



Independent Auditor's Report

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

We have audited the accompanying financial statements of MORI TRUST Hotel Reit, Inc., which comprise the balance sheets as at August 31, 2017 and February 28, 2017, and the statements of income, statements of changes in net assets, statements of cash distributions and statements of cash flows for the period from March 1, 2017 to August 31, 2017 and the period from March 1, 2016 to February 28, 2017, and the notes to financial statements, and the supplementary schedules.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MORI TRUST Hotel Reit, Inc. as at August 31, 2017 and February 28, 2017, and their financial performance and cash flows for the period from March 1, 2017 to August 31, 2017 and the period from March 1, 2016 to February 28, 2017 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

December 27, 2017
Tokyo, Japan

Asset Management Report
MORI TRUST Hotel Reit, Inc.
3rd Fiscal Period
(March 1, 2017 – August 31, 2017)

1. Methods of Preparation of Financial Statements

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

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

2. Consolidated Financial Statements

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

1. Financial statements

(1) Balance sheets

(Thousands of yen)

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|---|---|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,179,729 | 2,952,743 |
| Cash and deposits in trust | 1,649,608 | 1,632,208 |
| Consumption taxes receivable | 1,213,064 | – |
| Prepaid expenses | 8,270 | 6,846 |
| Deferred tax assets | 34 | 8 |
| Other | 47 | – |
| Total current assets | 5,050,755 | 4,591,806 |
| Non-current assets | | |
| Property and equipment | | |
| Buildings in trust | 16,810,983 | 16,812,078 |
| Accumulated depreciation | (342,527) | (653,906) |
| Buildings in trust, net | 16,468,456 | 16,158,171 |
| Structures in trust | 5,640 | 5,640 |
| Accumulated depreciation | (876) | (1,665) |
| Structures in trust, net | 4,763 | 3,974 |
| Land in trust | 85,644,447 | 85,644,447 |
| Total property and equipment | 102,117,667 | 101,806,593 |
| Intangible assets | | |
| Software | 1,770 | 2,770 |
| Total intangible assets | 1,770 | 2,770 |
| Investments and other assets | | |
| Guarantee deposits | 10,000 | 10,000 |
| Long-term prepaid expenses | 3,151 | 237 |
| Total investments and other assets | 13,151 | 10,237 |
| Total non-current assets | 102,132,588 | 101,819,601 |
| Total assets | 107,183,344 | 106,411,408 |

(Thousands of yen)

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|--|---|--|
| Liabilities | | |
| Current liabilities | | |
| Operating accounts payable | 9,001 | 107,402 |
| Short-term loans payable | 23,000,000 | 22,000,000 |
| Accounts payable | 124,400 | 115,657 |
| Accrued expenses | 31,465 | 32,133 |
| Distribution payable | – | 5,352 |
| Income taxes payable | 1,921 | 781 |
| Accrued consumption taxes | – | 153,753 |
| Advances received | 406,664 | 406,576 |
| Deposits received | 2,689 | 211 |
| Total current liabilities | 23,576,143 | 22,821,868 |
| Non-current liabilities | | |
| Long-term loans payable | 27,500,000 | 27,500,000 |
| Tenant leasehold and security deposits | 4,554,473 | 4,554,473 |
| Total non-current liabilities | 32,054,473 | 32,054,473 |
| Total liabilities | 55,630,616 | 54,876,341 |
| Net assets | | |
| Unitholders' equity | | |
| Unitholders' capital | 50,000,000 | 50,000,000 |
| Surplus | | |
| Unappropriated retained earnings (undisposed loss) | 1,552,727 | 1,535,066 |
| Total surplus | 1,552,727 | 1,535,066 |
| Total unitholders' equity | 51,552,727 | 51,535,066 |
| Total net assets | *1 51,552,727 | *1 51,535,066 |
| Total liabilities and net assets | 107,183,344 | 106,411,408 |

(2) Statements of income

(Thousands of yen)

