



Japan Hotel REIT Investment Corporation TSE : 8985

2023 ESG Report

Japan Hotel REIT Investment Corporation
Japan Hotel REIT Advisors Co., Ltd.
<https://www.jhrth.co.jp/en/>

March 31, 2023

Contents

| | | |
|--------------------------------|--|----|
| Editorial Policy | | 1 |
| Message from Management | | 2 |
| Corporate Profile | | 2 |
| Sustainability Management | Sustainability Policy | 3 |
| | Sustainability Promotion System | 4 |
| | ESG Assessment by Third-Party Institutions | 5 |
| Materiality | JHR's Materiality | 7 |
| | Process to Define Materiality | 8 |
| Stakeholder Engagement | | 9 |
| Initiatives for Environment | Basic Policy | 10 |
| | Environmental Target | 10 |
| | Environmental Performance Data | 10 |
| | Actual Cases of Initiatives for Environment | 11 |
| | Initiatives for Climate Change | 14 |
| Initiatives for Society | Basic Policy | 19 |
| | Initiatives for Unitholders | 19 |
| | Initiatives for Local Communities/Contribution to Regional Revitalization (Cooperation with Lessees, etc.) | 19 |
| | Initiatives for Hotels | 20 |
| | Initiatives for Employees | 21 |
| | | |
| Governance | Corporate Governance | 25 |
| | Compliance | 29 |
| | Risk Management | 32 |
| Green Bonds | Basic Policy | 34 |
| | Compliance of Eligible Criteria of Green Bonds | 34 |
| | Use of Procured Funds | 34 |
| | Management of Procured Funds | 34 |
| | Reporting | 34 |
| | Summary of the Issued Green Bonds | 35 |
| GRI Standards Comparison Table | | 36 |
| Disclaimer | | 41 |

Editorial Policy

Japan Hotel REIT Investment Corporation (JHR) and its asset management company Japan Hotel REIT Advisors Co., Ltd. (JHRA) are promoting initiatives relating to the environment (E), society (S), and governance (G) with the aim of improving unitholder value in the medium to long term. This report has been published for the purpose of reporting on the approach to ESG adopted by JHR and JHRA and related initiatives to investors and other stakeholders.

Period Covered by Report

This report is based on the fiscal year from 1 January 2022 to 31 December 2022, but it also includes details relating to other fiscal years.

Guidelines, Etc. Used as Reference

GRI (Global Reporting Initiative) Standard

Inquiries about This Report

Japan Hotel REIT Advisors Co., Ltd.
 Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo
 Phone: 03-6422-0530
 URL: <https://www.jhrth.co.jp/en/>

Message from Management

JHR's Sustainability Approach

Japan Hotel REIT Investment Corporation (JHR) and Japan Hotel REIT Advisors (JHRA), believing that sound management which enabling us to co-exist in harmony with society and the environment will contribute to improve unitholder value over the medium to long term, are making efforts to enhance sustainability through consideration of ESG (Environment, Social, & Governance) issues.

JHR and JHRA established a Sustainability Policy in December 2017 and are pursuing a series of measures relating to ESG, including reduction of our environmental impact, consideration of all our stakeholders, etc.

In December 2021, in order to further enhance our ESG initiatives, we defined our materiality and are promoting measures to address various issues.

Moreover, we believe that appropriate disclosure of these initiatives and building a relationship of trust with our stakeholders will lead to JHR's growth over the medium to long term.



Executive Director
Kaname Masuda
Japan Hotel REIT Investment Corporation

President & CEO
Hisashi Furukawa
Japan Hotel REIT Advisors Co., Ltd.

Corporate Profile

Investment Corporation

| | |
|----------------|--|
| Corporate Name | Japan Hotel REIT Investment Corporation |
| Location | Ebisu Neonato, 4-1-18, Ebisu, Shibuya-ku, Tokyo |
| Representative | Kaname Masuda, Executive Director |
| Listing Date | June 14, 2006 |
| Fiscal Period | 12 months from January 1st through the end of December |
| Contact | Japan Hotel REIT Advisors Co., Ltd. |

Asset Management Company

| | | |
|---------------------------|---|-------|
| Company Name | Japan Hotel REIT Advisors Co., Ltd. | |
| Location | Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo | |
| Representative | Hisashi Furukawa, President & CEO | |
| Establishment | August 10, 2004 | |
| Capital | JPY300M | |
| Shareholders | SCJ One (S) Pte. Ltd. (*) | 87.6% |
| | Kyoritsu Maintenance Co., Ltd. | 10.3% |
| | ORIX Corporation | 2.1% |
| Registration and Licenses | Building Lots and Buildings Transaction Business Operator, Governor of Tokyo (4) No. 83613 Discretionary Transaction Agent by Minister of Land, Infrastructure, Transport and Tourism No. 38 Financial Instruments Trading Company, Director-General of Kanto Local Finance Bureau No. 334 Member of The Investment Trusts Association, Japan Member of The Japan Investment Advisers Association | |

(*) SCJ One (S) Pte. Ltd. is a corporation belonging to SC CAPITAL PARTNERS Group.

Sustainability Management

Sustainability Policy

● Monitoring and improvement of environmental performance in our portfolio

We promote monitoring environmental performance such as energy consumption, etc. in our portfolio. Also, we share our goals with hotel lessees and operators, and strive to continuously improve environmental performance through optimizing operations and management as well as through facility renovation, etc. Furthermore, we seek assessment from third parties where appropriate.

We take environmental risks into consideration to make investment decisions and to monitor operations of our portfolio.

● Promotion of comfortable, healthy, secure and safe hotels

We care safety, health and barrier-free access etc. of our hotels and promote initiatives to have stronger resilience against natural disaster, etc. We take safety, health and well-being factors into consideration upon making investment decisions and monitoring operations of hotels in our portfolio.

● Promotion of ESG in value chains

We ask our hotels to understand and to cooperate on sustainability initiatives. At the same time, we promote procurement of products and services with environmental and social considerations.

● Consideration for and contribution to local communities

We strive to contribute to the sustainable development of local community through cooperation with hotel lessees and operators as well as communication and collaboration with local residents and local governments in surrounding communities where hotels are located.

● Initiatives for our officers and employees

We establish work environment that allows diverse ways of working with work-life balance into consideration. We also consistently provide opportunities of professional education and training, with the aim to improve abilities and skills of our employees and raise awareness on sustainability.

● Compliance as corporate citizens

We comply with related laws and regulations as well as social norms, etc. and promote ethical and sincere business activities. Additionally, we strive to reduce governance risks through respecting fundamental human rights at our business and through establishing a proper compliance system.

● Improvement of transparency and engagement with our stakeholders

We disclose financial information as well as ESG related information in a timely and appropriate manner. We will sincerely listen to voices and opinions from our stakeholders through interactive communication, and utilize them to improve our initiatives.

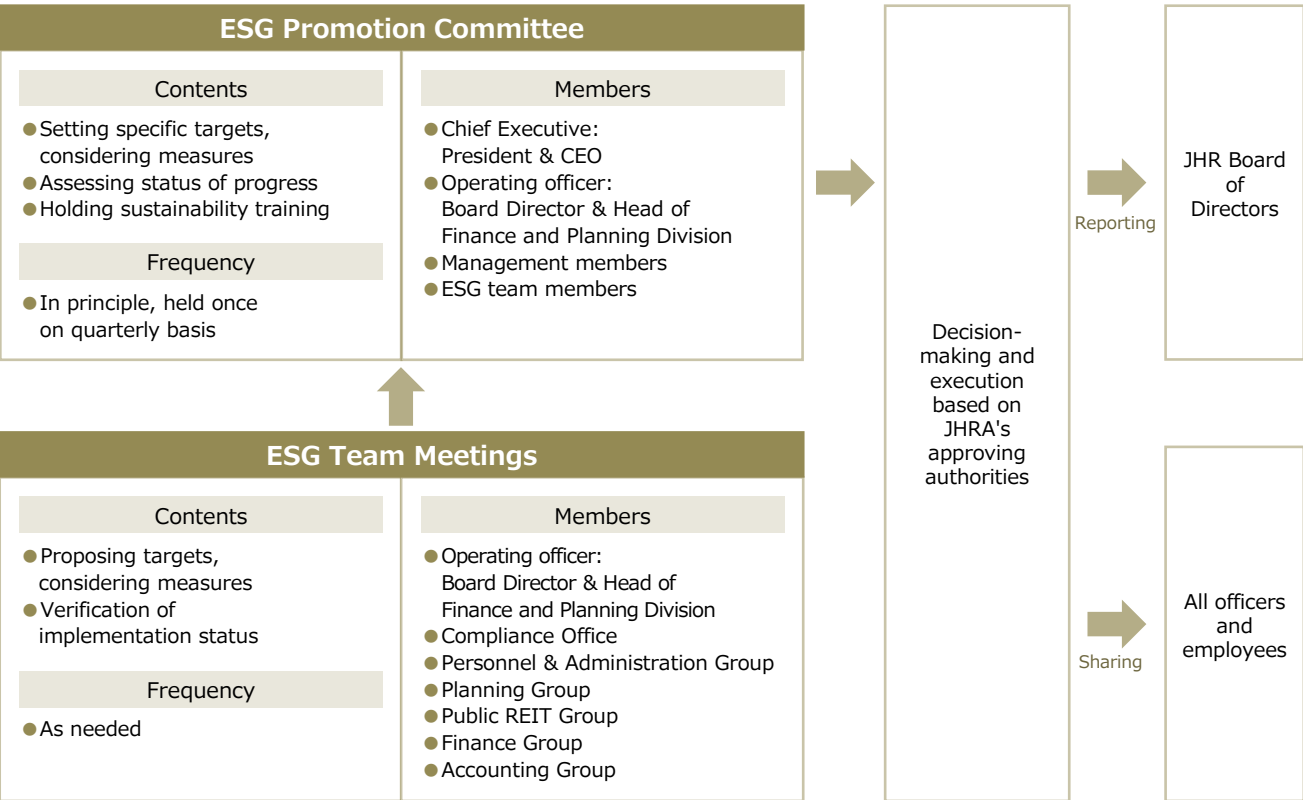
Sustainability Management

Sustainability Promotion System

In order to carry out initiatives based on the Sustainability Policy in an ongoing, organized manner, JHRA has established ESG Promotion Committee and developed the system shown below.

ESG Promotion Committee consist of management members and officers and employees chosen from various groups involved in promoting ESG, with the President & CEO acting as the chief executive and the Board Director & Head of Finance and Planning Division acting as the operating officer.

System Overview



Annual Schedule

| | Jan-Mar | Apr-Jun | Jul-Sep | Oct-Dec |
|-------------------------|-------------------------|----------------|----------------|--|
| Measures | Implementation → | | | |
| ESG Promotion Committee | Check Progress | Check Progress | Check Progress | Evaluating implementation/ Setting targets for next year |

Frequency of Meetings and trainings

| | FY2019 | FY2020 | FY2021 | FY2022 |
|--------------------------------------|--------|--------|--------|--------|
| ESG Promotion Committee | 4 | 2 | 4 | 4 |
| Trainings for Officers and Employees | 1 | 1 | 3 | 3 |

Sustainability Management

ESG Assessment by Third-Party Institutions

Acquisition of GRESB Real Estate Assessment

The GRESB is an annual benchmarking program to evaluate Environment, Social and Governance (ESG) considerations of property companies and real estate funds, established in 2009 primarily by major European pension fund groups which took the lead in Principles for Responsible Investment (PRI). The GRESB Real Estate Assessment is distinguished by its comprehensive evaluation of initiatives for sustainability of property companies, REITs and real estate funds, not of individual properties. JHR participated in GRESB Real Estate Assessment from 2018 and has acquired "Green Star" for five consecutive years. JHR also selected for "Sector Leader" of Asian Hotel Sector for three consecutive years as a participant with the highest result.



Acquisition of SMBC Environmental Assessment

"SMBC Environmental Assessment Loan" is a loan which SMBC set condition of loan based on assessment on status of environmental considerations by the corporation based on environmental assessment standards developed independently by SMBC and the Japan Research Institute, Limited. JHR has received an "A" grade under the assessment due to initiatives for environmental considerations. This grade is obtained in recognition of our implementation of excellent initiatives for environmental considerations in asset management.



- In particular, the following factors are highly rated in the assessment.
- JHR and JHRA have formulated a Sustainability Policy which clearly states their position of considering the environment and stakeholders such as local communities in their asset management.
 - As well as conversion to the LEDs in lightning fixtures and introduction of water-saving devices in our major hotels, JHR promotes initiatives to reduce environmental impact alongside with lessees, including adding the Green Lease clause in the fixed term lease agreements with the HMJ Group hotels^(*), the major hotel group of JHR.
 - JHR actively promotes to acquire third-party certifications such as BELS (Building-Housing Energy-efficiency Labeling System) to confirm credibility and objectivity of initiatives for reduction of environmental impact in properties owned by JHR.

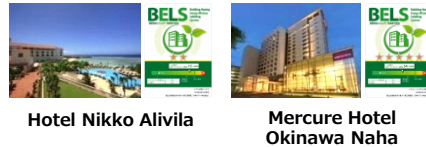
^(*) Stating numbers for hotels leased to Hotel Management Japan Co., Ltd. and its subsidiaries (hereinafter called "HMJ Group Hotels") owned by JHR at end of each period.

