

Independent Auditor's Report

The Board of Directors
MORI TRUST Sogo Reit, Inc.

We have audited the accompanying financial statements of MORI TRUST Sogo Reit, Inc., which comprise the balance sheet as at March 31, 2019, 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 a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the financial position of MORI TRUST Sogo Reit, Inc. as at March 31, 2019, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

June 21, 2019



FINANCIAL STATEMENTS

BALANCE SHEETS

Thousands of yen

	As of September 30, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	15,874,564	16,508,717
Cash and deposits in trust	2,871,670	2,899,320
Operating accounts receivable	59,097	50,893
Accounts receivable - other	—	1,336
Prepaid expenses	39,147	31,434
Other	—	1,278
Total current assets	18,844,479	19,492,980
Non-current assets		
Property, plant and equipment		
Buildings	39,833,042	39,977,988
Accumulated depreciation	(15,984,523)	(16,730,811)
Buildings, net	23,848,519	23,247,176
Structures	563,960	566,654
Accumulated depreciation	(529,670)	(530,079)
Structures, net	34,289	36,574
Machinery and equipment	152,086	152,086
Accumulated depreciation	(109,155)	(111,325)
Machinery and equipment, net	42,930	40,760
Tools, furniture and fixtures	97,529	100,065
Accumulated depreciation	(66,003)	(68,799)
Tools, furniture and fixtures, net	31,525	31,266
Land	136,672,529	136,672,529
Buildings in trust	27,146,372	27,397,648
Accumulated depreciation	(8,915,528)	(9,426,482)
Buildings in trust, net	18,230,844	17,971,166
Structures in trust	125,153	125,153
Accumulated depreciation	(98,120)	(99,724)
Structures in trust, net	27,032	25,428
Machinery and equipment in trust	6,898	7,693
Accumulated depreciation	(2,319)	(2,533)
Machinery and equipment in trust, net	4,579	5,160
Tools, furniture and fixtures in trust	65,142	71,618
Accumulated depreciation	(37,309)	(41,187)
Tools, furniture and fixtures in trust, net	27,832	30,431
Land in trust	130,939,930	130,939,930
Total property, plant and equipment	309,860,013	309,000,426
Intangible assets		
Software	38	19
Other	240	240
Total intangible assets	278	259

Thousands of yen

	As of September 30, 2018	As of March 31, 2019
Investments and other assets		
Guarantee deposits	10,000	10,000
Long-term prepaid expenses	13,219	5,229
Other	3,602	3,602
Total investments and other assets	26,821	18,831
Total non-current assets	309,887,113	309,019,516
Deferred assets		
Investment corporation bond issuance costs	39,245	45,053
Total deferred assets	39,245	45,053
Total assets	328,770,839	328,557,549
Liabilities		
Current liabilities		
Operating accounts payable	567,456	245,710
Short-term loans payable	5,000,000	5,000,000
Current portion of investment corporation bonds	3,000,000	4,000,024
Current portion of long-term loans payable	13,500,000	33,000,000
Accounts payable – other	153,933	225,529
Accrued expenses	505,657	486,841
Dividends payable	9,998	8,675
Income taxes payable	682	1,053
Accrued consumption taxes	281,978	154,912
Advances received	1,440,423	1,459,190
Deposits received	14,843	1,016
Total current liabilities	24,474,974	44,582,954
Non-current liabilities		
Investment corporation bonds	9,000,037	8,000,000
Long-term loans payable	124,500,000	105,000,000
Tenant leasehold and security deposits	9,545,984	9,682,602
Tenant leasehold and security deposits in trust	874,186	894,870
Deferred tax liabilities	495,206	495,189
Total non-current liabilities	144,415,414	124,072,661
Total liabilities	168,890,389	168,655,616
Net assets		
Unitholders' equity		
Unitholders' capital	153,990,040	153,990,040
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	1,083,568	1,072,409
Total voluntary retained earnings	1,083,568	1,072,409
Unappropriated retained earnings	4,806,841	4,839,482
Total surplus	5,890,409	5,911,892
Total unitholders' equity	159,880,449	159,901,932
Total net assets	159,880,449	159,901,932
Total liabilities and net assets	328,770,839	328,557,549