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|---|--|---|
| Operating revenues | | |
| Lease business revenues | *1, *2 2,264,917 | *1, *2 2,302,325 |
| Total operating revenues | 2,264,917 | 2,302,325 |
| Operating expenses | | |
| Expenses related to property rental business | *1, *2 355,331 | *1, *2 542,719 |
| Asset management fee | 89,314 | 91,407 |
| Asset custody and administrative service fees | 11,756 | 13,161 |
| Directors' compensations | 3,600 | 3,600 |
| Other operating expenses | 24,478 | 27,208 |
| Total operating expenses | 484,480 | 678,096 |
| Operating income | 1,780,437 | 1,624,228 |
| Non-operating income | | |
| Interest income | 111 | 21 |
| Interest on refund | – | 960 |
| Insurance income | 236 | 401 |
| Total non-operating income | 348 | 1,383 |
| Non-operating expenses | | |
| Interest expenses | 70,255 | 89,963 |
| New investment unit issuance costs | 1,030 | – |
| Other offering costs associated with the issuance of investment units | 111,498 | – |
| Other | 2,700 | – |
| Total non-operating expenses | 185,483 | 89,963 |
| Ordinary income | 1,595,301 | 1,535,649 |
| Income before income taxes | 1,595,301 | 1,535,649 |
| Income taxes - current | 1,938 | 784 |
| Income taxes - deferred | (34) | 26 |
| Total income taxes | 1,903 | 810 |
| Net income | 1,593,398 | 1,534,838 |
| Retained earnings (undisposed loss) brought forward | (40,670) | 227 |
| Unappropriated retained earnings (undisposed loss) | 1,552,727 | 1,535,066 |

(3) Statements of changes in net assets

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

(Thousands of yen)

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

Current fiscal period (March 1, 2017 – August 31, 2017)

(Thousands of yen)

| | Unitholders' equity | | | | Total net assets |
|--|----------------------|--|---------------|---------------------------|------------------|
| | Unitholders' capital | Surplus | | Total unitholders' equity | |
| | | Unappropriated retained earnings (undisposed loss) | Total surplus | | |
| Balance at beginning of current period | 50,000,000 | 1,552,727 | 1,552,727 | 51,552,727 | 51,552,727 |
| Changes of items during period | | | | | |
| Distribution of retained earnings | | (1,552,500) | (1,552,500) | (1,552,500) | (1,552,500) |
| Net income | | 1,534,838 | 1,534,838 | 1,534,838 | 1,534,838 |
| Total changes of items during period | — | (17,661) | (17,661) | (17,661) | (17,661) |
| Balance at end of current period | *1 50,000,000 | 1,535,066 | 1,535,066 | 51,535,066 | 51,535,066 |

(4) Statements of cash distributions

(yen)

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|---|--|--|
| I. Unappropriated retained earnings | 1,552,727,664 | 1,535,066,442 |
| II. Distributions (Distributions per unit) | 1,552,500,000 (3,105) | 1,535,000,000 (3,070) |
| III. Retained earnings brought forward | 227,664 | 66,442 |
| Calculation method of distribution amount | Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. In consideration of this policy, MORI TRUST Hotel Reit, Inc. will pay distributions of profits at the total amount of ¥1,552,500,000, which is the amount that does not exceed the unappropriated retained earnings and is the greatest value among integral multiples of 500,000, which is the number of investment units issued. | Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. In consideration of this policy, MORI TRUST Hotel Reit, Inc. will pay distributions of profits at the total amount of ¥1,535,000,000, which is the amount that does not exceed the unappropriated retained earnings and is the greatest value among integral multiples of 500,000, which is the number of investment units issued. |

(5) Statements of cash flows

(Thousands of yen)

