

Independent Auditor's Report

The Board of Directors
MORI TRUST Sogo Reit, Inc.

Opinion

We have audited the accompanying financial statements of MORI TRUST Sogo Reit, Inc. (the Company), which comprise the balance sheet as at September 30, 2022, and the statements of income and retained earnings, changes in net assets, cash distributions, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2022, and its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 18. SUBSEQUENT EVENTS to the financial statements, which describes the Company, at the Company's Board of Directors meeting held on November 22, 2022, resolved to undertake an absorption-type merger, with March 1, 2023 as the effective date, whereby the Company will be the surviving corporation and MORI TRUST Hotel Reit, Inc. will be the dissolving corporation in the merger, and also executed a merger agreement on November 22, 2022. Our opinion is not modified in respect of this matter.

Other Information

The other information comprises the information included in the Audited Financial Statements that contains audited financial statements but does not include the financial statements and our auditor's report thereon.

We have concluded that the other information did not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management and the Supervisory Director 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Supervisory Director is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Executive Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Executive Director with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

December 21, 2022

/s/ 吉田 雅彦

Masahiko Yoshida
Designated Engagement Partner
Certified Public Accountant

/s/ 佐藤 賢治

Kenji Sato
Designated Engagement Partner
Certified Public Accountant



FINANCIAL STATEMENTS
BALANCE SHEETS

Thousands of yen

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	14,680,828	16,534,395
Cash and deposits in trust	3,197,268	3,089,760
Operating accounts receivable	41,862	77,534
Accounts receivable - other	1,334	-
Prepaid expenses	47,914	86,346
Other	9,296	15,449
Total current assets	17,978,504	19,803,486
Non-current assets		
Property, plant and equipment		
Buildings	34,980,281	35,007,630
Accumulated depreciation	(17,770,794)	(18,237,032)
Buildings, net	17,209,486	16,770,597
Structures	443,976	443,976
Accumulated depreciation	(412,958)	(413,582)
Structures, net	31,017	30,393
Machinery and equipment	153,655	153,655
Accumulated depreciation	(125,012)	(127,417)
Machinery and equipment, net	28,642	26,237
Tools, furniture and fixtures	109,138	111,307
Accumulated depreciation	(85,331)	(87,823)
Tools, furniture and fixtures, net	23,807	23,483
Land	114,585,335	114,585,335
Buildings in trust	33,902,566	33,964,244
Accumulated depreciation	(12,761,396)	(13,395,018)
Buildings in trust, net	21,141,169	20,569,225
Structures in trust	187,292	187,293
Accumulated depreciation	(111,516)	(116,015)
Structures in trust, net	75,775	71,277
Machinery and equipment in trust	61,690	66,552
Accumulated depreciation	(6,234)	(8,450)
Machinery and equipment in trust, net	55,456	58,102
Tools, furniture and fixtures in trust	102,316	102,790
Accumulated depreciation	(65,339)	(69,394)
Tools, furniture and fixtures in trust, net	36,976	33,395
Land in trust	153,797,970	153,798,827
Total property, plant and equipment	306,985,638	305,966,876
Intangible assets		
Other	240	240

Thousands of yen

	As of March 31, 2022	As of September 30, 2022
Total intangible assets	240	240
Investments and other assets		
Guarantee deposits	10,000	10,000
Long-term prepaid expenses	38,968	66,825
Other	2,815	2,815
Total investments and other assets	51,783	79,640
Total non-current assets	307,037,662	306,046,756
Deferred assets		
Investment corporation bond issuance costs	55,401	58,984
Total deferred assets	55,401	58,984
Total assets	325,071,568	325,909,227
Liabilities		
Current liabilities		
Operating accounts payable	242,061	307,709
Short-term loans payable	6,000,000	6,000,000
Current portion of investment corporation bonds	4,000,000	4,000,000
Current portion of long-term loans payable	25,500,000	18,000,000
Accounts payable – other	110,421	58,604
Accrued expenses	429,156	430,289
Dividends payable	7,185	8,073
Income taxes payable	879	867
Accrued consumption taxes	108,676	233,884
Advances received	913,270	809,224
Deposits received	916	322
Total current liabilities	37,312,567	29,848,976
Non-current liabilities		
Investment corporation bonds	9,000,000	11,000,000
Long-term loans payable	109,500,000	117,000,000
Tenant leasehold and security deposits	7,565,023	7,555,628
Tenant leasehold and security deposits in trust	932,717	918,125
Deferred tax liabilities	803,422	514,820
Total non-current liabilities	127,801,163	136,988,574
Total liabilities	165,113,730	166,837,550
Net assets		
Unitholders' equity		
Unitholders' capital	153,990,040	153,990,040
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	1,430,418	1,750,398
Total voluntary retained earnings	1,430,418	1,750,398
Unappropriated retained earnings	4,537,379	3,331,238



Thousands of yen

	As of March 31, 2022	As of September 30, 2022
Total surplus	5,967,798	5,081,637
Total unitholders' equity	159,957,838	159,071,677
Total net assets	159,957,838	159,071,677
Total liabilities and net assets	325,071,568	325,909,227

The accompanying notes form an integral part of these financial statements.



STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month period from April 1, 2022 to September 30, 2022

	Thousands of yen	
	For the period from October 1, 2021 to March 31, 2022	For the period from April 1, 2022 to September 30, 2022
Operating revenue		
Lease business revenue	6,739,063	6,603,932
Other lease business revenue	337,252	298,407
Gain on sale of investment property	1,452,077	-
Total operating revenue	8,528,392	6,902,340
Operating expenses		
Expenses related to rent business	3,025,005	3,057,896
Asset management fee	329,091	307,505
Asset custody fee	13,102	12,987
Administrative service fees	45,869	45,076
Directors' compensations	3,600	3,600
Other operating expenses	69,376	46,950
Total operating expenses	3,486,044	3,474,016
Operating income	5,042,348	3,428,323
Non-operating income		
Interest income	104	90
Reversal of dividends payable	753	845
Interest on refund	110	-
Total non-operating income	969	936
Non-operating expenses		
Interest expenses	325,041	345,823
Interest expenses on investment corporation bonds	22,833	27,158
Amortization of investment corporation bond issuance costs	8,933	8,874
other	1,374	3,886
Total non-operating expenses	358,184	385,741
Ordinary income	4,685,132	3,043,518
Profit before income taxes	4,685,132	3,043,518
Income taxes - current	895	881
Income taxes - deferred	146,858	(288,601)
Total income taxes	147,753	(287,720)
Profit	4,537,379	3,331,238
Unappropriated retained earnings	4,537,379	3,331,238

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

For the six-month period from October 1, 2021 to March 31, 2022

Thousands of yen

	Unitholders' equity						Total net assets
	Unitholders' capital	Surplus				Total unitholders' equity	
		Voluntary retained earnings		Unappropriated retained earnings (undisposed loss)	Total surplus		
		Reserve for reduction entry	Total voluntary retained earnings				
Balance at beginning of current period	153,990,040	1,074,447	1,074,447	5,041,970	6,116,418	160,106,458	160,106,458
Changes of items during period							
Provision of reserve for reduction entry		490,085	490,085	(490,085)	-	-	-
Reversal of reserve for reduction entry		(134,114)	(134,114)	134,114	-	-	-
Dividends of surplus				(4,686,000)	(4,686,000)	(4,686,000)	(4,686,000)
Profit				4,537,379	4,537,379	4,537,379	4,537,379
Total changes of items during period	-	355,970	355,970	(504,591)	(148,620)	(148,620)	(148,620)
Balance at end of current period	153,990,040	1,430,418	1,430,418	4,537,379	5,967,798	159,957,838	159,957,838

The accompanying notes form an integral part of these financial statements.