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



STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month period ended September 30, 2018 and March 31, 2019

	Thousands of yen	
	For the period from April 1, 2018 to September 30, 2018	For the period from October 1, 2018 to March 31, 2019
Operating revenue		
Lease business revenue	8,428,133	8,475,783
Other lease business revenue	391,641	296,072
Total operating revenue	8,819,775	8,771,855
Operating expenses		
Expenses related to rent business	3,091,850	3,028,330
Asset management fee	334,082	338,276
Asset custody fee	16,408	13,092
Administrative service fees	53,288	50,460
Directors' compensations	6,000	6,000
Other operating expenses	54,538	41,878
Total operating expenses	3,556,168	3,478,037
Operating income	5,263,606	5,293,818
Non-operating income		
Interest income	209	88
Reversal of dividends payable	759	653
Interest on tax refund	219	—
Insurance income	1,989	6,341
Total non-operating income	3,178	7,083
Non-operating expenses		
Interest expenses	444,015	439,069
Interest expenses on investment corporation bonds	12,629	12,326
Amortization of investment corporation bond issuance costs	7,727	8,972
Total non-operating expenses	464,373	460,369
Ordinary income	4,802,411	4,840,532
Profit before income taxes	4,802,411	4,840,532
Income taxes - current	714	1,066
Income taxes - deferred	(5,144)	(17)
Total income taxes	(4,430)	1,049
Profit	4,806,841	4,839,482
Unappropriated retained earnings	4,806,841	4,839,482

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

STATEMENTS OF CHANGES IN NET ASSETS

For the six-month period from April 1, 2018 to September 30, 2018

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	1,115,915	1,115,915	4,785,653	5,901,568	159,891,608	159,891,608
Changes of items during period							
Reversal of reserve for reduction entry		(32,346)	(32,346)	32,346	—	—	—
Dividends of surplus				(4,818,000)	(4,818,000)	(4,818,000)	(4,818,000)
Profit				4,806,841	4,806,841	4,806,841	4,806,841
Total changes of items during period	—	(32,346)	(32,346)	21,188	(11,158)	(11,158)	(11,158)
Balance at end of current period	153,990,040	1,083,568	1,083,568	4,806,841	5,890,409	159,880,449	159,880,449

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

For the six-month period from October 1, 2018 to March 31, 2019

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	1,083,568	1,083,568	4,806,841	5,890,409	159,880,449	159,880,449
Changes of items during period							
Reversal of reserve for reduction entry		(11,158)	(11,158)	11,158	—	—	—
Dividends of surplus				(4,818,000)	(4,818,000)	(4,818,000)	(4,818,000)
Profit				4,839,482	4,839,482	4,839,482	4,839,482
Total changes of items during period	—	(11,158)	(11,158)	32,641	21,482	21,482	21,482
Balance at end of current period	153,990,040	1,072,409	1,072,409	4,839,482	5,911,892	159,901,932	159,901,932

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



STATEMENTS OF CASH DISTRIBUTIONS

For the six-month period ended September 30, 2018 and March 31, 2019

Unit: yen

	The Fiscal Period ended September 30, 2018 (April 1, 2018 to September 30, 2018)	The Fiscal Period ended March 31, 2019 (October 1, 2018 to March 31, 2019)
I. Unappropriated retained earnings	4,806,841,700	4,839,482,960
II. Reversal of voluntary retained earnings		
Reversal of reserve for reduction entry	11,158,300	—
III. Distribution amount	4,818,000,000	4,839,120,000
(Distribution amount per unit)	(3,650)	(3,666)
IV. Retained earnings carried forward	0	362,960
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 sum of unappropriated retained earnings and the reversal of reserve for reduction entry under Article 66-2 of the Act on Special Measures Concerning Taxation, the amount of which is 4,818,000,000 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>	<p>In accordance with Paragraph 1, Article 29 of the Investment Corporation's Articles of Incorporation, MTR decided to distribute 4,839,120,000 yen, which is the maximum value of the integral multiple of the total number of units issued and outstanding (1,320,000 units), not exceeding unappropriated retained earnings.</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 ended September 30, 2018 and March 31, 2019

