	Subtotal		479	—					
	Sumitomo Mitsui Banking Corporation	April 26, 2013	2,123	2,101	0.96%	April 26, 2018	Repayment of ¥11,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 5)	Unsecured, unguaranteed
	Shinsei Bank, Limited		965	955					
	The Tokyo Star Bank, Limited		1,254	1,241					
	Subtotal		4,342	4,297					
	Sumitomo Mitsui Banking Corporation	September 30, 2013	1,790	1,771	0.98% (Note 2)	September 30, 2018	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 6)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		942	932					
	Subtotal		2,733	2,704					
	Sumitomo Mitsui Banking Corporation	October 31, 2013	500	500	0.98% (Note 2)	September 30, 2018	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		500	500					
	Subtotal		3,000	3,000					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Sumitomo Mitsui Banking Corporation	March 31, 2014	62	54	0.73% (Note 2)	March 31, 2018	Repayment of ¥19,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 6)	Unsecured, unguaranteed
	Resona Bank, Limited		733	713					
	Shinsei Bank, Limited		710	702					
	Sumitomo Mitsui Trust Bank, Limited		61	47					
	The Nomura Trust and Banking Co., Ltd.		678	668					
	The Chiba Bank, Ltd.		543	535					
	Sompo Japan Nipponkoa Insurance Inc.		609	601					
	Subtotal		3,397	3,321					
	Sumitomo Mitsui Banking Corporation	March 31, 2014	648	648	1.15% (Note 2)	March 31, 2021	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Resona Bank, Limited		2,516	2,516					
	Shinsei Bank, Limited		2,516	2,516					
	Sumitomo Mitsui Trust Bank, Limited		1,120	1,120					
	Subtotal		6,800	6,800					
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	0.60% (Note 3)	September 30, 2019	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		434	434					
	Shinsei Bank, Limited		720	720					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	The Bank of Fukuoka, Ltd.		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Hiroshima Bank, Ltd.		435	435					
	Sompo Japan Nipponkoa Insurance Inc.		328	328					
	Development Bank of Japan Inc.		500	500					
	Subtotal		6,317	6,317					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	800	800	0.92% (Note 2)	September 30, 2020	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,600	1,600					
	Resona Bank, Limited		1,100	1,100					
	Shinsei Bank, Limited		970	970					
	Sumitomo Mitsui Trust Bank, Limited		800	800					
	Development Bank of Japan Inc.		500	500					
	The Tokyo Star Bank, Limited		762	762					
	Aozora Bank, Ltd.		285	285					
	Subtotal		6,817	6,817					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	1.04% (Note 2)	September 30, 2021	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		850	850					
	Shinsei Bank, Limited		750	750					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	Subtotal		4,000	4,000					
	Mitsubishi UFJ Trust and Banking Corporation	December 30, 2014	935	935	0.53%	December 30, 2020	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		935	935					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,400	1,400	0.38% (Note 2)	January 31, 2020	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,500	1,500					
	Shinsei Bank, Limited		500	500					
	Resona Bank, Limited		500	500					
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Chiba Bank, Ltd.		300	300					
	Subtotal		4,700	4,700					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,700	1,700	0.90% (Note 2)	January 31, 2022	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		3,000	3,000					
	Shinsei Bank, Limited		1,050	1,050					
	Resona Bank, Limited		1,000	1,000					
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	The Tokyo Star Bank, Limited		300	300					
	Aozora Bank, Ltd.		150	150					
	Subtotal		8,200	8,200					
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	1,500	0.93% (Note 2)	March 31, 2022	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		1,500	1,500					
	Aozora Bank, Ltd.	July 10, 2015	1,000	1,000	0.95% (Note 2)	June 30, 2022	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Mitsubishi UFJ Trust and Banking Corporation		500	500					
	Subtotal		1,500	1,500					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	100	100	0.48%	June 30, 2020	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		992	992					
	Subtotal		1,092	1,092					
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07% (Note 2)	September 29, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2015	703	703	1.07% (Note 2)	September 29, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		1,744	1,744					
	Shinsei Bank, Limited		189	189					
	Subtotal		2,636	2,636					
	Sumitomo Mitsui Banking Corporation	February 29, 2016	500	500	0.21% (Note 2)	March 31, 2019	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		250	250					
	Mizuho Bank, Ltd.		250	250					
	Subtotal		2,000	2,000					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	480	480	0.19% (Note 2)	March 31, 2019	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		800	800					
	Mizuho Bank, Ltd.		480	480					
	Subtotal		1,760	1,760					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	530	530	0.19% (Note 2)	March 31, 2019	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		270	270					
	Development Bank of Japan Inc.		230	230					
	The Bank of Fukuoka, Ltd.		110	110					
	Subtotal		1,140	1,140					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77% (Note 2)	March 31, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		1,750	1,750					
	Mizuho Bank, Ltd.		1,050	1,050					
	Subtotal		3,850	3,850					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	1,200	1,200	0.77% (Note 2)	March 31, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		600	600					
	Development Bank of Japan Inc.		550	550					
	The Bank of Fukuoka, Ltd.		300	300					
	Subtotal		2,650	2,650					
	Sumitomo Mitsui Banking Corporation	March 31, 2016	1,200	1,200	0.68% (Note 2)	March 31, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		1,000	1,000					
	Resona Bank, Limited		500	500					
	The Tokyo Star Bank, Limited		500	500					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	Subtotal		4,700	4,700					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	800	800	0.66% (Note 2)	March 31, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		800	800					
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 31, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	September 1, 2016	2,900	2,900	0.74% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,700	1,700					
	Mizuho Bank, Ltd.		1,700	1,700					
	Resona Bank, Limited		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Chiba Bank, Ltd.		500	500					
	The Bank of Fukuoka, Ltd.		1,200	1,200					
	Subtotal		9,500	9,500					
	Sumitomo Mitsui Trust Bank, Limited	September 1, 2016	1,300	1,300	0.56% (Note 2)	September 30, 2024	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		1,300	1,300					
	Mitsubishi UFJ Trust and Banking Corporation	September 1, 2016	2,000	2,000	0.56% (Note 2)	September 30, 2024	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		2,000	2,000					
	Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		700	700					
	Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	February 28, 2017	—	1,700	0.31%	March 30,2018	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		—	1,700					
	Sumitomo Mitsui Banking Corporation	July 12,2017	—	1,750	0.44%	June 30,2023	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		—	500					
	Subtotal		—	2,250					
	Sumitomo Mitsui Banking Corporation	August 1,2017	—	1,250	0.85% (Note 2)	September 30,2026	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	1,250					
	Mizuho Bank, Ltd.		—	1,250					
	Resona Bank, Limited		—	500					
	Subtotal		—	4,250					
	Sumitomo Mitsui Trust Bank, Limited	August 1,2017	—	1,000	0.73% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		—	1,000					
	Mitsubishi UFJ Trust and Banking Corporation	August 1,2017	—	700	0.68% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		—	700					
	Development Bank of Japan Inc.	August 1,2017	—	500	0.75%	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Subtotal		—	500					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	The Fukuoka Bank, Ltd.	August 1,2017	—	500	0.73% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured unguaranteed
	Subtotal		—	500					
	Aozora Bank, Ltd.	August 1,2017	—	500	0.73% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured unguaranteed
	Subtotal		—	500					
	The Nishi-Nippon City Bank, Ltd.	August 1,2017	—	1,000	0.73% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured unguaranteed
	Subtotal		—	1,000					
	Shinsei Bank, Limited	August 1,2017	—	300	0.68% (Note 2)	September 30,2025	Lump-sum repayment	(Note 5)	Unsecured unguaranteed
	Subtotal		—	300					
	Sumitomo Mitsui Banking Corporation	September 19,2017	—	1,200	0.65% (Note 2)	March 31,2025	Lump-sum repayment	(Note 6)	Unsecured unguaranteed
	Mizuho Bank, Ltd.		—	500					
	Sumitomo Mitsui Trust Bank, Limited		—	460					
	Shinsei Bank, Limited		—	390					
	Subtotal		—	2,550					
	Sumitomo Mitsui Banking Corporation	November 15,2017	—	2,500	0.57% (Note 2)	March 29,2024	Lump-sum repayment	(Note 6)	Unsecured unguaranteed
	Shinsei Bank, Limited		—	1,500					
	Subtotal		—	4,000					
	Sumitomo Mitsui Banking Corporation	November 15, 2017	—	1,500	0.65% (Note 2)	March 31,2025	Lump-sum repayment	(Note 6)	Unsecured unguaranteed
	Shinsei Bank, Limited		—	500					
	Development Bank of Japan Inc.		—	300					
	The Fukuoka Bank, Ltd.		—	150					
	Subtotal		—	2,450					
	Long-term loans payable – Total		101,779	113,799					
Total loans payable			103,579	116,799					

(Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to second decimal places.

(Note 2) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps, rounded off to second decimal places.

(Note 3) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% per annum for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.

(Note 4) JHR borrowed ¥4,000 million on July 12, 2017, of which it repaid ¥1,000 million on November 30, 2017 as partial early repayment.

(Note 5) The funds were appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.

(Note 6) The funds were appropriated for refinancing of borrowings, etc.

(Note 7) The funds were appropriated for repairs and maintenance.

(Note 8) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses, etc.

(Note 9) In order to list each loan payable, ¥15,022 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

### 3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2017 was as follows:

Name	Issuance date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Third unsecured investment corporation bonds	March 19, 2014	2,000	2,000	0.92	March 19, 2019	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 4)
Fourth unsecured investment corporation bonds	December 19, 2014	1,500	1,500	0.86	December 17, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 4)
Fifth unsecured investment corporation bonds	October 23, 2015	6,000	6,000	0.82	October 21, 2022	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Sixth unsecured investment corporation bonds	March 22, 2016	3,000	3,000	0.935	March 19, 2026	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 4)
Seventh unsecured investment corporation bonds	November 29, 2016	9,000	9,000	0.60	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 5)
Eighth unsecured investment corporation bonds	November 29, 2016	1,100	1,100	0.60	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 4)
Ninth unsecured investment corporation bonds	November 24, 2017	—	1,000	0.53	November 24, 2024	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 4)
Total		22,600	23,600					

(Note 1) The funds were appropriated to partly fund the repayment of existing borrowings.

(Note 2) The funds were appropriated for repayment of existing borrowings and future acquisition of specified assets, etc.

(Note 3) The funds were appropriated for redemption of the second unsecured investment corporation bonds, repayment of existing borrowings and future acquisition of real estate properties, etc.

(Note 4) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

(Note 5) A special pari passu clause among investment corporation bonds is attached to the bonds.

### 4. Short-term investment corporation bonds

Not applicable.

### 5. Subscription rights to new investment units

Not applicable.



## Purchase and Sale during the Period

### 1. Purchase and sale, etc. of real estate, etc., asset-backed securities, etc. and infrastructure assets, etc., and infrastructure-related assets

Asset type	Name of property, etc.	Acquisition		Sale			
		Acquisition date	Acquisition price (JPY1M) (Note)	Sale date	Sale price (JPY1M)	Book value (JPY1M)	Gain (loss) on sale (JPY1M)
Beneficial interest of real estate in trust	Hilton Tokyo Narita Airport	July 12, 2017	13,175	—	—	—	—
Beneficial interest of real estate in trust	International Garden Hotel Narita	July 12, 2017	9,125	—	—	—	—
Beneficial interest of real estate in trust	Hotel Nikko Nara	August 1, 2017	10,373	—	—	—	—
Total		—	32,673	—	—	—	—

(Note) Acquisition price indicates contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition of such property.

### 2. Purchase and sale of other assets, etc.

Assets other than real estate, etc., asset-backed securities, etc., and infrastructure assets, etc. and infrastructure-related assets are mostly bank deposits and bank deposits in trust.

### 3. Survey of prices, etc. of specified assets

#### (1) Real estate properties, etc.

Acquisition/sale	Asset type	Name of property, etc.	Acquisition/sale date	Acquisition/sale price (JPY1M) (Note 1)	Appraisal value (JPY1M) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Beneficial interest of real estate in trust	Hilton Tokyo Narita Airport	July 12, 2017	13,175	13,400	April 1, 2017	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	International Garden Hotel Narita	July 12, 2017	9,125	9,430	April 1, 2017	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	Hotel Nikko Nara	August 1, 2017	10,373	11,200	May 1, 2017	DAIWA REAL ESTATE APPRAISAL CO.,LTD.

(Note 1) Acquisition price and sale price indicate contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) The above appraisals were valued by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

#### (2) Transaction of securities

Not applicable.

#### (3) Other

For transactions made by JHR that require research on price, etc. pursuant to the provisions of Article 201 of the Investment Trusts Act, except for transactions described in “(1) Real estate properties, etc.” above, the research activities were entrusted to KPMG AZSA LLC.

JHR has received from KPMG AZSA LLC a research report on four interest rate swap transactions executed during the period from January 1, 2017 to December 31, 2017.

#### 4. Transactions with interested parties, etc. (Note 1)

##### (1) Transactions

(millions of yen)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	32,673	–	25,475
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	6,973 [27.4%]
Lagoon resort Nago Co., Ltd.	– [–%]	– [–%]	1,215 [4.8%]
OW Hotel Operations KK	– [–%]	– [–%]	1,215 [4.8%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,063 [4.2%]
K.K. A.I.C Hiroshima Management	– [–%]	– [–%]	948 [3.7%]
Hotel Centraza Co., Ltd.	– [–%]	– [–%]	865 [3.4%]
KK NaritaKosuge Operations	– [–%]	– [–%]	398 [1.6%]
Hotel Management Co., Ltd.	– [–%]	– [–%]	272 [1.1%]
KK NaritaYoshikura Operations	– [–%]	– [–%]	261 [1.0%]
Total	– [–%]	– [–%]	13,213 [51.9%]

(Note 1) Interested parties, etc. are the Asset Management Company's interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trust Act (hereinafter referred to as "interested parties, etc."). The amounts in "(1) Transactions" above and "(2) Amounts of fees paid, etc." below include transactions with those interested parties, etc. as well as major transactions with sponsor-related parties stipulated in the Asset Management Company's company code for transactions with sponsor-related parties, which include 1. Interested parties, etc., 2. The Asset Management Company's shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 50% or more stake, 5. Entity or persons who ceased to fall under 1. or 4. within 3 months, and 6. Entity or persons who are deemed appropriate by the compliance officer of the Asset Management Company to be treated as sponsor-related parties in light of the company code for transactions with sponsor-related parties and the purpose of these rules.

(Note 2) Acquisition price, etc. and sale price, etc. indicate contracted amounts of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 3) The figures in brackets show the ratio of the relevant amount to the total amount, rounded off to one decimal place.

**(2) Amount of fees paid, etc.**

(thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with interested parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	703,933	Hotel Management Japan Co., Ltd.	5,760	0.8

(Note) Includes basic fees under the property management agreement as well as outsourcing expenses related to routine maintenance and management of buildings and facilities.