For the six-month period from April 1, 2022 to September 30, 2022

Thousands of yen

	Unitholders' equity						Total net assets
	Unitholders' capital	Surplus				Total unitholders' equity	
		Voluntary retained earnings		Unappropriated retained earnings (undisposed loss)	Total surplus		
		Reserve for reduction entry	Total voluntary retained earnings				
Balance at beginning of current period	153,990,040	1,430,418	1,430,418	4,537,379	5,967,798	159,957,838	159,957,838
Changes of items during period							
Provision of reserve for reduction entry		454,094	454,094	(454,094)	-	-	-
Reversal of reserve for reduction entry		(134,114)	(134,114)	134,114	-	-	-
Dividends of surplus				(4,217,400)	(4,217,400)	(4,217,400)	(4,217,400)
Profit				3,331,238	3,331,238	3,331,238	3,331,238
Total changes of items during period	-	319,979	319,979	(1,206,140)	(886,161)	(886,161)	(886,161)
Balance at end of current period	153,990,040	1,750,398	1,750,398	3,331,238	5,081,637	159,071,677	159,071,677

The accompanying notes form an integral part of these financial statements.



STATEMENTS OF CASH DISTRIBUTIONS

For the six-month period from April 1,2022 to September 30,2022

Unit: yen

	Fiscal period ended March 31, 2022 (October 1, 2021 to March 31, 2022)	Fiscal period ended September 30, 2022 (April 1, 2022 to September 30, 2022)
I. Unappropriated retained earnings	4,537,379,582	3,331,238,876
II. Reversal of voluntary retained earnings		
Reversal of reserve for reduction entry	134,114,736	628,761,124
III. Distribution amount	4,217,400,000	3,960,000,000
(Distribution amount per unit)	(3,195)	(3,000)
IV. Voluntary retained earnings		
Provision of reserve for reduction entry	454,094,318	-
V. Retained earnings carried forward	-	-
Calculation method of distribution amount	<p>In accordance with Paragraph 1, Article 29 of the Investment Corporation’s Articles of Incorporation, MTR decided to distribute the total balance of unappropriated retained earnings after adding the reversal of the reserve for reduction entry under Article 66-2 of the Act on Special Measures Concerning Taxation and deducting provision of the reserve for reduction entry under Article 65-7 of the Act on Special Measures Concerning Taxation, the amount of which is 4,217,400,000 yen.</p> <p>In addition, MTR does not distribute dividends in excess of accounting profit as set forth in Paragraph 2, Article 29 of the Investment Corporation’s Articles of Incorporation.</p>	<p>In accordance with Paragraph 1, Article 29 of the Investment Corporation’s Articles of Incorporation, MTR decided to distribute the total balance of unappropriated retained earnings after adding the reversal of the reserve for reduction entry under Article 66-2 of the Act on Special Measures Concerning Taxation , the amount of which is 3,960,000,000 yen.</p> <p>In addition, MTR does not distribute dividends in excess of accounting profit as set forth in Paragraph 2, Article 29 of the Investment Corporation’s Articles of Incorporation.</p>



STATEMENTS OF CASH FLOWS

For the six-month period from April 1, 2022 to September 30, 2022

	Thousands of yen	
	For the period from October 1, 2021 to March 31, 2022	For the period from April 1, 2022 to September 30, 2022
Cash flows from operating activities		
Profit before income taxes	4,685,132	3,043,518
Depreciation	1,125,735	1,116,153
Amortization of investment corporation bond issuance costs	8,933	8,874
Interest income	(104)	(90)
Interest expenses	347,875	372,981
Decrease (Increase) in operating accounts receivable	(522)	(35,671)
Increase (Decrease) in operating accounts payable	(80,181)	(10,983)
Increase (Decrease) in accrued consumption taxes	99,050	125,207
Increase (Decrease) in advances received	(86,145)	(104,045)
Decrease due to sale of investment property	12,520,098	-
Other, net	(106,676)	(89,768)
Subtotal	18,513,195	4,426,175
Interest income received	104	90
Interest expenses paid	(346,685)	(353,781)
Income taxes paid	(622)	(892)
Net cash provided by operating activities	18,165,991	4,071,591
Cash flows from investing activities		
Purchase of property, plant and equipment	(34,126)	(69,009)
Purchase of property, plant and equipment in trust	(14,344,757)	(80,198)
Repayments of tenant leasehold and security deposits	(2,385,217)	(90,166)
Proceeds from tenant leasehold and security deposits	326,611	160,283
Repayments of tenant leasehold and security deposits in trust	(16,369)	(25,275)
Proceeds from tenant leasehold and security deposits in trust	5,120	7,804
Other	393	-
Net cash used in investing activities	(16,448,345)	(96,562)
Cash flows from financing activities		
Proceeds from long-term loans payable	14,500,000	17,000,000
Repayments of long-term loans payable	(14,500,000)	(17,000,000)
Proceeds from issuance of investment corporation bonds	2,000,000	2,000,000
Redemption of investment corporation bonds	(3,000,000)	-
Payments for investment corporation bond issuance costs	(15,558)	(12,457)
Dividends paid	(4,687,104)	(4,216,512)
Net cash used in financing activities	(5,072,662)	(2,228,969)
Net increase (decrease) in cash and cash equivalents	(3,985,015)	1,746,059
Cash and cash equivalents at beginning of period	21,863,112	17,878,096
Cash and cash equivalents at end of period	17,878,096	19,624,156

The accompanying notes form an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

For the six-month period from April 1, 2022 to September 30, 2022

1. ORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Organization

MORI TRUST Sogo Reit, Inc. (“MTR”), a Japanese real estate investment corporation, was incorporated on October 2, 2001 under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. MTR was originally formed by Mori Trust Co., Ltd., and commenced operations on March 28, 2002 by acquiring a property. MTR is provided professional asset management services of properties of various types by a licensed asset management company, MORI TRUST Asset Management Co., Ltd. (“MTAM”). MTAM is currently owned 95% by MORI TRUST Co., Ltd., and 5% by Mori Trust Hotels & Resorts Co., Ltd. On February 13, 2004, MTR was listed on the J-REIT section of the Tokyo Stock Exchange (securities code: 8961). As of September 30, 2022, MTR owned a portfolio of 16 properties with a total rentable area of 417,553.51 sq. meters occupied by 106 tenants. The occupancy rate was 96.5%.

Basis of presentation of financial statements

MTR maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Investment Trust Law, the Financial Instruments and Exchange Law of Japan and the related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements are a translation of the financial statements of MTR, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of MTR filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to financial statements include information which might not be required under Japanese GAAP but is presented herein as additional information. As permitted under the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sum of the individual amounts. MTR does not prepare consolidated financial statements as it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. The costs of land, buildings and building improvements include the purchase prices of properties, legal fees and acquisition costs. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets ranging as follows:

Buildings including trust accounts.....	3 - 81 years
Structures including trust accounts.....	2 - 45 years
Machinery and equipment including trust accounts.....	2 - 17 years
Tools, furniture and fixtures including trust accounts.....	2 - 18 years

Expenditures for repairs and maintenance are charged to income as incurred. Significant renewals and betterments are capitalized.

Intangible assets

Intangible assets are amortized on a straight-line basis.

