



Independent Auditor's Report

To the Board of Directors of MORI TRUST Hotel Reit, Inc.:

We have audited the accompanying financial statements of MORI TRUST Hotel Reit, Inc., which comprise the balance sheets as at February 28, 2017 and February 29, 2016, and the statements of operations, statements of changes in net assets, statements of cash distributions and statements of cash flows for the period from March 1, 2016 to February 28, 2017 and the period from January 15, 2016 (date of inception) to February 29, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MORI TRUST Hotel Reit, Inc. as at February 28, 2017 and February 29, 2016, and their financial performance and cash flows for the period from March 1, 2016 to February 28, 2017 and the period from January 15, 2016 (date of inception) to February 29, 2016 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

June 30, 2017
Tokyo, Japan

Accounting Status of Investment Corporation

1. Methods of Preparation of Financial Statements

The financial statements of MORI TRUST Hotel Reit, Inc. have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Ministry of Finance Ordinance No.59 of 1963, as amended; hereinafter the “Ordinance on Financial Statements, etc.”) as well as the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended) under the provisions of Article 2 of the Ordinance on Financial Statements, etc.

2. Consolidated Financial Statements

Unless otherwise specified, amounts have been rounded down to the nearest thousand yen in the accompanying financial statements and the notes thereto, as permitted by the Financial Instruments and Exchange Act of Japan. As a result the totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

MORI TRUST Hotel Reit, Inc. does not prepare consolidated financial statements because it has no subsidiaries.

1. Financial statements

(1) Balance sheets

(Thousands of yen)

	As of February 29, 2016	As of February 28, 2017
Assets		
Current assets		
Cash and deposits	89,369	2,179,729
Cash and deposits in trust	–	1,649,608
Income taxes receivable	0	–
Consumption taxes receivable	–	1,213,064
Prepaid expenses	–	8,270
Deferred tax assets	–	34
Other	–	47
Total current assets	89,370	5,050,755
Non-current assets		
Property and equipment		
Buildings in trust	–	16,810,983
Accumulated depreciation	–	(342,527)
Buildings in trust, net	–	16,468,456
Structures in trust	–	5,640
Accumulated depreciation	–	(876)
Structures in trust, net	–	4,763
Land in trust	–	85,644,447
Total property and equipment	–	102,117,667
Intangible assets		
Software	–	1,770
Total intangible assets	–	1,770
Investments and other assets		
Guarantee deposits	10,000	10,000
Long-term prepaid expenses	–	3,151
Total investments and other assets	10,000	13,151
Total non-current assets	10,000	102,132,588
Total assets	99,370	107,183,344

(Thousands of yen)

	As of February 29, 2016	As of February 28, 2017
Liabilities		
Current liabilities		
Operating accounts payable	–	9,001
Short-term loans payable	–	23,000,000
Accounts payable	40,008	124,400
Accrued expenses	–	31,465
Income taxes payable	15	1,921
Advances received	–	406,664
Deposits received	17	2,689
Total current liabilities	40,040	23,576,143
Non-current liabilities		
Long-term loans payable	–	27,500,000
Tenant leasehold and security deposits	–	4,554,473
Total non-current liabilities	–	32,054,473
Total liabilities	40,040	55,630,616
Net assets		
Unitholders' equity		
Unitholders' capital	100,000	50,000,000
Surplus		
Unappropriated retained earnings (undisposed loss)	(40,670)	1,552,727
Total surplus	(40,670)	1,552,727
Total unitholders' equity	59,329	51,552,727
Total net assets	*1 59,329	*1 51,552,727
Total liabilities and net assets	99,370	107,183,344

(2) Statements of operations

(Thousands of yen)