**5. Transactions with the Asset Management Company in other businesses of the Asset Management Company**

The Asset Management Company only engages in asset management and does not engage in any businesses related to the financial instruments trading business, building lots and buildings transactions, or real estate specified joint enterprise business. There are no applicable transactions.

## II. Financial Information

### 1. Assets, liabilities, equity, and profit and loss

For the status of assets, liabilities, equity (contribution), and profit and loss, please refer to “Balance Sheets”, “Statements of Income”, “Statements of Changes in Net Assets”, “Statements of Cash Flows” and “Notes to Financial Statements”.

### 2. Changes in calculation method of depreciation

Not applicable.

### 3. Changes in evaluation method of real estate, etc. and infrastructure assets, etc.

Not applicable.

### Status of beneficiary certificates of investment trusts set up by asset management company, etc.

Japan Hotel REIT Advisors Co., Ltd., the asset management company of JHR, has acquired JHR’s investment units as indicated below.

#### (1) Status of acquisition, etc.

Date	Number of units acquired (units)	Number of units disposed (units)	Number of units held (units)
January 20, 2016	2,500	—	2,500
July 5, 2017	1,200	—	3,700
Accumulated total	3,700	—	3,700

#### (2) Status of holding units

		Number of units held at end of period (units)	Total investment at end of period (thousands of yen)	Ratio to total units issued (%)	(Reference) Total number of units issued at end of period (units)
17th fiscal period	From January 1, 2016 to December 31, 2016	2,500	212,550	0.06	3,761,907
18th fiscal period	From January 1, 2017 to December 31, 2017	3,700	305,571	0.09	4,010,847

(Note) Ratio to total units issued is percentage of investment units held at end of period to the total investment units issued at end of period and is rounded down to second decimal place.

## Other

### (1) Announcements

The following shows the summary of major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR's Board of Directors.

Approval date	Item	Summary
June 28, 2017	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units in Japan was entrusted to SMBC Nikko Securities Inc., Daiwa Securities Co. Ltd., Mizuho Securities Co., Ltd., Goldman Sachs Japan Co., Ltd. and Nomura Securities Co., Ltd. Moreover, general administration for offering the investment units overseas was entrusted to SMBC Nikko Capital Markets Limited, Goldman Sachs International, Daiwa Capital Markets Europe Limited and Mizuho International plc as joint lead managers for the overseas offering.
July 25, 2017	Shelf registration and comprehensive resolution on the issuance of investment corporation bonds and entrustment of accompanying administration	A comprehensive resolution was made on the issuance of investment corporation bonds with the issuance period between August 2, 2017 and August 1, 2019 with the total amount issued of within ¥100.0 billion. At the same time, a resolution was made on the issuance of investment corporation bonds of within ¥20 billion, and the decision on matters regarding the issuance of investment corporation bonds, including the administration and entrustment of operations, was left to the discretion of the Executive Director.
November 22, 2017	Partial amendment to the asset management agreement	In accordance with the modifications to the Articles of Incorporation resolved at the 8th General Meeting of Unitholders of JHR, partial modifications were made to the asset management agreement as follows: <ul style="list-style-type: none"> <li>• Changing the cycles of payment of the asset management fees to the asset management company, and others.</li> </ul>

The 8th General Meeting of Unitholders of JHR was held on November 22, 2017. The major items approved at the General Meeting of Unitholders are summarized below.

Agenda	Summary
Partial amendments to the Articles of Incorporation	<p>Partial amendments were made to the Articles of Incorporation due to the following reasons.</p> <ul style="list-style-type: none"> <li>• Added a new provision to make the period in which a resolution for appointment of a substitute director is in force and effect consistent with the term of office of the substituted director.</li> <li>• With respect to the payment of the accounting auditor's remuneration, amended the provision to clarify that the due date of payment is counted from upon request from the accounting auditor.</li> <li>• Amended the relevant provisions in order that the assets in which JHR invests include shares or equity interests in foreign real property holding corporations in line with the partial amendments made to the regulations of The Investment Trusts Association, Japan, and in order that the assets in which JHR invests clearly include monetary claims such as loan claims against foreign real property holding corporations and easements governed by laws and regulations of foreign jurisdictions.</li> <li>• Amended the relevant provisions to change the cycles of payment of the asset management fees to be paid by JHR to the asset management company, for the purpose of ensuring the financial stability of the asset management company.</li> <li>• And others.</li> </ul>

Election of one Executive Director	Kaname Masuda was again elected as Executive Director. His term of office commences on November 22, 2017 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since his election and at which a vote will be held on the election of Executive Director(s).
Election of two Supervisory Directors	Tetsuya Mishiku and Hiroto Kashii were elected as Supervisory Directors. The term of office of the elected Supervisory Directors commences on November 22, 2017 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since their election and at which a vote will be held on the election of Supervisory Directors.
Election of one Substitute Executive Director	Hisashi Furukawa, Representative Director of the Asset Management Company, was again elected as Substitute Executive Director.

**(2) Status, etc. of corporation owning foreign real estate**

Not applicable.

**(3) Status, etc. of real estate owned by foreign real property holding corporations**

Not applicable.

**(4) Other**

Unless otherwise noted, amounts and ratios in this report are rounded down and rounded off to the stated unit, respectively.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Balance Sheets**  
**As of December 31, 2017 and 2016**

	<i>Thousands of yen</i>	
	As of December 31, 2017	As of December 31, 2016
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and deposits ( <i>Notes 4 and 5</i> )	¥ 16,179,716	¥ 15,141,393
Cash and deposits in trust ( <i>Notes 4 and 5</i> )	11,740,634	11,232,472
Operating accounts receivable ( <i>Note 5</i> )	2,411,837	2,071,152
Prepaid expenses	573,439	586,700
Income taxes receivable	32	294
Other current assets	14,205	18,339
Total current assets	30,919,866	29,050,353
<b>Property and equipment, at cost (<i>Notes 16 and 18</i>):</b>		
Machinery and equipment	278,899	220,174
Tools, furniture and fixtures	2,438,070	1,983,010
Construction in progress	-	3,240
Buildings in trust ( <i>Note 12</i> )	122,414,147	104,284,116
Structures in trust	2,493,765	2,100,930
Machinery and equipment in trust	580,867	534,100
Tools, furniture and fixtures in trust	137,266	137,266
Land in trust	171,618,110	154,841,633
Construction in progress in trust	1,512	4,085
	299,962,640	264,108,558
Less: Accumulated depreciation	(16,896,044)	(13,417,931)
Net property and equipment	283,066,595	250,690,627
<b>Intangible assets:</b>		
Software	200,001	168,345
Leasehold rights in trust ( <i>Note 18</i> )	28,648,457	28,648,457
Fixed-term leasehold rights in trust ( <i>Note 18</i> )	5,313,494	5,451,770
Other intangible assets ( <i>Note 18</i> )	9,116	9,796
Total intangible assets	34,171,069	34,278,369
<b>Other assets:</b>		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	158,323	158,323
Long-term prepaid expenses	3,008,327	3,090,505
Derivative assets ( <i>Notes 5 and 17</i> )	123,334	146,585
Reserve fund for repairs and maintenance	319,058	64,130
Investment unit issuance costs	272,107	243,615
Investment corporation bond issuance costs	132,059	143,589
Total other assets	4,025,731	3,859,270
<b>Total assets</b>	<b>¥352,183,262</b>	<b>¥317,878,620</b>

(Continued)