Sustainability Management

Timeline of Achievements

2017 December Establishment of Sustainability Policy

2018 February Two properties—Hotel Nikko Alivila and Mercure Hotel Okinawa Naha—became the first J-REIT-owned hotels^(*1) to acquire BELS^(*2) certification



March Received an “A” rating indicating excellent environmentally friendly management, in the SMBC Environmental Assessment Loan^(*3)



September Participated in GRESB Real Estate Assessment for the first time
Acquired “4 star” in GRESB rating

2019 July Issued Hotel Green Bonds (nickname) and used the procured funds to carry out construction works to save energy



Oriental Hotel Fukuoka Hakata Station **Okinawa Marriott Resort & Spa^(*4)**

September Acquired “3 star” in GRESB rating

2020 April The Hilton Tokyo Odaiba became the first existing hotel to acquire a CASBEE “B+ (good)” building certification



Hilton Tokyo Odaiba

November Acquired “4 star” in GRESB rating
Selected as “Sector Leader” of Asian Hotel Sector

2021 June As a result of construction works to save energy which carried out by using procured funds through the issuing of green bonds, the Oriental Hotel Fukuoka Hakata Station acquired CASBEE “B+ (good)” building certification



Oriental Hotel Fukuoka Hakata Station

October Acquired “4 star” in GRESB rating
Selected as “Sector Leader” of Asian Hotel Sector

November JHRA stated its expression of support for the TCFD recommendations

2022 October Acquired “4 star” in GRESB rating
Selected as “Sector Leader” of Asian Hotel Sector

(*1) Based on research by JHRA based on public information.
(*2) BELS (Building-Housing Energy-Efficiency Labeling System) is a display system of energy conservation performance of a building set by Ministry of Land, Infrastructure, Transport and Tourism.
(*3) "SMBC Environmental Assessment Loan" is a loan which SMBC set condition of loan based on assessment on status of environmental considerations by the corporation based on environmental assessment standards developed independently by SMBC and the Japan Research Institute, Limited.
(*4) Name of properties is as of the date when the construction works were implemented.

Materiality

JHR's Materiality

Believing that sound management enabling us to co-exist in harmony with society and the environment will contribute to improved unitholder value over the medium to long term, JHR is making efforts to enhance sustainability through consideration of ESG (Environment, Social, & Governance) issues.

From the dual standpoints of stakeholders' expectations and impact on our business, JHR has defined our materiality (key issues), in terms of ESG-related issues that are of particular importance to us, as shown below.

Moreover, we will revise the materiality as needed, based on the changes in social issues and needs due to change of the times.



| | Materiality | Overview/Goals | Related SDGs (*) |
|-------------|--------------------------------------|---|------------------|
| Environment | Tackling climate change | <ul style="list-style-type: none"> Tracking environmental performance, such as energy consumption Continuous improvement of environmental performance Reducing energy-derived CO₂ emissions intensity by at least 1% per year for 5 years (term of first plan: April 2018 - March 2023) Promoting acquisition of assessments (green building certifications, etc.) by third-party institutions | |
| | Reducing water consumption and waste | <ul style="list-style-type: none"> Reducing consumption of clean water by using well water and reusing gray water as recycled water Promoting waste reduction and recycling | |

| | Materiality | Overview/Goals | Related SDGs |
|------------|--|--|--------------|
| Social | Communication with stakeholders such as local communities | <ul style="list-style-type: none"> Building favorable relationships with all stakeholders, including unitholders, hotel users (guests), hotel lessees, hotel operators, business partners including property management companies, local communities, and officers and employees of JHRA Conducting tenant satisfaction surveys continuously | |
| | Ensuring safety/peace of mind and promoting well-being at hotels | <ul style="list-style-type: none"> Considering safety, health, well-being and barrier-free access, etc. in hotels Promoting initiatives to increase resilience to natural disasters, etc. Consider from aspect of health, well-being, safety, and welfare when making investment decisions and monitoring operations of hotels | |
| | Creating pleasant workplaces | <ul style="list-style-type: none"> Establishing a work environment that enables diverse working styles with work-life balance in mind Continuously providing opportunities for professional education and training with the aim of improving skills/abilities and enhancing sustainability-related awareness | |
| Governance | Implementing thorough corporate governance | <ul style="list-style-type: none"> Complying not just with laws and regulations but with social norms Promoting ethical and honest business practices Reducing governance risks by preparation of a compliance system | |
| | Proactive information disclosure and dialogue | <ul style="list-style-type: none"> Timely, appropriate disclosure of not just financial information but also ESG-related information Two-way communication with stakeholders in order to use their feedback/opinions in improving various initiatives | |

(*) The SDGs (an acronym of Sustainable Development Goals) are international goals aimed at creating a better and more sustainable world by 2030. The SDGs were adopted at a U.N. Summit in September 2015. They consist of 17 goals and 169 targets.

Materiality

Process to Define Materiality

Step 1

Identification of socially important issues

Extensively identifying socially important issues which expected by stakeholders through referring to global ESG assessments and frameworks such as the SASB Standards, GRI Standards, and Sustainable Development Goals (SDGs), as well as the cases of initiatives by other J-REITs, etc.

Step 2

Assessment/prioritization of socially important issues (creation of matrix)

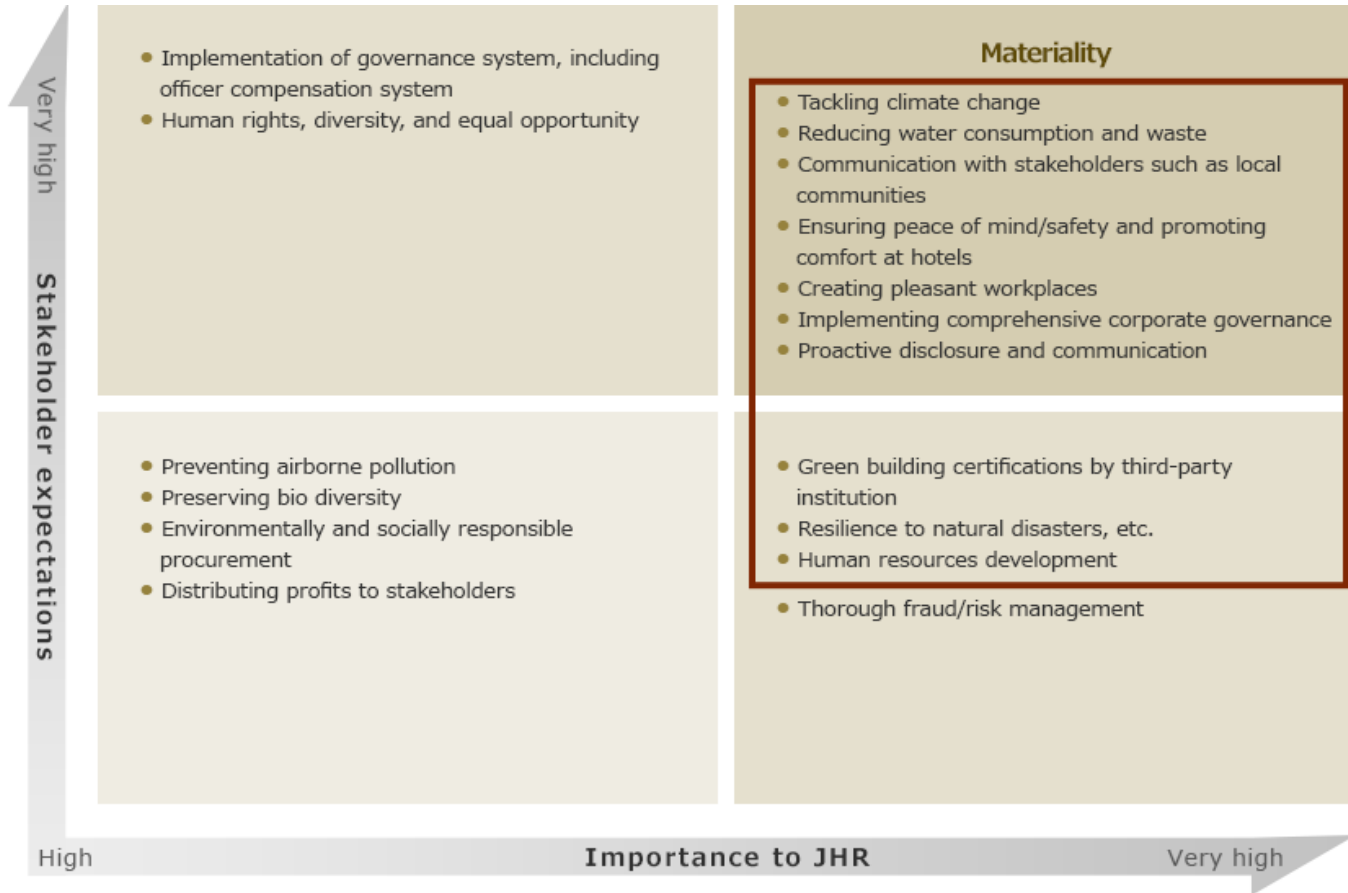
Assessing and analyzing the identified socially important issues in terms of their importance to stakeholders and their impact to JHR, then prioritizing them.

Step 3

Management-level discussion/validation/definition of materiality

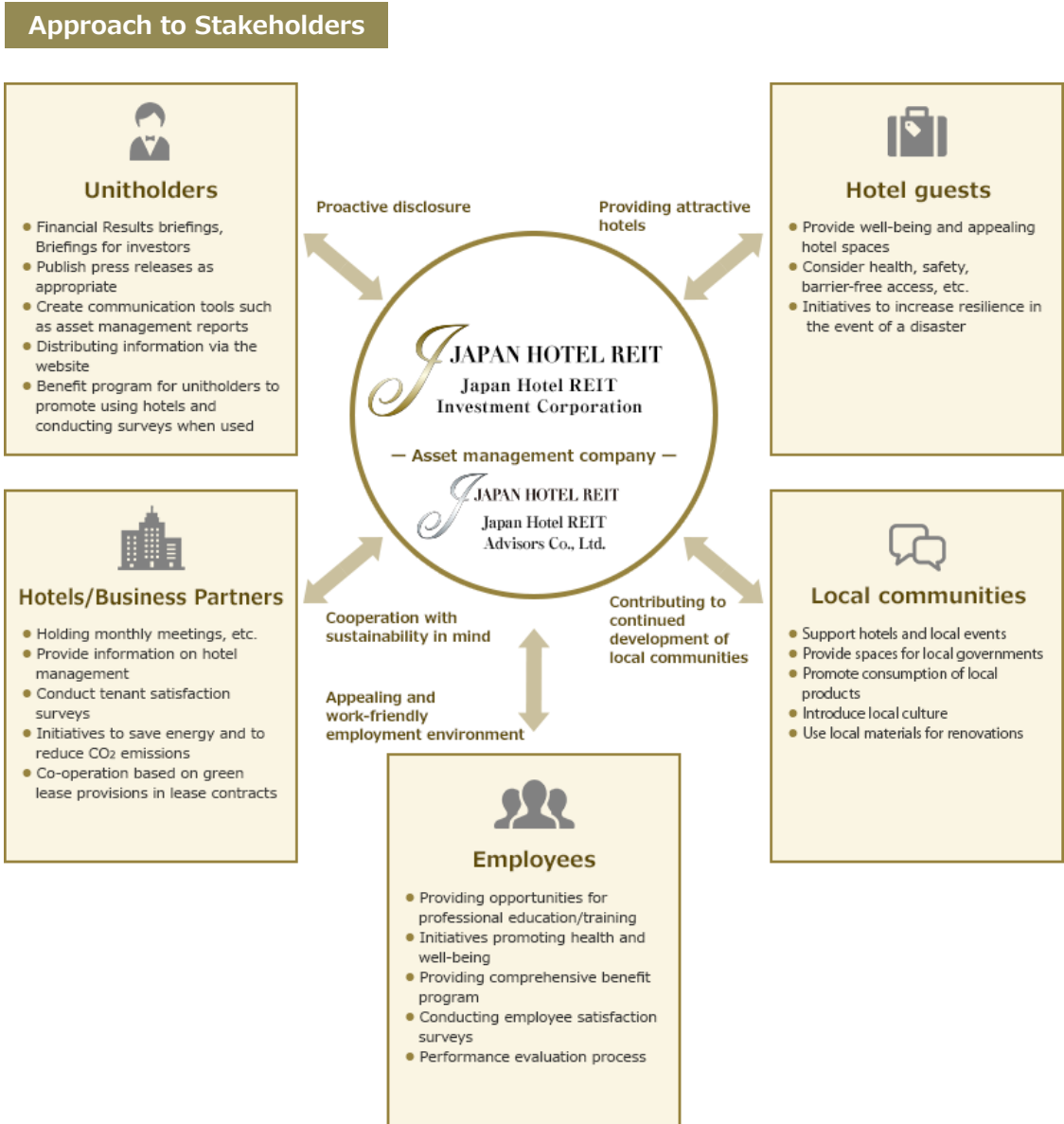
Validating the prioritized social issues at ESG Promotion Meetings and defining materiality. Reporting it to JHR's Board of Directors.

JHR's Materiality Matrix



Stakeholder Engagement

JHR's business activities are carried out in collaboration with many stakeholders, and we recognize that fulfilling the social responsibility required to our company is essential to conduct our sustainable business activities. JHR and JHRA build favorable relationships through communication with their various stakeholders, including unitholders, hotel users (guests), hotel lessees, hotel operators, business partners including property managers, local communities, and officers and employees of JHRA, and fulfill the social obligations expected by each of them.



Initiatives for Environment

Basic Policy

In response to effective usage of limited resources and aggravation of climate change issue, JHR and JHRA work on monitoring environmental performance, such as energy consumption, CO₂ emissions, water consumption and amount of waste generated, etc. and strive to improve them continuously.

Environmental Target

We have set targets to reduce GHG emissions intensity^(*1) for long term until 2050.

- 30% reduction of GHG emissions per floor area in our portfolio (GHG emissions intensity) compared to FY2017^(*2).
- To monitor and manage progress towards long term target and to comprehend the causes of variance in emissions at the "ESG Promotion Committee" of JHRA.

(*1) The GHG emissions of JHR fall under Scope 3 emissions, Category 13: leased assets (downstream) because the hotels in our portfolio are managed by lessees of hotels, etc.

(*2) The GHG emissions intensity for the baseline year, FY2017 (April 2017 – March 2018) was 0.135 (t-CO₂/m²).