	Thousands of yen	
	For the period from April 1, 2018 to September 30, 2018	For the period from October 1, 2018 to March 31, 2019
Cash flows from operating activities		
Profit before income taxes	4,802,411	4,840,532
Depreciation	1,262,337	1,268,330
Amortization of investment corporation bond issuance costs	7,727	8,972
Interest income	(209)	(88)
Interest expenses	456,645	451,396
Decrease (Increase) in operating accounts receivable	(1,316)	8,204
Increase (Decrease) in operating accounts payable	305,837	(331,441)
Decrease (Increase) in consumption tax refund receivable	9,474	—
Increase (Decrease) in accrued consumption taxes	281,978	(127,065)
Increase (Decrease) in advances received	(16,302)	18,766
Other, net	663	(18,625)
Subtotal	7,109,246	6,118,981
Interest income received	209	88
Interest expenses paid	(462,535)	(452,383)
Income taxes paid	(850)	(695)
Net cash provided by operating activities	6,646,069	5,665,991
Cash flows from investing activities		
Purchase of property, plant and equipment	(119,593)	(66,055)
Purchase of property, plant and equipment in trust	(108,533)	(271,026)
Repayments of tenant leasehold and security deposits	(412,708)	(210,224)
Proceeds from tenant leasehold and security deposits	409,145	356,536
Repayments of tenant leasehold and security deposits in trust	(8,139)	(150)
Proceeds from tenant leasehold and security deposits in trust	113,811	20,833
Net cash used in investing activities	(126,017)	(170,085)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,500,000)	—
Proceeds from long-term loans payable	15,000,000	1,000,000
Repayments of long-term loans payable	(14,500,000)	(1,000,000)
Proceeds from issuance of investment corporation bonds	3,000,000	3,000,000
Redemption of investment corporation bonds	—	(3,000,000)
Payments for investment corporation bond issuance costs	(15,290)	(14,780)
Dividends paid	(4,818,591)	(4,819,323)
Net cash used in financing activities	(4,833,882)	(4,834,103)
Net increase (decrease) in cash and cash equivalents	1,686,169	661,802
Cash and cash equivalents at beginning of period	17,060,065	18,746,235
Cash and cash equivalents at end of period	18,746,235	19,408,037

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



NOTES TO FINANCIAL STATEMENTS

For the six-month period from October 1, 2018 to March 31, 2019

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., 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 March 31, 2019, MTR owned a portfolio of 15 properties with a total rentable area of 433,862.99 sq. meters occupied by 97 tenants. The occupancy rate was 99.9%.

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 - 47 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.

Revenue recognition

Revenues from leasing of investment properties are recognized as rent accrued over the lease period.

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.

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.

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.

Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of income and retained earnings. The consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld is included in current assets and the excess of amounts withheld over payments is included in current liabilities.

Accounting standards issued but not yet effective

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Statement No.29, issued March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Guidance No.30, issued March 30, 2018)

1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

2) Scheduled date of adoption

MTR expects to adopt the accounting standard and implementation guidance for the period ending September 30, 2021.

