

Asset Management Report

For the Year Ended December 31, 2013

Japan Hotel REIT Investment Corporation



Dear Investors,

We thank you for your support of Japan Hotel REIT Investment Corporation and its asset management company, Japan Hotel REIT Advisors Co., Ltd.

We are pleased to present you with this report on the asset management status and operating results for Japan Hotel REIT Investment Corporation's 14th fiscal period (from January 1, 2013 to December 31, 2013).

During the 14th fiscal period, in April 2013, we carried out our second capital increase via public offering following the merger, and acquired the Hilton Tokyo Bay, our trophy asset. Also, in October 2013, we acquired ibis Styles Kyoto Station, located in Kyoto, which is one of our strategic investment target areas, and made a change to the hotel's operator with the aim of realizing its upside potential.

Meanwhile, a number of bright signs emerged with respect to the environment surrounding hotels. Due to the depreciation of the yen as well as the implementation of various measures by the government aimed at making Japan a major tourism nation, the number of overseas visitors to Japan reached the government's target of 10 million. In addition, the number of domestic travelers also appeared to increase as a result of improved consumer sentiment in conjunction with the economic recovery, among other factors. In addition to these tailwinds, we also benefited from Tokyo Disney Resort celebrating its 30th anniversary, and those hotels for which we have introduced variable rent contracts saw higher earnings driven by the rooms department, and the variable rent revenue we received also exceeded our expectations.

In addition to the aforementioned new property acquisitions and increase in variable rents, we successfully reduced expenses and borrowing costs. As a result, operating revenue for the 14th fiscal period totaled ¥11,472 million, while ordinary income was ¥3,740 million and net income amounted to ¥3,233 million. The dividend per unit for the period is ¥1,939.

In Japan, where society continues to age and the birthrate continues to decline, it has gradually become widely recognized that the tourism industry is an industry with latent growth potential. Even more growth is now expected with Tokyo having been selected as the host city for the 2020 Olympics and Paralympics.

Japan Hotel REIT Investment Corporation, along with Japan Hotel REIT Advisors Co., will continue to endeavor to make opportunities to invest in hotels, the cornerstone of the tourism industry, more attractive, and we look forward to your ongoing support.

Yukio Isa
Executive Director
Japan Hotel REIT Investment Corporation

Hiroyuki Suzui
Representative Director
Japan Hotel REIT Advisors Co., Ltd

JAPAN HOTEL REIT INVESTMENT CORPORATION

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I. ASSET MANAGEMENT REPORT

Outline of Asset Management Operation

1. Operating results and financial position

Fiscal period Account closing date (Note 1)		10th period March 2011	11th period September 2011	12th period March 2012	13th period December 2012	14th period December 2013
Operating revenue (Note 2)	Millions of yen	1,255	1,419	1,431	7,283	11,472
[Real estate operating revenue] (Note 3)	Millions of yen	[1,255]	[1,419]	[1,431]	[7,283]	[11,472]
Operating expenses	Millions of yen	575	619	681	4,688	6,105
[Real estate operating costs] (Note 3)	Millions of yen	[423]	[454]	[503]	[2,668]	[3,870]
Operating income	Millions of yen	679	799	750	2,595	5,367
Ordinary income (Note 4)	Millions of yen	342	494	474	1,412	3,740
Net income (Note 5)	Millions of yen	340	493	473	19,031	3,233
Total assets	Millions of yen	39,887	46,761	46,773	139,623	170,727
[Period-on-period change]	[%]	[(0.6)]	[17.2]	[0.0]	[198.5]	[22.3]
Net assets	Millions of yen	19,902	23,655	23,635	69,010	89,756
[Period-on-period change]	[%]	[(0.2)]	[18.9]	[(0.1)]	[192.0]	[30.1]
Unitholders' capital	Millions of yen	19,561	23,161	23,161	28,260	48,845
Total number of units issued	Units	42,200	58,031	58,031	2,111,281	2,621,281
Net assets per unit (Note 6)	Yen	471,629	407,628	33,941	32,686	34,241
Total dividends	Millions of yen	340	493	473	3,012	5,082
Dividend per unit	Yen	8,080	8,502	8,166	1,427	1,939
[Earnings dividend per unit]	Yen	8,080	8,502	8,166	1,427	1,939
[Dividend per unit resulted from excess of earnings]	Yen	—	—	—	—	—
Ratio of ordinary income to total assets (Note 7)	%	0.9	1.1	1.0	1.5	2.4
[Annualized]	[%]	[1.7]	[2.3]	[2.0]	[2.0]	[2.4]
Return on unitholders' equity (Note 8)	%	1.7	2.3	2.0	41.1	4.1
[Annualized]	[%]	[3.4]	[4.5]	[4.0]	[54.5]	[4.1]
Ratio of net assets to total assets (Note 9)	%	49.9	50.6	50.5	49.4	52.6
[Period-on-period change]	[%]	[0.2]	[0.7]	[(0.1)]	[(1.1)]	[3.2]
Payout ratio (Note 10)	%	100.0	99.3	100.0	15.8	157.2
[Additional information]						
NOI (Note 11)	Millions of yen	1,062	1,231	1,191	6,216	9,907
FFO per unit (Note 6) (Note 12) (Note 13)	Yen	13,560	13,081	1,059	2,087	2,759
FFO multiple (Note 6) (Note 13) (Note 14)	Times	9.1	7.6	8.8	8.6	18.2
Debt service coverage ratio (Note 13) (Note 15)	Times	3.2	3.2	3.3	3.8	4.5
Interest-bearing debt	Millions of yen	18,833	21,625	21,516	65,220	74,784
Ratio of interest-bearing debt to total assets (Note 16)	%	47.2	46.2	46.0	46.7	43.8
Number of investment properties	Properties	17	19	19	28	28
Total leasable area	m2	87,562.03	101,028.49	101,028.49	288,875.32	349,162.63
Depreciation	Millions of yen	231	265	263	1,592	2,297

Capital expenditures	Millions of yen	25	31	102	699	854
Number of operating days	Days	182	183	183	275	365