Deferred assets

Deferred investment corporation bond issuance costs are amortized using the straight-line method over the respective terms of the bonds.

Taxes on property and equipment

Property and equipment is subject to property taxes and city planning taxes on a calendar year basis. These taxes are generally expensed during the period. The sellers of the properties were liable for property taxes for the calendar year including the period from the date of purchase by MTR through the end of the year since the taxes were imposed on the registered owners as of January 1, based on assessments made by local governments.

Revenue recognition

The main performance obligations related to revenue arising from contracts with customers of the MTR and the normal time for satisfying such performance obligations (the normal time for recognizing revenue) are as follows.

- (1) Sales of real estate and other assets



MTR recognizes revenue from the sale of real estate and other assets when the buyer, as the customer, obtains control of the real estate and other assets by fulfilling the delivery obligations stipulated in the contract for the sale of real estate and other assets.

(2) Utility revenues

Utility revenues are recognized based on the supply of electricity, water, etc. to the lessee, the customer, in accordance with the terms of the real estate lease contract and related agreements.

With regard to utility charge reimbursements which MTR deems to fall under that for an agent, the net amount sought by subtracting the amount paid to another party from the amount that is received as charge for electric power, gas, etc. which is supplied by another concerned party is recognized as revenue.

Accounting treatment of beneficiary interests in trust assets including real estate

For trust beneficiary interests in real estate, all accounts of assets and liabilities within assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheets and statements of income and retained earnings accounts.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks and short-term investments which are highly liquid, readily convertible to cash and with an insignificant risk of price fluctuation, and with an original maturity of three months or less.

3. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2022 and September 30, 2022 consisted of the following:

	Thousands of yen			
	As of March 31, 2022		As of September 30, 2022	
	Acquisition Cost	Book Value	Acquisition Cost	Book Value
Land	114,585,335	114,585,335	114,585,335	114,585,335
Buildings and structures	35,424,257		35,451,606	
Accumulated depreciation	(18,183,753)	17,340,504	(18,650,615)	16,800,991
Machinery and equipment	153,655		153,655	
Accumulated depreciation	(125,012)	28,642	(127,417)	26,237
Tools, furniture and fixtures	109,138		111,307	
Accumulated depreciation	(85,331)	23,807	(87,823)	23,483
Land in trust	153,797,970	153,797,970	153,798,827	153,798,827
Buildings and structures in trust	34,089,858		34,151,537	
Accumulated depreciation	(12,872,913)	21,216,945	(13,511,034)	20,640,503
Machinery and equipment in trust	61,690		66,552	
Accumulated depreciation	(6,234)	55,456	(8,450)	58,102
Tools, furniture and fixtures in trust	10,316		102,790	
Accumulated depreciation	(65,339)	36,976	(69,394)	33,395
Total		306,985,638		305,966,876

The compressed amount of tangible assets with government grants under the Corporation Tax Law of Japan was ¥38,340 thousand at March 31, 2022 and ¥38,340 thousand at September 30, 2022.

4. INVESTMENT CORPORATION BONDS

Investment corporation bonds at March 31, 2022 and September 30, 2022 consisted of the following:

	Thousands of yen		Average interest rate (%)	Due on	Use of funds	Note
	As of March 31, 2022	As of September 30, 2022				
Unsecured bonds due on February 20, 2020	4,000,000	4,000,000	0.10	February 20, 2023		
Unsecured bonds due on February 25, 2021	3,000,000	3,000,000	0.17	February 22, 2024		
Unsecured bonds due on February 21, 2022	1,000,000	1,000,000	0.11	February 28, 2025		
Unsecured bonds due on February 26, 2015	1,000,000	1,000,000	1.06	February 26, 2027		
Unsecured bonds due on June 20, 2022	—	2,000,000	0.42	February 29, 2028	(1)	(2)
Unsecured bonds due on February 25, 2021	1,000,000	1,000,000	0.50	February 25, 2031		
Unsecured bonds due on February 21, 2022	1,000,000	1,000,000	0.50	February 27, 2032		
Unsecured bonds due on February 25, 2021	1,000,000	1,000,000	0.75	February 25, 2036		
Unsecured bonds due on February 23, 2017	1,000,000	1,000,000	1.08	February 23, 2037		
Total	13,000,000	15,000,000	—	—	—	—

(1) Use of the above funds includes acquisition of real estate or beneficiary interests.

(2) The above loans are unsecured and non-guaranteed with floating rates.

(3) Investment corporation bonds repayable expected to be repaid during each of the 5 years subsequent to the current balance sheet date are summarized as follows (except for investment corporation bonds due within one year):

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment corporation bonds (Thousands of yen)	3,000,000	1,000,000	—	1,000,000

5. SHORT-TERM LOANS PAYABLE

Short-term loans payable at March 31, 2022 and September 30, 2022 consisted of the following:

Lender	Thousands of yen		Average interest rate (%) (1)	Due on	Use of funds	Note
	As of March 31, 2022	As of September 30, 2022				
Mizuho Bank, Ltd.	2,000,000	—	—	—	—	—
Resona Bank, Limited	1,000,000	—	—	—	—	—
Sumitomo Mitsui Banking Corporation	2,500,000	2,500,000	0.20	October 7, 2022		
Resona Bank, Limited	500,000	500,000	0.22	October 14, 2022		
Mizuho Bank, Ltd.	—	2,000,000	0.21	April 7, 2023	(2)	(3)
Resona Bank, Limited	—	1,000,000	0.21	August 31, 2023		
Total short-term loans	6,000,000	6,000,000	—	—	—	—

(1) Average interest rate for each loan has been rounded to the second decimal place.

(2) Use of the above funds includes acquisition of real estate or beneficiary interests.

(3) The above loans are unsecured and non-guaranteed with floating rates.

MTR has entered into line of credit loan agreements totaling ¥20,000 million with banks to reduce refinancing risk. The unused amount of such credit lines was ¥20,000 million at September 30, 2022.

6. LONG-TERM LOANS PAYABLE

Long-term loans payable at March 31, 2022 and September 30, 2022 consisted of the following:

Lender	Thousands of yen		Average interest rate (%) (1)	Due on	Use of funds	Note
	As of March 31, 2022	As of September 30, 2022				
Mizuho Bank, Ltd	4,000,000	—	—	—		
Aozora Bank, Ltd.	1,000,000	—	—	—		
MUFG Bank, Ltd.	2,000,000	—	—	—	—	—
The Ashikaga Bank, Ltd.	1,000,000	—	—	—		
Sumitomo Mitsui Banking Corporation.	2,000,000	—	—	—		
Sumitomo Mitsui Trust Bank, Ltd.	500,000	—	—	—		