	For the period from January 15, 2016 to February 29, 2016	For the period from March 1, 2016 to February 28, 2017
Operating revenues		
Lease business revenues	–	*1,*2 2,264,917
Total operating revenues	–	2,264,917
Operating expenses		
Expenses related to property rental business	–	*1,*2 355,331
Asset management fee	–	89,314
Asset custody and administrative service fees	1,984	11,756
Directors' compensations	600	3,600
Other operating expenses	3,042	24,478
Total operating expenses	5,626	484,480
Operating income (loss)	(5,626)	1,780,437
Non-operating income		
Interest income	1	111
Insurance income	–	236
Total non-operating income	1	348
Non-operating expenses		
Interest expenses	–	70,255
Organization expenses	35,030	–
New investment unit issuance costs	–	1,030
Other offering costs associated with the issuance of investment units	–	111,498
Other	–	2,700
Total non-operating expenses	35,030	185,483
Ordinary income (loss)	(40,655)	1,595,301
Income (loss) before income taxes	(40,655)	1,595,301
Income taxes – current	15	1,938
Income taxes - deferred	–	(34)
Total income taxes	15	1,903
Net income (loss)	(40,670)	1,593,398
Retained earnings (undisposed loss) brought forward	–	(40,670)
Unappropriated retained earnings (undisposed loss)	(40,670)	1,552,727

(3) Statements of changes in net assets

For the period from January 15, 2016 to February 29, 2016

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	–	–	–	–	–
Changes of items during period					
Issuance of new investment units	100,000			100,000	100,000
Net income (loss)		(40,670)	(40,670)	(40,670)	(40,670)
Total changes of items during period	100,000	(40,670)	(40,670)	59,329	59,329
Balance at end of current period	*1 100,000	(40,670)	(40,670)	59,329	59,329

For the period from March 1, 2016 to February 28, 2017

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	100,000	(40,670)	(40,670)	59,329	59,329
Changes of items during period					
Issuance of new investment units	49,900,000			49,900,000	49,900,000
Net income (loss)		1,593,398	1,593,398	1,593,398	1,593,398
Total changes of items during period	49,900,000	1,593,398	1,593,398	51,493,398	51,493,398
Balance at end of current period	*1 50,000,000	1,552,727	1,552,727	51,552,727	51,552,727

(4) Statements of cash distributions

(yen)

	Previous fiscal period (January 15, 2016 – February 29, 2016)	Current fiscal period (March 1, 2016 – February 28, 2017)
I. Unappropriated retained earnings (undisposed loss)	(40,670,391)	1,552,727,664
II. Distributions (Distributions per unit)	– (–)	1,552,500,000 (3,105)
III. Retained earnings (undisposed loss) brought forward	(40,670,391)	227,664
Calculation method of distribution amount	Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. MORI TRUST Hotel Reit, Inc. aims to pay distributions in accordance with this policy, however, no cash distributions will be made for this fiscal period because there are no profits. The undisposed loss at the end of the period will be carried forward to the next period.	Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. In consideration of this policy, MORI TRUST Hotel Reit, Inc. will pay distributions of profits at the total amount of ¥1,552,500,000, which is the amount that does not exceed the unappropriated retained earnings and is the greatest value among integral multiples of 500,000, which is the number of investment units issued.

(5) Statements of cash flows

(Thousands of yen)

	For the period from January 15, 2016 to February 29, 2016	For the period from March 1, 2016 to February 28, 2017
Cash flows from operating activities		
Income (loss) before income taxes	(40,655)	1,595,301
Depreciation	–	343,434
New investment unit issuance costs	–	1,030
Interest income	(1)	(111)
Interest expenses	–	70,255
Decrease (increase) in consumption taxes receivable	–	(1,213,064)
Decrease (increase) in prepaid expenses	–	(8,270)
Decrease (increase) in long-term prepaid expenses	–	(3,151)
Increase (decrease) in operating accounts payable	–	8,185
Increase (decrease) in accounts payable	40,008	82,592
Increase (decrease) in advances received	–	406,664
Other, net	17	2,637
Subtotal	(631)	1,285,503
Interest income received	1	111
Interest expenses paid	–	(38,803)
Income taxes paid	(0)	(31)
Net cash provided by (used in) operating activities	(630)	1,246,780
Cash flows from investing activities		
Purchase of property and equipment in trust	–	(102,460,255)
Payments of guarantee deposits	(10,000)	–
Proceeds from tenant leasehold and security deposits	–	4,554,473
Net cash provided by (used in) investing activities	(10,000)	(97,905,782)
Cash flows from financing activities		
Proceeds from short-term loans payable	–	83,500,000
Repayments short-term loans payable	–	(60,500,000)
Proceeds from long-term loans payable	–	27,500,000
Proceeds from issuance of investment units	100,000	49,898,970
Net cash (used in) financing activities	100,000	100,398,970
Net increase (decrease) in cash and cash equivalents	89,369	3,739,968
Cash and cash equivalents at beginning of period	–	89,369
Cash and cash equivalents at end of period	*1 89,369	*1 3,829,338