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|--|--|---|
| Cash flows from operating activities | | |
| Income before income taxes | 1,595,301 | 1,535,649 |
| Depreciation | 343,434 | 312,368 |
| New investment unit issuance costs | 1,030 | – |
| Interest income | (111) | (21) |
| Interest expenses | 70,255 | 89,963 |
| Decrease (increase) in consumption taxes receivable | (1,213,064) | 1,213,064 |
| Decrease (increase) in prepaid expenses | (8,270) | 1,424 |
| Decrease (increase) in long-term prepaid expenses | (3,151) | 2,914 |
| Increase (decrease) in operating accounts payable | 8,185 | 98,122 |
| Increase (decrease) in accounts payable | 82,592 | (8,143) |
| Increase (decrease) in accrued consumption taxes | – | 153,753 |
| Increase (decrease) in advances received | 406,664 | (88) |
| Other, net | 2,637 | (2,443) |
| Subtotal | 1,285,503 | 3,396,561 |
| Interest income received | 111 | 21 |
| Interest expenses paid | (38,803) | (89,281) |
| Income taxes paid | (31) | (1,924) |
| Net cash provided by (used in) operating activities | 1,246,780 | 3,305,376 |
| Cash flows from investing activities | | |
| Purchase of property and equipment in trust | (102,460,255) | (815) |
| Purchase of intangible assets | – | (1,800) |
| Proceeds from tenant leasehold and security deposits | 4,554,473 | – |
| Net cash provided by (used in) investing activities | (97,905,782) | (2,615) |
| Cash flows from financing activities | | |
| Proceeds from short-term loans payable | 83,500,000 | – |
| Repayments of short-term loans payable | (60,500,000) | (1,000,000) |
| Proceeds from long-term loans payable | 27,500,000 | – |
| Proceeds from issuance of investment units | 49,898,970 | – |
| Distributions paid | – | (1,547,147) |
| Net cash provided by (used in) financing activities | 100,398,970 | (2,547,147) |
| Net increase (decrease) in cash and cash equivalents | 3,739,968 | 755,613 |
| Cash and cash equivalents at beginning of period | 89,369 | 3,829,338 |
| Cash and cash equivalents at end of period | *1 3,829,338 | *1 4,584,951 |

(6) Notes to financial statements

[Significant accounting policies]

| | |
|---|---|
| 1. Method of depreciation of non-current assets | (1) Property and equipment (including trust accounts) The straight-line method is used. The useful lives of major property and equipment components are as follows: Buildings in trust 7 to 72 years Structures in trust 2 to 7 years (2) Intangible assets The straight-line method is used. Internal-use software are amortized by the straight-line method over their useful lives (5 years). |
| 2. Accounting method for deferred assets | New investment unit issuance costs Recognized as expense in full amount when incurred. |
| 3. Recognition of revenue and expenses | Accounting treatment of property tax, etc. For property taxes, city planning taxes, depreciable assets taxes, etc., for real estate held, the amount of tax levied corresponding to the accounting period is recorded as expenses related to property rental business. The amount equivalent to property taxes, etc. to be paid by MORI TRUST Hotel Reit, Inc. in the first year for acquisition of trust beneficiary rights in real estate is not recorded as expenses but included in the acquisition costs for the related trust beneficiary rights. The amount equivalent to property taxes, etc. included in acquisition costs for trust beneficiary rights was ¥157,172 thousand for the previous fiscal period. No property taxes, etc. were included in acquisition costs for trust beneficiary rights for the current fiscal period. |
| 4. Scope of cash and cash equivalents in the statements of cash flows | Cash and cash equivalents in the statements of cash flows include the following: (1) cash on hand and cash in trust; (2) deposits and deposits in trust that can be withdrawn at any time; and (3) short-term investments that are readily convertible, bear little risk in price fluctuations, and mature within three months of the date of acquisition. |
| 5. Accounting treatment of trust beneficiary interests in real estate, etc. | For trust beneficiary interests in real estate owned by MORI TRUST Hotel Reit, Inc., all accounts of assets and liabilities within the assets in trust as well as all accounts of revenue generated and expenses incurred from the assets in trust are recognized in the relevant accounts of the balance sheets and statements of income. The following assets in trust recognized in the relevant accounts are presented separately on the balance sheets due to their materiality. (1) Cash and deposits in trust (2) Buildings in trust, structures in trust, and land in trust |
| 6. Accounting treatment of consumption taxes, etc. | Consumption taxes and local consumption taxes are accounted for by the taxes exclusion method. |

[Notes to Balance Sheets]

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|--|---|--|
| *1 Minimum net assets as provided in Article 67, paragraph 4 of the Investment Trust Law | 50,000 thousand yen | 50,000 thousand yen |