Sumitomo Mitsui Trust Bank, Ltd.	3,500,000	—	—	—
Sumitomo Mitsui Trust Bank, Ltd.	2,000,000	—	—	—
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	—	—	—
Sumitomo Mitsui Trust Bank, Ltd.	1,500,000	1,500,000	0.44	January 19, 2023
Mizuho Bank, Ltd	500,000	500,000	0.44	January 19, 2023
MUFG Bank, Ltd.	2,500,000	2,500,000	0.49	February 28, 2023
Mizuho Bank, Ltd	2,000,000	2,000,000	0.49	February 28, 2023
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	1,000,000	0.45	February 28, 2023
Mizuho Trust & Banking Co., Ltd.	1,000,000	1,000,000	0.45	February 28, 2023
Mizuho Bank, Ltd	3,500,000	3,500,000	0.47	April 12, 2023
The Bank of Fukuoka, Ltd.	1,000,000	1,000,000	0.43	April 21, 2023
The Nishi-Nippon City Bank, Ltd.	500,000	500,000	0.49	April 24, 2023
Mizuho Bank, Ltd	1,500,000	1,500,000	0.48	August 31, 2023
Development Bank of Japan Inc.	1,000,000	1,000,000	0.51	August 31, 2023
Resona Bank, Limited.	1,000,000	1,000,000	0.48	August 31, 2023
MUFG Bank, Ltd.	500,000	500,000	0.43	August 31, 2023
Development Bank of Japan Inc.	500,000	500,000	0.54	September 29, 2023
Resona Bank, Limited.	1,000,000	1,000,000	0.46	October 18, 2023
Mizuho Bank, Ltd	3,000,000	3,000,000	0.17	February 29, 2024
Development Bank of Japan Inc.	1,500,000	1,500,000	0.64	February 29, 2024
Aozora Bank, Ltd.	2,000,000	2,000,000	0.54	March 11, 2024
Shinkin Central Bank	2,000,000	2,000,000	0.57	March 19, 2024
Sumitomo Mitsui Banking Corporation	3,000,000	3,000,000	0.27	April 9, 2024
Development Bank of Japan Inc.	2,000,000	2,000,000	0.36	April 11, 2024
Mizuho Bank, Ltd	1,000,000	1,000,000	0.36	April 11, 2024
Mizuho Bank, Ltd	3,000,000	3,000,000	0.56	April 24, 2024
The Bank of Fukuoka, Ltd.	1,000,000	1,000,000	0.56	May 31, 2024
Sumitomo Mitsui Banking Corporation.	3,000,000	3,000,000	0.29	October 9, 2024
Sumitomo Mitsui Banking Corporation.	1,000,000	1,000,000	0.30	October 9, 2024
The Nishi-Nippon City Bank, Ltd.	500,000	500,000	0.43	December 26, 2024
Mizuho Bank, Ltd	1,500,000	1,500,000	0.56	January 17, 2025
MUFG Bank, Ltd.	500,000	500,000	0.56	January 17, 2025
Sumitomo Mitsui Trust Bank, Ltd.	3,000,000	3,000,000	0.32	February 28, 2025
Mizuho Bank, Ltd	1,000,000	1,000,000	0.65	February 28, 2025
Sumitomo Mitsui Banking Corporation.	1,000,000	1,000,000	0.65	February 28, 2025
The 82 Bank, Ltd.	1,000,000	1,000,000	0.34	February 28, 2025
MUFG Bank, Ltd.	500,000	500,000	0.65	February 28, 2025
Development Bank of Japan Inc.	1,000,000	1,000,000	0.64	March 19, 2025
Sumitomo Mitsui Banking Corporation.	2,500,000	2,500,000	0.33	April 9, 2025
Sumitomo Mitsui Trust Bank, Ltd.	4,000,000	4,000,000	0.37	April 11, 2025
MUFG Bank, Ltd.	1,000,000	1,000,000	0.32	April 11, 2025
Sumitomo Mitsui Banking Corporation.	3,000,000	3,000,000	0.46	April 24, 2025
MUFG Bank, Ltd.	3,000,000	3,000,000	0.68	August 29, 2025
Sumitomo Mitsui Banking Corporation.	1,000,000	1,000,000	0.43	January 19, 2026
The Bank of Fukuoka, Ltd.	1,000,000	1,000,000	0.42	January 30, 2026
Sumitomo Mitsui Banking Corporation	1,500,000	1,500,000	0.47	February 27, 2026
Sumitomo Mitsui Trust Bank, Ltd.	1,500,000	1,500,000	0.41	February 27, 2026
Sumitomo Mitsui Banking Corporation.	1,000,000	1,000,000	0.52	February 27, 2026
Sumitomo Mitsui Trust Bank, Ltd.	—	1,000,000	0.50	February 27, 2026
Development Bank of Japan Inc.	1,000,000	1,000,000	0.41	March 12, 2026
Nippon Life Insurance Company	500,000	500,000	0.36	March 31, 2026
Resona Bank, Limited.	1,000,000	1,000,000	0.39	April 22, 2026
Aozora Bank, Ltd.	500,000	500,000	0.72	April 24, 2026
Resona Bank, Limited.	500,000	500,000	0.39	May 29, 2026
Sumitomo Mitsui Trust Bank, Ltd.	—	2,000,000	0.55	August 31, 2026
Development Bank of Japan Inc.	1,000,000	1,000,000	0.33	August 31, 2026
The Nishi-Nippon City Bank, Ltd.	1,000,000	1,000,000	0.41	August 31, 2026
The 77 Bank, Ltd.	500,000	500,000	0.31	August 31, 2026
Nippon Life Insurance Company	500,000	500,000	0.40	September 18, 2026

(2) (3)

Mitsui Sumitomo Insurance Company, Limited	500,000	500,000	0.39	September 30, 2026
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	1,000,000	0.42	December 24, 2026
MUFG Bank, Ltd.	1,000,000	1,000,000	0.40	December 25, 2026
Resona Bank, Limited.	500,000	500,000	0.56	December 25, 2026
The Bank of Fukuoka, Ltd.	500,000	500,000	0.56	December 25, 2026
Mizuho Bank, Ltd	500,000	500,000	0.50	January 19, 2027
The Bank of Fukuoka, Ltd.	1,000,000	1,000,000	0.51	January 29, 2027
The Norinchukin Bank	3,000,000	3,000,000	0.38	February 26, 2027
Sumitomo Mitsui Trust Bank, Ltd.	—	1,500,000	0.59	February 26, 2027
The Ashikaga Bank, Ltd.	—	1,000,000	0.63	April 22, 2027
Aozora Bank, Ltd.	500,000	500,000	0.45	June 24, 2027
SUMITOMO LIFE INSURANCE COMPANY	500,000	500,000	0.59	June 25, 2027
The Bank of Fukuoka, Ltd.	1,000,000	1,000,000	0.55	July 30, 2027
Sumitomo Mitsui Trust Bank, Ltd.	—	1,500,000	0.63	August 31, 2027
The Norinchukin Bank	1,500,000	1,500,000	0.38	August 31, 2027
The Nishi-Nippon City Bank, Ltd.	1,500,000	1,500,000	0.48	August 31, 2027
Resona Bank, Limited.	500,000	500,000	0.48	August 31, 2027
SUMITOMO LIFE INSURANCE COMPANY	500,000	500,000	0.38	August 31, 2027
The Dai-ichi Life Insurance Company, Limited	500,000	500,000	0.56	August 31, 2027
Development Bank of Japan Inc.	1,000,000	1,000,000	0.43	September 10, 2027
Sumitomo Mitsui Trust Bank, Ltd.	—	1,000,000	0.74	September 30, 2027
MUFG Bank, Ltd.	1,500,000	1,500,000	0.50	October 13, 2027
Mizuho Bank, Ltd	1,000,000	1,000,000	0.63	December 24, 2027
Mizuho Bank, Ltd	1,000,000	1,000,000	0.47	January 19, 2028
Mizuho Bank, Ltd	1,000,000	1,000,000	0.55	January 19, 2028
Development Bank of Japan Inc.	500,000	500,000	0.47	January 19, 2028
MUFG Bank, Ltd.	1,500,000	1,500,000	0.53	March 31, 2028
Sumitomo Mitsui Banking Corporation.	1,500,000	1,500,000	0.54	April 7, 2028
Sumitomo Mitsui Banking Corporation.	1,500,000	1,500,000	0.51	April 11, 2028
Aozora Bank, Ltd.	—	1,000,000	0.71	April 11, 2028
Mizuho Bank, Ltd	1,500,000	1,500,000	0.51	April 17, 2028
The 77 Bank, Ltd.	1,000,000	1,000,000	0.54	August 31, 2028
Shinsei Bank Limited	1,000,000	1,000,000	0.53	August 31, 2028
Mitsui Sumitomo Insurance Company, Limited	1,500,000	1,500,000	0.59	October 31, 2028
Development Bank of Japan Inc.	3,000,000	3,000,000	0.71	February 28, 2029
Mizuho Bank, Ltd	—	1,000,000	0.82	April 11, 2029
Aozora Bank, Ltd.	1,500,000	1,500,000	0.59	April 23, 2029
MUFG Bank, Ltd.	500,000	500,000	0.79	February 28, 2030
Mizuho Bank, Ltd	—	1,500,000	0.90	April 11, 2030
MUFG Bank, Ltd.	—	2,000,000	0.92	April 12, 2030
Sumitomo Mitsui Banking Corporation.	1,000,000	1,000,000	0.65	June 24, 2030
Sumitomo Mitsui Banking Corporation.	1,500,000	1,500,000	0.76	July 19, 2030
Mizuho Bank, Ltd	1,000,000	1,000,000	0.62	August 30, 2030
Mizuho Bank, Ltd	500,000	500,000	0.63	August 30, 2030
Sumitomo Mitsui Banking Corporation.	—	2,000,000	0.98	October 28, 2030
Mizuho Bank, Ltd	1,500,000	1,500,000	0.66	February 28, 2031
Mizuho Bank, Ltd	—	1,500,000	0.98	April 11, 2031
Total long-term loans	135,000,000	135,000,000	—	—