(6) Notes to financial statements

[Significant accounting policies]

1. Method of depreciation of noncurrent assets	(1) Property and equipment (including trust accounts) The straight-line method is used. The useful lives of major property and equipment components are as follows: Buildings in trust 7 to 72 years Structures in trust 2 to 7 years (2) Intangible assets The straight-line method is used. Internal-use software are amortized by the straight-line method over their useful lives (5 years).
2. Accounting method for deferred assets	(1) Organization expenses Recognized as expense in full amount when incurred. (2) New investment unit issuance costs Recognized as expense in full amount when incurred.
3. Recognition of revenue and expenses	Accounting treatment of property tax, etc. For property taxes, city planning taxes, depreciable assets taxes, etc., for real estate held, the amount of tax levied corresponding to the accounting period is recorded as expenses related to property rental business. The amount equivalent to property taxes, etc. to be paid by MORI TRUST Hotel Reit, Inc. in the first year for acquisition of trust beneficiary rights in real estate is not recorded as expenses but included in the acquisition costs for the related trust beneficiary rights. The amount equivalent to property taxes, etc. included in acquisition costs for trust beneficiary rights was ¥157,172 thousand for the current fiscal period.
4. Scope of cash and cash equivalents in the statements of cash flows	Cash and cash equivalents in the statements of cash flows include the following: (1) cash on hand and cash in trust; (2) deposits and deposits in trust that can be withdrawn at any time; and (3) short-term investments that are readily convertible, bear little risk in price fluctuations, and mature within three months of the date of acquisition.
5. Accounting treatment of trust beneficiary interests in real estate, etc.	For trust beneficiary interests in real estate owned by MORI TRUST Hotel Reit, Inc., all accounts of assets and liabilities within the assets in trust as well as all accounts of revenue generated and expenses incurred from the assets in trust are recognized in the relevant accounts of the balance sheets and, statements of income. The following assets in trust recognized in the relevant accounts are presented separately on the balance sheets due to their materiality. (1) Cash and deposits in trust (2) Buildings in trust, structures in trust, and land in trust
6. Accounting treatment of consumption taxes, etc.	Consumption taxes and local consumption taxes are accounted for by the taxes exclusion method.

[Notes to Balance Sheets]

	Previous fiscal period (as of February 29, 2016)	Current fiscal period (as of February 28, 2017)
*1 Minimum net assets as provided in Article 67, paragraph 4 of the Investment Trust Law	50,000 thousand yen	50,000 thousand yen

[Notes to Statements of operations]

(Thousands of yen)

	Previous fiscal period (January 15, 2016 – February 29, 2016)	Current fiscal period (March 1, 2016 – February 28, 2017)
*1 Breakdown of operating income (loss) from property rental business	–	A. Property-related revenues Lease business revenues Rent 2,264,917 Total property-related revenues 2,264,917 B. Property-related expenses Expenses related to property rental business Insurance expenses 3,212 Repairs and maintenance expenses 7,910 Depreciation 343,404 Other expenses related to property rental business 804 Total property-related expenses 355,331 C. Operating income (loss) from property rental business (A – B) 1,909,586
*2 Transactions with major unit holders	–	Revenue and expenses attributable to operating transactions Operating revenues 1,489,829 Operating expenses 7,910

[Statements of changes in net assets]

	Previous fiscal period (January 15, 2016 – February 29, 2016)	Current fiscal period (March 1, 2016 – February 28, 2017)
*1 Total number of authorized investment units and total number of investment units issued		
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued	1,000 units	500,000 units

[Notes to Statements of Cash Flows]

(Thousands of yen)

	Previous fiscal period (January 15, 2016 – February 29, 2016)	Current fiscal period (March 1, 2016 – February 28, 2017)
*1 Reconciliation between cash and cash equivalents at end of period and relevant amounts on the balance sheets	(As of February 29, 2016) Cash and deposits 89,369 Cash and deposits in trust – Cash and cash equivalents 89,369	(As of February 28, 2017) Cash and deposits 2,179,729 Cash and deposits in trust 1,649,608 Cash and cash equivalents 3,829,338