Environmental Performance Data

Environmental Performance data of HMJ Group Hotels as of the end of each fiscal year is as follows.

| | | Unit | April 2018 ~March 2019 | April 2019 ~March 2020 | April 2020 ~March 2021 | April 2021 ~March 2022 |
|----------------------|---------------------|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Number of properties | | | 13 | 14 | 14 | 16 |
| Total floor area | | m ² | 372,607.95 | 437,515.71 | 437,515.71 | 463,368.64 |
| Energy | Usage | MWh | 139,056 | 163,812 | 110,837 | 129,780 |
| | Emissions intensity | MWh/m ² | 0.3732 | 0.3744 | 0.2533 | 0.2801 |
| CO ₂ | Emissions | tCO ₂ | 47,633 | 51,547 | 36,187 | 41,219 |
| | Emissions intensity | tCO ₂ /m ² | 0.1278 | 0.1178 | 0.0827 | 0.0890 |
| Water | Usage | thousand m ³ | 1,476 | 1,509 | 770 | 877 |
| | Emissions intensity | thousand m ³ /m ² | 0.0040 | 0.0034 | 0.0018 | 0.0019 |
| Waste | Emissions | t | 3,458 | 4,879 | 2,898 | 2,825 |
| | Emissions intensity | t/m ² | 0.0093 | 0.0112 | 0.0066 | 0.0061 |
| | Recycled Amount | t | 876 | 1,689 | 1,125 | 1,035 |
| | Recycle Ratio | % | 25% | 35% | 39% | 37% |

(*3) Amount of CO₂ emissions are calculated based on "Institution of calculation, reporting and disclosure of amount of emissions by greenhouse effect gas" established by Ministry of the Environment.

(*4) Numbers may change due to revision of aggregation method.

Initiatives for Environment

Actual Cases of Initiatives for Environment

● Switching to LED Lighting

We are striving to reduce electricity consumption by switching from conventional lighting to LED lighting at some of the hotels in our portfolio.



Oriental Hotel Hiroshima



Oriental Hotel Okinawa Resort & Spa

● Introduction of water-saving devices

We strive to reduce water consumption through installing water-saving devices for a restroom, a tap in the kitchen, etc. to adjust water use amount properly.

● Renewal of air conditioners

We reduce electricity consumption by installing inverter control devices on air conditioners for better operational efficiency.

● Reuse of water

Several of our hotels reduce clean water consumption by using well water instead. Some of our hotels in Okinawa are working on to reduce clean water consumption by reusing gray water as recycled water.

● Green Leases

In order to promote environmentally friendly initiatives in our portfolio, we have signed green leases provisions such as providing energy data with the lessees of HMJ Group hotels, which is one of our major hotel groups. JHR analyzes data of energy, etc. provided by hotels and considers renovation to improve environmental performance and works to optimize operation of facilities management. In case of HMJ Group hotels, they can reduce utility expenses through improvement of environmental performance.

Achievement of green lease provision (end of FY2022)

| No. of Properties | Proportion of Total Floor Area |
|-------------------|--------------------------------|
| 16 | 60.5% |

● Green Building Certifications by third-party institutions

In order to confirm the credibility and objectivity of our initiatives aimed at reducing our environmental impact, we have obtained green building certifications from third-party institutions.

Achievement of certification from third-party institutions

| Fiscal Year | FY2019 | FY2020 | FY2021 | FY2022 |
|---|--------|--------|--------|--------|
| No. of properties newly acquired certifications | – | 1 | 1 | – |
| Cumulative ratio in portfolio (based on total floor area) | 6.3% | 14.7% | 17.2% | 17.2% |

Initiatives for Environment

■ CASBEE Certification for Buildings

“Comprehensive Assessment System for Built Environment Efficiency (CASBEE)” is a method for evaluating and rating the environmental performance of buildings. It is a system to comprehensively evaluate the quality of buildings, including interior comfort and landscape considerations, as well as environmental considerations such as energy conservation and the use of materials and equipment with low environmental loads.

CASBEE for Buildings (Existing Buildings) is an evaluation method which targets buildings with an operational record of at least one year after completion, and assesses buildings based on annual performance of operations, deterioration of buildings and interior environments. Assessment results by CASBEE are indicated in a scale with the following five ranks: “S: Superior,” “A: Very Good,” “B+: Good,” “B-: Slightly Poor,” and “C: Poor.”

See here for details of CASBEE
<http://www.ibec.or.jp/CASBEE/english/index.htm>



Oriental Hotel Fukuoka Hakata Station

| | |
|------------------------|--|
| Location | 4-23, Hakataeki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka |
| Acreage | 2,163.42 sqm |
| Total Floor Space | 18,105.42 sqm |
| Structures and Stories | SRC/12 stories above ground with 3 stories below ground |
| Building Completion | Jul. 1985 |



CASBEE for Buildings (Existing Buildings) Rank B+ (Good)



Hilton Tokyo Odaiba

| | |
|------------------------|--|
| Location | 1-9-1, Daiba, Minato-ku, Tokyo |
| Acreage | 18,825.30 sqm |
| Total Floor Space | 64,907.76 sqm |
| Structures and Stories | S/SRC with flat roof, 14 stories above ground and 1 story below ground |
| Building Completion | Jan. 1996 |



CASBEE for Buildings (Existing Buildings) Rank B+ (Good)

■ BELS (Building-Housing Energy-efficiency Labeling System) Evaluation

"BELS" is a public valuation and display system under a guideline by the Ministry of Land, Infrastructure, Transport and Tourism to evaluate the energy conservation performance of each building, which was launched in April 2014. A third-party institution verifies the energy performance of a building by evaluating its primary energy consumption and labels the performance of both new and existing buildings. The evaluation result is graded on five scales based on energy performance (from one star "★" to five stars "★★★★★.")

See here for details of BELS (Japanese only)
<https://www.hyokakyoukai.or.jp/bels/info.html>



Hotel Nikko Alivila

| | |
|------------------------|---|
| Location | Nakagami-gun Okinawa |
| Acreage | 65,850.05 sqm |
| Total Floor Space | 38,024.98 sqm |
| Structures and Stories | SRC/10 stories above ground with 1 story below ground |
| Building Completion | Apr. 1994 |



Evaluator: JAPAN ERI CO.,LTD.



Mercure Okinawa Naha

| | |
|------------------------|----------------------------|
| Location | Naha city Okinawa |
| Acreage | 2,860.69 sqm |
| Total Floor Space | 10,884.25 sqm |
| Structures and Stories | RC/14 stories above ground |
| Building Completion | Aug. 2009 |



Evaluator: JAPAN ERI CO.,LTD.

Initiatives for Environment

● Investing in Mixed-Use Buildings

We are investing in mixed-use facilities that fall within the scope of our asset management, as stipulated in the Articles of Incorporation.



Active Intercity Hiroshima (Sheraton Grand Hotel Hiroshima)

High-rise hotel and office tower within Active Intercity Hiroshima, a mixed-use facility comprised of hotels, offices, and commercial facilities located next to JR Hiroshima Station.



Mercure Hotel Yokosuka

High-rise hotel within Bay Square Yokosuka Ichibankan in Yokosuka City. Bay Square Yokosuka Ichibankan is a landmark mixed-used facility consist of hotel, Yokosuka Arts Theatre, Yokosuka Industrial Community Plaza, etc.

● Investing in Urban Redevelopment

We are investing in urban redevelopment projects.



Oriental Hotel Fukuoka Hakata Station

Hotel located next to the JR Hakata Station Chikushi Exit rotary and connected to the Hakata Station subway station via an underground passage. In the vicinity of Hakata Station, a station-front plaza redevelopment project is under way, for which we carried out renovation work including for a corridor extending from the underground passage to the aboveground entrance/exit.

Initiatives for Environment

Initiatives for Climate Change

Our (JHR) Awareness of Climate Change

In 1992, "United Nations Framework Convention on Climate Change (hereinafter called "Convention")," with the ultimate goal of stabilizing the concentration of greenhouse gases in the atmosphere was adopted, and it was agreed to take action against climate change worldwide. Based on the Convention, the Conference of the Parties to the United Nations Framework Convention on Climate Change (hereinafter called "COP"), was held every year since 1995. At COP 21 in 2015, all 196 countries, including developed and developing countries, which are members of the Convention, adopted the "Paris Agreement", which sets a common reduction target (strive to limit global warming to well below 2°C and make additional effort to limit it to 1.5°C). As a result, recognition and initiatives of tasks for climate change became more concrete.

Japan has also been actively working on climate change issues and announced in 2020 that Japan will reduce greenhouse gas emissions to virtually zero by 2050 (hereinafter called "Carbon Neutral Declaration") based on the Paris Agreement. Carbon neutrality is also positioned as a basic principle in "Act on Promotion of Global Warming Countermeasures," and it is expected to accelerate decarbonization initiatives, investments, and innovation as well as to further promote decarbonization initiatives utilizing renewable energy in local areas and decarbonization management by companies.

JHR believes that the climate change action, which are being discussed as a global initiative, are not restrictions on economic growth but are key to generate a major shift in industrial structure and strong growth through drastically transforming the economy and society, encouraging investment and improving productivity. Therefore, JHR recognizes that properly identifying, assessing, and managing the "risks" and "opportunities" caused by climate change is essential to enhancing business resilience and ensuring our sustainability, and has positioned action to climate change as one of our materialities (key issues).

Expression of Support for the TCFD Recommendations by the Asset Management Company

TCFD is the "Task Force on Climate-related Financial Disclosures" established by the Financial Stability Board (FSB) in 2015 to encourage companies to disclose appropriate information and to encourage investors and others to make appropriate investment decisions, and recommended disclosure themes within the framework in its final report in 2017.

Based on the recognition that "climate change will cause dramatic changes in the natural environment and social structure and is important issue that will have a significant impact on the management of investment corporations," JHRA, which is asset management company of JHR, judged that it is important to promote disclosure based on the TCFD recommendations and expressed its support for the TCFD recommendations in November 2021.

At the same time, JHRA joined the TCFD Consortium, an organization of Japanese companies that support the TCFD recommendations. Through the activities of the TCFD Consortium, JHRA promotes the study of effective information disclosure and initiatives to link the disclosed information to appropriate investment decisions by financial institutions, etc., while striving to expand appropriate information disclosure of JHR.

<Disclosure framework of TCFD>

| Recommended Disclosure themes | Governance | Strategy | Risk management | Metrics and Targets |
|-------------------------------|--|--|--|--|
| Description (Summary) | The organization's governance around climate-related risks and opportunities | The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning | The processes used by the organization to identify, assess, and manage climate-related risks | The metrics and targets used to assess and manage relevant climate-related risks and opportunities |



Initiatives for Environment

Initiatives for Four Disclosure Themes Recommended by TCFD

● Governance

JHR has established the following governance structure to address climate-related risks and opportunities.

- The chief executive officer for Climate-related issues shall be the President, who is the chief executive officer for Sustainability Promotion.
- The executive officer responsible for management of climate-related issues shall be the Managing Director, head of Finance and Planning Division, who is the executive officer responsible for management of sustainability promotion.
- The ESG promotion committee shall consider specific goals and measures, cooperate in implementing measures, and monitor progress for the purpose of promoting sustainability, including environmental considerations. The ESG Promotion Committee consists of the chief executive officer, the executive officer, management members and ESG team meeting members.
- The ESG Promotion Committee shall determine and implement matters related to action to climate change, including identification and assessment of climate change impacts, monitor progress in initiatives to manage risks and opportunities, and the setting of metrics and targets.

For an overview of the responsible persons and the ESG Promotion Committee above, please refer to "[Sustainability Promotion System](#)" within Sustainability Management.

● Strategy

In order to examine the impact of climate-related risks and opportunities on the JHR's business, strategy and financial plan, we conducted scenario analysis using the 4°C and 1.5°C scenarios. In the scenario analysis, we refer to the Fifth Assessment Report published by the IPCC (Intergovernmental Panel on Climate Change of the United Nations) and World Energy Outlook 2020 published by the IEA (International Energy Agency) to analyze the impact on JHR's business by measures such as Japanese government's "Carbon Neutral Declaration" in mind for the transition of the social economy to decarbonization and the increasingly serious and frequent occurrence of natural disasters due to the progress of climate change.