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Balance Sheets**  
**As of December 31, 2017 and 2016**

	<i>Thousands of yen</i>	
	As of December 31, 2017	As of December 31, 2016
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Operating accounts payable	¥ 909,971	¥ 666,315
Short-term loans payable ( <i>Notes 5 and 6</i> )	3,000,000	1,800,000
Current portion of long-term loans payable ( <i>Notes 5, 6 and 17</i> )	15,022,750	9,679,250
Accrued expenses	650,568	610,344
Income taxes payable	1,210	1,210
Consumption taxes payable	560,170	496,373
Advances received	900,259	899,290
Dividends payable	16,400	15,101
Deposits received	22,098	117,949
Derivative liabilities ( <i>Notes 5 and 17</i> )	23,471	24,379
Other current liabilities	54,903	54,503
Total current liabilities	21,161,802	14,364,717
<b>Long-term liabilities:</b>		
Investment corporation bonds ( <i>Notes 5 and 7</i> )	23,600,000	22,600,000
Long-term loans payable ( <i>Notes 5, 6 and 17</i> )	98,777,000	92,099,750
Tenant leasehold and security deposits ( <i>Note 5</i> )	1,041,016	1,041,032
Tenant leasehold and security deposits in trust ( <i>Note 5</i> )	4,653,410	4,619,744
Derivative liabilities ( <i>Notes 5 and 17</i> )	504,179	676,488
Deferred tax liabilities ( <i>Note 14</i> )	38,954	46,233
Asset retirement obligations ( <i>Note 8</i> )	443,577	441,542
Total long-term liabilities	129,058,138	121,524,790
<b>Total liabilities</b>	<b>150,219,940</b>	<b>135,889,508</b>
<b>Net assets (<i>Note 9</i>):</b>		
Unitholders' equity:		
Unitholders' capital		
Units authorized: 20,000,000 units		
Units issued and outstanding: 4,010,847 units and 3,761,907 units as of December 31, 2017 and 2016, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Dividend reserve	-	13,867,228
Reserve for temporary difference adjustment ( <i>Note 10</i> )	13,127,153	-
Total voluntary reserve	13,127,153	13,867,228
Unappropriated retained earnings	14,005,489	12,126,057
Total surplus	48,879,041	47,739,684
Total unitholders' equity	202,395,170	182,569,132
Valuation and translation adjustments:		
Deferred gains (losses) on hedges ( <i>Note 17</i> )	(431,849)	(580,019)
Total valuation and translation adjustments	(431,849)	(580,019)
<b>Total net assets</b>	<b>201,963,321</b>	<b>181,989,112</b>
<b>Total liabilities and net assets</b>	<b>¥352,183,262</b>	<b>¥317,878,620</b>

See notes to financial statements.



**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Income**  
**For the years ended December 31, 2017 and 2016**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>Operating revenue:</b>		
Real estate operating revenue ( <i>Note 11</i> )	¥ 24,318,307	¥ 21,165,085
Other real estate operating revenue ( <i>Note 11</i> )	1,157,246	942,384
Total operating revenue	25,475,553	22,107,470
<b>Operating expenses:</b>		
Real estate operating costs ( <i>Note 11</i> )	7,911,653	6,589,908
Asset management fee	1,501,391	1,307,381
Asset custody and administrative service fee ( <i>Note 3</i> )	111,425	112,811
Directors' compensation	14,150	14,400
Other operating expenses	179,110	197,443
Total operating expenses	9,717,731	8,221,945
Operating income	15,757,821	13,885,524
<b>Non-operating income:</b>		
Interest income	212	1,924
Gain on forfeiture of unclaimed dividends	3,624	2,296
Gain on insurance claims	648	472
Interest on tax refunds	391	610
Gain on derivative instruments	22,381	1,872
Total non-operating income	27,258	7,176
<b>Non-operating expenses:</b>		
Interest expense	904,000	862,943
Interest expense on investment corporation bonds	169,584	128,071
Borrowing costs	522,774	561,927
Amortization of investment corporation bond issuance costs	20,748	19,043
Amortization of investment unit issuance costs	141,962	81,361
Loss on derivative instruments	13,306	16,445
Other	6,414	2,673
Total non-operating expenses	1,778,791	1,672,466
Ordinary income	14,006,288	12,220,234
<b>Extraordinary losses</b>		
Loss on disaster ( <i>Note 13</i> )	-	95,860
Total extraordinary losses	-	95,860
Income before income taxes	14,006,288	12,124,373
<b>Income taxes (<i>Note 14</i>):</b>		
Current	1,210	1,210
Total income taxes	1,210	1,210
Net income	¥ 14,005,078	¥ 12,123,163

*See notes to financial statements.*

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Changes in Net Assets**  
**For the years ended December 31, 2017 and 2016**

	Thousands of yen							
	Unitholders' equity							
	Surplus							
		Voluntary reserve						
	Unitholders' capital	Capital surplus	Dividend reserve	Reserve for temporary difference adjustment	Total voluntary reserve	Unappropriated retained earnings	Total surplus	Total unitholders' equity
Balance, January 1, 2016	¥ 85,470,541	¥ 21,746,398	¥ 13,928,075	¥ -	¥ 13,928,075	¥ 9,296,121	¥ 44,970,596	¥ 130,441,137
Changes of items during the year:								
Issuance of new investment units	49,358,906	-	-	-	-	-	-	49,358,906
Reversal of dividend reserve	-	-	(60,847)	-	(60,847)	60,847	-	-
Dividends paid	-	-	-	-	-	(9,354,075)	(9,354,075)	(9,354,075)
Net income	-	-	-	-	-	12,123,163	12,123,163	12,123,163
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	49,358,906	-	(60,847)	-	(60,847)	2,829,936	2,769,088	52,127,994
Balance, December 31, 2016	¥ 134,829,448	¥ 21,746,398	¥ 13,867,228	¥ -	¥ 13,867,228	¥ 12,126,057	¥ 47,739,684	¥ 182,569,132
Changes of items during the year:								
Issuance of new investment units	18,686,681	-	-	-	-	-	-	18,686,681
Reversal of dividend reserve	-	-	(13,867,228)	-	(13,867,228)	13,867,228	-	-
Provision of Reserve for temporary difference adjustment	-	-	-	13,127,153	13,127,153	(13,127,153)	-	-
Dividends paid	-	-	-	-	-	(12,865,721)	(12,865,721)	(12,865,721)
Net income	-	-	-	-	-	14,005,078	14,005,078	14,005,078
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	18,686,681	-	(13,867,228)	13,127,153	(740,075)	1,879,431	1,139,356	19,826,037
Balance, December 31, 2017	¥ 153,516,129	¥ 21,746,398	¥ -	¥ 13,127,153	¥ 13,127,153	¥ 14,005,489	¥ 48,879,041	¥ 202,395,170

	Thousands of yen		
	Valuation and translation adjustments		
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, January 1, 2016	¥ (526,660)	¥ (526,660)	¥ 129,914,477
Changes of items during the year:			
Issuance of new investment units	-	-	49,358,906
Reversal of dividend reserve	-	-	-
Dividends paid	-	-	(9,354,075)
Net income	-	-	12,123,163
Net changes in items other than unitholders' equity	(53,359)	(53,359)	(53,359)
Total changes in amount during the year	(53,359)	(53,359)	52,074,635
Balance, December 31, 2016	¥ (580,019)	¥ (580,019)	¥ 181,989,112
Changes of items during the year:			
Issuance of new investment units	-	-	18,686,681
Reversal of dividend reserve	-	-	-
Provision of Reserve for temporary difference adjustment	-	-	-
Dividends paid	-	-	(12,865,721)
Net income	-	-	14,005,078
Net changes in items other than unitholders' equity	148,170	148,170	148,170
Total changes in amount during the year	148,170	148,170	19,974,208
Balance, December 31, 2017	¥ (431,849)	¥ (431,849)	¥ 201,963,321