[Lease Transactions]

Operating lease transactions (Lessor)

Future lease payments

	Previous fiscal period (As of February 29, 2016)	Current fiscal period (As of February 28, 2017)
Due within 1 year	– thousand yen	1,304,673 thousand yen
Due after 1 year	– thousand yen	12,394,396 thousand yen
Total	– thousand yen	13,699,070 thousand yen

[Financial Instruments]

1. Matters regarding financial instruments

(1) Policy for financial instruments

To conduct the efficient management of assets and contribute to the management stability, MORI TRUST Hotel Reit, Inc. procures funds for the acquisition of assets, the payment of repair and maintenance expenses and dividends, the repayment of debt (including the repayment of leasehold deposits, etc. and loans as well as the obligations of investment corporation bonds), working capital, etc. mainly by borrowing, issuing investment corporation bonds, or issuing investment units.

Surpluses are carefully invested in consideration of the safety of the investment and convertibility into cash and in view of interest rates and cash flows.

(2) Types of financial instruments, related risk and risk management for financial instruments

Proceeds from borrowings are used mainly to acquire trust beneficiary interests in real estate.

These borrowings are exposed to liquidity risks at maturity. However, MORI TRUST Hotel Reit, Inc. appropriately manages the LTV ratio to limit the impact of higher market interest rates on MORI TRUST Hotel Reit, Inc.'s operations, and also seeks to disperse of maturities to manage this risk.

(3) Supplementary remarks on fair value of financial instruments

The fair value of financial instruments is based on market prices or a reasonably calculated value if there is no market price available. As certain assumptions are used in calculating these values, these values may vary if different assumptions are used.

2. Matters regarding fair value of financial instruments

Balance sheet carrying amounts, fair values, and the difference between them as of February 29, 2016 are as shown below.

	Balance sheet carrying amount (Thousands of yen)	Fair value (Thousands of yen)	Difference (Thousands of yen)
(1) Cash and deposits	89,369	89,369	-
Total assets	89,369	89,369	-
(3) Accounts payable	40,008	40,008	-
Total liabilities	40,008	40,008	-

Balance sheet carrying amounts, fair values, and the difference between them as of February 28, 2017 are as shown below. Financial instruments whose fair values are considered to be extremely difficult to determine are not included in the table below (Note 2).

	Balance sheet carrying amount (Thousands of yen)	Fair value (Thousands of yen)	Difference (Thousands of yen)
(1) Cash and deposits	2,179,729	2,179,729	-
(2) Cash and deposits in trust	1,649,608	1,649,608	-
Total assets	3,829,338	3,829,338	-
(1) Short-term loans payable	23,000,000	23,000,000	-
(2) Long-term loans payable	27,500,000	27,504,836	4,836
Total liabilities	50,500,000	50,504,836	4,836

(Note 1) Measurement of fair values of financial instruments

Assets

(1) Cash and deposits, and (2) Cash and deposits in trust

As these items are settled within a short-term period, their fair value approximates the balance sheet carrying amount. Therefore, for these items, the carrying value is reported as the fair value.

Liabilities

(1) Short-term loans payable, and (3) Accounts payable

As these items are settled within a short-term period, their fair value approximates the balance sheet carrying amount. Therefore, for these items, the carrying value is reported as the fair value.

(2) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total of principal and interest at the rate to be applied if similar new loans were entered into.

(Note 2) Balance sheet carrying amount of financial instruments whose fair value is considered to be extremely difficult to determine

	Previous fiscal period (as of February 29, 2016)	Current fiscal period (as of February 28, 2017)
Tenant leasehold and security deposits	-	4,554,473

Tenant leasehold and security deposits, which are deposited by lessees of rental properties, are not subject to fair value disclosure because there are no market prices for them and it is not possible to reasonably estimate future cash flow because it is impossible to estimate the actual deposit term, and therefore it is considered to be extremely difficult to determine their fair values.