- (Note 1) Following the resolution to partly amend the Articles of Incorporation of Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) at the 5th General Meeting of Unitholders held on February 24, 2012, JHR changed its fiscal period from six-month periods that end on March 31 and September 30 each year to 12-month periods that end on December 31 (aligned with the calendar year). As a result of the change, and to facilitate the transition, JHR’s 13th business period was the nine months from April 1, 2012 through December 31, 2012.
- (Note 2) Operating revenue does not include consumption taxes.
- (Note 3) Revenue from the real estate leasing business was presented as “Real estate rental income” in past periods. However, because of the introduction of management contracts in the 13th fiscal period, this presentation of the real estate leasing business is no longer appropriate. Therefore, the presentation of revenue from this business was changed to “Real estate operating revenue” for all fiscal periods including the 12th and earlier fiscal periods. The presentation of expenses for the real estate leasing business was changed from “Real estate rental expenses” to “Real estate operating costs”.
- (Note 4) Ordinary income = Income before income taxes + Advanced depreciation deduction of property and equipment + Impairment loss - Government subsidy income - Gain on negative goodwill
- (Note 5) Net income for the 13th fiscal period includes a gain on negative goodwill (¥18,578 million) from a merger, loss on sales of real estate properties (¥1,393 million) and impairment loss (¥958 million). Net income for the 14th fiscal period includes loss on sales of real estate properties (¥1,189 million) and impairment loss (¥516 million). For the operating status excluding these items, please refer to “7. Reference information <Reference 3> Operating status excluding special factors” below.
- (Note 6) JHR carried out a 12-for-1 split of units with an effective date of April 1, 2012. Net assets per unit, FFO per unit (defined below under Note 12) and FFO multiple (defined below under Note 14) are calculated as if the unit split had been completed at the start of the 12th fiscal period.
- (Note 7) Ratio of ordinary income to total assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100
- (Note 8) Return on unitholders’ equity = Net income / ((Net assets at beginning of period + Net assets at end of period) / 2) × 100
- (Note 9) Ratio of net assets to total assets = Net assets at end of period / Total assets at end of period × 100
- (Note 10) The payout ratio is calculated using the formula “Dividend per unit / Net income per unit x 100” from the 10th fiscal period through the 12th fiscal period, and the formula “Total dividends (excess of earnings exclusive) / Net income x 100” for the 13th and 14th fiscal periods.
- (Note 11) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets
- (Note 12) FFO per unit = (Net income + Depreciation + Loss on retirement of noncurrent assets ± Loss or gain on sales of real estate properties ± Extraordinary loss or income) / Number of units issued
- (Note 13) For the 13th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on negative goodwill of ¥18,578 million, loss on sales of real estate properties of ¥1,393 million and impairment loss of ¥958 million. For the 14th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding loss on sales of real estate properties of ¥1,189 million and impairment loss of ¥516 million.
- (Note 14) FFO multiple = Investment unit price at end of period / Annualized FFO per unit
- (Note 15) Debt service coverage ratio = (Income before income taxes + Depreciation + Loss on retirement of noncurrent assets ± Loss or gain on sales of real estate properties ± Extraordinary losses or income + Amortization of investment corporation bond issuance costs + Amortization of investment unit issuance expenses + Amortization of interest rate caps + Interest expense + Interest expense on investment corporation bonds) / (Interest expense + Interest expense on investment corporation bonds + Total of contracted principal repayments (excluding lump-sum principal repayments))
- (Note 16) Ratio of interest-bearing debt to total assets = Interest-bearing debt at end of period / Total assets at end of period × 100

2. Asset management operation for the fiscal period under review

(1) Brief history and principal activities

Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) in November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) section of the Tokyo Stock Exchange (Securities code: 8985) in June 14, 2006.

JHR entrusts the management of property assets to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on hotels, which are important and profitable components of the social infrastructure, JHR primarily invests in real estate related assets (Note 1) that are wholly or partially used as hotels and that are in themselves real estate or real estate equivalents (Note 2) or that are backed by such real estate or real estate equivalents.

The former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”) merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “merger”). In conjunction with the merger, the former NHF changed its name to Japan Hotel REIT Investment Corporation. Making a new start as a REIT specializing in hotel properties, JHR carried out two capital increases through public offerings in less than two years following the merger, and steadily expanded the portfolio size, acquiring a total of 4 new properties costing a total of ¥43,450 million (acquisition price basis). As of the end of the fiscal period under review, JHR’s portfolio consisted of 28 properties with a combined acquisition price of ¥158,902 million.

As of the end of the fiscal period under review, the number of units issued was 2,621,281.

(Note 1) “Real estate-related assets” represent real estate, real estate equivalents and real estate backed securities stipulated in Article 28, paragraph 1 (3) of the Articles of Incorporation.

(Note 2) “Real estate equivalents” represent assets stipulated in Article 28, paragraph 1 (2) of JHR’s articles of incorporation (hereinafter referred to as the “Articles of Incorporation”).

(2) Investment performance

During the fiscal period under review, the Japanese economy experienced a modest economic recovery, as both consumer sentiment and corporate sentiment improved due to the pickup in business confidence and the export environment in conjunction with the depreciation of the yen and rising stock prices on the back of the increased hopes for Abenomics (the various measures enacted by the Abe administration), and the various measures aimed at ending deflation and generating sustainable economic growth. The number of overseas tourists visiting Japan reached the government’s target of 10 million, attributable to the depreciation of the yen and the various measures implemented by the government aimed at making Japan a major tourism nation. The number of domestic travelers also tend to increased due to the upturn in consumer sentiment among other factors.

Many of the hotels owned by JHR saw an increase in operating performance, mainly in the rooms department, due not only to higher guest room occupancy rates, but also an increase in ADR (Note 3), which highlighted the strength in leisure-related demand. Also, the investment market for hotels enjoyed a pickup in the environment surrounding hotels, as well as the tailwind provided by the selection of Tokyo as the host city for the 2020 Olympics and Paralympics. As a result, the number of hotel transactions and number of investors in the hotel investment market increased, and the scale of investments trended larger.

Amid this environment, in April 2013, JHR carried out its second capital increase through public offering since the merger, and acquired the Hilton Tokyo Bay (acquisition price ¥26,050 million), which became JHR's trophy asset. In October 2013, JHR acquired ibis Styles Kyoto Station (acquisition price ¥6,600 million) located in Kyoto, which is one of the strategic investment target areas, and changed the hotel's operator with the aim of realizing its upside potential.

Meanwhile, in June 2013, JHR sold Hotel Vista Hashimoto (acquisition price ¥1,510 million), which had seen a decline in profitability and for which a recovery would be unlikely. In November 2013, Pearl Hotel Kayabacho (acquisition price ¥3,121 million) was sold, which, despite having a certain level of profitability at the time, it was not deemed appropriate for JHR to retain over the medium-to long-term horizon based on its location and the competition in the vicinity, as well as the existing building specifications. For similar reasons, in December 2013, JHR concluded an agreement for the sale (January 24, 2014 as the payment settlement date and delivery date) of Dormy Inn Namba (acquisition price ¥1,270 million), and recognized an accompanying impairment loss on December 31, 2013.

Making these types of changes to the asset portfolio allowed JHR to increase the overall profitability, stability and quality of the portfolio.

With respect to capital investments in portfolio properties, JHR invested, as in the past, in the renewal of its facilities in order to maintain the value of its assets and carried out strategic refurbishments to increase profits at hotels with variable rent contracts.

For fixed rent properties held, JHR worked to set and maintain appropriate rents based on market trends and an assessment of each hotel's ability to bear rent costs, with the aim of securing stable income from the real estate leasing business. For income linked to hotel revenues, such as variable rent and earnings under management contracts, JHR continued to work with hotel operators to increase revenues from both near-term and longer-term perspectives based on an assessment of the business environment and operating conditions at each hotel on a monthly basis.

JHR leases five hotels (Note 5) (hereinafter referred to as the "five HMJ hotels") to Hotel Management Japan Co., Ltd. (hereinafter referred to as "HMJ") under variable rent contracts (Note 4). Operating results at those hotels were as follows.

In the fiscal period under review (12-month period from January 1 to December 31, 2013), led by the rooms department, gross hotel sales increased ¥682 million versus the previous year. This increase was partially attributable to the increase in the number of overseas visitors to Japan, the improvement in consumer sentiment, as well as the boost provided by the Tokyo Disney Resort's 30th anniversary celebration. GOP (Note 6) increased ¥510 million versus the previous year due to increase in sales of the rooms department with a high profit contribution ratio. For further details regarding sales, GOP and other management indicators for the five HMJ hotels, please refer to "<Reference 2> Sales and GOP for the five HMJ hotels."

(Note 3) Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms sold during the period.