Reference Scenarios

| Scenario | Transition risk | Physical risk |
|-----------------|-----------------------|--|
| 4°C Scenarios | STEPS (IEA WEO2020) | RCP8.5 (IPCC Fifth Assessment Report) |
| 1.5°C Scenarios | NZE2050 (IEA WEO2020) | RCP2.6 (IPCC Fifth Assessment Report) |

Initiatives for Environment

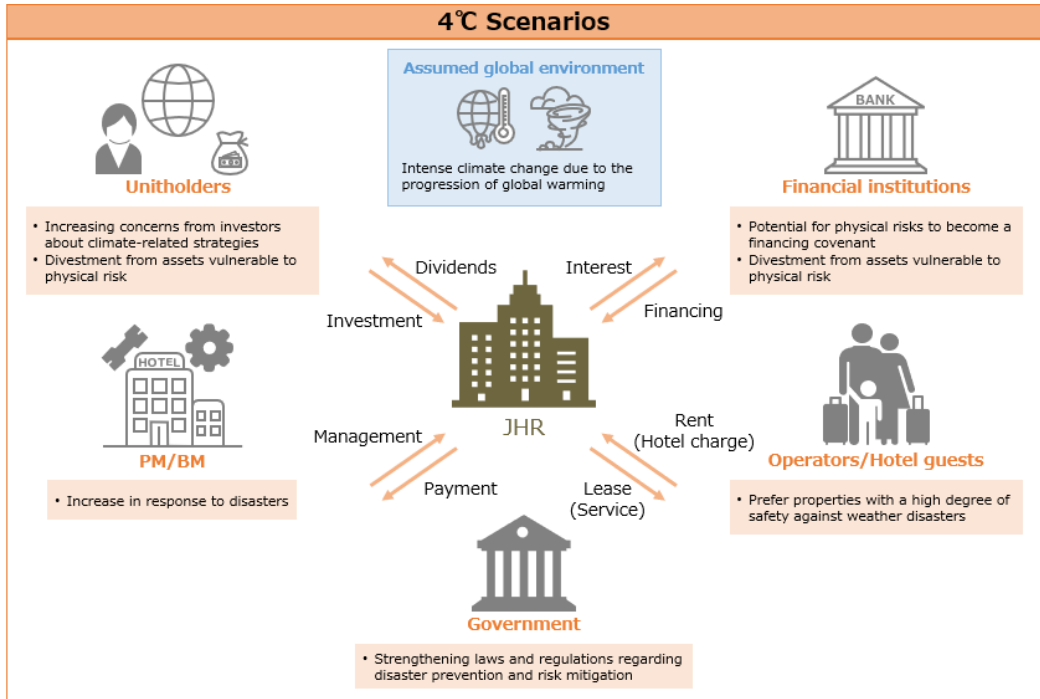
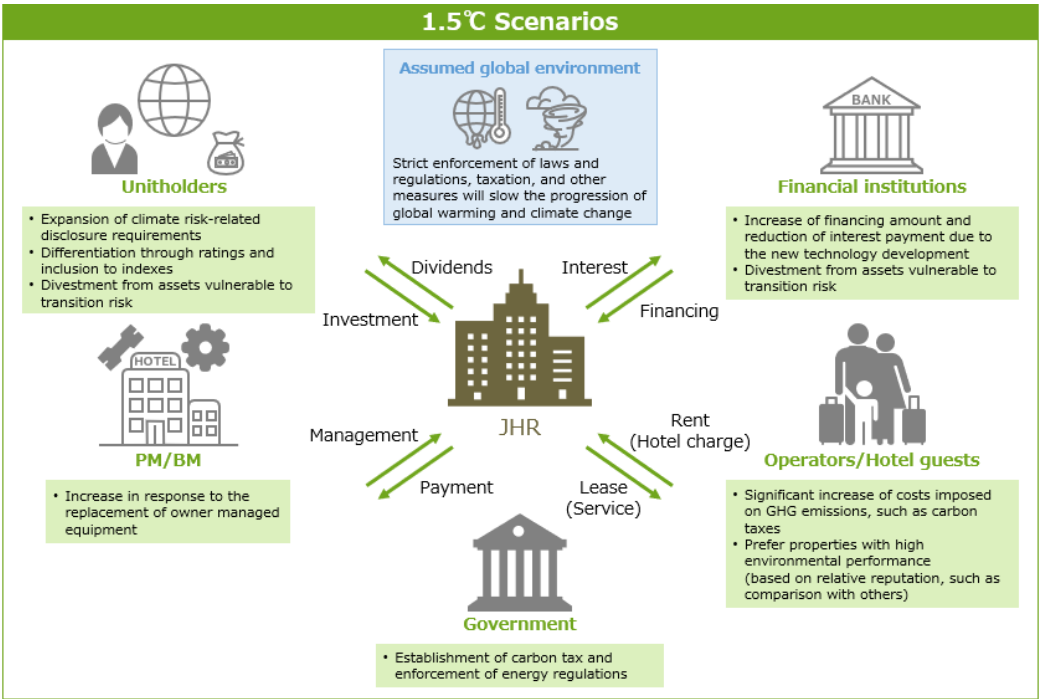
• Global Outlook based on Scenario Analysis

1.5°C Scenarios:

Various laws and regulations will be enforced to achieve a decarbonized society. Scenario with lower physical risks due to reduced greenhouse gas emissions compared to 4°C scenarios, but higher transition risks toward a decarbonized society.

4°C Scenarios:

Enforcement of various laws and regulations to achieve a decarbonized society to be stagnant, and there is no significant change from the present state. The scenarios with high physical risk due to no reduction in greenhouse gas emissions compared to 1.5°C scenarios, but low risk of transition toward a decarbonized society.



Initiatives for Environment

Climate-related risks and opportunities (short-, medium- and long-term climate-related risks and opportunities and financial impacts)

For each of the above 4°C and 1.5°C scenarios, we have evaluated the magnitude of the financial impacts on JHR which will be caused by the identified risks and opportunities. For each scenario, we evaluated the impact in the years 2025 (short-term), 2030 (medium-term) and 2050 (long-term) on a scale of large, medium and small. The accuracy of this assessment is not guaranteed, as it is a relative impact assessed based on a qualitative analysis and includes various factors such as uncertain assumptions and unknown risks over the medium to long term. A summary of the results is shown in the table below.

<Financial Impact Based on Scenario Analysis>

| Category | Risk and Opportunity Factors | Changes | Classification | Financial Impact | | | | | | Initiatives and Countermeasures |
|-------------------------|---|--|----------------|------------------|----------|-----------|------------|----------|-----------|--|
| | | | | 4°C | | | 1.5°C | | | |
| | | | | Short-Term | Mid-Term | Long-Term | Short-Term | Mid-Term | Long-Term | |
| Transition Risks | | | | | | | | | | |
| Policy and Legal | Strengthening taxation on GHG emissions through the introduction of a carbon tax | Increase in tax burden on GHG emissions from properties under management | Risks | Minor | Minor | Minor | Minor | Moderate | Major | <ul style="list-style-type: none"> Switch to equipment with superior environmental performance Consider introduction of renewable energy Third-party verification of aggregated environment data (energy, GHG, water and waste) |
| | Expansion and mandate of labeling systems related to energy efficiency and sustainability initiatives for buildings | Rise in expense of acquiring environmental certification | Risks | Minor | Minor | Minor | Minor | Moderate | Moderate | |
| Technology | Evolution and diffusion of renewable energy and energy-saving technologies | Increase in expenses for introducing new technology for equipment in properties under management | Risks | Minor | Minor | Minor | Minor | Minor | Moderate | <ul style="list-style-type: none"> Survey the latest technology and estimate the effect by introducing equipment with the latest technology Introduce water-saving devices, reduce sewage and wastewater by introducing ECO-cleaning, and use LED lights |
| | | Reduction of utility costs through the introduction and replacement of equipment with high energy-saving performance | Opportunities | Minor | Minor | Minor | Minor | Moderate | Moderate | |

| | | | | | | | | | | |
|-----------------------|--|---|---------------|-------|-------|----------|-------|----------|----------|---|
| Market and Reputation | Changes in the investment attitude and investment and financing decisions of market participants | Deterioration of financing conditions and increase in financing costs due to delay in response to climate change | Risks | Minor | Minor | Minor | Minor | Minor | Moderate | <ul style="list-style-type: none"> Disclose information with ESG disclosure framework (TCFD, etc.). Set targets and implement initiatives in line with government policies Consider introduction of renewable energy Promote energy saving through periodic facility renovations and conduct tenant satisfaction surveys Obtain environmental certifications (SMBC eco-certification, BELS and CASBEE) Issue green bonds, etc. |
| | | Increase funding volume and lower funding costs by responding to and appealing to investors who are concerned about environmental issues | Opportunities | Minor | Minor | Minor | Minor | Moderate | Moderate | |
| | Change in demand from hotel lessees and hotel guests (avoiding properties that are less climate-responsive) | Decrease in rents due to increased costs for responding to the demands of hotel lessees, etc. and hotel users (guests) and deterioration of reputations due to non-response | Risks | Minor | Minor | Minor | Minor | Minor | Moderate | |
| | | Increase market recognition and market competitiveness as an eco-friendly property | Opportunities | Minor | Minor | Minor | Minor | Moderate | Moderate | |
| Physical Risks | | | | | | | | | | |
| Acute | Damage to property caused by typhoons and other wind damage | Increase in repair and insurance costs, loss of sales opportunities and lower occupancy rates | Risks | Minor | Minor | Moderate | Minor | Minor | Minor | <ul style="list-style-type: none"> Check hazard maps Mitigate damage by strengthening facilities, prepare BCP manuals, and conduct disaster training Mitigate damage by strengthening facilities |
| | | Floods of nearby rivers and rainfall inundation caused by torrential rains, etc. | Risks | Minor | Minor | Moderate | Minor | Minor | Minor | |
| Chronic | Increase in demand for air conditioning due to increase in extreme weather conditions such as extremely hot and cold weather | Increase in utility costs, as well as maintenance and repair costs | Risks | Minor | Minor | Moderate | Minor | Minor | Minor | <ul style="list-style-type: none"> Promote energy savings through facility renovation |

(*) "Transition risk" and "physical risk" are as follows.

- "Transition risk": Business impacts arising from the social economy's transition to a low-carbon, decarbonized economy
- Policy and Legal Risks : Risks arising from tightening of regulations to promote decarbonization through policies and regulations
 - Technology risks : Risks associated with the development of new low-carbon and decarbonization technologies and their mainstreaming
 - Market risks : Risks related to markets, such as energy price volatility and changes in demand for services
 - Reputational risks : Risks associated with a deterioration of reputation among stakeholders, including customers, the public, employees, and investors
- "Physical risks": Business impacts resulting from progress of climate change and shifts from traditional climate patterns and phenomena
- Acute physical risks : Risks arising from sudden weather phenomena such as typhoons and floods
 - Chronic physical risks : Risks arising from long-term changes in climate patterns that may cause rising sea level or chronic heat waves

Initiatives for Environment

● Risk Management

• Premise of Risk Management (Identification and Assessment of Risks)

At JHRA, which is entrusted with asset management of JHR's assets, ESG Promotion Committee mainly plays a central role. ESG Promotion Committee identifies and assess climate-related risks as well as consider and decide business strategies to manage risks and countermeasures as one of the ESG issues. The processes of identification and assessment are as follows.

- ① Under the direction of the executive officer responsible for management of climate-related issues, an internal ESG team (hereinafter called "ESG Team"), which formulates goals, studies measures, and monitors their implementation status with respect to ESG-related issues, identifies and assess climate-related risks to JHR.
- ② ESG Team identifies and assess climate-related risks based on the classification of "Transition risks" and "Physical risks" and report the results (progress) at the ESG Promotion Committee.
- ③ ESG Promotion Committee deliberates on climate-related risks and prioritized measures to manage climate-related risk which judged to be corresponded as priority based on the results of the ESG Team's identification and assessment of climate-related risks, including their potential to materialize and their financial impact and other factors. In addition, when climate-related opportunities are reported, the team prioritizes them within the business strategy.

For an overview of ESG Promotion Committee and ESG Team, please refer to "[Sustainability Management](#)."

• Management of climate-related risks

The processes for managing the assessed climate-related risks are as follows.

- ① The executive officer responsible for management of climate-related issues will instruct the ESG team to formulate an action for the key climate-related risk factors that ESG Promotion Committee has decided to prioritize correspondence.
- ② Depending on its content, the action formulated by ESG team will be decided and implemented based on the necessary decision-making system within the asset management company including ESG Promotion Committee.
- ③ Regarding the action decided on, ESG team summarizes the status of the progress and the impact by the action, and reports to ESG Promotion Committee. ESG Promotion Committee appropriately manages the risk through management of progress of the action and provide instructions on the formulation of new measures, etc. based on the report by ESG Team.

For an overview of Risk management, please refer to "[Governance](#)."

● Metrics and Targets

Based on the recognition that solving environmental issues represented by climate change is one of the most important management issues for stable medium- and long-term growth of the JHR, we are promoting low carbonization of our portfolio and energy use efficiency through environmental and energy-saving measures.

• Greenhouse Gas (GHG) emissions

JHR has set a target to reduce GHG emissions intensity by 30% until 2050 (compared to FY2017) as a long-term goal.

Since the properties owned by JHR are managed by hotel lessees, etc. and their GHG emissions fall under Scope 3, Category 13, Leased Assets (downstream), the sum of direct emissions from fuel consumption (Scope 1) at the properties and indirect emissions from consumption of purchased electricity, etc., which converted final energy consumption into annual CO₂ emissions (Scope 2) reported by the hotel lessees, etc. are used as GHG emissions for JHR.

The GHG emissions are calculated as follows.

① Scope 1

CO₂ emissions are calculated by multiplying the calorific value of each type of fuel (gas, heavy oil, kerosene, etc.) burned on-site by the "carbon emission conversion factor for each fuel type × 44/12."

② Scope 2

Calculated only for electricity and the heat supplied from offsite sources (district heating and cooling, etc.). CO₂ emissions are calculated by multiplying each consumption by the emission factor for respective suppliers or by the emission factor specified by the government.

• Others

JHR is striving to reduce GHG emissions and take the following environmental measures and others at the properties it owns, aiming to build a portfolio that make reduction of environmental impact compatible with consideration of all stakeholders, including hotel guests.

- We have a plan in place to eliminate the use of specified CFCs (CFC) and alternative CFCs (HCFC, HFC) in short period by identifying the refrigerants used in the air-conditioning equipment of all properties owned by JHR.
- With regard to ODP and GWP, we aim to figure out the ODP and GWP of all refrigerants used in our properties.
- Upon renewal of air conditioning equipment, we make selection of equipment with consideration to ODP and GWP usage.

Initiatives for Society

Basic Policy

JHR and JHRA endeavor to build sound relationships with our stakeholders including unitholders, hotel guests, hotel lessees, hotel operators, business partners including property managers, local communities, officers and employees of the JHRA and others, and to fulfill our social responsibility expected by each of them.

Initiatives for Unitholders

● Proactive IR activities

General Meeting of Unitholders and Briefing for unitholders: once in every two years
 Financial Results Briefing for institutional investors: twice a year (including mid-term Financial Result Briefing)
 We proactively participate in conference for investors in Japan and overseas.

● Proactive information disclosure

We actively disclose information using various communication tools (Financial Results Briefing, Asset Management Report and Press Release, etc.). Moreover, we disclose business result of our major hotels through press release every month.