(1) Average interest rate for each loan has been rounded to the second decimal place.

(2) Use of the above funds includes acquisition of real estate or beneficiary interests.

(3) The above loans are unsecured and non-guaranteed with fixed interest rates.

(4) The total amounts of long-term loans repayable expected to be repaid during each of the 5 years subsequent to the current balance sheet date are summarized as follows (except for long-term loans payable due within one year):

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount of loans (Thousands of yen)	19,000,000	24,000,000	21,000,000	13,000,000



7. NET ASSETS

MTR is required to maintain net assets of at least ¥50 million as required pursuant to the Investment Trust Law.

8. INCOME TAXES

At March 31, 2022 and September 30, 2022 MTR's deferred tax assets consisted mainly of enterprise tax payable, which is not deductible for tax purposes.

The significant components of deferred tax assets and liabilities as of March 31, 2022 and September 30, 2022 were as follows:

	As of March 31, 2022	As of September 30, 2022
	Thousands of yen	
Deferred tax assets:		
Accrued enterprise tax	13	13
Total deferred tax assets	13	13
Deferred tax liabilities:		
Reserve for advanced depreciation of non-current assets	803,436	514,833
Total deferred tax liabilities	803,436	514,833
Net deferred tax assets (liabilities)	(803,422)	(514,820)

A reconciliation of the tax rate differences between the adjusted statutory tax rate and the effective tax rates for the six months ended April 31, 2022 and September 30, 2022 was as follows:

	October 1, 2021 to March 31, 2022	April 1, 2022 to September 30, 2022
Statutory tax rate	31.46%	31.46%
Deductible dividend distribution	(28.32%)	(40.93%)
Others	0.01%	0.02%
Effective tax rates	3.15%	(9.45%)

MTR is subject to Japanese corporate income taxes on all of its taxable income. However, under the Special Taxation Measures Law (STML) of Japan, an investment corporation is allowed to deduct dividends of accounting profits, or dividend distributions, paid to investors from its taxable income if certain tax requirements are satisfied. Such tax requirements include dividend distributions in excess of 90% of the investment corporation's distributable profit for the accounting period as stipulated in Article 67-15 of the STML. Based on the distribution policy provided by its Articles of Incorporation, MTR made a dividend distribution of approximately 100% of retained earnings in the amount of ¥3,960,000 thousand at September 30, 2022 and treated it as a tax-deductible distribution. MTR does not distribute dividends in excess of accounting profit in accordance with its Articles of Incorporation.

9. PER SHARE INFORMATION

The following table summarizes information about net assets per share and net income per share at March 31, 2022 and September 30, 2022 and for the six-month period then ended:

	Yen	
	October 1, 2021 to March 31, 2022	April 1, 2022 to September 30, 2022
Net assets per share at period end	121,180	120,508
Net income per share	3,437	2,523
Weighted-average number of shares	1,320,000 shares	1,320,000 shares

In calculating net assets per share, the amount of the net assets has been adjusted for the cash distribution declared in the subsequent period. Net income per share is computed by dividing net income by the weighted-average number of shares outstanding during each period. Diluted net income per share has not been presented since no warrants or convertible bonds were outstanding during the period.



10. RELATED PARTY TRANSACTIONS

MTR entered into the following related party transactions:

- (1) Parent company and major corporate shareholders: None applicable
- (2) Subsidiaries: None applicable
- (3) Sister companies:

(For the six months ended March 31, 2022)

Party type	Subsidiary of other related company*
Party name	Mori Trust Co., Ltd.
Address	Minato-ku Tokyo, Japan
Capital	¥30,000,000 thousand
Business	Urban development; hotel management and investment business
Percentage of voting rights held	-
Concurrent board appointment	-
Business relationship	Leasing
Details of transactions	Buying property
Transaction amount	¥13,980,000 thousand
	Sale of property
	¥13,980,000 thousand
	Rental revenues
	¥1,752,122 thousand
	Property management revenues
	¥221,573 thousand
Account name and balance at period end	Rental and other receivables
	¥4,464 thousand
	Rents received in advance
	¥24,761 thousand
	Leasehold and security deposits including trust accounts
	¥964,671 thousand
	Trade accounts payable
	¥65,958 thousand
	Accrued expenses
	¥1,073 thousand

* MTR deemed Mori Trust Co., Ltd. to be a “Subsidiary of other related company” under Article 8 of Regulations Concerning Financial Statements.

(For the six months ended September 30, 2022)

Party type	Subsidiary of other related company*
Party name	Mori Trust Co., Ltd.
Address	Minato-ku Tokyo, Japan
Capital	¥30,000,000 thousand
Business	Urban development; hotel management and investment business
Percentage of voting rights held	-
Concurrent board appointment	-
Business relationship	Leasing
Details of transactions	Buying property
Transaction amount	-
	Sale of property
	-



	Rental revenues	¥1,811,460 thousand
	Property management revenues	¥219,868 thousand
Account name and balance at period end	Rental and other receivables	¥5,208 thousand
	Rents received in advance	¥24,761 thousand
	Leasehold and security deposits including trust accounts	¥883,417 thousand
	Trade accounts payable	¥157,705 thousand
	Accrued expenses	¥430 thousand

* MTR deemed Mori Trust Co., Ltd. to be a “Subsidiary of other related company” under Article 8 of Regulations Concerning Financial Statements.