(Note 3) Redemption schedule for monetary claims after balance sheet date (as of February 29, 2016)

	Due within 1 year (Thousands of yen)	Due after 1 year through 2 years (Thousands of yen)	Due after 2 years through 3 years (Thousands of yen)	Due after 3 years through 4 years (Thousands of yen)	Due after 4 years through 5 years (Thousands of yen)	Due after 5 years (Thousands of yen)
Cash and deposits	89,369	-	-	-	-	-

Redemption schedule for monetary claims after balance sheet date (as of February 28, 2017)

	Due within 1 year (Thousands of yen)	Due after 1 year through 2 years (Thousands of yen)	Due after 2 years through 3 years (Thousands of yen)	Due after 3 years through 4 years (Thousands of yen)	Due after 4 years through 5 years (Thousands of yen)	Due after 5 years (Thousands of yen)
Cash and deposits	2,179,729	-	-	-	-	-
Cash and deposits in trust	1,649,608	-	-	-	-	-
Total	3,829,338	-	-	-	-	-

(Note 4) Expected amount of repayments of loans after balance sheet date (as of February 29, 2016)

Not applicable

Expected amount of repayments of loans after balance sheet date (as of February 28, 2017)

	Due within 1 year (Thousands of yen)	Due after 1 year through 2 years (Thousands of yen)	Due after 2 years through 3 years (Thousands of yen)	Due after 3 years through 4 years (Thousands of yen)	Due after 4 years through 5 years (Thousands of yen)	Due after 5 years (Thousands of yen)
Short-term loans payable	23,000,000	-	-	-	-	-
Long-term loans payable	-	-	14,500,000	-	7,500,000	5,500,000
Total	23,000,000	-	14,500,000	-	7,500,000	5,500,000

[Securities]

Previous period (as of February 29, 2016)

Not applicable.

Current period (as of February 28, 2017)

Not applicable.

[Derivative Transactions]

Previous period (as of February 29, 2016)

Not applicable.

Current period (as of February 28, 2017)

Not applicable.

[Retirement Benefits]

Previous period (as of February 29, 2016)

Not applicable.

Current period (as of February 28, 2017)

Not applicable.

[Tax Effect Accounting]

(Thousands of Yen)

	Previous fiscal period (as of February 29, 2016)	Current fiscal period (as of February 28, 2017)
1. Significant components of deferred tax assets and liabilities	(Deferred tax assets) Tax loss carried forward 12,757 Valuation allowance (12,757) Total deferred tax assets — Net deferred tax assets —	(Deferred tax assets) Accrued enterprise tax 34 Total deferred tax assets 34 Net deferred tax assets 34
2. Reconciliation of difference between the statutory tax rate and the effective tax rate after application of tax effect accounting	Omitted because a net loss before taxes was recorded.	Statutory tax rate 31.74% (Adjustments) Deductible distributions (30.89%) Use of loss carried forward (0.81%) Other 0.08% Effective tax rate after application of tax accounting 0.12%
3. Details and impact of any change in tax rates after the balance sheet date	On March 31, 2016 the Act for Partial Revision of the Income Tax Act, etc. (Law No. 15 of 2016) was promulgated, reducing corporate tax rates for fiscal periods beginning on or after April 1, 2016. As a result, the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities with respect to the temporary difference expected to be eliminated in the fiscal period beginning on or after March 1, 2017 is changed. This change in the tax rate has no impact.	—

[Equity earnings of affiliate companies]

Previous period (January 15, 2016 – February 29, 2016)

Not applicable.

Current period (March 1, 2016-February 28, 2017)

Not applicable.

[Related Party Transactions]

1. Parent company and major corporate unitholders, etc.

Previous fiscal period (January 15, 2016 – February 29, 2016)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc. (%)	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc	Business relationship				
Parent company	Mori Trust Co., Ltd.	Minato-ku, Tokyo	30,000,000	Real estate business	100.0%	None	Unitholder	Receipt of capital contribution	100,000	Unitholders' capital	100,000

Current fiscal period (March 1, 2016-February 28, 2017)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc. (%)	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc	Business relationship				
Parent company	Mori Trust Co., Ltd.	Minato-ku, Tokyo	30,000,000	Real estate business	96.0%	None	Parent company and leasing and management of real estate	Receipt of capital contribution (Note 3)	47,900,000	—	—
								Purchase of real estate trust beneficiary interests (Note 3)	102,000,000	—	—
								Leasing of real estate (Note 3)	1,246,299	—	—
Major unitholder	Mori Trust Co., Ltd.	Minato-ku, Tokyo	30,000,000	Real estate business	32.8%	None	Major unitholder and leasing and management of real estate	Leasing of real estate (Note 3)	243,530	Advances received	292,506
								Tenant leasehold and security deposits (Note 3)	3,281,000	Tenant leasehold and security deposits	3,281,000

(Note 1) Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.