● Benefits program for unitholders

JHR has introduced benefits program for unitholders to obtain a better understanding of our hotels, improve unitholders' satisfaction and expand the investor base. We also carry out a questionnaire survey to unitholder who used hotel under the program to obtain feedback to our hotels.

Initiatives for Local Communities/ Contribution to Regional Revitalization (Cooperation with Lessees, etc.)

Considering the Health and Safety of Local Communities

Initiatives to cope with COVID-19

- Provided 7 hotels to date as facilities for accommodation and care of patients
- Introducing automatic check-in machines as a countermeasure to COVID-19 (Utilize DX – Digital Transformation)
- Providing vaccinations to officers and employees of HMJ Group hotels (including part-time and temporary staff) who want them, as well as their families
- Providing hotel banquet rooms as workplace vaccination sites and group vaccination sites
- Installing acrylic boards as a countermeasure for airborne droplets and installing automatic thermometers



Supporting Cultural and Artistic Activities and Child-Rearing in Local Communities

Oriental Hotel tokyo bay

Setting forth a corporate policy as "Hotel which is friendly to Earth, local community and family" Oriental Hotel tokyo bay proactively engages in events of local communities such as Shin-urayasu festival and disaster preparedness to communicate with local residents. Oriental Hotel tokyo bay also supports art and cultural activities in local community through hosting a free annual Christmas chapel concert and setting an oriental gallery.

Moreover, the hotel is dedicated to support childcare such as cooperation with after-childbirth support project of Urayasu City and received first Kids Design Award as a hotel.



Initiatives for Society

Preserving the Local Environment

Hotel Nikko Alivila

Hotel Nikko Alivila holds up "Eco-friendly resort." The hotel participates in "Churaumi clean-up operation in Yomitan" hosted by Yomitan Village in Okinawa every year. Nirai Beach is located in front of Hotel Nikko Alivila, which is famous for its one of the best transparency in Okinawa's main island. Hotel staffs clean the beach every morning and implement beach preservation activities. As a result of these activities, laying of eggs, and natural hatching by sea turtles are observed in the beach. Hotel Nikko Alivila is a member of the Sea Turtle Association of Japan.



Initiatives for Hotels

Improvements to Hotel Employees' Work Environment

Introducing COVID-19 countermeasures and creating practical, relaxing back-of-house areas where employees can work comfortably.



Safety Measures for Local Communities

Oriental Hotel Okinawa Resort & Spa

Oriental Hotel Okinawa Resort & Spa endeavors to work on medical issues in local areas through donating to MESH support, an incorporated non-profit organization which operates a helicopter emergency medical service (a private air ambulance) in northern area of Okinawa, a medically depopulated area. Oriental Hotel Okinawa Resort & Spa also aims to support community through invitation of primary school pupils to its pool for demonstration of life-saving training in case of disaster by water.



Initiatives for Society

Initiatives for Employees

In order to maintain its professional expertise and continue performing stable asset management, JHRA believes it must be a company at which highly motivated, exceptional human resources are able to achieve excellent performance over the long term. It provides an appealing, pleasant work environment where exceptional employees remain highly motivated to enhance their quality and have incentives to continue working there in the medium to long term.

Initiatives for HR Development

Viewing human resources as its most important asset, JHRA supports employees' career development by implementing various development programs that enable each individual to grow through their work while expressing their individuality and achieving personal fulfillment.

● HR development (professional skills development)

With the aim of cultivating REIT and real estate management professionals, we recommend and support the acquisition of professional certifications such as ARES (Association for Real Estate Securitization) Certified Master (an educational program that systematically teaches practical, specialized knowledge in the real estate and finance fields) for all officers and employees, and throughout the year, the company covers the full cost of participation in training and seminars relating to practical knowledge, industry trends, complying with laws, etc.

Certification Holders
(As of December 31, 2022)

- Real Estate Broker: 15 employees
- Real Estate Appraiser: 2 employees
- Certified Building Administrator: 3 employees
- Official Real Estate Consulting Master: 2 employees
- ARES Certified Master: 11 employees

● HR development (general skills development)

In order to support efforts aimed at acquiring the specialized expertise and qualifications required to carry out the responsibilities of their position and improve their skills, we offer training programs conducted by external organizations to all employees, as well as supporting expenses for personal development using the Cafeteria Plan program.

Initiatives for Employee Health and Well-being

With the purpose of ensuring employees' mental and physical health and establishing a comfortable work environment, JHRA promotes work-life balance and initiatives to improve mental and physical health and pursues initiatives to enhance job satisfaction.

● Establishment of Health Committee

Even though the size of our workplace does not oblige us to establish under the Industrial Safety and Health Act, we have established a Health Committee with the aim of improving Standards of labor health for employees and maintaining and promoting wellness. The committee, which meets once a month, reviews matters including status of work by all employees and the well-being and safety of the work environment, and after meetings, advice from an occupational health physician is distributed to all employees.

● Encouraging regular health checks, flu shots, etc.

In general, we subsidize costs related to regular health checks/screenings once a year and costs related to flu shots and we encourage employees to take health check and vaccinations by these measures. Moreover, we implement a system that enables those who desire it to consult with occupational health physician about mental health issues as needed.

● Establishment of employee consultation service

For the purpose of protecting employees' human rights and strengthening compliance management as well as for prevention, early detection, and correction of conduct that violates laws and regulations, fraud, harassment, etc., we have set up whistleblowing regulations that apply to all employees and established an employee consulting service. We set the Compliance Office as an in-house contact point and an external lawyer as an external contact point. Employees may report or consult with consulting service anonymously.

● Consideration of human rights, diversity, and equality of opportunities

Our in-house regulations stipulate that acts of discrimination based on ethnicity, religion, gender, age, origin, nationality, etc., shall not be allowed. Through activities such as compliance training, we promote respect for various perspectives and values and pursue awareness activities to eliminate discrimination and harassment.

Initiatives for Society

● Preparation of environment where senior personnel can be active

We have introduced a re-employment system for employees aged 60 and over who wish to continue working. We have established a labor environment where senior personnel may remain active after the official retirement age by leveraging their work experience and expertise.

● Preparation of office environment

Our offices are amply equipped with common spaces that promote communication between employees, and spaces are also provided for individuals to rest. Furthermore, we are taking steps to implement a comfortable work environment, such as hiring an external specialist company to perform periodic air cleaning maintenance in order to ensure excellent air quality.

● Pension plans and fund installment program under NISA at workplace (Employee Stock Purchase Plan)

To help employees build up assets for the future and enjoy a comfortable standard of living after retirement, we have introduced a defined contribution pension plan (401k) as well as a defined benefit pension plan and other measures. Furthermore, with the purpose of maintaining officers' and employees' motivation for improving unitholder value over the medium to long term by having the same perspective as unitholders, we have introduced fund installment program under NISA at workplace for all officers and employees, under which the company provides contributions equal to a certain percentage of individuals' contributions as an incentive. We made possible to acquire investment units of JHR by officers and employees under the program while paying attention to insider information.

● Implementation of various benefits (programs for all officers and employees)

- Sick leave (Leave which may be taken separately from annual paid vacation)
- Length-of-service compensation program
- Congratulatory/condolence payment program
- Cooperating with welfare service providers
- Flex hours, etc.

Communication with Employees

JHRA pursues a two-way dialogue between management and employees on matters such as working styles and strives to create job satisfaction and make work more pleasant.

● Conducting employee satisfaction surveys

In order to establish more favorable relations between management and employees, we conduct a regular employee satisfaction survey. Based on the survey results, we consider and implement improvement measures, as well as using proposals for improvement obtained from employees during workshops, with the aim of becoming a better company through two-way communication between management and employees.

● Target management and performance evaluation process

Superiors and their subordinates together review the status of the targets set by employees at the start of the fiscal year and their performance during the year through regular communication. At the end of the year, employees' achievement of their targets, performance, and use of their skills are reviewed and a follow-up meeting is held. We have instituted a PDCA process whereby areas for improvement are shared during the meeting and discussed with the aim of taking the next steps, and targets for the next year and mid- to long-term targets are set. Moreover, in the process, all employees set ESG-related targets. These targets are managed and the status of related initiatives is reviewed and evaluated.

● Individual meetings with top executive

As a venue for consultation and discussion about the details of individual employees' assignment, career plan, workplace-related concerns, etc., top executive hold one-on-one meetings with all employees once a year. Top executive listen to employees' voices and use them as a reference for the aim of supporting each employee's personal fulfillment and creating a more pleasant work environment.

Initiatives for Society

Basic Employee Data

Basic data on JHRA's employees is shown below.

■ Data related to Employees (as of the end of each fiscal year) (*1)

1. Basic Data on Employees

| Item | FY2020 | FY2021 | FY2022 | |
|----------------------------------|------------------|------------------|------------------|----------|
| Number of employees | 40 | 36 | 41 | |
| By gender (ratio) | Male | 27 (68%) | 24 (67%) | 28 (68%) |
| | Female | 13 (33%) | 12 (33%) | 13 (32%) |
| Average length of service | 5 years 3 months | 5 years 7 months | 5 years 7 months | |
| Number of seconded employee (*2) | 0 | 1 | 1 | |

2. Promoting of Diversity

| Item | FY2020 | FY2021 | FY2022 | |
|---|--------|-----------|----------|----------|
| Number of Directors(*3) | 7 | 7 | 7 | |
| By gender (ratio) | Male | 7 (100%) | 6 (86%) | 6 (86%) |
| | Female | 0 (0%) | 1 (14%) | 1 (14%) |
| Number of employees in managerial position (Head and Deputy Head of Group or above) | 11 | 12 | 13 | |
| By gender (ratio) | Male | 11 (100%) | 11 (92%) | 10 (77%) |
| | Female | 0 (0%) | 1 (8%) | 3 (23%) |
| Number of employees over 60 years old | 3 | 2 | 2 | |

3. Health and safety of employees, etc.

| Item | FY2020 | FY2021 | FY2022 |
|--|--------|--------|--------|
| Percentage of paid leave taken(*4) | 52% | 57% | 66% |
| Number of Health Committee Meetings Held | 7 | 12 | 11 |
| Number of interviews with industrial physicians | 3 | 21 | 8 |
| Number of employees took parental leave (Number of male employees took parental leave) | 0 | 0 | 3 (1) |
| Number of employees took nursing leave | 0 | 0 | 0 |
| Number of occupational accidents | 0 | 0 | 0 |

(*1) Representative director, part-time directors and auditors are excluded.

(*2) Seconded is from a third party mainly for the training purpose and not from any sponsor-related party.

(*3) Representative director, part-time directors and auditors are included.

(*4) Exclude employees joined the company during the year.

Initiatives for Society

Initiatives under Impact of COVID-19

The COVID-19 pandemic has significantly impacted daily life, social activities, and business, prompting reconsideration of how employees work and communicate. JHRA is striving to ensure employees' safety and peace of mind in the context under the pandemic, and we have implemented various initiatives aimed at making work more flexible and comfortable.

● Implementing a flexible work system

Flexible work system, recommending staggered commuting times, setting and managing attendance rate, rotation system to work at office, establishing behavioral guidelines based on the pandemic situation, recommending online meetings, etc.

● Changing office specifications

Introducing an online meeting system for all conference rooms, practicing social distancing of seats while attending meetings, setting limits on the number of people using conference rooms, installing partitions, etc.

● Employee health management

Conducting regular PCR tests (voluntary), providing workplace vaccinations (voluntary), installing air purifiers and clinical thermometer, distributing infection prevention gear (e.g., disinfectant spray, masks) to all officers and employees, etc.

● Ensuring the well-being of working from home

Loaning laptops and cell phones, subsidizing the cost of buying monitors and headsets, etc.

Governance

Corporate Governance

JHR's Governing Bodies

Based on the Act on Investment Trusts and Investment Corporations (“the Investment Trusts Act”), organizational management of JHR is handled by the General Meeting of Unitholders, which is comprised of unitholders, and the Board of Directors, including one Executive Director (male) and three Supervisory Directors (two male, one female), and an accounting auditor.

Executive Director and Supervisory Directors

● Status and term of directors

The Executive Director executes the business of JHR, represents the company, and possesses the authority to perform any acts in or out of court relating to the business of JHR.

The Supervisory Directors possess the authority to supervise the execution of the Executive Directors’ duties. They may request reports relating to the status of JHR’s business and assets from not only the Executive Director but also administrative agents, the asset management company, and the asset custody company, and they may also conduct any investigations that are required.

With regard to the status of the Executive Director and Supervisory Directors, refer to Executive Director and Supervisory Directors were elected by resolution of general meeting of unitholders and term of office is two years following their appointment.

● Independence of directors

In order to secure high independency of Executive Director and Supervisory Directors from JHRA and its sponsor-related parties, JHR elects person without any relation with JHRA and its sponsor-related parties as its Executive Director and Supervisory Directors since April 1, 2012.

In cases of vacancy of the position of Executive Director or a shortfall in the number of Executive Director as stipulated by laws and regulations, representative director of JHRA may temporarily take position of Executive Director of JHR.

● Reasons for Appointment of Directors and Board of Directors Meeting Attendance Record

The directors were elected by a resolution of the General Meeting of Unitholders based on the reasons below, with the condition that they must not conflict with any of the reasons for disqualification stipulated in various laws and regulations, including the Investment Trusts Act (Article 98, 100, and 200 of the Investment Trusts Act, Article 244 of the Ordinance for Enforcement of the Investment Trusts Act). The Executive Director and Supervisory Directors consist of third parties who have no special interest with JHR.

| Title of Officer | Name | Reasons for Appointment | Gender | Board of Directors Meeting Attendance Record(*) |
|----------------------|-----------------|---|--------|---|
| Executive Director | Kaname Masuda | Possesses high experience and knowledge as a professional of law with central focus on corporate law. Familiar with unique mechanism and structure of a J-REIT through his practical experience and possesses considerable insight of management. | Male | 100% (13/13 meetings) |
| Supervisory Director | Tetsuya Mishiku | Expected to supervise investment corporation management from various standpoints including specific field based on the high experience, knowledge etc. he has acquired as a legal expert with central focus on compliance-related matters. | Male | 84.6% (11/13 meetings) |
| Supervisory Director | Hiroto Kashii | Expected to supervise investment corporation management from various standpoints including particular field based on his high experience and knowledge in sectors such as finance, hotel, and asset management. | Male | 100% (13/13 meetings) |
| Supervisory Director | Mayumi Umezawa | Expected to supervise management from various standpoints including specific field based on the high experience and knowledge as professional of accounting. | Female | 92.3% (12/13 meetings) |

(*) Shows the attendance record at board of directors meetings held during the 23rd fiscal period (ended December 2022).