[Notes to Statements of income]

(Thousands of yen)

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|--|--|--|
| *1 Breakdown of operating income from property rental business | A. Property-related revenues Lease business revenues Rent 2,264,917 Total property-related revenues 2,264,917 B. Property-related expenses Expenses related to property rental business Insurance expenses 3,212 Repairs and maintenance expenses 7,910 Depreciation 343,404 Other expenses related to property rental business 804 Total property-related expenses 355,331 C. Operating income from property rental business (A – B) 1,909,586 | A. Property-related revenues Lease business revenues Rent 2,302,325 Total property-related revenues 2,302,325 B. Property-related expenses Expenses related to property rental business Property and other taxes 224,257 Insurance expenses 3,168 Repairs and maintenance expenses 2,326 Depreciation 312,168 Other expenses related to property rental business 800 Total property-related expenses 542,719 C. Operating income from property rental business (A – B) 1,759,605 |
| *2 Transactions with major unit holders | Revenue and expenses attributable to operating transactions Operating revenues 1,489,829 Operating expenses 7,910 | Revenue and expenses attributable to operating transactions Operating revenues 1,649,988 Operating expenses 2,326 |

[Notes to Statements of changes in net assets]

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|--|---|--|
| *1 Total number of authorized investment units and total number of investment units issued | | |
| Total number of authorized investment units | 10,000,000 units | 10,000,000 units |
| Total number of investment units issued at the end of the fiscal period | 500,000 units | 500,000 units |

[Notes to Statements of Cash Flows]

(Thousands of yen)

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|---|---|---|
| *1 Reconciliation between cash and cash equivalents at end of period and relevant amounts on the balance sheets | (as of February 28, 2017) Cash and deposits 2,179,729 Cash and deposits in trust 1,649,608 Cash and cash equivalents 3,829,338 | (as of August 31, 2017) Cash and deposits 2,952,743 Cash and deposits in trust 1,632,208 Cash and cash equivalents 4,584,951 |

[Lease Transactions]

Operating lease transactions (Lessor)

Future lease payments

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|-------------------|---|--|
| Due within 1 year | 1,304,673 thousand yen | 1,304,673 thousand yen |
| Due after 1 year | 12,394,396 thousand yen | 11,742,060 thousand yen |
| Total | 13,699,070 thousand yen | 13,046,733 thousand yen |

[Financial Instruments]

1. Matters regarding financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(3) Supplementary remarks on fair value of financial instruments

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

2. Matters regarding fair value of financial instruments

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

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

Balance sheet carrying amounts, fair values, and the difference between them as of August 31, 2017 are as shown below. Financial instruments whose fair values are considered to be extremely difficult to determine are not included in the table below (Note 2).

| | Balance sheet carrying amount (Thousands of yen) | Fair value (Thousands of yen) | Difference (Thousands of yen) |
|--------------------------------|---|----------------------------------|----------------------------------|
| (1) Cash and deposits | 2,952,743 | 2,952,743 | — |
| (2) Cash and deposits in trust | 1,632,208 | 1,632,208 | — |
| Total assets | 4,584,951 | 4,584,951 | — |
| (1) Short-term loans payable | 22,000,000 | 22,000,000 | — |
| (2) Long-term loans payable | 27,500,000 | 27,285,959 | (214,040) |
| Total liabilities | 49,500,000 | 49,285,959 | (214,040) |

(Note 1) Measurement of fair values of financial instruments

Assets

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

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

Liabilities

(1) Short-term loans payable

As short-term loans payable are settled within a short-term period, the fair value approximates the balance sheet carrying amount. Therefore, for this item, the carrying value is reported as the fair value.