(Note 4) For the details of variable rent, please refer to "<Reference information 2> (2) Hotel GOP"

(Note 5) Represent five hotels, namely, Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima.

(Note 6) Represents gross operating profit (GOP), which is a representative management indicator for the hotel management performance. GOP is the remaining amount calculated by deducting the following operating expenses (to the extent that these expenses are incurred directly from the management of each property) from hotel operating revenue.

Operating expenses include (1) sales cost, (2) hotel personnel cost and welfare expenses, (3) fixture cost, (4) expenses related to the front office (including outsourcing cost, fees and commissions, etc.),

(5) general and administrative expenses, (6) sales promotion and advertising expenses, (7) repair and maintenance expenses (including expenses for facility maintenance and management), (8) utilities cost, (9) insurance expenses related to operation and management, (10) taxes and public dues (such as stamp tax) related to operation and management of hotels, (11) allowance for doubtful accounts and bad debt expenses related to accounts receivable from hotel customers, and (12) other direct expenses related to the operation and management of hotels.

In addition, JHR not only increased the size of its asset portfolio by acquiring new properties, but also made steady progress in reducing real estate management costs, general and administrative expenses, and borrowing costs.

(3) Funding

In April 2013, primarily to secure funds to acquire Hilton Tokyo Bay, JHR raised ¥20,585 million through a capital increase via public offering of new investment units as well as ¥8,900 million in new loans. In October 2013, JHR obtained ¥3,000 million in new loans to secure some of the funds to acquire ibis Styles Kyoto Station.

In February, March, and September 2013, JHR refinanced a total of ¥8,457 million of existing loans that matured, and using these funds as well as the funds obtained from the sale of the assets mentioned in the “(2) Investment performance” section above, made partial early repayment of ¥2,073 million in loans.

Furthermore, in November 2013, JHR issued ¥2,500 million in investment corporation bonds, the first issuance since the merger. The primary purpose of this issuance was to fund the redemption of ¥2,000 million in investment corporation bonds that matured in December 2013.

As a result of the above, as of the end of the fiscal period under review, interest-bearing debt totaled ¥74,784 million, including short-term loans payable of ¥2,669 million, current portion of long-term loans payable of ¥13,701 million, long-term loans payable of ¥55,913 million, and investment corporation bonds of ¥2,500 million, and the ratio of interest-bearing debt to total assets at end of period (Note 7) equaled 43.8%.

Also, through new loans in association with property acquisitions and refinancing, JHR was able to attract new financial institutions, lowering our funding costs and diversifying our repayment terms.

In July 2013, we hedged against rising interest rates by purchasing an interest rate cap on notional principal of ¥9,413 million, in order to suppress the increase in interest payment resulting from future interest rate rises. In November 2013, we concluded an interest rate swap contract to fix the interest rate on ¥5,827 million in loans. These actions brought the fixed rate ratio (including the interest rate cap purchase portion) on JHR’s total interest-bearing debt to 65.5%, and substantially fixed interest rates for loans with at least 2.5 years until maturity.

(Note 7) $\text{Ratio of interest-bearing debt to total assets at end of period} = \frac{\text{Interest-bearing debt at end of period}}{\text{Total assets at end of period}}$

At December 31, 2013, JHR’s issuer rating was as below. On September 13, 2013, JHR newly obtained a long-term issuer rating from Japan Credit Rating Agency, Ltd., while on October 30, 2013, the rating from Rating and Investment Information, Inc. was upgraded from BBB+ to A–.

Rating agency	Rating	Outlook
Rating and Investment Information, Inc.	A–	Stable
Japan Credit Rating Agency, Ltd.	A	Stable

(4) Financial results

As a result of the abovementioned investments, operating revenue, operating income and ordinary income were ¥11,472 million, ¥5,367 million and ¥3,740 million, respectively, for the fiscal period under review (12-month period from January 1 to December 31, 2013). Net income was ¥3,233 million.

With regard to dividends, it was decided that ¥5,082 million, which was calculated by adding a reversal of reserve for dividends (appropriation for dividends) of ¥1,848 million to unappropriated retained earnings of ¥3,235 million, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit would be ¥1,939.

Appropriation for dividends for the fiscal period under review consists of appropriation for dilution of dividends due to the issuance of new investment units, and offsetting of losses on sales of real estate properties, impairment losses, and losses on retirement of existing facilities incurred for the replacement of equipment.

Please refer to “<Reference 3> Operating status excluding special factors” for the operating status excluding this matter, and to “<Reference 4> Dividend per unit and appropriation for dividends” for appropriation for dividends.

3. Changes in unitholders' capital

On April 17, 2013, JHR raised ¥20,585 million through the issuance of new investment units (510,000 units) via public offering. Changes in the number of units issued and unitholders' capital up to the fiscal period under review are as follows:

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (Millions of yen)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
November 10, 2005	Incorporation through private placement of investment units	400	400	200	200	(Note 1)
June 13, 2006	Capital increase through public offering of investment units	41,800	42,200	19,361	19,561	(Note 2)
April 6, 2011	Capital increase through third-party allotment of investment units	15,831	58,031	3,599	23,161	(Note 3)
April 1, 2012	Investment unit split	638,341	696,372	–	23,161	(Note 4)
April 1, 2012	Merger	1,162,909	1,859,281	–	23,161	(Note 5)
September 12, 2012	Capital increase through public offering of investment units	240,000	2,099,281	4,855	28,017	(Note 6)
October 11, 2012	Capital increase through third-party allotment of investment units	12,000	2,111,281	242	28,260	(Note 7)
April 17, 2013	Capital increase through public offering of investment units	510,000	2,621,281	20,585	48,845	(Note 8)

(Note 1) At the time of incorporation of JHR, investment units were issued with an issue price per unit of ¥500,000.

(Note 2) New investment units were issued through public offering with an issue price per unit of ¥480,000 (subscription price of ¥463,200) in order to raise funds for the acquisition of new investment properties, etc.

(Note 3) New investment units were issued through third-party allotment with an issue price per unit of ¥227,400

in order to raise funds for the acquisition of new investment properties.

- (Note 4) JHR conducted a 12-for-1 split of investment units.
- (Note 5) JHR (the former NHF) merged with the former JHR. The merger was an absorption-type merger pursuant to Article 147 of the Investment Trusts Act where JHR is the surviving corporation and the former JHR is the absorbed corporation. Following this merger, 11 investment units of JHR after the split of investment units were delivered by allotment for each investment unit of the former JHR.
- (Note 6) New investment units were issued through public offering with an issue price per unit of ¥20,990 (subscription price of ¥20,232) in order to raise funds for the acquisition of new investment properties, etc.
- (Note 7) New investment units were issued through third-party allotment with an issue price per unit of ¥20,232 in order to repay loans payable, etc.
- (Note 8) New investment units were issued through public offering with an issue price per unit of ¥41,778 (subscription price of ¥40,363) in order to raise funds for the acquisition of new investment properties, etc.

[Fluctuation in market price of investment units]

The highest and lowest prices (closing price) during each fiscal period of the investment units of JHR on the Tokyo Stock Exchange REIT section are as follows:

(Yen)

Fiscal period Account closing month	10th period March 2011	11th period September 2011	12th period March 2012	13th period December 2012	14th period December 2013
Highest price	277,000	290,000	19,550 (Note)	25,110	51,500
Lowest price	204,800	199,000	15,008 (Note)	17,830	23,670
Price at end of period	248,800	199,000	18,700 (Note)	23,880	50,400

(Note) In line with the merger, JHR conducted a 12-for-1 split of investment units with an effective date of April 1, 2012. Consequently, figures for the 12th period have been calculated as if the unit split had been conducted at the start of the fiscal period.