Governance

Remuneration of Directors

● Remuneration of Executive Director and Supervisory Directors

As stipulated in JHR's Articles of Incorporation, the amount of remuneration for the Executive Director and Supervisory Directors shall be determined by the Board of Directors, with a maximum of 800,000 yen/month per person for the Executive Director and a maximum of 500,000 yen/month per person for the Supervisory Directors. The remuneration amount for each director is as shown in the table below.

| Position | Name | Total Remuneration for Each Position in the 23rd Fiscal Period (Ended December 2022) |
|----------------------|-----------------|--|
| Executive Director | Kaname Masuda | 6,600,000 yen |
| Supervisory Director | Tetsuya Mishiku | 3,600,000 yen |
| Supervisory Director | Hiroto Kashii | 3,600,000 yen |
| Supervisory Director | Mayumi Umezawa | 3,600,000 yen |

● Remuneration of Accounting Auditor

The amount of remuneration for the Accounting Auditor shall be determined by the Board of Directors, with a maximum of 30,000,000 yen per business period. The remuneration amount for the Accounting Auditor is as shown in the table below.

| Title | Company Name | Remuneration for the 23rd Fiscal Period (Ended December 2022) |
|--------------------|---------------|---|
| Accounting Auditor | KPMG AZSA LLC | 26,750,000 yen |

(*)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 ¥1,750 thousand, such as preparation of comfort letters associated with the issuance of investment corporation bonds.

● Fees paid to JHRA

Since JHR is prohibited from hiring employees based on the provisions of the Investment Trusts Act, it entrusts asset management to JHRA without hiring any personnel.

In accordance with the asset management contract signed between the two parties, JHR pays asset management fees to JHRA. The types of fees, methods of calculating them, and total amounts are as shown below.

(Calculation Methods)

| Fee Type | Fee Calculation Method |
|------------------|---|
| Management fee 1 | On the final day of March, June, and September in each business period and the fiscal year-end of each business period (the "calculation reference dates"), JHR shall pay the amount obtained by multiplying its total assets by a rate it has agreed separately with JHRA, up to a maximum of 0.35% per annum, on a daily pro-rated basis for the number of days between the previous calculation reference date (which is not included) and the current calculation reference date (which is included), taking one year to be 365 days and rounding down to the nearest yen. |
| Management fee 2 | JHR shall pay the amount calculated by multiplying its NOI (Net Operating Income) for each business period by a rate it has agreed separately with JHRA, up to a maximum of 1.0%, rounded down to the nearest yen. |
| Management fee 3 | JHR shall pay the amount calculated by multiplying the amount obtained by dividing the total dividend amount for a given business period before deducting management fee 3 by the total number of investment units issued as of the last day in December in that period (rounded down to the nearest yen) by a coefficient that it has agreed separately with JHRA, up to a maximum of 43,000 (however, if the investment units were split, the figure will be 43,000 multiplied by the split ratio, and if the investment units were split multiple times, the same process will be repeated). |
| Acquisition fee | If real estate related assets, etc. (this refers to assets indicated in Article 28-2 through 28-4 of the Articles of Incorporation; the same applies hereinafter) are acquired, JHR shall pay the amount obtained by multiplying the acquisition price of the applicable real estate related assets, etc. (excluding amounts corresponding to consumption tax, etc. (as defined in Article 39 of the Articles of Incorporation; the same applies hereinafter) and expenses associated with acquisition) by a rate that it has agreed separately with JHRA, up to a maximum of 0.75% (rounded down to the nearest yen). However, if the applicable real estate related assets, etc. are acquired from a sponsor-related parties, the rate to be applied shall be reduced by 0.25% from the rate to be applied in the case of acquisition from a non-sponsor-related parties. |
| Disposition fee | In the event of real estate related asset, etc. are disposed, JHR shall pay the amount obtained by multiplying the disposition price of the applicable real estate related assets, etc. (excluding amounts corresponding to consumption tax, etc. and expenses associated with disposition) by a rate that it has agreed separately with JHRA, up to a maximum of 0.5% (rounded down to the nearest yen). However, in the case of disposition of the applicable real estate related assets, etc. to a sponsor-related parties, the rate to be applied shall be reduced by 0.25% from the rate to be applied in the case of disposition to a non-sponsor-related parties. |
| Merger fee | In a merger carried out by JHR, if JHRA investigates and evaluates the holdings of the other party in the merger and performs other merger-related tasks and assets belonging to the other party are then succeeded by JHR as a result of the merger, JHR shall pay JHRA a merger fee based on the provisions of the asset management contract signed between the two parties. The fee involved shall be the total of the amount obtained by multiplying the appraisal value of the real estate related assets, etc., succeeded by JHR at the time of the merger by a rate agreed separately with JHRA (rounded down to the nearest yen), up to a maximum of 0.25%, and the corresponding consumption tax on this amount. |

Governance

(Fee Amounts)

(Unit: Thousands of Yen)

| Fee Type | 21st Fiscal Period (Ended December 2020) | 22nd Fiscal Period (Ended December 2021) | 23rd Fiscal Period (Ended December 2022) |
|------------------|---|---|---|
| Management fee 1 | 1,396,056 | 1,367,633 | 1,352,064 |
| Management fee 2 | 65,479 | 63,667 | 109,633 |
| Management fee 3 | 17,845 | 15,910 | 29,627 |
| Sub Total | 1,479,381 | 1,447,210 | 1,491,325 |
| Acquisition fees | 7,647 | 5,654 | — |
| Disposition fees | 42,615 | 56,500 | — |
| Merger fees | — | — | — |
| Total | 1,529,644 | 1,509,365 | 1,491,325 |

Initiatives to Prevent Conflicts of Interest

JHRA believes that managing conflicts of interest in a strict manner is essential to gain trust from the unitholders of JHR and has formulated a decision-making process that is stricter than what is required by laws and regulations. In particular, in addition to interested person, etc. stipulated by laws and regulations, JHRA stipulates that “sponsor-related parties” include JHRA’s shareholders, their subsidiaries, etc. and stipulates detailed standards and procedures pertaining to transactions between “sponsor-related parties” and JHR.

JHRA stipulates that, in cases where JHR conducts prescribed transactions with “sponsor-related parties,” resolution at a board of directors' meeting and resolution at JHR’s board of directors' meeting are required in addition to deliberation and approval at the Investment and Operation Committee and Compliance Committee.

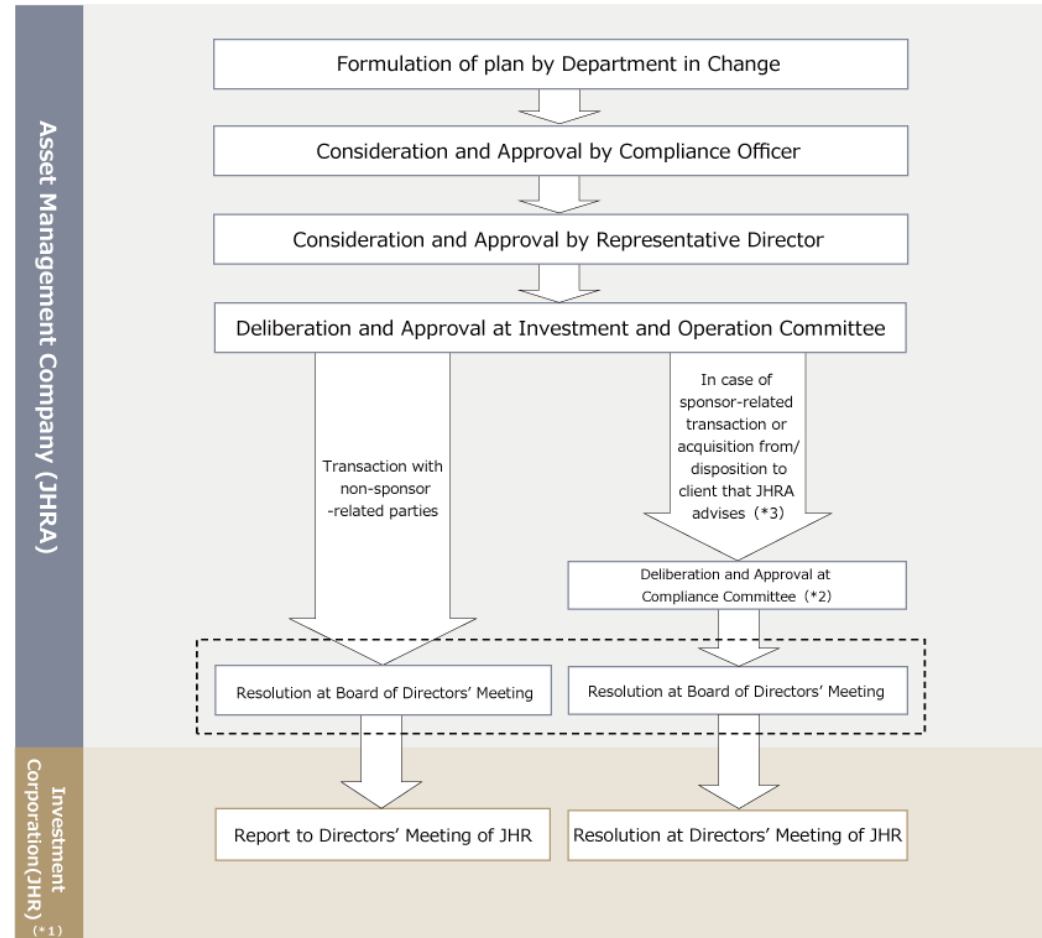
Governance

Decision-Making Process for Acquisition or Disposition of Assets under Management

JHR’s decision-making process for acquiring or disposing assets under management is shown in the right chart.

With regard to transactions with “sponsor-related parties,” JHR and JHRA have set decision-making rules stricter than what is required by laws and regulations. In order to manage conflicts of interest, we strive for compliance with “arms-length rules” and transparency. Furthermore, if an asset under management is acquired from or sold to "sponsor-related parties," compensation to be paid to JHRA will be reduced in accordance with provisions of the Articles of Incorporation.

Beside such, all transactions with "sponsor-related parties," including the conclusion of lease contracts, amendment of lease contracts and ordering of construction work, generally require the same decision-making process as transactions with "sponsor-related parties", along with attention paid to the fairness of the content by means of obtaining estimates from third parties and such.



(*1) The board of directors consists of third-party members who do not have any relationship with sponsor-related parties.

(*2) JHRA stipulates that the compliance committee in principle requires an attendance of an outside specialist (attorney). The outside specialist is authorized to dismiss a proposal.

(*3) In case of acquisition or disposition of assets between JHR and a client whom JHRA advises, such client will be treated as “sponsor-related parties”. Moreover, JHRA stipulates that resolution on the said transaction at Investment and Operation Committee needs an attendance of an external expert (real estate appraiser), who has dismissal rights of proposed resolution.

Governance

Compliance

Compliance Initiatives and System

To ensure appropriate asset management, sound and appropriate execution of operations, and protection of investors, JHR and JHRA have established a compliance-related management system. JHRA has positioned thorough compliance and business ethics issues such as anti-corruption, as the most important management issues, and have established a system for deliberation, decision-making, and management of various compliance-related matters under the authority and responsibility of the Board of Directors, the Compliance Committee, the President and Representative Director, and the Compliance Officer, respectively. Specifically, we have developed a Code of Compliance that stipulates basic policies for corporate ethics and behavioral guidelines for officers and employees and strives to maintain and implement compliance, carry out sincere and fair corporate activities, and ensure sound management based on self-discipline. Moreover, recognizing the importance of compliance, it has formulated a Compliance Manual, which stipulates standards of conduct for ensuring that compliance is implemented and achieved by officers and employees in day-to-day business operations, and a Compliance Program, which provides a practical plan for implementing compliance.

Anti-Corruption Initiatives and Initiatives against Anti-Social Forces

To prevent corruption and eliminate anti-social forces, JHRA ensures that all officers and employees (including contract and temporary employees, etc.; the same applies throughout this section) have a thorough understanding of related matters by conducting compliance training and other activities, as well as verifying implementation by conducting internal audits and administrative inspections, etc., each year.

● Anti-Corruption Initiatives

JHRA stipulates in its Code of Compliance, and Compliance Manual and Rules of Employment that all its officers and employees are required to eliminate any mixture of public and private affairs, and are prohibited from providing favors, benefits, etc. to civil servants of Japan or other countries or persons deemed as such, in accordance with Japanese and international laws. Furthermore, it stipulates that

regardless of whether business-related transactions take place, it is prohibited to provide or accept favors, benefits, etc. that exceed the scope of courtesy based on socially accepted conventions.

Specifically, in order to ensure the fairness of transactions, each officer and employee is required to confirm and declare at the time of application for transactions that the transaction does not unfairly benefit himself/herself or a third party.

Based on the internal audits, administrative inspections, and so forth that it has conducted to date, JHRA has not found any favors or gifts that contravene the relevant laws. Moreover, there have been no violations of corruption-related laws or administrative sanctions.

Also, there are no violations of laws and regulations nor administrative actions charged by administrative bodies related to corrupt practices.

For details on internal audits, please refer to "[Internal Audit](#)" in Risk Management below.