(2) Long-term loans payable

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

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

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|--|---|--|
| Tenant leasehold and security deposits | 4,554,473 | 4,554,473 |

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

(Note 3) Redemption schedule for monetary claims after balance sheet date (as of February 28, 2017)

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

Redemption schedule for monetary claims after balance sheet date (as of August 31, 2017)

| | Due within 1 year (Thousands of yen) | Due after 1 year through 2 years (Thousands of yen) | Due after 2 years through 3 years (Thousands of yen) | Due after 3 years through 4 years (Thousands of yen) | Due after 4 years through 5 years (Thousands of yen) | Due after 5 years (Thousands of yen) |
|----------------------------|---|---|--|--|--|---|
| Cash and deposits | 2,952,743 | – | – | – | – | – |
| Cash and deposits in trust | 1,632,208 | – | – | – | – | – |
| Total | 4,584,951 | – | – | – | – | – |

(Note 4) Expected amount of repayments of loans after balance sheet date (as of February 28, 2017)

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

Expected amount of repayments of loans after balance sheet date (as of August 31, 2017)

| | Due within 1 year (Thousands of yen) | Due after 1 year through 2 years (Thousands of yen) | Due after 2 years through 3 years (Thousands of yen) | Due after 3 years through 4 years (Thousands of yen) | Due after 4 years through 5 years (Thousands of yen) | Due after 5 years (Thousands of yen) |
|--------------------------|---|---|--|--|--|---|
| Short-term loans payable | 22,000,000 | – | – | – | – | – |
| Long-term loans payable | – | – | 14,500,000 | – | 7,500,000 | 5,500,000 |
| Total | 22,000,000 | – | 14,500,000 | – | 7,500,000 | 5,500,000 |

[Tax Effect Accounting]

(Thousands of Yen)

| | Previous fiscal period (as of February 28, 2017) | Current fiscal period (as of August 31, 2017) |
|--|--|---|
| 1. Significant components of deferred tax assets and liabilities | (Deferred tax assets) Accrued enterprise tax <u>34</u> Total deferred tax assets <u>34</u> Net deferred tax assets 34 | (Deferred tax assets) Accrued enterprise tax <u>8</u> Total deferred tax assets <u>8</u> Net deferred tax assets 8 |
| 2. Reconciliation of difference between the statutory tax rate and the effective tax rate after application of tax effect accounting | Statutory tax rate 31.74% (Adjustments) Deductible distributions (30.89%) Use of loss carried forward (0.81%) Other 0.08% <u>Effective tax rate after application of tax accounting 0.12%</u> | Statutory tax rate 31.74% (Adjustments) Deductible distributions (31.73%) Other <u>0.04%</u> Effective tax rate after application of tax accounting 0.05% |

[Related Party Transactions]

1. Parent company and major corporate unitholders, etc.

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

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

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

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

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

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

Current fiscal period (March 1, 2017 – August 31, 2017)

| Attribute | Name | Location | Capital stock (Thousands of yen) | Business or occupation | Ownership ratio of units, etc. (%) | Nature of relationship | | Nature of transaction | Amount of transaction (Thousands of yen) | Account | Balance at the end of the period (Thousands of yen) |
|------------------|----------------------|------------------|-------------------------------------|------------------------|------------------------------------|--------------------------|--|------------------------|---|--|--|
| | | | | | | Concurrent officers, etc | Business relationship | | | | |
| Major unitholder | Mori Trust Co., Ltd. | Minato-ku, Tokyo | 30,000,000 | Real estate business | 32.8% | None | Major unitholder and leasing and management of real estate | Leasing of real estate | 1,649,988 | Advances received | 292,417 |
| | | | | | | | | | | Tenant leasehold and security deposits | 3,281,000 |

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

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

(Note 3) Ownership ratio of units, etc. is rounded to one decimal place.

2. Affiliated companies, etc.

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

Not applicable.

Current fiscal period (March 1, 2017 – August 31, 2017)

Not applicable.

3. Sister companies, etc.

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

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

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

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

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

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

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

Current fiscal period (March 1, 2017 – August 31, 2017)

| Attribute | Name | Location | Capital stock (Thousands of yen) | Business or occupation | Ownership ratio of units, etc. | Nature of relationship | | Nature of transaction | Amount of transaction (Thousands of yen) | Account | Balance at the end of the period (Thousands of yen) |
|--------------------------------|---|------------------|-------------------------------------|--|--------------------------------|---------------------------|--------------------------|---------------------------------|---|------------------------|--|
| | | | | | | Concurrent officers, etc. | Business relationship | | | | |
| Subsidiary of major unitholder | Mori Trust Hotel Asset Management Co., Ltd. | Minato-ku, Tokyo | 200,000 | Management of assets of investment corporation | — | None | Asset management company | Payment of asset management fee | 91,407 | Accounts payable-other | 98,719 |

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

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

4. Officers and major individual unitholders

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

Not applicable.