4. Dividends

For the 14th fiscal period, it was decided that ¥5,082 million, which was calculated by adding a reversal of reserve for dividends (appropriation for dividends) of ¥1,848 million to unappropriated retained earnings of ¥3,235 million as of December 31, 2013, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit would be ¥1,939. This amount exceeds 90% JHR's distributable profit that can be paid out as dividends pursuant to Article 67-15 of the Act on Special Measures Concerning Taxation, and in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's articles of incorporation.

(Yen)

Classification	10th period (From October 1, 2010 to March 31, 2011)	11th period (From April 1, 2011 to September 30, 2011)	12th period (From October 1, 2011 to March 31, 2012)	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)
Unappropriated retained earnings	340,986,693	493,382,601	473,912,203	19,031,977,302	3,235,030,032
Reversal of reserve for dividends	—	—	—	—	1,848,870,143
Retained earnings	10,693	3,039	31,057	1,695,047	1,236,316

Total cash dividends	340,976,000	493,379,562	473,881,146	3,012,797,987	5,082,663,859
[Dividend per unit]	[8,080]	[8,502]	[8,166]	[1,427]	[1,939]
Of the above, total earnings dividends	340,976,000	493,379,562	473,881,146	3,012,797,987	5,082,663,859
[Earnings dividend per unit]	[8,080]	[8,502]	[8,166]	[1,427]	[1,939]
Of the above, total capital refunds	—	—	—	—	—
[Capital refunds per unit]	[—]	[—]	[—]	[—]	[—]

5. Investment policies and issues to be addressed

Investment outlook

Despite the risk that the consumption tax rate hike going into effect in April 2014 could have a negative impact, the Japanese economy is generally expected to head towards a recovery in 2014. This expectation is based on the propping up of declines in consumption by Abe administration's economic initiatives aimed at ending deflation and robust additional monetary easing measures implemented by the Bank of Japan. In addition, improving corporate profits and accompanying wage increases are expected to result in an increase in both capital investment and household income, which is in turn expected to lead the economy towards a recovery.

Domestic demand in the leisure industry is also expected to remain favorable amid the heightened interest among Japanese people with respect to leisure and how they spend free time, as well as due to the fact that personal income is expected to increase. In addition, the number of overseas visitors to Japan is expected to continue to increase as a result of the government's formulation and execution of promotions to encourage people to visit Japan, the easing of visa issuance requirements, the acceleration of immigration inspections, and other initiatives aimed at making it easier for people to visit Japan. Against this backdrop, where the number of visitors is expected to increase, JHR intends to invest based on the approach described below in order to make investing in JHR more appealing based on its mix of stability centered on fixed rent revenues and prospects for earnings upside derived from variable rent and other revenue sources.

Internal growth

To increase the earnings capability of existing properties, JHR will work to boost sales and GOP of the five HMJ hotels, which are operated under variable rent contracts, as well as ibis Tokyo Shinjuku and ibis Styles Kyoto Station, hotels operated under a management contract scheme, in order to maximize variable rent and other revenues from real estate under management. To achieve this goal, JHR will request each hotel, its business support company and its operator to implement marketing initiatives to attract more demand and measures to maintain and increase room rates. JHR will also work with related parties to move the business focus from competition based on price to competition based on value, aiming to create facilities and services that become prominent in the market.

For hotels with only fixed rent contracts, JHR will increase its efforts to monitor operating conditions and seek to maintain rent at an appropriate level while paying careful attention to each tenant's ability to bear the rent costs.

In addition, JHR will carry out an ongoing program of facility maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

External growth

JHR expects that competition for acquisitions will become fierce in the investment market of hotels, and that transaction yields will decline. Amid this environment, JHR plans to differentiate itself from the competition and acquire properties, leveraging its advantage as a REIT specializing in hotel properties.

Specifically, JHR will focus on investing in hotels with prospects for attracting domestic and overseas leisure customers, that is, those located in appealing or fashionable areas. The most important criterion of investment is that hotels must be located in appealing or fashionable locations. Limited-service hotels, full-service hotels and resort hotels are all investment targets, but JHR will only acquire properties with competitive advantages in terms of buildings and facilities (infrastructure) and the capabilities of the hotel tenant and operator (services).

Finance strategy

JHR seeks to cooperate and maintain strong relationships of trust with financial institutions with which it does business, while working to ensure financial stability and strength. It aims to ensure that the ratio of interest-bearing debt to total assets does not exceed 50% for the time being. In addition, when seeking new loans for property acquisitions or refinancing existing debt, JHR will work to reinforce its existing relationships with multiple banks while seeking to spread out the maturity dates of its debt and considering the balance with borrowing costs.

JHR will also seek to secure fixed interest rates on its debt to mitigate potential increases in interest rates and to secure a certain level of profits while interest rates are low.

6. Significant subsequent events

Transfer of asset

(1) JHR transferred Dormy Inn Namba as of January 24, 2014.

Name of transferred asset	Dormy Inn Namba
Type of transferred asset	Beneficial interest of real estate in trust
Use	Hotel
Location	17-12 Nambanaka 3-chome, Naniwa-ku, Osaka-shi, Osaka, and other three lots
Book value after recognition of impairment loss	¥684 million (As of December 31, 2013)
Sale date	January 24, 2014
Purchaser	(Note 1)
Sale price (Note 2)	¥700 million

(Note 1) This item is not shown because the purchaser has not agreed on the disclosure of its name.

(Note 2) Sale price does not include sale-related expenses, the amounts settled for property tax, city planning tax, etc., and consumption tax and local consumption tax.

(Note 3) Due to the above sale, a partial early repayment of loans at the amount of ¥527,478 thousand was made on the sale date in accordance with the letter of understanding on the loans.

(2) Issuance of Investment Corporation Bond

JHR issued the investment corporation bond under the following conditions:

Classification	3rd series unsecured investment corporation bond
Amount issued	¥2 billion
Issue price	100% of the principal amount
Interest rate	0.92% per annum
Issuance date	March 19, 2014
Maturity date	March 19, 2019
Security	Unsecured
Purpose of use	Partial repayment of other existing debts

7. Reference information

<Reference 1> Major indicators of the five HMJ hotels for the fiscal period ended December 31, 2013 (Note 1) (Note 2)

		(a) Kobe Meriken Park Oriental Hotel		(b) Oriental Hotel Tokyo Bay		(c) Namba Oriental Hotel		(d) Hotel Nikko Alivila		(e) Oriental Hotel Hiroshima		Total/Average	
			Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Indicators for rooms department (% , Yen)	Occupancy rate	81.5%	—	96.1%	—	91.9%	—	78.0%	—	77.5%	—	86.1%	—
	ADR (Note 3)	14,526	—	20,125	—	10,918	—	25,127	—	8,446	—	17,297	—
	RevPAR (Note 4)	11,844	—	19,349	—	10,037	—	19,594	—	6,545	—	14,886	—
Financial indicators (Millions of yen)	Total sales	5,210	100.0 %	7,182	100.0 %	1,972	100.0 %	5,375	100.0 %	2,254	100.0 %	21,994	100.0 %
	Rooms department	1,519	29.2%	3,912	54.5%	1,036	52.5%	3,125	58.1%	596	26.5%	10,188	46.3%
	Food & beverage department	3,316	63.6%	2,775	38.6%	150	7.6%	1,768	32.9%	1,587	70.4%	9,596	43.6%
	Product sales department	119	2.3%	—	—	—	—	374	7.0%	—	—	494	2.2%
	Tenant department	63	1.2%	269	3.7%	736	37.3%	—	—	24	1.1%	1,091	5.0%
	Other departments	194	3.7%	226	3.1%	50	2.5%	108	2.0%	47	2.1%	625	2.8%
	GOP	1,122	21.5%	1,917	26.7%	1,048	53.2%	1,718	32.0%	350	15.5%	6,155	28.0%

(Note 1) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place. The same shall apply hereinafter

(Note 2) Figures related to the hotel business for the operating period from January 1, 2013 through December 31, 2013 are based on figures provided by the tenants.