● Initiatives to Eliminate Anti-Social Forces

JHRA has formulated and published a [Basic Policy Against Anti-Social Forces](#) and strives to maintain the trust of all stakeholders and ensure sound operations and appropriate management by observing the policy. Furthermore, an organizational system has been established and implemented through the Code of Compliance Committee and Regulations for Handling Anti-Social Forces which stipulate various procedures for severing any ties involving dealings with anti-social forces and prohibit providing payoffs to anti-social forces. The following is an overview of the organizational system:

- A compliance officer is in charge of handling anti-social forces and severing any new ties with such forces and supervises JHRA's overall establishment of system.
- Each department acts as section responsible to handle initial reaction for anti-social forces and supervises the handling of individual cases.
- The compliance officer reports to the Compliance Committee and Board of Directors as needed with regard to the status of initiatives to sever and prevent ties with anti-social forces.
- The Compliance Committee and Board of Directors receive reports on the status of initiatives to sever and prevent ties with anti-social forces and grant approval for JHRA's specific and general initiatives and policies toward anti-social forces respectively as needed.

Governance

Initiatives Relating to Anti-Money Laundering and Countering the Financing of Terrorism

In recent years, the importance of countermeasures to anti-money laundering and financing of terrorism (hereinafter referred to as “money laundering, etc.”) as an issue that needs to be addressed by both Japan and global society has been growing. In collaboration with the relevant government ministries and agencies, financial institutions, etc. have been striving to maintain sound financial systems by enhancing their management systems for cutting off the flow of funds connected with criminals, terrorists, etc. (i.e., money laundering).

Recognizing the importance of countermeasures for money laundering, etc., JHRA complies with the relevant laws and regulations, including the Act on Prevention of Transfer of Criminal Proceeds. Moreover, in accordance with the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism developed and published by the Financial Services Agency in February 2018 and a risk-based approach, JHRA has established a risk management system that makes it possible to implement appropriate measures in a timely manner.

JHRA has formulated Regulations Concerning the Implementation of Verification to Execute Transactions, Etc. Based on the regulation, various verification procedures are implemented and audit and other activities on the procedures are conducted by a supervising officer (compliance officer).

Establishment of Whistleblower System

With an aim to contribute to strengthening compliance management, JHRA has established Regulation of Whistleblower. As such, JHRA has established a whistleblower system that allows its officers and employees (including contract and temporary employees) to report or discuss fraudulent acts.

"Regulation of Whistleblower" target any organizational or individual fraudulent acts including any harassment (including cases where fraudulent acts may occur) as the subject for reports or consultation (hereinafter called "Whistleblowing, etc."). Based on the Whistleblower Protection Act and company regulation, the regulation stipulates protection of whistleblower who reported or consulted (including prohibition of disadvantageous treatment, responding to anonymous reports, keeping the content confidential and elimination of conflicts of interest, etc.) as well as procedures to find and correct reported fraudulent acts (including research method, disposition of those who conduct fraudulent acts and following up with the whistleblowers.). Furthermore, in addition to assignment of Compliance Office as an in-house contact point (the President and Representative Director is the internal contact point for reporting of fraudulent acts, etc. by officers and employees of the Compliance Office), an external attorney who has no business relationship with JHRA is appointed as the reporting contact point in order to secure effectiveness of the whistleblower system. The contact information of each contact point is made known to all officers and employees through compliance trainings, and is explained to new employees in particular during the compliance training provided at the time they join the company.

In the specific process to handle reports, etc., when contact point received a report, etc., each contact point will consider the necessity of an investigation fairly, impartially, and in good faith, and will promptly notify the whistleblower of the results of the consideration and future actions against the case. And report the results of the investigation by the person in charge of the investigation to the whistleblower and the Compliance Committee.

If the investigation reveals fraudulent acts, corrective measures and measures to prevent recurrence are promptly taken, and the results of the corrective measures are reported to the Compliance Committee. Those involved in such fraudulent acts will be appropriately handled including punishment under the Rules of Employment etc., and reporting to administrative agencies, etc., if necessary.

Furthermore, even after the completion of the process, JHRA shall follow up sufficiently to protect the whistleblower, for example, by confirming that the fraudulent acts in question have been resolved and that the whistleblower has not been subjected to any disadvantageous treatment because of the reporting.

Governance

Implementation of In-House Training

JHRA implements regular compliance training for all officers and employees (including contract and temporary employees, etc.; the same applies throughout this section). The Compliance Program stipulates that compliance training must be conducted on a regular basis each year, and the status of progress and results of its implementation are reported to the Compliance Committee on semi-annual basis.

The subject matter of compliance training will be determined based on who is participating (new hires all officers and employees, Investment Division officers and employees, etc.), and JHRA fosters a stronger compliance culture by verifying and implementing training that focuses on more timely topics based on trends of amendments to laws and regulations and the results of internal audits, etc.

Training conducted in recent years is shown below.

| Fiscal Year | No. of Times | Main Topics |
|-------------|--------------|---|
| FY2018 | 19 | <ul style="list-style-type: none"> Fair disclosure rules Points to be considered in case of property acquisition and disposition Financial regulations and compliance in the real estate investment management industry |
| FY2019 | 20 | <ul style="list-style-type: none"> Dealing with harassment and introduction of whistleblower system Civil Code amendments Conditions of System management required for financial instruments business operators |
| FY2020 | 7 | <ul style="list-style-type: none"> Appropriate management of personal information Compliance Manual |
| FY2021 | 15 | <ul style="list-style-type: none"> Customer-oriented business conduct and transactions with conflict-of-interest JHRA's risk management system Reporting, quick resolution, and recurrence prevention of clerical errors |
| FY2022 | 14 | <ul style="list-style-type: none"> Whistleblower system Case studies of violation of laws and regulations Insider trading regulations |

Governance

Risk Management

Approach to Risk Management

● Establishment of Risk Management System

JHRA, to which JHR entrusts asset management, has established a risk management system for the purpose of ensuring sound management, performing appropriate risk management as a financial instruments business operator, and fulfilling its obligations.

● Basic Risk Management Policy

JHRA's Board of Directors has formulated a basic risk management policy based on its management policy and strategic objectives and supervises the development of an appropriate risk management system. The basic risk management policy is as follows:

- ① In order to ensure sound management and fulfill its fiduciary responsibilities as a financial instrument business operator, JHRA strives to develop a risk management system based on recognition that appropriate management and control of risks that occur in the course of its business operations are essential issues in management.
- ② In order to perform appropriate risk management, JHRA shall establish organizations that can exercise mutual check-and-balance, as well as provide appropriate staffing, develop a training system, and implement appropriate measures to prevent accidents.
- ③ Given that there are always intrinsic risks in day-to-day business operations, all of JHRA's officers and employees shall recognize that they need to play a role in risk management and implement operation with understanding of its importance.

● Risk Management System with focus on 3 Lines of Defense

In recent years, led by financial institutions, publicly listed corporations, etc., risk management systems that focus on a "three lines of defense"-based approach have been developed. JHRA has also adopted this approach.

Specifically, as the "first line of defense," the groups implementing/executing tasks become the risk owners. Heads of groups/offices assess, supervise, and control risks that occur in their tasks, as the risk management officers. Next, as the "second line of defense," the Compliance Office monitors risks and implements measures to control them. The compliance officer serves as chief risk management officer, supervising overall risk management for JHRA and providing the required guidance and oversight as the person in charge. Finally, in the "third line of defense," the validity of the processes created by the first and second lines of defense is evaluated and verified through internal audits and administrative inspections.

As JHR's asset management company, JHRA, based on the "three lines of defense" approach, remains aware that there are always intrinsic risks in its day-to-day business operations, and all officers and employees execute their duties while recognizing that they play a role in risk management.

● Risk Management Implementation Processes

JHRA stipulates the risk management implementation processes and specific procedures in its Code of Risk Management and detailed rules relating to the code. The risk management implementation processes consist of the seven items below, with a risk management sheet used to comprehensively implement each process.

- ① Development of annual risk management plan
- ② Risk identification
- ③ Risk analysis/evaluation
- ④ Additional control planning/implementation
- ⑤ Finalization/approval of risk management sheet
- ⑥ Monitoring through internal audits and administrative inspections
- ⑦ Improvement of risk management status

Governance

Internal Audit

Based on the Code of Internal Audit, JHRA conducts internal audits in order to verify and evaluate whether its risk management is functioning effectively. Internal audits are conducted at least once per year, and JHRA has been conducting them every year since its establishment.

● Scope and Method of Internal Audits and Improvement of Designated Items

JHRA's internal audits are performed for all organizations and operations. Specifically, risks associated with all organizations and operations are assessed in an integrated manner by using the Risk Management Sheet. Then verification and evaluation is conducted based on the internal audit to determine whether the controls for those risks are functioning effectively.

Once the internal audit is completed, the compliance officer, who serves as the chief controller of internal audit, reports the audit results to the President, Compliance Committee, and the audited departments. Furthermore, if the internal audit deems it necessary, the results will also be reported to the Board of Directors.

The chief controller of internal audit shall verify the status of improvements to matters designated in internal audits with the audited departments and report the results to the President and Compliance Committee. Moreover, if the chief controller of internal audit deems it necessary, the results will also be reported to the Board of Directors.

Crisis Management

Recognizing that crises caused by natural disasters, various criminal activities, system failures, and so forth may have a severe impact on JHR's management and asset management activities in the form of economic loss, significant obstruction of operations, etc., JHRA has formulated Code of Crisis Management and Contingency Plans and implements various measures to minimize damage and ensure employees' safety and peace of mind in the event of a crisis.

● Major measures related to Crisis Management

- Creation of BCP (business continuity planning) manual
- Implementation of BCP training (once every year)
- Introduction of safety verification system and implementation of simulation training (4 times per year)
- Distribution of emergency kit to employees
- Storage of reserve supplies

Green Bonds

Basic Policy

As part of the initiatives to enhance sustainability, JHR issued twelfth unsecured investment corporation bonds of JHR (hereinafter “Green Bonds”) in July 2019. JHR and the Asset Management Company believe that the issuance of the Green Bonds and expansion of fund procurement from investors interested in ESG investment will not only lead to strengthen the financing base of JHR, but also it will contribute to the expansion of the market of ESG investment.

Compliance of Eligible Criteria of Green Bonds

In order to meet the eligible criteria for the Green Bonds issued, JHR manages procured funds and limits the use of funds as follows.

Use of Procured Funds

- ① Part of funds to refinance renovation cost of Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata)

Covers renovation cost which meet following criteria

- Funds for investments and construction works of equipment which have effects to reduce CO₂ emissions such as air conditioners and electric facilities
- Funds for investment and construction works of equipment which can contribute to environment other than reduction of CO₂ emissions such reduction of water usage

- ② Funds for construction works of renovation etc. of other hotels

- Funds for renewal of air conditioner, etc. which can reduce CO₂ emissions at least 10%

Management of Procured Funds

Among the proceeds procured by the Green Bonds, “①Funds for repayment for renovation cost of Oriental Hotel Fukuoka Hakata Station (JPY1,600 million)” was already allocated to the repayment on July 31, 2019. On the other hand, “②Funds for constructions for renovation etc. of the other hotels (JPY400 million)” was separately managed by a ledger and was held by cash or cash equivalents until they are all allocated by the end of January 2021.

Reporting

Under the framework of the Green Bonds, JHR discloses the allocation status of the funds procured by the Green Bonds and KPIs related to the effects on environmental improvement once a year on the website until the redemption date of the Green Bonds.

- ① Each index after the renovation of Oriental Hotel Fukuoka Hakata Station

| Water consumption (m ³) | Energy consumption (MW/h) | CO ₂ emissions (t-CO ₂) |
|-------------------------------------|---------------------------|--|
| 19,334 | 2,402 | 1,181 |

(*) The figures above are the aggregated numbers from April 2020 through March 2021.

- ② The allocation status of the funds and the usage of the proceeds

| Name of Property ^(*) | Date | Amount (unit: JPY M) | Usage of the funds | CO ₂ emissions reduction rate (estimated) ^(**) |
|---------------------------------------|-----------------------------|----------------------|--|--|
| - | July 2019 to September 2019 | 15 | Cost of issuance of the Green Bonds, etc. | — |
| Oriental Hotel Fukuoka Hakata Station | July 2019 | 1,600 | Repayment of the loans related to the renovation cost | ▲16.0% |
| Okinawa Marriott Resort & Spa | October 2019 | 29 | Construction works for renewal of air-conditioning system (renovation of restaurant) | ▲46.4% |
| Okinawa Marriott Resort & Spa | October 2019 | 13 | Construction works for converting to LED lights (renovation of restaurant) | ▲74.9% |
| Okinawa Marriott Resort & Spa | October 2019 | 10 | Construction works for renewal of washing and sterilizing equipment (renovation of restaurant) | ▲44.6% |
| HOTEL ASCENT FUKUOKA | May 2020 | 100 | Construction works for renewal of heat source equipment | ▲10.2% |
| Dormy Inn Kumamoto | July 2020 | 74 | Construction works for replacement of air conditioning equipment | ▲12.8% |
| Hilton Tokyo Bay | August 2020 | 57 | Construction works for renewal of fan coil units in guest rooms | ▲27.2% |
| Hilton Nagoya | January 2021 | 57 | Construction works for renewal of elevators | ▲20.0% |
| Chisun Hotel Kamata | January 2021 | 15 | Construction works for replacement of control panel for elevator | ▲18.1% |
| Hakata Nakasu Washington Hotel Plaza | January 2021 | 13 | Construction works for renewal and maintenance of fan coils | ▲33.2% |
| International Garden Hotel Narita | January 2021 | 45 | Construction works for renewal of outdoor air conditioning equipment | ▲16.0% |
| Total | | 2,026 | | |
| Remaining amount | | — | | |

(*1) Name of properties are the name when funds are allocated.

(*2) The figures of CO₂ emissions reduction rates are estimated by the Asset Management Company based on expert reports.