See notes to financial statements.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2017 and 2016**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 14,006,288	¥ 12,124,373
Depreciation and amortization	3,725,775	3,294,081
Loss on disposal of property and equipment	132,908	16,662
(Gain) Loss on derivative instruments	(9,074)	14,572
Amortization of investment corporation bond issuance costs	20,748	19,043
Amortization of investment unit issuance costs	141,962	81,361
Interest income	(212)	(1,924)
Interest expense	1,073,584	991,014
Interest on tax refunds	(391)	(610)
(Increase) decrease in operating accounts receivable	(340,685)	(801,580)
(Increase) decrease in consumption taxes receivable	-	245,509
(Increase) decrease in prepaid expenses	13,261	(176,458)
(Increase) decrease in long-term prepaid expenses	82,178	(2,095,775)
Increase (decrease) in operating accounts payable	(6,949)	102,258
Increase (decrease) in accrued expenses	43,449	112,854
Increase (decrease) in consumption taxes payable	63,796	496,373
Increase (decrease) in advances received	969	206,495
Increase (decrease) in deposits received	(95,850)	46,506
Other	(11,075)	4,862
Subtotal	18,840,684	14,679,620
Interest received	166	1,862
Interest paid	(1,076,810)	(994,383)
Interest received on tax refunds	391	610
Income taxes – refunded (paid)	(947)	1,553
Net cash provided by operating activities	17,763,484	13,689,262
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment in trust	(35,256,102)	(49,582,657)
Purchase of property and equipment	(557,756)	(659,879)
Purchase of intangible assets	(46,379)	(14,535,928)
Payments of reserve fund for repairs and maintenance	(258,870)	(14,911)
Proceeds from tenant leasehold and security deposits in trust	70,297	1,756,161
Repayment of tenant leasehold and security deposits in trust	(35,130)	(43,325)
Proceeds from tenant leasehold and security deposits	-	7,000
Repayment of tenant leasehold and security deposits	(16)	(1,001,800)
Net cash used in investing activities	¥ (36,083,958)	¥ (64,075,340)

(Continued)

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2017 and 2016**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loans payable	¥ 4,000,000	¥ 8,800,000
Repayments of short-term loans payable	(2,800,000)	(16,000,000)
Proceeds from long-term loans payable	21,700,000	31,400,000
Repayments of long-term loans payable	(9,679,250)	(11,393,603)
Proceeds from investment corporation bonds	1,000,000	13,100,000
Repayments of investment corporation bond	-	(2,500,000)
Proceeds from issuance of investment units	18,516,225	49,100,858
Payments for investment corporation bond issuance costs	(9,218)	(94,251)
Dividends paid	(12,860,798)	(9,351,356)
Net cash provided by financing activities	<u>19,866,959</u>	<u>63,061,647</u>
Net increase (decrease) in cash and cash equivalents	1,546,484	12,675,569
Cash and cash equivalents at beginning of year	<u>26,373,866</u>	<u>13,698,296</u>
Cash and cash equivalents at end of year ( <i>Note 3</i> )	<u>¥ 27,920,350</u>	<u>¥ 26,373,866</u>

*See notes to financial statements.*

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Notes to Financial Statements**  
**For the years ended December 31, 2017 and 2016**

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**1. Organization and Basis of Presentation**

**a. Organization**

Japan Hotel REIT Investment Corporation (“JHR”), formerly known as Nippon Hotel Fund Investment Corporation (the “Former NHF”), was established under the Act on Investment Trusts and Investment Corporations (the “Investment Trust Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) Section on the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006. JHR is externally managed by a licensed asset management company, Japan Hotel REIT Advisors Co., Ltd.

Focusing on the importance of hotels as social infrastructure and their profitability, JHR primarily invests in real estate related assets that are in themselves real estate which are wholly or partially used as hotels or real estate equivalents of such real estate or that are backed by such real estate or real estate equivalents.

In the fiscal period ended December 31, 2012, the Former NHF, as the surviving entity, merged with Japan Hotel and Resort, Inc. (the “Former JHR”), as the dissolved entity, with an effective date of April 1, 2012 (the “Merger”). In conjunction with the Merger, the Former NHF changed its name to Japan Hotel REIT Investment Corporation.

Through the Merger, nine properties held by the Former JHR were succeeded by JHR. As a result, as of the effective date of the Merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2017, JHR has ownership interests in 44 properties.

**b. Basis of presentation**

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been reformatted and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of JHR prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language financial statements, but not necessarily required for fair presentation, is not presented in the accompanying financial statements. JHR has not prepared consolidated financial statements, as JHR has no consolidating subsidiaries or entities.

As permitted by the regulations under the Financial Instruments and Exchange Law of Japan, the amounts are rounded down to the nearest thousands or millions. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

**2. Summary of Significant Accounting Policies**

**a. Cash and cash equivalents**

Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.

**b. Property and equipment**

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of major property and equipment components are as follows:

Machinery and equipment:	2 to 17 years
Tools, furniture and fixtures:	2 to 20 years
Buildings in trust:	2 to 62 years
Structures in trust:	2 to 62 years
Machinery and equipment in trust:	4 to 32 years
Tools, furniture and fixtures in trust:	2 to 27 years

**c. Intangible assets**

Intangible assets are stated at cost and amortized using the straight-line method. The amortization period of major intangible assets is as follows.

Software (internal use): 5 years

Fixed-term leasehold rights in trust: 41 or 49 years (remaining contractual period at the time of acquisition)

Leasehold rights in trust are intangible assets with indefinite useful lives.

**d. Investment unit issuance costs**

Investment unit issuance costs are capitalized and amortized using the straight-line method over three years.

Underwriting fees, which usually form a part of investment unit issuance costs, have not incurred in the offerings executed during both years ended December 31, 2017 and 2016 due to the reason below;

The issuance of new investment units through public offerings on January 20, 2016, July 27, 2016 and July 5, 2017 was consummated under underwriting agreements in which underwriting securities companies committed to purchase all of the investment units being offered at an issue value and selling them at an offering price different from such issue value to general investors (the “spread method”). No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥578,908 thousand for the year ended December 31, 2017 and ¥1,571,900 thousand for the year ended December 31, 2016 respectively, representing the difference between the offering price and the issue value of all new investment units issued.

**e. Investment corporation bond issuance costs**

Investment corporation bond issuance costs are capitalized and amortized using the effective interest rate method over the respective term of the bond.

**f. Taxes on property and equipment**

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for those properties related taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was ¥75,557 thousand for the year ended December 31, 2017 and ¥101,229 thousand for the year ended December 31, 2016.

**g. Derivatives and hedging activities**

JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which are defined in the Articles of Incorporation, mainly arising from adverse fluctuations in interest rates on loans payable. Derivative financial instruments are carried at fair value with changes in the unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting in which case the unrealized gain or loss is deferred as a component of net assets.

JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.

**h. Beneficial interests of real estate in trust**

For beneficial interests of real estate in trust, all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the relevant balance sheet and statement of income accounts.

**i. Consumption taxes**

Consumption taxes are excluded from the transaction amounts.