(Note 2) Transaction terms and policies for determining transactions terms: Transactions terms are determined taking into consideration current market prices.

(Note 3) Mori Trust Co., Ltd. was classed as a parent company from March 1, 2016 to February 6, 2017 but is classed as a major unitholder as of the end of the current fiscal period due to changes in units associated with the listing on February 7, 2017. Accordingly, receipt of capital contribution and purchase of real estate beneficiary interests are reported as transactions with the parent company, which was the attribute of Mori Trust Co., Ltd. at the time of the transactions. Tenant leasehold and security deposits received when Mori Trust Co., Ltd. was parent company are reported as transactions with major unitholder, which was the attribute of Mori Trust Co., Ltd. at the end of the period because there was an outstanding balance at the end of the period. The amounts of transactions for leasing of real estate are those for the applicable periods respectively.

(Note 4) Ownership ratio of units, etc. is rounded to one decimal place.

2. Affiliated companies, etc.

Previous fiscal period (January 15, 2016 – February 29, 2016)

Not applicable.

Current fiscal period (March 1, 2016 – February 28, 2017)

Not applicable.

3. Sister companies, etc.

Previous fiscal period (January 15, 2016 – February 29, 2016)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc.	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc.	Business relationship				
Subsidiary of parent company	Mori Trust Hotel Asset Management Co., Ltd.	Minato-ku, Tokyo	200,000	Management of assets of investment corporation	—	One concurrently serving officer	Asset management company	Payment of promoter fee	30,000	Accounts payable-other	32,400
								Payment of administrative service fees for operation of organizations	1,500	Accounts payable-other	1,620

(Note 1) Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.

(Note 2) Transaction terms and policies for determining transactions terms: Transactions terms are determined taking into consideration current market prices.

Current fiscal period (March 1, 2016 – February 28, 2017)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc.	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc.	Business relationship				
Subsidiary of parent company (Note 3)	Mori Trust Hotels & Resorts Co., Ltd.	Minato-ku, Tokyo	100,000	Hotel business	4.0%	None	Operation of hotels at owned properties	Receipt of capital contribution	2,000,000	—	—
Subsidiary of parent company (Note 4)	Mori Trust Hotel Asset Management Co., Ltd.	Minato-ku, Tokyo	200,000	Management of assets of investment corporation	—	One concurrently serving officer	Asset management company	Payment of asset management fee (Note 5)	220,130	—	—
Subsidiary of major unitholder (Note 4)	Mori Trust Hotel Asset Management Co., Ltd.	Minato-ku, Tokyo	200,000	Management of assets of investment corporation	—	One concurrently serving officer	Asset management company	Payment of asset management fee	5,383	Accounts payable-other	96,459

(Note 1) Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.

(Note 2) Transaction terms and policies for determining transactions terms: Transactions terms are determined taking into consideration current market prices.

(Note 3) When Mori Trust Co., Ltd. became a major unitholder of MORI TRUST Hotel Reit, Inc. rather than its parent company as stated in (Note 3) of “Parent company and major corporate unitholders, etc.,” Mori Trust Hotels & Resorts Co., Ltd. also became a subsidiary of a major unitholder rather than a subsidiary of the parent company. However, Mori Trust Hotels & Resorts Co., Ltd. is shown as a subsidiary of the parent company, which was its attribute at the time of receipt of the capital contribution.

(Note 4) When Mori Trust Co., Ltd. became a major unitholder of MORI TRUST Hotel Reit, Inc. rather than its parent company as stated in (Note 3) of “Parent company and major corporate unitholders, etc.,” Mori Trust Hotel Asset Management Co., Ltd. also became a subsidiary of a major unitholder rather than a subsidiary of the parent company. Accordingly, the transaction amounts for payment of asset management fee are those for the applicable periods respectively.

(Note 5) The amount of transaction for payment of asset management fee includes a property management fee of 136,200 thousand yen which is included in the balance sheet carrying amount of the relevant real estate.