3) Impact of the adoption of implementation guidance

MTR is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2018 and March 31, 2019 consisted of the following:

	Thousands of yen			
	As of September 30, 2018		As of March 31, 2019	
	Acquisition Cost	Book Value	Acquisition Cost	Book Value
Land	136,672,529	136,672,529	136,672,529	136,672,529
Buildings and structures	40,397,002		40,544,642	
Accumulated depreciation	(16,514,193)	23,882,808	(17,260,891)	23,283,751
Machinery and equipment	152,086		152,086	
Accumulated depreciation	(109,155)	42,930	(111,325)	40,760
Tools, furniture and fixtures	97,529		100,065	
Accumulated depreciation	(66,003)	31,525	(68,799)	31,266
Land in trust	130,930,930	130,930,930	130,939,930	130,939,930
Buildings and structures in trust	27,271,525		27,522,802	
Accumulated depreciation	(9,013,648)	18,257,876	(9,526,206)	17,996,595
Machinery and equipment in trust	6,898		7,693	
Accumulated depreciation	(2,319)	4,579	(2,533)	5,160
Tools, furniture and fixtures in trust	65,142		71,618	
Accumulated depreciation	(37,309)	27,832	(41,187)	30,431
Total		309,860,013		309,000,426

The compressed amount of tangible assets with government grants under the Corporation Tax Law of Japan was ¥38,340 thousand at September 30, 2018 and ¥38,340 thousand at March 31, 2019.

4. SHORT-TERM LOANS PAYABLE

Short-term loans payable at September 30, 2018 and March 31, 2019 consisted of the following:

Lender	Thousands of yen		Average interest rate (%) (1)	Due on	Use of funds	Note
	As of September 30, 2018	As of March 31, 2019				
Resona Bank, Limited.	500,000	—	—	—	—	—
Mizuho Bank, Ltd.	2,000,000	2,000,000	0.18	April 12, 2019		
The Nishi-Nippon City Bank, Ltd.	1,500,000	1,500,000	0.19	August 30, 2019	(2)	(3)
Resona Bank, Limited.	1,000,000	1,000,000	0.19	August 30, 2019		
Resona Bank, Limited.	—	500,000	0.19	October 18, 2019		
Total short-term loans	5,000,000	5,000,000	—	—	—	—

(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 March 31, 2019.

5. LONG-TERM LOANS PAYABLE

Long-term loans payable at September 30, 2018 and March 31, 2019 consisted of the following:

Lender	Thousands of yen		Average interest rate (%) (1)	Due on	Use of funds	Note
	As of September 30, 2018	As of March 31, 2019				
Sumitomo Mitsui Banking Corporation	1,000,000	—	—	—	—	—
Development Bank of Japan Inc.	2,000,000	2,000,000	0.75	April 11, 2019		
Mizuho Bank, Ltd.	1,000,000	1,000,000	0.75	April 11, 2019		
Sumitomo Mitsui Banking Corporation	3,000,000	3,000,000	0.96	April 24, 2019		
MUFG Bank, Ltd.	2,000,000	2,000,000	1.04	August 30, 2018		
Mizuho Bank, Ltd.	1,500,000	1,500,000	0.53	August 30, 2019		
Mizuho Bank, Ltd.	1,500,000	1,500,000	0.69	August 30, 2019		
Development Bank of Japan Inc.	1,000,000	1,000,000	1.12	August 30, 2019		
Tokio Marine & Nichido Fire Insurance Co., Ltd.	500,000	500,000	0.17	August 30, 2019		
Sumitomo Mitsui Banking Corporation	5,000,000	5,000,000	1.04	October 11, 2019		
Sumitomo Mitsui Banking Corporation	2,000,000	2,000,000	0.97	October 11, 2019		
Mizuho Bank, Ltd.	1,500,000	1,500,000	0.64	October 17, 2019		
Mizuho Bank, Ltd.	1,000,000	1,000,000	0.62	December 26, 2019		
The Bank of Fukuoka, Ltd.	500,000	500,000	0.62	December 26, 2019		
Resona Bank, Limited.	500,000	500,000	0.62	December 26, 2019		
Nippon Life Insurance Company	500,000	500,000	0.62	December 26, 2019		
The Nishi-Nippon City Bank, Ltd.	500,000	500,000	0.57	December 26, 2019		
The Bank of Fukuoka, Ltd.	500,000	500,000	0.33	January 31, 2020		
The Bank of Fukuoka, Ltd.	500,000	500,000	0.62	January 31, 2020		
MUFG Bank, Ltd.	3,000,000	3,000,000	0.20	February 28, 2020		
Sumitomo Mitsui Trust Bank, Ltd.	3,000,000	3,000,000	0.63	February 28, 2020	(2)	(3)
The Hachijuni Bank, Ltd.	1,000,000	1,000,000	0.34	February 28, 2020		
Development Bank of Japan Inc.	1,000,000	1,000,000	0.88	March 12, 2020		
Sumitomo Mitsui Trust Bank, Ltd.	4,000,000	4,000,000	0.65	April 13, 2020		
MUFG Bank, Ltd.	4,000,000	4,000,000	1.07	April 24, 2020		
MUFG Bank, Ltd.	3,000,000	3,000,000	1.18	August 31, 2020		
Nippon Life Insurance Company	500,000	500,000	0.63	August 31, 2020		
Nippon Life Insurance Company	1,000,000	1,000,000	0.55	September 30, 2020		
Sumitomo Mitsui Banking Corporation	3,000,000	3,000,000	1.09	October 9, 2020		
MUFG Bank, Ltd.	1,000,000	1,000,000	0.34	December 25, 2020		
Mizuho Bank, Ltd.	1,000,000	1,000,000	0.32	January 19, 2021		
Development Bank of Japan Inc.	500,000	500,000	0.32	January 19, 2021		
Sumitomo Mitsui Trust Bank, Ltd.	1,500,000	1,500,000	0.27	February 26, 2021		
Mizuho Bank, Ltd.	1,000,000	1,000,000	0.27	February 26, 2021		
Development Bank of Japan Inc.	1,000,000	1,000,000	1.02	March 12, 2021		
MUFG Bank, Ltd.	1,500,000	1,500,000	0.30	March 31, 2021		
Sumitomo Mitsui Banking Corporation	5,000,000	5,000,000	1.02	April 9, 2021		
MUFG Bank, Ltd.	2,500,000	2,500,000	0.34	April 13, 2021		
Resona Bank, Limited.	1,000,000	1,000,000	0.28	April 22, 2021		
Resona Bank, Limited.	500,000	500,000	0.28	May 31, 2021		
Mizuho Bank, Ltd.	500,000	500,000	0.35	August 30, 2021		

Mizuho Bank, Ltd.	1,500,000	1,500,000	0.37	August 31, 2021
Mizuho Bank, Ltd.	1,000,000	1,000,000	0.34	August 31, 2021
MUFG Bank, Ltd.	1,500,000	1,500,000	0.89	October 1, 2021
Sumitomo Mitsui Banking Corporation	1,000,000	1,000,000	0.83	December 24, 2021
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	1,000,000	0.41	December 24, 2021
Aozora Bank, Ltd.	500,000	500,000	0.83	December 24, 2021
Sumitomo Mitsui Banking Corporation	2,500,000	2,500,000	0.38	January 19, 2022
Mizuho Bank, Ltd.	500,000	500,000	0.38	January 19, 2022
The Bank of Fukuoka, Ltd.	2,000,000	2,000,000	0.47	January 31, 2022
Development Bank of Japan Inc.	3,000,000	3,000,000	0.84	February 28, 2022
Sumitomo Mitsui Banking Corporation	1,500,000	1,500,000	0.42	February 28, 2022
MUFG Bank, Ltd.	500,000	500,000	0.42	February 28, 2022
The Dai-ichi Life Insurance Company, Limited	500,000	500,000	0.45	February 28, 2022
Mizuho Bank, Ltd.	4,000,000	4,000,000	0.47	April 11, 2022
Aozora Bank, Ltd.	1,000,000	1,000,000	0.47	April 11, 2022
MUFG Bank, Ltd.	2,000,000	2,000,000	0.41	April 13, 2022
The Ashikaga Bank, Ltd.	1,000,000	1,000,000	0.44	April 22, 2022
Sumitomo Mitsui Banking Corporation	2,000,000	2,000,000	0.80	April 28, 2022
Sumitomo Mitsui Trust Bank, Ltd.	500,000	500,000	0.43	August 30, 2022
Sumitomo Mitsui Trust Bank, Ltd.	3,500,000	3,500,000	0.44	August 31, 2022
Sumitomo Mitsui Trust Bank, Ltd.	2,000,000	2,000,000	0.40	August 31, 2022
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	1,000,000	0.47	September 30, 2022
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
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
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
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
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
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
MUFG Bank, Ltd.	3,000,000	3,000,000	0.68	August 29, 2025
Sumitomo Mitsui Banking Corporation	—	1,000,000	0.52	February 27, 2026
Aozora Bank, Ltd.	500,000	500,000	0.72	April 24, 2026
Total long-term loans	138,000,000	138,000,000	—	—