(Note 3) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms sold during the period. The same shall apply hereinafter.

(Note 4) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of available rooms during the period. Revenue per available room equals the product of ADR and occupancy rate. The same shall apply hereinafter.

<Reference 2> Sales and GOP of the five HMJ hotels

(1) Sales by hotel

(Millions of yen)

Sales of the five HMJ hotels		CY2012 (12 months) (Note 1)		CY2013 (12 months)	
		Results	Year-on-year change	Results	Year-on-year change
Kobe Meriken Park Oriental Hotel	First half	2,544	(0.1)%	2,416	(5.0)%
	Second half	2,922	(2.9)%	2,795	(4.3)%
	Full year	5,466	(1.6)%	5,210	(4.7)%
Oriental Hotel tokyo bay	First half	3,221	45.1 %	3,209	(0.4)%
	Second half	3,542	0.4 %	3,973	12.2 %
	Full year	6,762	17.6 %	7,182	6.2 %
Namba Oriental Hotel	First half	885	(5.9)%	934	5.5 %
	Second half	973	0.5 %	1,038	6.6 %
	Full year	1,858	(2.6)%	1,972	6.1 %
Hotel Nikko Alivila	First half	2,041	6.8 %	2,193	7.5 %
	Second half	3,048	(3.6)%	3,183	4.4 %
	Full year	5,088	0.3 %	5,375	5.6 %
Oriental Hotel Hiroshima	First half	989	9.3 %	1,046	5.8 %
	Second half	1,148	11.0 %	1,208	5.2 %
	Full year	2,137	10.2 %	2,254	5.5 %
Total	First half	9,679	13.6 %	9,797	1.2 %
	Second half	11,633	(0.6)%	12,197	4.8 %
	Full year	21,312	5.4 %	21,994	3.2 %

(Note 1) The actual fiscal period for 2012 (ended December 31, 2012) consists of nine months. However, for comparison of operating performance of the hotels, sales of each hotel show figures for one calendar year (from January 1 through December 31).

(Note 2) Sales are rounded off to the nearest million yen. Year-on-year change is rounded off to one decimal place.

(2) Hotel GOP

(Millions of yen)

GOP of the five HMJ hotels	CY2012 (12 months) (Note 1)		CY2013 (12 months)	
	Results	Year-on-year change	Results	Year-on-year change
Total for five HMJ hotels	5,645	9.4%	6,155	9.0%
Ratio of GOP to sales	26.5%	1.0%	28.0%	1.5%

(Note 1) The actual fiscal period for 2012 (ended December 31, 2012) consists of nine months. However, for comparison of operating performance of the hotels, sales of each hotel show figures for one year (from January 1 through December 31).

(Note 2) GOP is rounded off to the nearest million yen. Ratio of GOP to sales and year-on-year change are rounded off to one decimal place.

The calculation of rent for five HMJ hotels for the fiscal period ended December 31, 2013 is as follows:

Annual rent (¥5,506 million) = Fixed rent (¥3,221 million) + Variable rent (¥2,285 million)

Variable rent = [Total GOP of the five HMJ hotels (¥6,155 million) – GOP base amount

(¥3,351 million)] × 81.5%

<Reference 3> Operating status excluding special factors

The following shows the operating status for the fiscal periods ended December 31, 2012 and December 31, 2013.

	(Millions of yen)	
	Fiscal period ended December 31, 2012 9-month period results (Note 1)	Fiscal period ended December 31, 2013 12-month period results (Note 2)
Operating revenue	7,283	11,472
Operating income	3,988	6,556
Ordinary income	2,806	4,929
Net income	2,805	4,939
NOI (Note 3)	6,216	9,907

(Note 1) Operating status excluding special factors, which include the gain on negative goodwill, losses on sales of Millennium Hotel Matsuyama and Hotel Resol Sapporo Minaminiho, and an impairment loss on Hotel Vista Hashimoto.

(Note 2) Operating status excluding special factors, which include losses on the sales of Hotel Vista Hashimoto and Pearl Hotel Kayabacho, and an impairment loss on Dormy Inn Namba.

(Note 3) “NOI” = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets

Although NOI is not affected by special factors, these figures are shown for reference.

<Reference 4> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal periods ended December 31, 2012 and December 31, 2013 was calculated based on the assumptions described below.

		(Millions of yen)	
		Fiscal period ended December 31, 2012 (Note)	Fiscal period ended December 31, 2013 (Note)
Unappropriated retained earnings		19,031	3,235
Gain on negative goodwill (recognized as extraordinary income)		(18,578)	–
Appropriation for dividends	Use of negative goodwill (Impairment loss)	958	516
	Use of negative goodwill (Loss on retirement of noncurrent assets)	9	8
	Use of negative goodwill (Loss on sale)	1,393	1,189
	Use of negative goodwill (Adjustment for dilution) (Note)	200	135
Total dividends		3,012	5,082
Number of units issued (Units)		2,111,281	2,621,281
Dividend per unit (Yen)		1,427	1,939

(Note) This is to respond to the dilution of dividend per unit which occurred as a result of the issuance of new investment units during the fiscal periods ended December 31, 2012 and December 31, 2013.

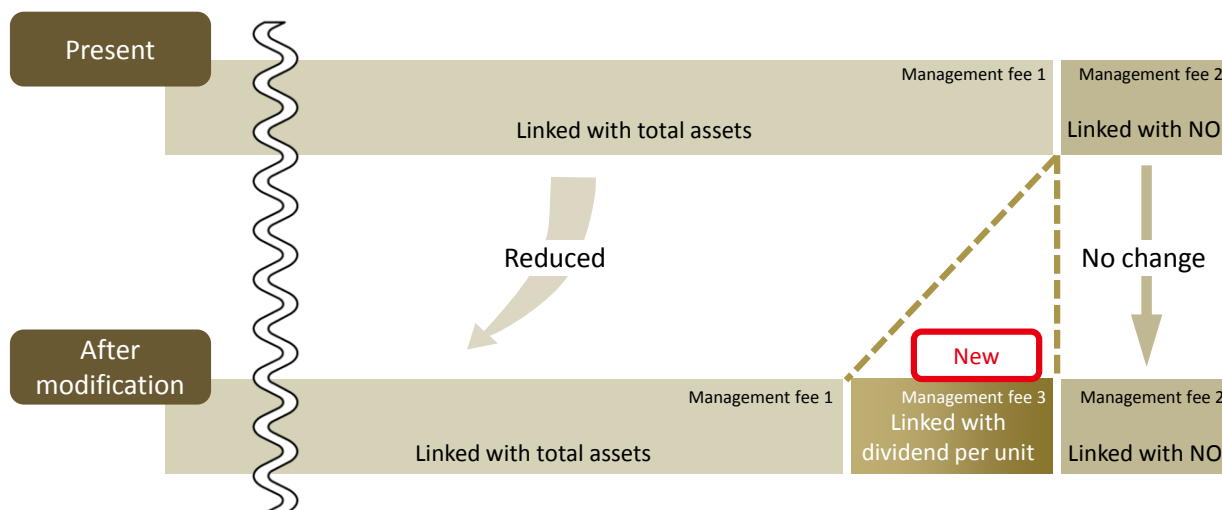
<Reference 5> Balance of reserve for dividends (negative goodwill)

The following shows the balance of reserve for dividends (negative goodwill) after the appropriation for dividends as of December 31, 2013.