(4) Directors and major individual shareholders: None applicable

11. BREAKDOWN OF PROPERTY-RELATED REVENUES AND EXPENSES

A breakdown of property-related revenues and expenses for the six-month period ended March 31, 2022 and September 30, 2022 is summarized as follows:

(1) Rental revenues and property-related expenses

	Thousands of yen	
	October 1, 2021 to March 31, 2022	April 1, 2022 to September 30, 2022
Property-Related Revenues:	6,739,063	6,603,932
Property rental revenues	6,378,952	6,244,322
Common charges	236,502	236,001
Land rental revenues	123,609	123,609
Other rental revenues	337,252	298,407
Parking revenues	91,666	90,701
Utilities revenues	133,470	144,763
Penalty revenues	—	25,172
Other revenues	112,114	37,771
Property-Related Expenses:	3,025,005	3,057,896
Property management fees	694,543	717,358
Utilities expenses	212,236	255,836
Property and other taxes	872,062	881,367
Casualty insurance	18,494	19,142
Repairs and maintenance	72,707	41,623
Depreciation	1,125,735	1,116,153
Other rental expenses	29,225	26,414
Profit	4,051,310	3,844,443

(2) Gain on sale of real estate

	Thousands of yen	
	October 1, 2021 to March 31, 2022	April 1, 2022 to September 30, 2022
Tokyo Shiodome Building		—
Income from sale of real estate	13,980,000	—
Cost of real estate sales	12,520,098	—
Other expenses on sale	7,824	—
Gain on sale of real estate	1,452,077	—

12. FINANCIAL INSTRUMENTS

Overview

(1) Policy for financial instruments

For efficient and stable management operations, MTR raises funds required for acquisition and renovation of assets, payment of dividends and debt and regular operations mainly through bank borrowings, issuance of investment corporation bonds and issuance of new investment shares. MTR manages cash surpluses carefully in consideration of safety, liquidity, interest rate environment and cash flow plans.

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

Loans, issuance of investment corporation bonds and issuance of new investment shares are undertaken for acquisition of real estate or real estate trust beneficiary rights.

Loans and security deposits are exposed to liquidity risk. MTR prepares and updates its cash flow plans based on reports from each division and maintains the ready liquidity to manage liquidity risk.

In addition, MTR has established commitment lines of credit to ensure flexible fund procurement.

(3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet as of March 31, 2022 and estimated fair value are shown in the following table. Notes on “Cash and deposits,” “Cash and deposits in trust,” and “Short-term loans payable” are omitted because their fair value approximates their book value due to cash and short term settlements.

Thousands of yen			
	Carrying Value	Estimated Fair Value (1)	Difference
1) Current portion of investment corporation bonds	4,000,000	3,973,298	(26,701)
2) Current portion of long-term loans payable	25,500,000	25,458,335	(41,664)
3) Investment corporation bonds	9,000,000	8,774,831	(225,168)
4) Long-term loans payable	109,500,000	107,550,641	(1,949,358)
5) Tenant leasehold and security deposits	7,565,023	7,114,959	(450,063)
6) Tenant leasehold and security deposits in trust	932,717	860,922	(71,794)
Total Liabilities	156,497,740	153,732,989	(2,764,751)

The carrying value of financial instruments on the balance sheet as of September 30, 2022 and estimated fair value are shown in the following table. Notes on “Cash and deposits,” “Cash and deposits in trust,” and “Short-term loans payable” are omitted because their fair value approximates their book value due to cash and short term settlements.

Thousands of yen			
	Carrying Value	Estimated Fair Value (1)	Difference
Liabilities			
1) Current portion of investment corporation bonds	4,000,000	3,986,259	(13,740)
2) Current portion of long-term loans payable	18,000,000	17,953,691	(46,308)
3) Investment corporation bonds	11,000,000	10,560,560	(439,439)

4) Long-term loans payable	117,000,000	114,113,240	(2,886,759)
5) Tenant leasehold and security deposits	7,555,628	6,708,856	(846,772)
6) Tenant leasehold and security deposits in trust	918,125	827,109	(91,016)
Total Liabilities	158,473,754	154,149,718	(4,324,036)

(1) Methods to determine the estimated fair value of financial instruments

Current portion of investment corporation bonds and investment corporation bonds

The fair value of investment corporation bonds is calculated based on the present value of the total of principal and interest discounted at the current interest rate estimated by taking into consideration the remaining term of the investment corporation bonds and their credit risk.

Current portion of long-term loans payable and long-term loans payable

The fair value of long-term loans is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

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

The fair value of tenant leasehold and security deposits including trust accounts is based on the present value of the total of cash flow discounted by an interest rate determined taking into account the remaining period of each item and current credit risk.

(2) The redemption schedule for loans

(As of March 31, 2022)

	Thousands of yen					
	Due in 1 year or less	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due after 5 years
Current portion of investment corporation bonds	4,000,000	-	-	-	-	-
Current portion of long-term loans payable	25,500,000	-	-	-	-	-
Investment corporation bonds	-	3,000,000	1,000,000	-	1,000,000	4,000,000
Long-term loans payable	-	19,000,000	24,000,000	21,000,000	13,000,000	32,500,000

(As of September 30, 2022)

	Thousands of yen					
	Due in 1 year or less	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due after 5 years
Current portion of investment corporation bonds	4,000,000	-	-	-	-	-
Current portion of long-term loans payable	18,000,000	-	-	-	-	-
Investment corporation bonds	-	3,000,000	1,000,000	-	1,000,000	6,000,000
Long-term loans payable	-	19,500,000	27,500,000	16,000,000	20,000,000	34,000,000



13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2022 and September 30, 2022 were as follows:

	Thousands of yen	
	As of March 31, 2022	As of September 30, 2022
Cash and deposits	14,680,828	16,534,395
Cash and deposits in trust	3,197,268	3,089,760
Cash and cash equivalents	17,878,096	19,624,156

14. LEASES

MTR leases properties and earns rental revenues. Future lease revenues subsequent to March 31, 2022 and September 30, 2022 under non-cancelable operating leases were as follows:

	Thousands of yen	
	As of March 31, 2022	As of September 30, 2022
Due within one year	6,741,780	7,654,988
Due after one year	14,810,423	32,185,923
Total	21,552,203	39,840,912

15. REVENUE RECOGNITION

1. Breakdown of revenue from contracts with customers

For the period from October 1, 2021 to March 31, 2022

	Thousands of yen	
	Revenue from contracts with customers *1	Revenue from external customers
Sales of real estate properties *2	13,980,000	1,452,077
Utilities income	133,639	133,639
Others	-	6,942,676
Total	14,113,639	8,528,392

For the period from April 1, 2022 to September 30, 2022

	Thousands of yen	
	Revenue from contracts with customers *1	Revenue from external customers
Sales of real estate properties	-	-
Utilities income	145,016	145,016
Others	-	6,757,323
Total	145,016	6,902,340

*1 Rent revenues subject to Accounting Standard for Lease Transactions (ASBJ Statement No. 13) are excluded from “Revenue from contracts with customers” as such revenues are not subject to Accounting Standard for Revenue Recognition. Revenue from contracts with customers mainly represents revenues from the sale of real estate and utilities.

*2 Sales of real estate properties are recorded as gains or losses on sales of real estate properties in the statements of income are retained earnings in accordance with Article 48-2 of the Regulations on Accounting of Investment Corporation (Cabinet Office Ordinance No. 47 of 2006), and therefore the amount represents the proceeds from sales of real estate properties, less the cost of real estate properties sold and other sales expenses.

2. Information that provides a basis for understanding revenue from contracts with customers

For the period from October 1, 2021 to March 31, 2022

As described in the Summary of Significant Accounting Policies.