4. Officers and major individual unitholders

Previous period (January 15, 2016 – February 29, 2016)

Not applicable.

Current period (March 1, 2016–February 28, 2017)

Not applicable.

[Asset Retirement Obligations]

Previous period (as of February 29, 2016)

Not applicable.

Current period (as of February 28, 2017)

Not applicable

[Investment and Rental Properties]

MORI TRUST Hotel Reit, Inc. holds investment and rental properties for use as hotels in Tokyo and other regions. The balance sheet carrying amounts, changes during the fiscal period, and fair values of these investment and rental properties are as follows.

(Thousands of yen)

Use		Previous period	Current period
		(January 15, 2016 – February 29, 2016)	(March 1, 2016 – February 28, 2017)
Hotel	Balance sheet carrying amount		
	Balance at beginning of period	—	—
	Changes during period	—	102,117,667
	Balance at end of period	—	102,117,667
	Fair value at end of period	—	110,700,000

(Note 1) The balance sheet carrying amount is the acquisition cost less accumulated depreciation.

(Note 2) The main reason for the increase during the period is the acquisition of four properties (102,460,255 thousand yen), and the main reason for the decrease during the period is depreciation (343,404 thousand yen).

(Note 3) The fair value at end of the current fiscal period is the appraisal value provided by an independent real estate appraiser.

The profit or loss concerning investment and rental properties is indicated under “Notes to Statements of operations.”

[Segment Information, etc.]

1. Segment information

Disclosure is omitted as MORI TRUST Hotel Reit, Inc. has no reportable segments since it is engaged solely in the real estate leasing business.

2. Related information

Previous fiscal period (January 15, 2016 – February 29, 2016)

Disclosure is omitted as no operating revenue was recorded.

Current fiscal period (March 1, 2016 – February 28, 2017)

(1) Information about products and services

Disclosure is omitted as operating revenues from external customers of products and services within a single category exceeds 90% of operating revenue on the statement of operations.

(2) Information about geographical area

i) Operating revenues

Disclosure is omitted since operating revenues from external customers in Japan exceeds 90% of operating revenue on the statement of operations.

ii) Property and equipment

Disclosure is omitted since the amount of property and equipment located in Japan exceeds 90% of property and equipment on the balance sheet.

(3) Information about major customers

(Thousands of yen)

Name	Operating revenues	Related segment
Mori Trust Co., Ltd.	1,489,829	Property rental business
Sunroute Co., Ltd.	775,088	Property rental business

[Per Unit Information]

Previous fiscal period (January 15, 2016 – February 29, 2016)		Current fiscal period (March 1, 2016 – February 28, 2017)	
Net assets per unit	59,329 yen	Net assets per unit	103,105 yen
Net loss per unit	(40,670) yen	Net income per unit	4,257 yen
Net loss per unit is calculated by dividing net loss by the day-weighted average number of investment units for the period.		Net income per unit is calculated by dividing net income by the day-weighted average number of investment units for the period.	
Diluted net loss per investment unit is not presented, as there is no potential investment unit.		Diluted net income per investment unit is not presented, as there is no potential investment unit.	

(Note) The basis for calculating net income (loss) per unit is as follows:

	Previous period (January 15, 2016 – February 29, 2016)	Current period (March 1, 2016 – February 28, 2017)
Net income (loss) (Thousands of yen)	(40,670)	1,593,398
Amount not attributable to common unitholders (Thousands of yen)	–	–
Net income (loss) attributable to common investment units (Thousands of yen)	(40,670)	1,593,398
Average number of investment units for the period (Units)	1,000	374,225

[Significant Subsequent Events]

Not applicable.

(7) [Supplementary Schedules]

i) Schedule of securities

Not applicable.

ii) Table of the status of contract amounts, etc. and fair value for derivative transactions and forward exchange transactions

Not applicable.

iii) Summary table included in the schedule of real estate, etc.