- (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:

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Amount of loans (Thousands of yen)	23,000,000	26,500,000	25,500,000	16,000,000

6. INVESTMENT CORPORATION BONDS

Investment corporation bonds at September 30, 2018 and March 31, 2019 consisted of the following:

	Thousands of yen		Average interest rate (%)	Due on	Use of funds	Note
	As of September 30, 2018	As of March 31, 2019				
Unsecured bonds due on February 25, 2019	3,000,000	—	—	—	—	—
Unsecured bonds due on February 21, 2020	4,000,037	4,000,024	0.00*	February 21, 2020		
Unsecured bonds due on February 26, 2021	3,000,000	3,000,000	0.01	February 26, 2021		
Unsecured bonds due on February 22, 2022	—	3,000,000	0.07	February 22, 2022	(1)	(2)
Unsecured bonds due on February 26, 2027	1,000,000	1,000,000	1.07	February 26, 2027		
Unsecured bonds due on February 23, 2037	1,000,000	1,000,000	1.08	February 23, 2037		
Total	12,000,037	12,000,024	—	—	—	—

* The interest rate for the unsecured bonds due on February 21, 2020 is 0.001%. In addition, the bond was issued over par (at a price exceeding the par value), and thus the yield to maturity is about 0.0003% annually.

(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	3,000,000	—	—

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 September 30, 2018 and March 31, 2019, 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 September 30, 2018 and March 31, 2019 were as follows:

	As of September 30, 2018	As of March 31, 2019
	Thousands of yen	
Deferred tax assets:		
Accrued enterprise tax	5	22
Total deferred tax assets	5	22
Deferred tax liabilities:		
Reserve for advanced depreciation of non-current assets	495,211	495,211
Total deferred tax liabilities	495,211	495,211
Net deferred tax assets (liabilities)	(495,206)	(495,189)

A reconciliation of the tax rate differences between the adjusted statutory tax rate and the effective tax rates for the six months ended September 30, 2018 and March 31, 2019 was as follows:

	April 1, 2018 to September 30, 2018	October 1, 2018 to March 31, 2019
Statutory tax rate	31.51%	31.51%
Deductible dividend distribution	(31.61%)	(31.50%)
Others	0.01%	0.01%
Effective tax rates	(0.09%)	0.02%

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 ¥4,839,120 thousand at March 31, 2019 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 September 30, 2018 and March 31, 2019 and for the six-month period then ended:

	Yen	
	April 1, 2018 to September 30, 2018	October 1, 2018 to March 31, 2019
Net assets per share at period end	121,121	121,137
Net income per share	3,641	3,666
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 September 30, 2018)