Current fiscal period (March 1, 2017 – August 31, 2017)

Not applicable.

[Investment and Rental Properties]

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

(Thousands of yen)

| Use | | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|-------|--------------------------------|---|--|
| Hotel | Balance sheet carrying amount | | |
| | Balance at beginning of period | – | 102,117,667 |
| | Changes during period | 102,117,667 | (311,073) |
| | Balance at end of period | 102,117,667 | 101,806,593 |
| | Fair value at end of period | 110,700,000 | 110,700,000 |

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

(Note 2) The main reason for the increase during the previous period is the acquisition of four properties (102,460,255 thousand yen), and the main reason for the decrease during the previous period is depreciation (343,404 thousand yen). The main reason for the increase during the current period is the capital expenditure (1,094 thousand yen), and the main reason for the decrease during the current period is depreciation (312,168 thousand yen).

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

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

[Segment Information, etc.]

1. Segment information

Disclosure is omitted as MORI TRUST Hotel Reit, Inc. has only one segment, which is the real estate leasing business.

2. Related information

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

(1) Information about products and services

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

(2) Information about geographical area

i) Operating revenues

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

ii) Property and equipment

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

(3) Information about major customers

(Thousands of yen)

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

Current fiscal period (March 1, 2017 – August 31, 2017)

(1) Information about products and services

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

(2) Information about geographical area

i) Operating revenues

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

ii) Property and equipment

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

(3) Information about major customers

(Thousands of yen)

| Name | Operating revenues | Related segment |
|----------------------|--------------------|--------------------------|
| Mori Trust Co., Ltd. | 1,649,988 | Property rental business |
| Sunroute Co., Ltd. | 652,336 | Property rental business |

(Note) The status of the lessee and its rights and obligations for Hotel Sunroute Plaza Shinjuku has been succeeded from Sunroute Co., Ltd. to Sotetsu Hotel Management Co.,Ltd. as a result of the company split as of October 1, 2017.

[Per Unit Information]

| Previous fiscal period (March 1, 2016 – February 28, 2017) | | Current fiscal period (March 1, 2017 – August 31, 2017) | |
|--|------------|--|------------|
| Net assets per unit | 103,105yen | Net assets per unit | 103,070yen |
| Net income per unit | 4,257yen | Net income per unit | 3,069yen |
| Net income per unit is calculated by dividing net income by the day-weighted average number of investment units for the period. Diluted net income per investment unit is not presented, as there is no potential investment unit. | | Net income per unit is calculated by dividing net income by the day-weighted average number of investment units for the period. Diluted net income per investment unit is not presented, as there is no potential investment unit. | |

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

| | Previous fiscal period (March 1, 2016 – February 28, 2017) | Current fiscal period (March 1, 2017 – August 31, 2017) |
|---|---|--|
| Net income (Thousands of yen) | 1,593,398 | 1,534,838 |
| Amount not attributable to common unitholders (Thousands of yen) | — | — |
| Net income attributable to common investment units (Thousands of yen) | 1,593,398 | 1,534,838 |
| Average number of investment units for the period (Units) | 374,225 | 500,000 |

[Significant Subsequent Events]

Not applicable.