**3. Change in Presentation**

“Asset custody fee” and “Administrative service fee” that had been separately presented under the “Operating expenses” in the statements of income were combined to “Asset custody and administrative service fee” from the year ended December 31, 2017 due to integration of the fee calculation during the fiscal year. In order to keep comparability of presentation, relative items in the statement of income for the year ended December 31, 2016 were also reclassified.

As a result, ¥21,029 thousand for “Asset custody fee” and ¥91,782 thousand for “Administrative service fee” for the year ended December 31, 2016 have been reclassified to ¥112,811 thousand of “Asset custody and administrative service fee”.

#### 4. Cash Flow Information

##### a. Cash and cash equivalents as of December 31, 2017 and 2016 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2017	As of December 31, 2016
Cash and deposits	¥ 16,179,716	¥ 15,141,393
Cash and deposits in trust	11,740,634	11,232,472
Cash and cash equivalents	¥ 27,920,350	¥ 26,373,866

##### b. Significant non-cash transactions

There was no significant transaction for the year ended December 31, 2017.

For the year ended December 31, 2016, JHR recognized asset retirement obligations as it is obliged to restore the land of Hotel Centraza Hakata, acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with each of the fixed-term land leasehold agreements. As a result, each balance of the buildings in trust and the asset retirement obligations increased by ¥440,168 thousand.

#### 5. Financial Instruments

##### a. Status of financial instruments

###### (1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust Act. As a policy, JHR procures funds through issuance such as investment units, etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

###### (2) Details of financial instruments, their risks, and risk management system

Operating accounts receivable are exposed to credit risks of customers. To address the risks, JHR monitors payment dates and balances by customers in order to detect and mitigate any suspicious accounts in a timely manner.

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risks, JHR may enter into derivative transactions, if necessary.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the asset management company. Derivative transactions are arranged by the finance section of the asset management company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

Loans payable expose JHR to liquidity risks. The finance section of the asset management company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitors compliance with restrictive covenants set forth in the loan agreements. JHR manages liquidity risks by managing the ratio of short-term and long-term loans payable considering the current financial environment through approval and resolution by authorized personnel and meeting committee structure in the asset management company and resolution of JHR's board of directors.

##### b. Fair Value of Financial Instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2017 and 2016 were as follows. Financial instruments whose fair values are difficult to estimate are not included in the table. See Note (2) below.

<i>Thousands of yen</i>			
As of December 31, 2017			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 16,179,716	¥ 16,179,716	¥ -
(ii) Cash and deposits in trust	11,740,634	11,740,634	-
(iii) Operating accounts receivable	2,411,837	2,411,837	-
Total	¥ 30,332,188	¥ 30,332,188	¥ -
(iv) Short-term loans payable	¥ 3,000,000	¥ 3,000,000	¥ -
(v) Current portion of long-term loans payable	15,022,750	15,022,750	-
(vi) Investment corporation bonds	23,600,000	23,621,270	21,270
(vii) Long-term loans payable	98,777,000	98,777,000	-
Total	¥ 140,399,750	¥ 140,421,020	¥ 21,270
(viii) Derivative transactions (*)	¥ (404,316)	¥ (404,316)	¥ -

<i>Thousands of yen</i>			
As of December 31, 2016			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 15,141,393	¥ 15,141,393	¥ -
(ii) Cash and deposits in trust	11,232,472	11,232,472	-
(iii) Operating accounts receivable	2,071,152	2,071,152	-
Total	¥ 28,445,019	¥ 28,445,019	¥ -
(iv) Short-term loans payable	¥ 1,800,000	¥ 1,800,000	¥ -
(v) Current portion of long-term loans payable	9,679,250	9,679,250	-
(vi) Investment corporation bonds	22,600,000	22,629,640	29,640
(vii) Long-term loans payable	92,099,750	92,099,750	-
Total	¥ 126,179,000	¥ 126,208,640	¥ 29,640
(viii) Derivative transactions (*)	¥ (554,282)	¥ (554,282)	¥ -

(\*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

#### Notes:

##### (1) Methods to measure fair value of financial instruments

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) Operating accounts receivable, (iv) Short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

(v) Current portion of long-term loans payable, (vii) Long-term loans payable

The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are adjusted periodically to reflect market interest rates.

(vi) Investment corporation bonds

The fair value of this instrument is measured based on the market price.

(viii) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 17.



(2) Information on financial instruments whose fair values are difficult to estimate as of December 31, 2017 and 2016 was as follows:

	<i>Thousands of yen</i>			
	As of December 31, 2017		As of December 31, 2016	
	Carrying amount			
Tenant leasehold and security deposits	¥	1,041,016	¥	1,041,032
Tenant leasehold and security deposits in trust		4,653,410		4,619,744
Total	¥	5,694,426	¥	5,660,776

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) are not subject to fair value measurement because they have no market price and their actual deposit periods from a tenant's move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows difficult.

(3) Redemption schedule for monetary claims as of December 31, 2017 and 2016:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2017						
Cash and deposits	¥16,179,716	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,740,634	-	-	-	-	-
Operating accounts receivable	2,411,837	-	-	-	-	-
Total	¥30,332,188	¥ -	¥ -	¥ -	¥ -	¥ -

  

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2016						
Cash and deposits	¥15,141,393	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,232,472	-	-	-	-	-
Operating accounts receivable	2,071,152	-	-	-	-	-
Total	¥28,445,019	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2017 and 2016.

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2017						
Short-term loan payable	¥ 3,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	15,022,750	-	-	-	-	-
Investment corporation bonds	-	2,000,000	-	1,500,000	6,000,000	14,100,000
Long-term loans payable	-	11,217,000	13,544,000	10,800,000	11,200,000	52,016,000
Total	¥18,022,750	¥13,217,000	¥13,544,000	¥12,300,000	¥17,200,000	¥66,116,000

  

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2016						
Short-term loan payable	¥ 1,800,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	9,679,250	-	-	-	-	-
Investment corporation bonds	-	-	2,000,000	-	1,500,000	19,100,000
Long-term loans payable	-	13,322,750	11,217,000	13,544,000	10,800,000	43,216,000
Total	¥11,479,250	¥13,322,750	¥13,217,000	¥13,544,000	¥12,300,000	¥62,316,000