For the period from April 1, 2022 to September 30, 2022

As described in the Summary of Significant Accounting Policies.



3. Information about the relationship between the fulfillment of performance obligations under contracts with customers and cash flows arising from those contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from contracts with customers that existed at the end of the current period

For the period from October 1, 2021 to March 31, 2022

(1) Balance of contract assets and contract liabilities

	Thousands of yen
	October 1, 2021 to March 31, 2022
Claims arising from contracts with customers (At beginning of period)	26,233
Claims arising from contracts with customers (At end of period)	24,828
Contract assets (At beginning of period)	-
Contract assets (At end of period)	-
Contract liabilities (At beginning of period)	-
Contract liabilities (At end of period)	-

(2) Transaction price allocated to remaining performance obligations

In accordance with Paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition, MTR recognizes utility revenues at the amount it has the right to charge, because MTR has the right to receive from the customer the amount of consideration that directly corresponds to the value to the customer, the lessee, of the portion of the performance completed by the end of the fiscal year. Accordingly, MTR has applied the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition and has not included in the notes the transaction price allocated to the remaining performance obligations.

For the period from April 1, 2022 to September 30, 2022

(1) Balance of contract assets and contract liabilities

	Thousands of yen
	April 1, 2022 to September 30, 2022
Claims arising from contracts with customers (At beginning of period)	24,828
Claims arising from contracts with customers (At end of period)	36,980
Contract assets (At beginning of period)	-
Contract assets (At end of period)	-
Contract liabilities (At beginning of period)	-
Contract liabilities (At end of period)	-

(2) Transaction price allocated to remaining performance obligations

As of September 30, 2022, the total transaction price allocated to the remaining performance obligations for the sale of real estate is 21,800,000 thousand yen for the real estate for which a sale contract was executed on July 28, 2022.

MTR expects to recognize revenue for such remaining performance obligations upon delivery of such real estate properties, which is expected to occur on February 28, 2023, August 31, 2023 and February 29, 2024.

In accordance with Paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition, MTR recognizes utility revenues at the amount it has the right to charge, because MTR has the right to receive from the customer the amount of consideration that directly corresponds to the value to the customer, the lessee, of the portion of the performance completed by the end of the fiscal year. Accordingly, MTR has applied the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition and has not included in the notes the transaction price allocated to the remaining performance obligations.

16. INVESTMENT AND RENTAL PROPERTIES

MTR owns office buildings and retail facilities for lease mainly in Tokyo and other areas. The carrying value in the balance sheet and corresponding fair value of those properties are as follows:

Use	Thousands of yen								
	Carrying Value (1)			Fair Value (3)		Carrying Value (1)			Fair Value (3)
	As of September 30, 2021	Net Changes (2)	As of March 31, 2022	As of March 31, 2022	As of March 31, 2022	Net Changes (2)	As of September 30, 2022	As of September 30, 2022	
Office buildings	218,552,974	1,070,360	219,623,334	239,390,000	219,623,334	(712,059)	218,911,274	243,710,000	
Retail facilities	68,815,401	(127,710)	68,687,691	85,310,000	68,687,691	(124,916)	68,562,774	85,140,000	
Others	18,869,248	(194,635)	18,674,613	21,110,000	18,674,613	(181,785)	18,492,827	21,150,000	
Total	306,237,624	748,014	306,985,638	346,110,000	306,985,638	(1,018,762)	305,966,876	350,000,000	

(1)The carrying value represents the acquisition cost less accumulated depreciation.

(2) In the previous period, the main reason for the increase was the acquisition of Kamiyacho Trust Tower, and the reason for the decrease was the transfer of Tokyo Shiodome Building and depreciation.

In the current period, the components of net change in carrying value included increases mainly due to renovation work on the properties and decreases mainly due to depreciation.

(3)The fair value is an appraisal value or a price estimated by real estate appraisers outside MTR.

The profit and loss for the six-month period ended March 31, 2022 and September 30, 2022 concerning rental properties is as follows:

Use	Thousands of yen							
	October 1, 2021 to March 31, 2022				April 1, 2022 to September 30, 2022			
	Rental Revenues (1)	Property-related Expenses (1)	Net Income	Gain on Sale of Investment Property (2)	Rental Revenues (1)	Property-related Expenses (1)	Net Income	Gain on Sale of Investment Property (2)
Office buildings	4,551,268	2,372,315	2,178,953	1,452,077	4,671,481	2,432,069	2,239,412	-
Retail facilities	1,797,177	322,948	1,474,229	-	1,492,640	305,184	1,187,456	-
Others	727,869	329,741	398,127	-	738,218	320,643	417,574	-
Total	7,076,315	3,025,005	4,051,310	1,452,077	6,902,340	3,057,896	3,844,443	-

(1)“Rental revenues” and “Property-related expenses”, which are rental revenues and related expenses (depreciation, repairs and maintenance, casualty insurance, property and other taxes etc.), are presented in the statements of income and retained earnings as “Operating revenue” and “Operating expenses”.

(2)“Gain on sale of investment property” is presented in the statements of income and retained earnings under “Operating revenue”.

17. SEGMENT AND RELATED INFORMATION

Segment Information

Since the business of MTR consists of only the “real estate leasing business”, there are no reporting segments. Therefore, segment disclosures have been omitted.

(For the six months ended March 31, 2022)

Related Information

(1)Information about products and services



Since the proportion of operating revenues from external customers for each product and service exceeds 90% of operating revenues, product and service disclosures have been omitted.

(2) Information about geographical areas

① Operating revenues

Since the proportion of operating revenues from external customers in Japan exceeds 90% of operating revenues, geographic area disclosures have been omitted.

② Property and equipment

Since the proportion of property and equipment located in Japan exceeds 90% of property and equipment located in all countries, property and equipment disclosures have been omitted.

(3) Information about major customers

Thousands of yen		
Name of major customers	Operating Revenues	Related Segment
Mori Trust Co., Ltd.	3,204,199	Leasing Business

(For the six months ended September 30, 2022)

Related Information

(1) Information about products and services

Since the proportion of operating revenues from external customers for each product and service exceeds 90% of operating revenues, product and service disclosures have been omitted.

(2) Information about geographical areas

① Operating revenues

Since the proportion of operating revenues from external customers in Japan exceeds 90% of operating revenues, geographic area disclosures have been omitted.

② Property and equipment

Since the proportion of property and equipment located in Japan exceeds 90% of property and equipment located in all countries, property and equipment disclosures have been omitted.

(3) Information about major customers

Thousands of yen		
Name of major customers	Operating Revenues	Related Segment
Mori Trust Co., Ltd.	1,811,460	Leasing Business

18. SUBSEQUENT EVENTS

MTR and MORI TRUST Hotel Reit, Inc. (“MTH”), at each investment corporation’s Board of Directors meeting held on November 22, 2022, resolved to undertake an absorption-type merger, with March 1, 2023 as the effective date, whereby MTR will be the surviving corporation and MTH will be the dissolving corporation in the merger (the “Merger”), and also executed a merger agreement (the “Merger Agreement”) to that effect as set forth below.