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	Rental revenues
Transaction amount	¥3,116,779 thousand
Account name and balance at period end	Rental and other receivables ¥999 thousand
	Rents received in advance ¥489,125 thousand
	Leasehold and security deposits including trust accounts ¥926,928 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 March 31, 2019)

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	Rental revenues
Transaction amount	¥ 3,129,499 thousand
Account name and balance at period end	Rental and other receivables ¥3,398 thousand
	Rents received in advance ¥489,125 thousand
	Leasehold and security deposits including trust accounts ¥705,613 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 September 30, 2018 and March 31, 2019 is summarized as follows:

(1) Rental revenues and property-related expenses

	Thousands of yen	
	April 1, 2018 to September 30, 2018	October 1, 2018 to March 31, 2019
Property-Related Revenues:	8,428,133	8,475,783
Property rental revenues	8,048,072	8,107,574
Common charges	256,451	244,600
Land rental revenues	123,609	123,609
Other rental revenues	391,641	296,072
Parking revenues	83,085	88,592
Utilities revenues	198,078	174,080
Penalty revenues	77,134	2,215
Other revenues	33,343	31,183
Property-Related Expenses:	3,091,850	3,028,330
Property management fees	459,139	419,442
Utilities expenses	256,830	224,455
Property and other taxes	898,027	896,120
Casualty insurance	19,156	19,132
Repairs and maintenance	166,918	174,517
Depreciation	1,262,337	1,268,330
Other rental expenses	29,441	26,331
Profit	5,727,924	5,743,525

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 September 30, 2018 and estimated fair value are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Thousands of yen		
	Carrying Value	Estimated Fair Value (1)	Difference
Assets			
1) Cash and deposits	15,874,564	15,874,564	-
2) Cash and deposits in trust	2,871,670	2,871,670	-
Total Assets	18,746,235	18,746,235	-
Liabilities			
1) Short-term loans payable	5,000,000	5,000,000	-
2) Current portion of investment corporation bonds	3,000,000	2,996,924	(3,075)
3) Current portion of long-term loans payable	13,500,000	13,552,567	52,567
4) Investment corporation bonds	9,000,037	9,054,670	54,632
5) Long-term loans payable	124,500,000	124,973,166	473,166
6) Tenant leasehold and security deposits	2,790,229	2,751,897	(38,332)
7) Tenant leasehold and security deposits in trust	247,752	233,502	(14,249)
Total Liabilities	158,038,019	158,562,727	524,708



The carrying value of financial instruments on the balance sheet as of March 31, 2019 and estimated fair value are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

Thousands of yen

	Carrying Value	Estimated Fair Value (1)	Difference
Assets			
1) Cash and deposits	16,508,717	16,508,717	-
2) Cash and deposits in trust	2,899,320	2,899,320	-
Total Assets	19,408,037	19,408,037	-
Liabilities			
1) Short-term loans payable	5,000,000	5,000,000	-
2) Current portion of investment corporation bonds	4,000,024	3,994,220	(5,803)
3) Current portion of long-term loans payable	33,000,000	33,083,826	83,826
4) Investment corporation bonds	8,000,000	8,148,682	148,682
5) Long-term loans payable	105,000,000	106,068,567	1,068,567
6) Tenant leasehold and security deposits	4,210,459	4,172,680	(37,779)
7) Tenant leasehold and security deposits in trust	247,752	240,507	(7,244)
Total Liabilities	159,458,235	160,708,485	1,250,250

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

Cash and deposits and Cash and deposits in trust

Since these items are settled in a short period of time, their carrying value approximates fair value.

Short-term loans payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Current portion of 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.

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.

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. Certain tenant leasehold and security deposits including trust accounts are not included the above table because it is difficult to predict their restoration time.