## 6. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2017 and 2016 consisted of the following:

	Maturity date	Millions of yen	
		As of December 31, 2017	As of December 31, 2016
		Amount	
<b>Short-term loans payable:</b>			
0.33% Unsecured loan, payable in a lump-sum at maturity	February 28, 2017	¥ -	¥ 1,700
0.35% Unsecured loan, payable in a lump-sum at maturity	November 30, 2017	-	100
0.31% Unsecured loan, payable in a lump-sum at maturity (*3)	Jun 29, 2018	3,000	-
Sub-total		3,000	1,800
<b>Long-term loans payable:</b>			
1.47% Unsecured loan, payable in a lump-sum at maturity (*1)	September 19, 2017	-	2,550
1.38% Unsecured loan, payable in a lump-sum at maturity (*1)	November 15, 2017	-	6,500
0.86% Unsecured loan, payable ¥2,250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2017	-	479
0.96% Unsecured loan, payable ¥11,250 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2018	4,297	4,342
0.98% Unsecured loan, payable ¥7,250 thousand quarterly and the remaining balance in a lump-sum at maturity (*1)	September 30, 2018	2,704	2,733
0.98% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2018	3,000	3,000
0.73% Unsecured loan, payable ¥19,000 thousand quarterly and the remaining balance in a lump-sum at maturity (*1)	March 31, 2018	3,321	3,397
1.15% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2021	6,800	6,800
0.60% Unsecured loan, payable in a lump-sum at maturity (*2)	September 30, 2019	6,317	6,317
0.92% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2020	6,817	6,817
1.04% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2021	4,000	4,000
0.53% Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	935	935
0.38% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2020	4,700	4,700
0.90% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2022	8,200	8,200
0.93% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2022	1,500	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	June 30, 2022	1,500	1,500
0.48% Unsecured loan, payable in a lump-sum at maturity	June 30, 2020	1,092	1,092
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,636	2,636
0.21% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	2,000	2,000
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	1,760	1,760
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	1,140	1,140
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	3,850	3,850
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	2,650	2,650
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2023	4,700	4,700
0.66% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	800	800
0.57% Unsecured loan, payable in a lump-sum at maturity	March 31, 2024	500	500
0.74% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	9,500	9,500
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	1,300	1,300
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	2,000	2,000
0.59% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	700	700
0.71% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	500	500
0.31% Unsecured loan, payable in a lump-sum at maturity	March 30, 2018	1,700	-
0.44% Unsecured loan, payable in a lump-sum at maturity	June 30, 2023	2,250	-
0.85% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2026	4,250	-
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	-
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	700	-
0.75% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	-
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	-
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	-
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	-
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	300	-
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,550	-
0.57% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	4,000	-
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,450	-
Sub-total		113,799	101,779
Total of short-term and long-term loans payable		¥ 116,799	¥ 103,579

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2017, or the most recent year, based on the number of days and outstanding balance of the loans payable. The interest rate is rounded to the nearest second decimal place.

Notes:

- (\*1) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps (interest rate fixation), rounded off to second decimal places.
- (\*2) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.
- (\*3) JHR borrowed ¥4,000 million on July 12, 2017, of which it repaid ¥1,000 million on November 30, 2017 as partial early repayment.

## 7. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2017 and 2016 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2017	As of December 31, 2016
Unsecured 3rd investment corporation bond at interest rate of 0.92%, due on March 19, 2019	¥ 2,000	¥ 2,000
Unsecured 4th investment corporation bond at interest rate of 0.86%, due on December 17, 2021	1,500	1,500
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022	6,000	6,000
Unsecured 6th investment corporation bond at interest rate of 0.935%, due on March 19, 2026	3,000	3,000
Unsecured 7th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	9,000	9,000
Unsecured 8th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	1,100	1,100
Unsecured 9th investment corporation bond at interest rate of 0.53%, due on November 22, 2024	1,000	-
Total	¥ 23,600	¥ 22,600

## 8. Asset Retirement Obligations

### a. Outline of the asset retirement obligations

JHR recognized asset retirement obligations as it is obliged to restore the land of Hotel Centraza Hakata, acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with each of the fixed-term land leasehold agreements.

### b. Calculation method of the asset retirement obligations

The amount of asset retirement obligations for Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA was calculated by using the discount rates of 0.484% and 0.394%, respectively, and estimating the expected periods of use based on the remaining useful lives of the related buildings (34 years and 48 years, respectively).

### c. Changes in the total amount of the asset retirement obligations

	<i>Thousands of yen</i>	
	For the year ended December 31, 2017	For the year ended December 31, 2016
Balance at beginning of year	¥ 441,542	¥ -
Increase due to acquisition of property and equipment	-	440,168
Adjustment due to accretion expense	2,035	1,373
Balance at end of year	¥ 443,577	¥ 441,542

## 9. Net Assets

JHR maintains at least ¥50,000 thousand as the minimum net assets as required by the Investment Trust Act.

Dividends and other movements in unappropriated retained earnings related to each period that were decided after the balance sheet date are summarized as follows:

	Yen			
	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 14,005,489,588		¥ 12,126,057,948	
II Reversal of voluntary reserve	-		13,867,228,256	¥ 3,686
Reversal of dividend reserve				
Reversal of reserve for temporary difference adjustment (*2)	769,508,609	¥ 191	-	
III Dividends	14,771,949,501	¥ 3,683	12,865,721,940	¥ 3,420
IV Provision of voluntary reserve				
Provision of reserve for temporary difference adjustment (*1)	-		13,127,153,216	¥ 3,489
V Retained earnings carried forward (I+II-III-IV)	¥ 3,048,696		¥ 411,048	

Notes:

(\*1) JHR applied the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015) from 2016. As a result, ¥13,867,228,256 of the dividend reserve, representing the remaining balance of the gain on negative goodwill recorded in a prior fiscal period, was reversed to retained earnings, of which ¥13,127,153,216 was transferred to the “reserve for temporary difference adjustment” account through the appropriation of profit for the year ended December 31, 2016. Starting from the year ended December 31, 2017, JHR plans to reverse the reserve every fiscal year in an amount that shall be at least 2% of the transferred amount (¥262,543,065) but not exceeding the remaining amount of the reserve at that point in conformity with applicable rules and regulations.

(\*2) For the year ended December 31, 2017, reversal of reserve for temporary difference adjustment of ¥769,508,609 was decided, which was calculated as ¥262,600,000 of the basic (minimum) reversal plus ¥374,000,000 as a compensation for dilution of dividend per unit due to capital increase through public offerings and ¥132,908,609 corresponding to loss on disposal of property and equipment during the year.

## 10. Provision and reversal of reserve for temporary difference adjustment

Changes in the balance of reserve for temporary difference adjustment during the year ended December 31, 2017 consisted of the following (yen in thousand):

Source	Original amount	Balance as of January 1, 2017	Provision during the year	Reversal during the year	Balance as of December 31, 2017	Rationale for provision and reversal
Dividend reserve (Note)	13,127,153	-	13,127,153	-	13,127,153	Application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015)

(Note) See Note 9 above for further descriptions.

## 11. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2017 and 2016 were as follows:

		<i>Thousands of yen</i>	
		For the year ended December 31, 2017	For the year ended December 31, 2016
Operating revenue:			
Real estate operating revenue:			
Fixed rent	¥	13,064,351	¥ 11,772,386
Variable rent		8,572,121	6,808,433
Income from management contract (*1)		2,681,834	2,584,265
Sub-total		24,318,307	21,165,085
Other real estate operating revenue:			
Parking lots		179,054	158,750
Other incidental revenue		62,597	40,775
Utilities		781,934	545,754
Other		133,660	197,104
Sub-total		1,157,246	942,384
Total operating revenue		25,475,553	22,107,470
Real estate operating costs:			
Land lease and other rent expenses		922,891	710,456
Property taxes		1,476,156	1,216,710
Outsourcing expenses (*2)		703,933	609,823
Nonlife insurance		47,030	41,944
Depreciation and amortization		3,725,775	3,294,081
Loss on disposal of property and equipment		132,908	16,662
Repairs		49,747	68,632
Utilities		790,728	541,127
Trust fees		43,655	41,764
Other		18,825	48,706
Total real estate operating costs		7,911,653	6,589,908
Net real estate operating income	¥	17,563,899	¥ 15,517,561

Notes:

(\*1) Pursuant to management contracts with a certain hotel operator, JHR receives revenue in the amount equivalent to the properties’ gross operating profit, or GOP, while it pays management contract fees to the operator. In the event a property’s GOP for the relevant period is a negative number, then JHR is required to pay an amount equal to such negative number to the operator. Even though some of the revenue JHR receives under management contracts is variable, it recognizes such revenue as income from management contracts and not as variable rent.

(\*2) Outsourcing expenses include management contract fees of ¥343,712 thousand for the year ended December 31, 2017 and ¥318,587 thousand for the year ended December 31, 2016.