I. Purpose of the Merger

Each of these investment corporations has performed aiming for the medium- to long-term stabilized revenue and growth by leveraging its characteristics respectively, that is, stability of office assets for MTR and growth potential of hotel assets for MTH. However, MTR has challenges in the future growth potential in terms of office assets, which are its main investment targets, due to decreasing opportunities for newly obtaining large-scale prime properties and declining profitability caused by moving out of tenants triggered by COVID-19, while MTH has faced an issue of how to secure stable revenue concerning its investment target, hotel assets, because a risk of revenue fluctuation has become apparent during the COVID-19 pandemic. Accordingly, MTR and MTH have come to recognize an issue that they have limited opportunities for independent growth respectively. In order for MTR and MTH to mutually solve these issues and contribute to the continuous improvement of the unitholder value by creating a comprehensive REIT with offices and hotels as its core assets, which is truly equipped with asset potential, stability and growth potential, MTR and MTH agreed to start negotiation for merger and carefully proceeded with the deliberation. As a result, MTR and MTH have judged that building



a portfolio equipped with stability of office assets and growth potential of hotel assets through the Merger and returning to a growth path by leveraging the sponsor support will lead to further improvement of the unitholder value; therefore, and also executed the Merger Agreement on November 22, 2022.

II. Effective Date of Merger

March 1 ,2023

III. Form of the Merger

MTR will be the surviving corporation under an absorption-type merger and MTH will be dissolved in the Merger.

IV. Allocation of Investment Units under the Merger

	MTR (Surviving corporation in the absorption-type merger)	MTH (Dissolving corporation in the absorption-type merger)
Allocation of investment units under the Merger	1	1.84
		(Reference) Before the Investment Unit Split 0.92

(Note) The number of new MTR investment units to be issued as a result of the Merger (the number of units after the Investment Unit Split of MTR): 920,000

V. Unit Split

MTR plans to split 1 investment unit into 2 investment units with February 28, 2023 as the record date for splitting the investment units and March 1, 2023 as the effective date of the split; the allocation ratio shown above and the number of new investment units MTR will allocate and deliver are subject to the Investment Unit Split taking effect. If 0.92 MTR investment units are allocated and delivered against 1 MTH investment unit on the basis of the merger ratio before the Investment Unit Split, there will be many MTH unitholders being allocated fractions of less than one MTR investment unit. To make it possible for MTH unitholders to continue holding MTR investment units after the Merger, a split of MTR investment units will be carried out before the allocation towards MTH unitholders, in the ratio of two MTR investment units to one MTR investment unit for the purpose of delivering to all MTH unitholders at least one MTR investment unit, and for every one MTH investment unit, 1.84 MTR investment unit post- Investment Unit Split will be allocated and delivered.

(i) Increase in number of MTR units due to unit split

- (a) Total number of investment units issued and outstanding before unit split:1,320,000
- (b) Increase in number of investment units due to unit split:1,320,000
- (c) Total number of investment units issued and outstanding after unit split:2,640,000
- (d) Total number of investment units authorized after unit split:20,000,000
- (ii) Effect on the Fund's per unit information

Per unit information for the current fiscal period, assuming that the unit split had been executed at the beginning of the current fiscal period, would be as follows.

- (a) Net assets per unit:¥60,254
- (b) Net income per unit:¥1,261

VI. Merger grant

In addition to the abovementioned investment units, MTR intends to pay MTH unitholders (the unitholders stated or recorded in the final unitholders' register on the day before the effective date of the Merger (excluding MTR, MTH and those MTH unitholders who have demanded the purchase of their investment units pursuant to Article 149-3 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; the "Investment Trusts Act") (excluding those who have withdrawn such demand for purchase) (hereinafter referred to as the "Unitholders

Subject to Allocation”), in lieu of cash distributions for the last business period of MTH which ends the day before the effective date of the Merger, the money delivered due to the Merger in the form of cash distribution based on MTH’s distributable income for that same period of an amount (disregarding fractions of a yen) which is the quotient resulting from a division of the amount of MTH’s distributable income on the date before the effective date of the Merger by the number of issued MTH investment units on that date as reduced by the number of investment units held by unitholders other than the Unitholders Subject to Allocation. The money delivered due to the Merger will be paid within a reasonable period from the effective date of the Merger.

VII. Corporation dissolved in absorption-type merger (MTH) for the immediately preceding fiscal period (ending August 2022)

Business Activities: To manage assets mainly as investments in specified assets as defined in the Investment Trust Law.

Operating revenue: ¥2,053,000,000

Profit: ¥1,144,000,000

Total assets: ¥110,357,000,000

Total liabilities: ¥59,212,000,000

Total net assets: ¥51,144,000,000

(Additional Information)

Transfer of property

MTR has transferred the following asset as of July 29, 2022.

Shinbashi ekimae MTR Building

(i) Outline of the transfer

Property to be transferred:	Real estate trust’s beneficiary interest
Transfer price:	¥21,800,000,000 (1st: ¥7,266,666,667, 2nd: ¥7,266,666,667, 3rd: ¥7,266,666,666) (Excluding transfer cost, property taxes, city planning taxes and consumption taxes)
Gain on transfer:	MTR expects to record gains on sales of real estate of approximately ¥1,300,000,000 in the fiscal period ending February 2023 and August 2023, respectively, and approximately ¥1,400,000,000 in the fiscal period ending February 2024.
Date of transfer:	1st : February 28, 2023, 2nd : August 31, 2023, 3rd : February 29, 2024
Buyer:	MORI TRUST CO., LTD.
Remarks	The property will be transferred in three installments: the first installment will be transferred after establishing a trust for one-third of the co-ownership interest as of February 28, 2023, the second installment will be transferred after placing an additional trust for one-third of the co-ownership interest as of August 31, 2023, and the third installment will be transferred after placing an additional trust for one-third of the co-ownership interest as of February 29, 2024.
Other	This transfer constitutes a forward commitment, etc. as defined in the “Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc.” established by the Financial Services Agency. The Transfer may be terminated only in the case of willful misconduct or gross negligence on the part of the other party, on the grounds of a material breach by the other party of its obligations under the purchase agreement relating to the Transfer. If the Transfer is terminated due to a breach of obligation, the party causing the termination shall pay to the other party an amount equivalent to 20% of the relevant purchase price as a penalty.

Acquisition of property

MTR completed the acquisition of the following asset on July 29, 2022.

Sendai MT Building

(i) Outline of the acquisition

Property to be acquired:

Real estate trust's beneficiary interest

Land ownership and land lease rights (co-owned interest 90,845 of 1,000,000)
Sectionally owned building

¥15,800,000,000

Acquisition price:

(1st: ¥5,266,666,667 , 2nd: ¥5,266,666,667 , 3rd: ¥5,266,666,666)

(Excluding acquisition cost, property taxes, city planning taxes and consumption taxes)

Date of acquisition:

1st : February 28, 2023, 2nd : August 31, 2023, 3rd : February 29, 2024

Seller:

MORI TRUST CO., LTD.

Remarks

The acquisition is planned to be made in three installments, with the first installment being made on February 28, 2023 with 90,845/300,000 of co-ownership interests held in trust, the second installment being made on August 31, 2023 with an additional 90,845/300,000 of co-ownership interests held in trust and the third installment being made on February 29, 2024 with an additional 90,845/300,000 of co-ownership interests held in trust, respectively.

Other

The Acquisition constitutes a forward commitment, etc. as defined in the "Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc." established by the Financial Services Agency. The Acquisition may be terminated only in the case of willful misconduct or gross negligence on the part of the other party, on the grounds of a material breach by the other party of its obligations under the purchase agreement for the Acquisition. If the Acquisition is cancelled due to a breach of obligation, the party causing the cancellation shall pay to the other party an amount equivalent to 20% of the relevant purchase price as a penalty.