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

Thousands of yen

	As of September 30, 2018	As of March 31, 2019
Tenant leasehold and security deposits	6,755,754	5,472,142
Tenant leasehold and security deposits in trust	626,434	647,118

(2) The redemption schedule for monetary claims

(As of September 30, 2018)

	Thousands of yen	
	Cash and deposits	Cash and deposits in trust
1 year or less	15,874,564	2,871,670
1 to 2 years	-	-
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	-
Over 5 years	-	-

(As of March 31, 2019)

	Thousands of yen	
	Cash and deposits	Cash and deposits in trust
1 year or less	16,508,717	2,899,320
1 to 2 years	-	-
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	-
Over 5 years	-	-

(3) The redemption schedule for loans

(As of September 30, 2018)

	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
Short-term loans payable	5,000,000	-	-	-	-	-
Current portion of investment corporation bonds	3,000,000	-	-	-	-	-
Current portion of long-term loans payable	13,500,000	-	-	-	-	-
Investment corporation bonds	-	4,000,000	3,000,000	-	-	2,000,000
Long-term loans payable	-	33,000,000	22,500,000	31,500,000	18,000,000	19,500,000

(As of March 31, 2019)

	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
Short-term loans payable	5,000,000	-	-	-	-	-
Current portion of investment corporation bonds	4,000,000	-	-	-	-	-
Current portion of long-term loans payable	33,000,000	-	-	-	-	-
Investment corporation bonds	-	3,000,000	3,000,000	-	-	2,000,000
Long-term loans payable	-	23,000,000	26,500,000	25,500,000	16,000,000	14,000,000

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2018 and March 31, 2019 were as follows:

	Thousands of yen	
	As of September 30, 2018	As of March 31, 2019
Cash and deposits	15,874,564	16,508,717
Cash and deposits in trust	2,871,670	2,899,320
Cash and cash equivalents	18,746,235	19,408,037

14. LEASES

MTR leases properties and earns rental revenues. Future lease revenues subsequent to September 30, 2018 and March 31, 2019 under non-cancelable operating leases were as follows:

	Thousands of yen	
	As of September 30, 2018	As of March 31, 2019
Due within one year	9,179,726	10,804,887
Due after one year	19,991,243	20,793,461
Total	29,170,970	31,598,349

15. 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, 2018	Net Changes (2)	As of March 31, 2018	As of September 30, 2018	As of March 31, 2019	Net Changes (2)	As of September 30, 2018	As of March 31, 2019
Office buildings	221,086,401	(776,565)	221,862,967	246,350,000	220,434,232	(652,169)	221,086,401	248,970,000
Retail facilities	69,421,010	(86,212)	69,507,222	84,650,000	69,333,266	(87,743)	69,421,010	84,750,000
Others	19,352,601	(131,725)	19,484,327	20,330,000	19,232,927	(119,674)	19,352,601	20,440,000
Total	309,860,013	(994,503)	310,854,517	351,330,000	309,000,426	(859,587)	309,860,013	354,160,000

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

(2)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 September 30, 2018 and March 31, 2019 concerning rental properties is as follows:

Use	Thousands of yen							
	April 1, 2018 to September 30, 2018				October 1, 2018 to March 31, 2019			
	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	6,099,574	2,397,843	3,701,731	-	6,083,410	2,351,183	3,732,226	-
Retail facilities	1,990,603	352,985	1,637,617	-	1,964,550	337,290	1,627,259	-
Others	729,596	341,022	388,574	-	723,895	339,856	384,038	-
Total	8,819,775	3,091,850	5,727,924	-	8,771,855	3,028,330	5,743,525	-

(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.”



16. 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 September 30, 2018)

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.	3,116,779	Leasing Business

(For the six months ended March 31, 2019)

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.	3,129,499	Leasing Business

17. SUBSEQUENT EVENTS

DISTRIBUTION OF RETAINED EARNINGS

On May 22, 2019, the Board of Directors of MTR approved a resolution for the payment of a cash distribution of ¥3,666 per share, aggregating to ¥4,839,120 thousand, to its shareholders of record as of March 31, 2019.