	(Millions of yen)
Gain on negative goodwill for the fiscal period ended December 31, 2012 (transferred to reserve for dividends)	18,578
Appropriation for dividends for the fiscal period ended December 31, 2012	(2,560)
Balance of reserve for dividends as of December 31, 2013	16,017
Appropriation for dividends for the fiscal period ended December 31, 2013	(1,848)
Balance of reserve for dividends after appropriation for dividends as of December 31, 2013	14,168

<Reference 6> Modification of asset management fee system

From the fiscal period ending December 31, 2014 (the 15th period), the percentage of the management fee that is linked with total assets will be reduced and the fee that is linked with dividend per unit will be applied as indicated in the diagram below. Implementation of this fee system that is linked with “dividend per unit” will clearly show the Asset Management Company’s posture that the “Asset Management Company and the investors’ benefits are in the same boat.” Asset Management Company will strengthen its operation to achieve this further.



	Management fee 1 (maximum)	Management fee 2 (maximum)	Management fee 3 (maximum) <New>
Present	Total assets * ¹ × 0.4%	NOI * ² × 1.0%	
After modification	Total assets * ¹ × 0.35%	NOI * ² × 1.0%	Dividend per unit <for calculating management fee 3> * ³ × 43,000

*1. Total assets: Total of balance of cash and deposits, balance of securities, tangible assets and intangible assets

*2. NOI: Real estate operating revenue (including other real estate operating revenue) – real estate operating costs (excluding depreciation) in each business period,

*3. Dividend per unit <for calculating management fee 3>:
Dividend before deducting management fee 3 (Note 1) / Total number of units issued in each business period

(Note 1) Dividend before deducting management fee 3 is the available dividend amount for each business period of JHR stipulated by Article 34, paragraph 1 of the Articles of Incorporation of JHR (amount before deducting corporate tax, inhabitant tax and business tax, as well as the adjustment amount of the corporate tax, and management fee 3 and its nondeductible consumption taxes).

(Note 2) Besides the above management fee system, acquisition fee, disposition fee and merger fee are stipulated. No change in these fees.

Overview of JHR

1. Unitholders' capital

Account closing date	10th period As of March 31, 2011	11th period As of September 30, 2011	12th period As of March 31, 2012	13th period As of December 31, 2012	14th period As of December 31, 2013
Total number of authorized units (Units)	2,000,000	2,000,000	2,000,000	20,000,000	20,000,000
Total number of units issued (Units)	42,200	58,031	58,031	2,111,281	2,621,281
Unitholders' capital (Millions of yen)	19,561	23,161	23,161	28,260	48,845
Number of unitholders (Persons)	5,299	5,279	5,728	13,630	17,073

(Note) The total number of authorized units changed from 2 million units to 20 million units on the effective date of the merger based on a resolution of the 5th General Meeting of Unitholders of JHR held on February 24, 2012.

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2013 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	448,866	17.12
The Master Trust Bank of Japan, Ltd. (Trust Account)	310,214	11.83
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	215,180	8.20
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	138,110	5.26
Taiyo Investment Specified Purpose Company	127,204	4.85
Nomura Bank (Luxembourg) S.A.	77,718	2.96
Umi Investment Specified Purpose Company	77,435	2.95
The Bank of New York, Non-Treaty JASDEC Account	69,926	2.66
Shikoku Railway Company	58,311	2.22
Goldman Sachs International	42,946	1.63
Total	1,565,910	59.73

(Note) The percentage indicates the ratio of the number of units held to the total number of units issued.

3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2013 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (Thousands of yen)
Executive Director	Yukio Isa (Note 1) (Note 2)	—	4,800
Supervisory Director	Hiroshi Matsuzawa (Note 1) (Note 3)	—	2,400
Supervisory Director	Tetsuya Mishiku (Note 1) (Note 3)	Representative Attorney,	2,400

		Mishiku Nagamachi Law Office	
Independent auditor	KPMG AZSA LLC (Note 4)	—	25,700

- (Note 1) Executive Director and two Supervisory Directors of JHR were all elected at its 6th General Meeting of Unitholders held on November 28, 2013.
- (Note 2) Yukio Isa owns 72 investment units of JHR in his own name.
- (Note 3) No Supervisory Directors own investment units of JHR in their own name or another person's name. Although Supervisory Directors may be officers in corporations other than those listed above, there are no conflicts of interest between those corporations including those listed above and JHR.
- (Note 4) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥7,700 thousand, such as preparation of comfort letters and research reports based on agreed-upon procedures performed for the capital increase through the public offering on April 17, 2013 and the issuance of investment corporation bonds on November 26, 2013.
- (Note 5) In case that the number of Executive Directors becomes less than the number required by laws and regulations, Hiroyuki Suzuki, Representative Director of the Asset Management Company, was elected as the Substitute Corporate Officer at JHR's 6th General Meeting of Unitholders held on November 28, 2013.

(2) Policy for decisions on dismissal or non-reappointment of independent auditor

We have a policy to determine, at a General Meeting of Unitholders, whether to dismiss the independent auditor pursuant to provisions of the Investment Trusts Act, and to determine whether or not to reappoint the independent auditor taking into comprehensive consideration the audit quality, audit fees and other various matters.

4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2013 were as follows:

Consignment classification	Name
Asset management company	Japan Hotel REIT Advisors Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration of the unitholders' registry, book keeping, tax payments, organizational operations, etc., and administration of the special account management agency and special account)	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration regarding investment corporation bonds)	Sumitomo Mitsui Banking Corporation
General administrator (tax return preparation, etc.)	Zeirishi-Hojin PricewaterhouseCoopers