(7) [Supplementary Schedules]

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

(Thousands of yen)

| Type of asset | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Accumulated depreciation | | Balance at end of period (less depreciation and amortization) | Remarks | |
|------------------------|--|----------------------------|----------------------------|----------------------------------|-----------------------------|---|---|-------------|--|
| | | | | | or accumulated amortization | Depreciation and amortization during the period | | | |
| Property and equipment | Buildings in trust | 16,810,983 | 1,094 | – | 16,812,078 | 653,906 | 311,379 | 16,158,171 | |
| | Structures in trust | 5,640 | – | – | 5,640 | 1,665 | 788 | 3,974 | |
| | Land in trust | 85,644,447 | – | – | 85,644,447 | – | – | 85,644,447 | |
| | Subtotal | 102,461,071 | 1,094 | – | 102,462,166 | 655,572 | 312,168 | 101,806,593 | |
| Intangible assets | Software | 1,800 | 1,200 | – | 3,000 | 230 | 200 | 2,770 | |
| | Subtotal | 1,800 | 1,200 | – | 3,000 | 230 | 200 | 2,770 | |
| Total | | 102,462,871 | 2,294 | – | 102,465,166 | 655,802 | 312,368 | 101,809,363 | |

ii) Schedule of borrowings

(Thousands of yen)

| | Lender | Balance at the beginning of the period | Increase during the period | Decrease during the period | Balance at the end of the period | Average interest rate (Note 1) | Repayment date | Repayment method | Use | Remarks |
|--------------------------|--|--|----------------------------|----------------------------|----------------------------------|--------------------------------|----------------|---------------------------------------|----------|---------------------------|
| Short-term loans payable | Sumitomo Mitsui Trust Bank, Limited | 6,000,000 | — | — | 6,000,000 | 0.23000% | Nov. 30, 2017 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Mitsubishi UFJ Trust & Banking Corporation | 6,000,000 | — | — | 6,000,000 | 0.23000% | Nov. 30, 2017 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Mizuho Bank, Ltd. | 5,500,000 | — | 500,000 | 5,000,000 | 0.23000% | Nov. 30, 2017 | Lump-sum payment at maturity (Note 2) | (Note 3) | Unsecured /Non-guaranteed |
| | Sumitomo Mitsui Banking Corporation | 5,500,000 | — | 500,000 | 5,000,000 | 0.23000% | Nov. 30, 2017 | Lump-sum payment at maturity (Note 2) | (Note 3) | Unsecured /Non-guaranteed |
| | Total | 23,000,000 | — | 1,000,000 | 22,000,000 | | | | | |
| Long-term loans payable | Mizuho Bank, Ltd. | 7,000,000 | — | — | 7,000,000 | 0.36750% | Nov. 29, 2019 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Sumitomo Mitsui Banking Corporation | 5,500,000 | — | — | 5,500,000 | 0.36750% | Nov. 29, 2019 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Mizuho Trust & Banking Co., Ltd. | 2,000,000 | — | — | 2,000,000 | 0.36750% | Nov. 29, 2019 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Sumitomo Mitsui Trust Bank, Limited | 3,000,000 | — | — | 3,000,000 | 0.49630% | Nov. 30, 2021 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Mitsubishi UFJ Trust & Banking Corporation | 3,000,000 | — | — | 3,000,000 | 0.49630% | Nov. 30, 2021 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Development Bank of Japan Inc. | 1,500,000 | — | — | 1,500,000 | 0.49630% | Nov. 30, 2021 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Mizuho Bank, Ltd. | 2,000,000 | — | — | 2,000,000 | 0.63750% | Nov. 30, 2023 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Sumitomo Mitsui Banking Corporation | 2,000,000 | — | — | 2,000,000 | 0.63750% | Nov. 30, 2023 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Development Bank of Japan Inc. | 1,500,000 | — | — | 1,500,000 | 0.63750% | Nov. 30, 2023 | Lump-sum payment at maturity | (Note 3) | Unsecured /Non-guaranteed |
| | Total | 27,500,000 | — | — | 27,500,000 | | | | | |
| Grand Total | 50,500,000 | — | 1,000,000 | 49,500,000 | | | | | | |

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

(Note 2) MORI TRUST Hotel Reit, Inc. partially repaid the loan, ahead of schedule, on August 31, 2017.

(Note 3) The funds are used to finance the acquisition of real estate beneficiary interests and related costs, and the repayment of loans.

(Note 4) The following table shows the repayment schedule of long-term loans (excluding those due within one year) each year during the five years from the balance sheet date.

(Thousands of yen)

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