## 12. Advanced Depreciation of Property and Equipment

The accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received as of December 31, 2017 and 2016 were as follows:

		<i>Thousands of yen</i>	
		As of December 31, 2017	As of December 31, 2016
Buildings in trust	¥	24,921	¥ 24,921

### 13. Loss on disaster

Restoration costs for assets damaged by the 2016 Kumamoto Earthquake were recorded as extraordinary losses for the year ended December 31, 2016.

### 14. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2017 and 2016 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2017	As of December 31, 2016
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,756,833	¥ 1,775,942
Amortization of fixed-term leasehold rights	76,475	32,589
Asset retirement obligations	7,603	3,087
Deferred losses on hedges	165,776	221,352
Subtotal deferred tax assets	2,006,688	2,032,972
Valuation allowance	(2,006,688)	(2,032,972)
Total deferred tax assets	¥ -	¥ -
Deferred tax liabilities		
Deferred gains on hedges	38,954	46,233
Total deferred tax liabilities	¥ 38,954	¥ 46,233

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2017 and 2016 was as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Effective statutory tax rate	31.74%	32.31%
Deduction for dividends paid	(31.92)	(32.37)
Change in valuation allowance	0.18	(0.21)
Other – net	0.01	0.28
Actual effective tax rate	0.01%	0.01%

### 15. Amounts per Unit

Net income per unit for the years ended December 31, 2017 and 2016 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
For the year ended December 31, 2017	Net income	Weighted- average units	Net income per unit
Basic net income per unit - Net income attributable to common unitholders	¥ 14,005,078	3,883,679	¥ 3,606
For the year ended December 31, 2016			
Basic net income per unit - Net income attributable to common unitholders	¥ 12,123,163	3,501,175	¥ 3,462

Notes:

- (1) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.
- (2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2017 and 2016.

Net assets per unit as of December 31, 2017 and 2016 were as follows:

	<i>Yen</i>	
	As of December 31, 2017	As of December 31, 2016
Net assets per unit	¥ 50,354	¥ 48,376

## 16. Leases

### As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. Minimum rental revenue under the non-cancellable operating leases as of December 31, 2017 and 2016 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2017	As of December 31, 2016
Due within one year	¥ 1,520,073	¥ 1,709,333
Due after one year	4,685,123	5,889,179
Total	¥ 6,205,197	¥ 7,598,512

## 17. Derivatives and Hedging Activities

### a. Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting was not applied as of December 31, 2017 and 2016 were as follows:

As of December 31, 2017	Classification	<i>Thousands of yen</i>		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,794,000	¥ 1,794,000	¥ (15,651)

As of December 31, 2016	Classification	<i>Thousands of yen</i>		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,794,000	¥ 6,794,000	¥ (38,033)
Interest rate caps	Transactions other than market transactions	¥ 848,250	¥ -	¥ -

## b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting was applied as of December 31, 2017 and 2016 were as follows:

			<i>Thousands of yen</i>		
As of December 31, 2017	Method of hedge accounting	Hedged item	Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 100,058,750	¥ 91,048,000	¥ (388,665)
Interest rate caps	Deferral method	Long-term loans payable	4,286,250	-	-

  

			<i>Thousands of yen</i>		
As of December 31, 2016	Method of accounting	Hedged item	Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 92,428,750	¥ 82,808,750	¥ (516,439)
Interest rate caps	Deferral method	Long-term loans payable	4,286,250	4,286,250	190

Notes:

(\*1) The contract amounts of the interest rate swap and interest rate cap are presented based on the notional principal amounts. Also, the contract amounts of derivative transactions do not indicate market risk exposure related to derivative transactions.

(\*2) The fair value is measured at the quoted price obtained from the counterparty financial institutions.

## 18. Investment and Rental Properties

JHR owns rental properties for hotels to earn lease income and income from management contracts. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

<i>Thousands of yen</i>				
	Carrying amount		December 31, 2017	Fair value (*2)
	January 1, 2017	Net increase (*1)		December 31, 2017
Hotels	¥ 284,965,547	¥ 32,263,660	¥ 317,229,208	¥ 439,390,000

Notes:

(\*1) Increase during 2017 principally represents the acquisition of Hilton Tokyo Narita Airport for ¥13,376 million, International Garden Hotel Narita for ¥9,237 million and Hotel Nikko Nara for ¥10,589 million.

(\*2) Fair value of properties as of December 31, 2017 is generally the appraisal value determined by licensed real estate appraisers.

<i>Thousands of yen</i>				
	Carrying amount		December 31, 2016	Fair value (*2)
	January 1, 2016	Net increase (*1)		December 31, 2016
Hotels	¥ 222,362,750	¥ 62,602,797	¥ 284,965,547	¥ 398,770,000

Notes:

(\*1) Increase during 2016 principally represents the acquisition of CANDEO HOTELS UENO-KOEN for ¥6,784 million, Hotel Centraza Hakata for ¥7,614 million, Holiday Inn Osaka Namba (HOTEL VISTA GRANDE OSAKA) for ¥27,245 million, HOTEL ASCENT FUKUOKA for ¥5,222 million and Hilton Nagoya for ¥15,488 million.

(\*2) Fair value of properties as of December 31, 2016 is generally the appraisal value determined by licensed real estate appraisers.



Real estate operating revenue and costs for the years ended December 31, 2017 and 2016 related to the rental properties were as follows:

<i>Thousands of yen</i>			
For the year ended December 31, 2017			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 25,475,553	¥ 7,911,653	¥ 17,563,899

  

<i>Thousands of yen</i>			
For the year ended December 31, 2016			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 22,107,470	¥ 6,589,908	¥ 15,517,561

Note:

(\*) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other real estate operating revenue) and corresponding expenses (such as depreciation, property taxes, trust fees, and repairs and maintenance expenses), and are included in “Operating revenue” and “Real estate operating costs,” respectively.

## 19. Segment Information

### a. Segment information

The segment information has been omitted because JHR has only one segment, which is the investment and management business of hotel real estate.

### b. Related information

(1) Information about products and services for the years ended December 31, 2017 and 2016

Information about products and services has been omitted because operating revenue from external customers in a single product/service category accounted for more than 90% of total operating revenue.

(2) Information about geographical areas for the years ended December 31, 2017 and 2016

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue in Japan accounted for more than 90% of total operating revenue.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment.

(3) Information about major customers

<For the year ended December 31, 2017>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	6,973,259
AAPC Japan K.K.	Hotel real estate investment and management	¥	3,098,069

<For the year ended December 31, 2016>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	6,825,199
AAPC Japan K.K.	Hotel real estate investment and management	¥	2,980,712

## 20. Subsequent Events

Issuance of investment corporation bonds

JHR issued investment corporation bonds under the following terms and conditions.

Category	Tenth unsecured investment corporation bonds
Total amount of bonds	¥10,000 million
Issue price	¥100 for ¥100 of each bond
Interest rate	0.840% per year
Issue date	February 21, 2018
Maturity	February 21, 2028
Collateral	None
Use of proceed	The proceeds will be partially used to prepay the existing loans by the end of February, 2018. The residual funds will be used for future acquisition of specified assets, for repayment of loans or for repair cost and/or capital expenditure to maintain or improve competitiveness of the existing properties.



## **Independent Auditor's Report**

To the Board of Directors of  
Japan Hotel REIT Investment Corporation:

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2017 and 2016, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 20 (Subsequent Events) to the financial statements which describes that the Company issued new investment corporation bonds.

*KPMG AZSA LLC*

April 13, 2018  
Tokyo, Japan