Status of Investment Assets

1. Composition of assets

Type of assets	Business category (Note 1)	Prefectural location	Property name	13th period (As of December 31, 2012)		14th period (As of December 31, 2013)		
				Total amount of assets held (Millions of yen) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (Millions of yen) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Tokyo	ibis Tokyo Shinjuku	7,433	5.3	7,414	4.3	
			Hotel Sunroute Shimbashi	4,935	3.5	4,914	2.9	
			Comfort Hotel Tokyo Higashi-Nihombashi	3,748	2.7	3,719	2.2	
			Pearl Hotel Kayabacho (Note 4)	3,194	2.3	—	—	
			Smile Hotel Nihombashi-Mitsukoshimae	2,057	1.5	2,054	1.2	
			R&B Hotel Ueno-Hirokoji	1,742	1.2	1,741	1.0	
			R&B Hotel Higashi-Nihombashi	1,492	1.1	1,496	0.9	
			Hotel Vista Kamata Tokyo	1,484	1.1	1,464	0.9	
			Dormy Inn Suidobashi	1,076	0.8	1,065	0.6	
			Dormy Inn EXPRESS Asakusa (Note 5)	988	0.7	984	0.6	
			Chisan Inn Kamata	811	0.6	817	0.5	
			Osaka	Namba Oriental Hotel	14,879	10.7	14,800	8.7
		Dormy Inn Namba (Note 6)		1,219	0.9	684	0.4	
		Kyoto	ibis Styles Kyoto Station	—	—	6,762	4.0	
		Fukuoka	Hakata Nakasu Washington Hotel Plaza	2,111	1.5	2,093	1.2	
			Toyoko Inn Hakataguchi Ekimae	1,563	1.1	1,541	0.9	
		Kumamoto	Dormy Inn Kumamoto	2,345	1.7	2,307	1.4	
		Nara	Nara Washington Hotel Plaza	2,021	1.4	1,986	1.2	
		Niigata	Hotel Sunroute Niigata	1,974	1.4	1,956	1.1	
		Akita	Daiwa Roynet Hotel Akita	1,740	1.2	1,706	1.0	
		Yamaguchi	Comfort Hotel Shin-Yamaguchi	828	0.6	813	0.5	
		Kanagawa	Hotel Vista Hashimoto (Note 7)	589	0.4	—	—	
		Subtotal			58,241	41.7	60,328	35.3
		Full-service hotel	Chiba	Oriental Hotel tokyo bay	19,507	14.0	19,173	11.2
			Hyogo	Kobe Meriken Park Oriental Hotel	10,573	7.6	10,415	6.1
			Hiroshima	Oriental Hotel Hiroshima	4,058	2.9	4,031	2.4
			Subtotal			34,140	24.5	33,621
		Resort hotel	Chiba	Hilton Tokyo Bay	—	—	26,264	15.4
			Okinawa	Hotel Nikko Alivila	18,615	13.3	18,423	10.8
				The Beach Tower Okinawa	7,169	5.1	7,053	4.1
	Osaka		Hotel Keihan Universal City	6,155	4.4	6,124	3.6	
	Kanagawa		Hakone Setsugetsuka	4,009	2.9	3,927	2.3	
	Subtotal			35,948	25.7	61,793	36.2	
	Real estate in trust – Total			128,330	91.9	155,742	91.2	
Deposits and other assets (Note 8)			11,293	8.1	14,985	8.8		
Total assets			139,623	100.0	170,727	100.0		

(Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of

operation.

- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) Pearl Hotel Kayabacho was transferred as of November 13, 2013.
- (Note 5) As of February 1, 2014, this hotel changed its name from Dormy Inn Asakusa to Dormy Inn EXPRESS Asakusa. In this report, the same name shall apply hereinafter.
- (Note 6) Dormy Inn Namba was transferred as of January 24, 2014.
- (Note 7) Hotel Vista Hashimoto was transferred as of June 28, 2013.
- (Note 8) Includes machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets (excluding leasehold rights in trust).

2. Major portfolio assets

An overview of the portfolio assets of JHR (28 properties in total) as of December 31, 2013 was as follows.

Property No.	Property name	Book value (Millions of yen) (Note 1)	Leasable area (m2) (Note 2)	Leased area (m2) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	10,531	32,663.90	32,663.90	100.0	9.3	Hotel
2	Oriental Hotel tokyo bay	19,381	44,833.11	44,833.11	100.0	14.2	Hotel
3	Namba Oriental Hotel	14,846	19,364.33	19,364.33	100.0	8.5	Hotel
4	Hotel Nikko Alivila (Note 6)	18,537	38,024.98	38,024.98	100.0	12.1	Hotel
5	Oriental Hotel Hiroshima	4,065	13,752.22	13,752.22	100.0	3.8	Hotel
6	ibis Tokyo Shinjuku	7,478	6,801.84	6,801.84	100.0	4.8	Hotel
8	The Beach Tower Okinawa (Note 7)	7,053	20,140.01	20,140.01	100.0	4.5	Hotel
9	Hakone Setsugetsuka (Note 8)	3,939	10,655.03	10,655.03	100.0	2.6	Hotel
10	Dormy Inn Kumamoto (Note 9)	2,307	7,701.19	7,701.19	100.0	1.7	Hotel
11	Dormy Inn Namba (Note 10)	684	3,402.08	3,402.08	100.0	0.8	Hotel
12	Dormy Inn Suidobashi	1,065	3,097.25	3,097.25	100.0	0.7	Hotel
13	Dormy Inn EXPRESS Asakusa	984	2,014.90	2,014.90	100.0	0.6	Hotel
14	Hakata Nakasu Washington Hotel Plaza (Note 11)	2,096	5,602.04	5,602.04	100.0	2.1	Hotel
15	Nara Washington Hotel Plaza	1,987	5,271.54	5,271.54	100.0	1.3	Hotel
16	R&B Hotel Ueno-Hirokoji	1,741	3,060.31	3,060.31	100.0	0.9	Hotel
17	R&B Hotel Higashi-Nihombashi	1,496	3,800.77	3,800.77	100.0	1.1	Hotel
18	Comfort Hotel Tokyo Higashi-Nihombashi	3,719	5,765.27	5,765.27	100.0	2.4	Hotel
19	Comfort Hotel Shin-Yamaguchi	813	2,999.00	2,999.00	100.0	0.5	Hotel
21	Daiwa Roynet Hotel Akita (Note 12)	1,706	7,539.52	7,539.52	100.0	1.2	Hotel
22	Smile Hotel Nihombashi-Mitsukoshimae	2,054	3,167.82	3,167.82	100.0	1.2	Hotel
23	Hotel Sunroute Niigata (Note 13)	1,956	8,328.84	8,328.84	100.0	1.4	Hotel
24	Toyoko Inn Hakataguchi Ekimae	1,541	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	1.2	Hotel

25	Hotel Vista Kamata Tokyo	1,464	3,831.80	3,831.80	100.0	0.8	Hotel
26	Chisan Inn Kamata	821	1,499.87	1,499.87	100.0	0.4	Hotel
29	Hotel Keihan Universal City	6,125	16,212.40	16,212.40	100.0	4.9	Hotel
30	Hotel Sunroute Shimbashi	4,914	5,246.66	5,246.66	100.0	3.1	Hotel
31	Hilton Tokyo Bay	26,264	64,931.94	72,146.60	100.0	11.2	Hotel
32	ibis Styles Kyoto Station	6,770	5,003.99	5,003.99	100.0	0.8	Hotel
Total (Note 14)		156,350	349,162.63	349,162.63	100.0	97.9	