(Thousands of yen)

Type of asset	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Accumulated depreciation		Balance at end of period (less depreciation and amortization)	Remarks
					or accumulated amortization	Depreciation and amortization during the period		
Property and equipment	Buildings in trust	-	16,810,983	-	16,810,983	342,527	342,527	16,468,456 (Note 1)
	Structures in trust	-	5,640	-	5,640	876	876	4,763
	Land in trust	-	85,644,447	-	85,644,447	-	-	85,644,447 (Note 1)
	Subtotal	-	102,461,071	-	102,461,071	343,404	343,404	102,117,667
Intangible assets	Software	-	1,800	-	1,800	30	30	1,770
	Subtotal	-	1,800	-	1,800	30	30	1,770
Total		-	102,462,871	-	102,462,871	343,434	343,434	102,119,437

(Note 1) The increase in property and equipment is mainly due to the acquisitions of Hotel Sunroute Plaza Shinjuku, Shangri-La Hotel Tokyo, Courtyard by Marriott Tokyo Station, and Courtyard by Marriott Shin-Osaka Station.

iv) Schedule of other specific assets

Not applicable.

v) Schedule of investment corporation bonds

Not applicable.

vi) Schedule of borrowings

(Thousands of yen)

	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate (Note 1)	Repayment date	Repayment method	Use	Remarks
Short-term loans payable	Mizuho Bank, Ltd.	–	11,000,000	11,000,000	–	0.23059%	Aug. 31, 2017 (Note 2)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Banking Corporation	–	8,500,000	8,500,000	–	0.23059%	Aug. 31, 2017 (Note 2)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mizuho Bank, Ltd.	–	16,000,000	16,000,000	–	0.23034%	Aug. 31, 2017 (Note 3)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited.	–	10,000,000	10,000,000	–	0.23034%	Aug. 31, 2017 (Note 2)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Banking Corporation	–	5,000,000	5,000,000	–	0.23034%	Aug. 31, 2017 (Note 2)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mitsubishi UFJ Trust & Banking Corporation	–	10,000,000	10,000,000	–	0.23000%	Aug. 31, 2017 (Note 2)	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited.	–	6,000,000	–	6,000,000	0.23000%	Nov. 30, 2017	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mitsubishi UFJ Trust & Banking Corporation	–	6,000,000	–	6,000,000	0.23000%	Nov. 30, 2017	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mizuho Bank, Ltd.	–	5,500,000	–	5,500,000	0.23000%	Nov. 30, 2017	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Banking Corporation	–	5,500,000	–	5,500,000	0.23000%	Nov. 30, 2017	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Total	–	83,500,000	60,500,000	23,000,000					
Long-term loans payable	Mizuho Bank, Ltd.	–	7,000,000	–	7,000,000	0.36750%	Nov. 29, 2019	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Banking Corporation	–	5,500,000	–	5,500,000	0.36750%	Nov. 29, 2019	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mizuho Trust & Banking Co., Ltd.	–	2,000,000	–	2,000,000	0.36750%	Nov. 29, 2019	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited.	–	3,000,000	–	3,000,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mitsubishi UFJ Trust & Banking Corporation	–	3,000,000	–	3,000,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Development Bank of Japan Inc.	–	1,500,000	–	1,500,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Mizuho Bank, Ltd.	–	2,000,000	–	2,000,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Sumitomo Mitsui Banking Corporation	–	2,000,000	–	2,000,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Development Bank of Japan Inc.	–	1,500,000	–	1,500,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured / Non-guaranteed
	Total	–	27,500,000	–	27,500,000					
Grand Total	–	111,000,000	60,500,000	50,500,000						

(Note 1) The average rate for variable rates is the weighted average of the interest rate during the period.

(Note 2) MORI TRUST Hotel Reit, Inc. repaid the loan in full, ahead of schedule, on November 30, 2016.

(Note 3) MORI TRUST Hotel Reit, Inc. repaid the loan in full, ahead of schedule, on September 30, 2016 and November 30, 2016.

(Note 4) The funds are used to finance the acquisition of real estate beneficiary interests and related costs, and the repayment of loans.

(Note 5) The following table shows the repayment schedule of long-term loans (excluding those due within one year) each year during the five years from the balance sheet date.

(Thousands of yen)

	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years
Long-term loans	–	14,500,000	–	7,500,000

2. [Current Status of Investment Corporation]

[Statement of net assets]

(As of February 28, 2017)

I	Total assets	107,183,344 thousand yen
II	Total liabilities	55,630,616 thousand yen
III	Total net assets (I – II)	51,552,727 thousand yen
IV	Total number of units issued	500,000 units
V	Net assets per unit (III/IV)	103,105 yen