Green Bonds

Construction works to save energy in large-scale renovations for Oriental Hotel Fukuoka Hakata Station



<Before>



<After>

Construction works to save energy in restaurant renovations at Okinawa Marriott Resort & Spa (after renovation)



<Entrance>



<Interior>

Summary of the Issued Green Bonds

| | |
|-----------------|--|
| Name | Twelfth unsecured investment corporation bonds of JHR (Pari passu covenants between investment corporation bonds are attached) (Green Bonds) (Nickname: Hotel Green Bonds) |
| Issue amount | JPY2Bn |
| Interest rate | 0.400%/year |
| Issue date | July 31, 2019 |
| Redemption date | July 31, 2024 |

GRI Standards Comparison Table

〈Universal Standard〉

| | Disclosure | Location or reason for omission | Page |
|---|--|--|-----------------------|
| GRI2: General Disclosures | | | |
| 1. The organization and its reporting practices | | | |
| | 2-1 Organizational details | About JHR > Corporate Overview and History About JHR > Asset Management Company | 2 |
| | 2-2 Entities included in the organization's sustainability reporting | About JHR > Corporate Overview and History About JHR > Asset Management Company | 2 |
| | 2-3 Reporting period, frequency and contact point | No cases experienced. | 1 |
| | 2-4 Restatements of information | No cases experienced. | No cases experienced. |
| | 2-5 External assurance | — | — |
| 2. Activities and workers | | | |
| | 2-6 Activities, value chain and other business relationships | About JHR > Our Organization | — |
| | 2-7 Employees | ESG > Initiatives for Society | 23 |
| | 2-8 Workers who are not employees | ESG > Initiatives for Society | 23 |
| 3. Governance | | | |
| | 2-9 Governance structure and composition | ESG > Governance | 25 |
| | 2-10 Nomination and selection of the highest governance body | ESG > Governance | 25 |
| | 2-11 Chair of the highest governance body | ESG > Governance | 25 |
| | 2-12 Role of the highest governance body in overseeing the management of impacts | ESG > Sustainability Management | 4 |
| | 2-13 Delegation of responsibility for managing impacts | ESG > Sustainability Management | 4 |
| | 2-14 Role of the highest governance body in sustainability reporting | — | — |
| | 2-15 Conflicts of interest | ESG > Governance | 27 |
| | 2-16 Communication of critical concerns | ESG > Governance | 30 |
| | 2-17 Collective knowledge of the highest governance body | ESG > Governance | 31 |
| | 2-18 Evaluation of the performance of the highest governance body | — | — |
| | 2-19 Remuneration policies | ESG > Governance | 26 |
| | 2-20 Process to determine remuneration | ESG > Governance | 26 |
| | 2-21 Annual total compensation ratio | — | — |
| 4. Strategy, policies and practices | | | |
| | 2-22 Statement on sustainable development strategy | — | — |
| | 2-23 Policy commitments | — | — |
| | 2-24 Embedding policy commitments | — | — |
| | 2-25 Processes to remediate negative impacts | — | — |
| | 2-26 Mechanisms for seeking advice and raising concerns | — | — |
| | 2-27 Compliance with laws and regulations | — | — |
| | 2-28 Membership associations | — | — |
| 5. Stakeholder engagement | | | |
| | 2-29 Approach to stakeholder engagement | ESG > Stakeholder Engagement | 9 |
| | 2-30 Collective bargaining agreements | — | — |

GRI Standards Comparison Table

〈Universal Standard〉

| | Disclosure | Location or reason for omission | Page |
|------------------------------|--|--------------------------------------|------|
| GRI3: Material Topics | | | |
| | 3-1 Process to determine material topics | ESG > Materiality | 8 |
| | 3-2 List of material topics | ESG > Materiality | 7 |
| | 3-3 Management of material topics | — | — |

〈Topic Standard〉

| | | | |
|-------------------------------|---|--|-------|
| GRI200: Economic | | | |
| 201 Economic Performance | | — | — |
| | 201-1 Direct economic value generated and distributed | Portfolio Summary | — |
| | 201-2 Financial implications and other risks and opportunities due to climate change | ESG > Initiatives for Environment | 15-17 |
| | 201-3 Defined benefit plan obligations and other retirement plans | — | — |
| | 201-4 Financial assistance received from government | — | — |
| 202 Market Presence | | | |
| | 202-1 Ratios of standard entry level wage by gender compared to local minimum wage | — | — |
| | 202-2 Proportion of senior management hired from the local community | — | — |
| 203 Indirect Economic Impacts | | | |
| | 203-1 Infrastructure investments and services supported | — | — |
| | 203-2 Significant indirect economic impacts | — | — |
| 204 Procurement Practices | | | |
| | 204-1 Proportion of spending on local suppliers | — | — |
| 205 Anti-corruption | | | |
| | 205-1 Operations assessed for risks related to corruption | ESG > Governance | 29 |
| | 205-2 Communication and training about anti-corruption policies and procedures | ESG > Governance | 29 |
| | 205-3 Confirmed incidents of corruption and actions taken | — | — |
| 206 Anti-competitive Behavior | | | |
| | 206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | — | — |
| 207 Tax | | | |
| | 207-1 Approach to tax | — | — |
| | 207-2 Tax governance, control, and risk management | — | — |
| | 207-3 Stakeholder engagement and management of concerns related to tax | — | — |
| | 207-4 Country-by-country reporting | — | — |
| GRI300: Environmental | | | |
| 301 Materials | | | |
| | 301-1 Materials used by weight or volume | ESG > Initiatives for Environment | 10 |
| | 301-2 Recycled input materials used | ESG > Initiatives for Environment | 10 |
| | 301-3 Reclaimed products and their packaging materials | — | — |

GRI Standards Comparison Table

〈Topic Standard〉

| | Disclosure | Location or reason for omission | Page |
|-----|---|--|-------|
| 302 | Energy | | |
| | 302-1 Energy consumption within the organization | ESG > Initiatives for Environment | 10 |
| | 302-2 Energy consumption outside of the organization | — | — |
| | 302-3 Energy intensity | ESG > Initiatives for Environment | 10 |
| | 302-4 Reduction of energy consumption | ESG > Initiatives for Environment | 10 |
| | 302-5 Reductions in energy requirements of products and services | — | — |
| 303 | Water and Effluents | | |
| | 303-1 Interactions with water as a shared resource | — | — |
| | 303-2 Management of water discharge-related impacts | — | — |
| | 303-3 Water withdrawal | ESG > Initiatives for Environment | 10 |
| | 303-4 Water discharge | — | — |
| | 303-5 Water consumption | — | — |
| 304 | Biodiversity | | |
| | 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | — | — |
| | 304-2 Significant impacts of activities, products and services on biodiversity | — | — |
| | 304-3 Habitats protected or restored | — | — |
| | 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations | — | — |
| 305 | Emissions | | |
| | 305-1 Direct (Scope 1) GHG emissions | ESG > Initiatives for Environment | 10 |
| | 305-2 Energy indirect (Scope 2) GHG emissions | ESG > Initiatives for Environment | 10 |
| | 305-3 Other indirect (Scope 3) GHG emissions | ESG > Initiatives for Environment | 10 |
| | 305-4 GHG emissions intensity | ESG > Initiatives for Environment | 10 |
| | 305-5 Reduction of GHG emissions | ESG > Initiatives for Environment | 10,18 |
| | 305-6 Emissions of ozone-depleting substances (ODS) | ESG > Initiatives for Environment | 18 |
| | 305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | — | — |
| 306 | Waste | | |
| | 306-1 Waste generation and significant waste-related impacts | — | — |
| | 306-2 Management of significant waste-related impacts | — | — |
| | 306-3 Waste generated | ESG > Initiatives for Environment | 10 |
| | 306-4 Waste diverted from disposal | — | — |
| | 306-5 Waste directed to disposal | ESG > Initiatives for Environment | 10 |
| 308 | Supplier Environmental Assessment | | |
| | 308-1 New suppliers that were screened using environmental criteria | — | — |
| | 308-2 Negative environmental impacts in the supply chain and actions taken | — | — |

GRI Standards Comparison Table

〈Topic Standard〉

| | Disclosure | Location or reason for omission | Page |
|--|--|--|-------|
| GRI400: Social | | | |
| 401 Employment | | | |
| | 401-1 New employee hires and employee turnover | ESG > Initiatives for Society | 23 |
| | 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | — | — |
| | 401-3 Parental leave | ESG > Initiatives for Society | 23 |
| 402 Labor/Management Relations | | | |
| | 402-1 Minimum notice periods regarding operational changes | — | — |
| 403 Occupational Health and Safety | | | |
| | 403-1 Occupational health and safety management system | — | — |
| | 403-2 Hazard identification, risk assessment, and incident investigation | — | — |
| | 403-3 Occupational health services | ESG > Initiatives for Society | 21-22 |
| | 403-4 Worker participation, consultation, and communication on occupational health and safety | ESG > Initiatives for Society | 21-22 |
| | 403-5 Worker training on occupational health and safety | — | — |
| | 403-6 Promotion of worker health | ESG > Initiatives for Society | 21-22 |
| | 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | — | — |
| | 403-8 Workers covered by an occupational health and safety management system | — | — |
| | 403-9 Work-related injuries | — | — |
| | 403-10 Work-related ill health | — | — |
| 404 Training and Education | | | |
| | 404-1 Average hours of training per year per employee | — | — |
| | 404-2 Programs for upgrading employee skills and transition assistance programs | ESG > Initiatives for Society | 21 |
| | 404-3 Percentage of employees receiving regular performance and career development reviews | — | — |
| 405 Diversity and Equal Opportunity | | | |
| | 405-1 Diversity of governance bodies and employees | ESG > Initiatives for Society | 21,23 |
| | 405-2 Ratio of basic salary and remuneration of women to men | — | — |
| 406 Non-discrimination | | | |
| | 406-1 Incidents of discrimination and corrective actions taken | — | — |
| 407 Freedom of Association and Collective Bargaining | | | |
| | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | — | — |
| 408 Child Labor | | | |
| | 408-1 Operations and suppliers at significant risk for incidents of child labor | — | — |
| 409 Forced or Compulsory Labor | | | |
| | 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor | — | — |
| 410 Security Practices | | | |
| | 410-1 Security personnel trained in human rights policies or procedures | — | — |

GRI Standards Comparison Table

〈Topic Standard〉

| | Disclosure | Location or reason for omission | Page |
|----------------------------------|---|---------------------------------|-----------------------|
| 411 Rights of Indigenous Peoples | | | |
| | 411-1 Incidents of violations involving rights of indigenous peoples | No cases experienced. | No cases experienced. |
| 413 Local Communities | | | |
| | 413-1 Operations with local community engagement, impact assessments, and development programs | — | — |
| | 413-2 Operations with significant actual and potential negative impacts on local communities | — | — |
| 414 Supplier Social Assessment | | | |
| | 414-1 New suppliers that were screened using social criteria | — | — |
| | 414-2 Negative social impacts in the supply chain and actions taken | — | — |
| 415 Public Policy | | | |
| | 415-1 Political contributions | — | — |
| 416 Customer Health and Safety | | | |
| | 416-1 Assessment of the health and safety impacts of product and service categories | — | — |
| | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services | — | — |
| 417 Marketing and Labeling | | | |
| | 417-1 Requirements for product and service information and labeling | — | — |
| | 417-2 Incidents of non-compliance concerning product and service information and labeling | — | — |
| | 417-3 Incidents of non-compliance concerning marketing communications | — | — |
| 418 Customer Privacy | | | |
| | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | — | — |

Disclaimer

This material is prepared and provided solely for the purpose of providing information and not to offer, solicit, or do business, etc. with specific products including purchase of investment units, investment unit subscription rights, or investment corporation bonds of Japan Hotel REIT Investment Corporation ("JHR") or any other particular products. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

This material is neither a disclosure document nor an investment report required under or prepared pursuant to the Financial Instruments and Exchange Act, Act on Investment Trusts and Investment Corporations and related government ordinances, Cabinet Office regulations, listing rules by Tokyo Stock Exchange, Regulations of The Investment Trusts Association, Japan, or other related rules and regulations.

This material contains forward-looking statements about financial conditions, operational results, and businesses of JHR, as well as plans and intentions of JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd ("JHRA"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or performance of JHR to materially differ from those expressed or implied forecasts. Those forecasts are made based on JHR's present and future business strategies and assumptions relating to the political and economic circumstances surrounding JHR in the future.

Every effort has been made to ensure the accuracy of the information contained in this material. However, there can be no assurance that the information is accurate, complete, appropriate or fair. The information may be revised or retracted without prior notice.

Regarding the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, financial institutions may charge you pre-determined handling fees and other charges aside from the price of the investment units, investment unit subscription rights or investment corporation bonds. Since neither JHR nor JHRA handles the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, please ask financial institutions for the amount, upper limit, and calculation methods of such fees and other charges.

JHR mainly invests in real estate-related assets, primarily hotels which are subject to change in values. Therefore, unitholders, holders of investment unit subscription rights and investment corporation bonds may suffer losses due to economic conditions of the real estate market or securities market, economic situations including interest rate environment, the nature of investment units, investment unit subscription rights, and investment corporation bonds, dependency on mechanisms and related persons of investment corporations, changes in legal systems related to real estate (include tax regulations, building regulations and others), damage caused to the real estate-related assets by natural disasters, fluctuation in prices or profitability of the real estate-related assets, nature of the trust beneficiary rights under management, delisting of the investment units, or worsening financial position or insolvency of JHR. For details, please refer to the Articles of Incorporation, Securities Registration Statement, Annual Securities Report and Extraordinary Report, etc. of JHR.

The contents of this material may not be copied or reproduced without our prior permission.

Japan Hotel REIT Advisors Co., Ltd.
 Financial Instruments Trading Company
 Director-General of Kanto Local Finance Bureau No. 334
 Member of The Investment Trust Association, Japan
 Member of The Japan Investment Advisers Association