- (Note 1) Book value includes real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets.
- (Note 2) Leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. For Comfort Hotel Shin-Yamaguchi, leasable area is 2,999.00 square meters, which is calculated by multiplying leasable area in *tsubo* units described in the lease contract (907.20 *tsubo*) by the area in metric units (3.30578 square meters per one *tsubo*).
- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. For Comfort Hotel Shin-Yamaguchi, leasable area is 2,999.00 square meters, which is calculated by multiplying leasable area in *tsubo* units described in the lease contract (907.20 *tsubo*) by the area in metric units (3.30578 square meters per one *tsubo*).
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review, rounded off to one decimal place. Since the ratio for Hotel Vista Hashimoto and Pearl Hotel Kayabacho, which were transferred during the fiscal period under review, is not included, the total ratio of rental revenue to total rental revenues is 97.9%.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a condominium ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters). With regard to the portion of the building owned exclusively by Kobe City, the area rented by JHR from Kobe City with permission for use under Kobe City's ordinance for harbor facilities, etc. is 694.00 square meters and excluded from the above area of 32,663.90 square meters.
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) Leasable area and leased area for Hakone Setsugetsuka include an accessory building of 3,110.03 square meters.
- (Note 9) Leasable area and leased area for Dormy Inn Kumamoto include an accessory building (intended purpose: parking lot, area: 85.30 square meters).
- (Note 10) Dormy Inn Namba was transferred as of January 24, 2014. The book value shows the amount after impairment loss.
- (Note 11) The leasable area and leased area for Hakata Nakasu Washington Hotel Plaza do not include an accessory building of 90.20 square meters.
- (Note 12) The leasable area and leased area for Daiwa Roynet Hotel Akita include an accessory building of 100.16 square meters.
- (Note 13) The leasable area and leased area for Hotel Sunroute Niigata include an accessory building (intended purpose: parking lot, area: 73.03 square meters).
- (Note 14) No. 7, No. 20, No. 27 and No. 28 are intentionally omitted, as they represent transferred assets, Hotel Resol Sapporo Minaminijo, Pearl Hotel Kayabacho, Hotel Vista Hashimoto and Millennia Hotel Matsuyama.

3. Details of property assets

(1) Details of property assets

The details of real estate properties held by JHR as of December 31, 2013 were as follows:

Property No. (Note 5)	Property name	Location (Displayed address)	Form of ownership	Assessed value at end of period (Millions of yen) (Note 1)	Book value (Millions of yen) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	10,900	10,531	J
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	21,400	19,381	J
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	15,400	14,846	J
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	19,900	18,537	J
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,100	4,065	J
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	5,740	7,478	J
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	7,440	7,053	J
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	4,260	3,939	J
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,660	2,307	M
11	Dormy Inn Namba	17-15 Nambanaka 3-chome, Naniwa-ku, Osaka-shi, Osaka	Beneficial interest in trust	700	684	— (Note 5)
12	Dormy Inn Suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	1,030	1,065	C
13	Dormy Inn EXPRESS Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	950	984	M
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,210	2,096	J
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,090	1,987	J
16	R&B Hotel Ueno-Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,580	1,741	M
17	R&B Hotel Higashi-Nihombashi	15-6 Higashi-Nihonbashi 2-chome, Chuo-ku, Tokyo	Beneficial interest in trust	1,710	1,496	M
18	Comfort Hotel Tokyo Higashi-Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	4,410	3,719	M
19	Comfort Hotel Shin-Yamaguchi (Note 4)	1255-1 Aza Watari Kamiichi, Ogori-shimogo, Yamaguchi-shi, Yamaguchi	Beneficial interest in trust	805	813	M
21	Daiwa Roynet Hotel Akita	2-41 Omachi 2-chome, Akita-shi, Akita	Beneficial interest in trust	1,770	1,706	J
22	Smile Hotel Nihombashi-Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,210	2,054	M
23	Hotel Sunroute Niigata	11-25 Higashi-odori 1-chome, Chuo-ku, Niigata-shi, Niigata	Beneficial interest in trust	1,870	1,956	M

Property No. (Note 5)	Property name	Location (Displayed address)	Form of ownership	Assessed value at end of period (Millions of yen) (Note 1)	Book value (Millions of yen) (Note 2)	Appraisal agency (Note 3)
24	Toyoko Inn Hakataguchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,060	1,541	T
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,290	1,464	T
26	Chisan Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	712	821	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	7,070	6,125	R
30	Hotel Sunroute Shimbashi	10-2 Shimbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	5,720	4,914	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	29,500	26,264	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	6,750	6,770	D
Total				166,237	156,350	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of value estimate, in accordance with JHR's articles of incorporation, the Ordinance on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) and regulations set forth by The Investment Trusts Association, Japan.

(Note 2) Book value includes amounts of real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets.

(Note 3) The letters indicate the appraisers for the properties as follows:

M: Morii Appraisal & Investment Consulting, Inc.

C: Chuo Real Estate Appraisal Co., Ltd.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

J: Japan Real Estate Institute

R: Rich Appraisal Institute Co., Ltd.

D: Daiwa Real Estate Appraisal Co., Ltd.

(Note 4) Due to the lack of a displayed address, "location" in the registration or registration record is shown.

(Note 5) Dormy Inn Namba was transferred as of January 24, 2014. The sale price is shown in the assessed values at end of period.

(Note 6) No. 7, No. 20, No. 27 and No. 28 are intentionally omitted, as they represent previously transferred assets, Hotel Resol Sapporo Minaminijo, Pearl Hotel Kayabacho, Hotel Vista Hashimoto and Millennia Hotel Matsuyama.

(2) Transition of real estate leasing business

An overview of JHR's real estate leasing business is as follows:

Property No.	Property name	13th period (From April 1, 2012 to December 31, 2012)				14th period (From January 1, 2013 to December 31, 2013)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	910	12.5	1	100.0	1,072	9.3
2	Oriental Hotel tokyo bay	1	100.0	1,057	14.5	1	100.0	1,629	14.2
3	Namba Oriental Hotel	1	100.0	717	9.8	1	100.0	974	8.5
4	Hotel Nikko Alivila	1	100.0	1,190	16.3	1	100.0	1,392	12.1
5	Oriental Hotel Hiroshima	1	100.0	336	4.6	1	100.0	438	3.8
6	ibis Tokyo Shinjuku	4	100.0	336	4.6	4	100.0	545	4.8
7	Hotel Resol Sapporo Minaminijo (Note 2)	—	—	49	0.7	—	—	—	—
8	The Beach Tower Okinawa	1	100.0	383	5.3	1	100.0	511	4.5
9	Hakone Setsugetsuka	1	100.0	221	3.0	1	100.0	294	2.6
10	Dormy Inn Kumamoto	1	100.0	145	2.0	1	100.0	194	1.7
11	Dormy Inn Namba (Note 3)	2	100.0	65	0.9	2	100.0	87	0.8
12	Dormy Inn Suidobashi	1	100.0	63	0.9	1	100.0	84	0.7
13	Dormy Inn EXPRESS Asakusa	1	100.0	47	0.7	1	100.0	63	0.6
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	181	2.5	1	100.0	240	2.1
15	Nara Washington Hotel Plaza	2	100.0	115	1.6	2	100.0	153	1.3
16	R&B Hotel Ueno-Hirokoji	1	100.0	73	1.0	1	100.0	100	0.9
17	R&B Hotel Higashi-Nihombashi	1	100.0	91	1.3	1	100.0	122	1.1
18	Comfort Hotel Tokyo Higashi-Nihombashi	2	100.0	202	2.8	2	100.0	270	2.4
19	Comfort Hotel Shin-Yamaguchi	1	100.0	45	0.6	1	100.0	60	0.5
20	Pearl Hotel Kayabacho (Note 4)	1	100.0	167	2.3	—	—	193	1.7
21	Daiwa Roynet Hotel Akita	1	100.0	103	1.4	1	100.0	138	1.2
22	Smile Hotel Nihombashi-Mitsukoshimae	1	100.0	100	1.4	1	100.0	134	1.2
23	Hotel Sunroute Niigata	1	100.0	117	1.6	1	100.0	156	1.4
24	Toyoko Inn Hakataguchi Ekimae	1	100.0	105	1.5	1	100.0	141	1.2
25	Hotel Vista Kamata Tokyo	1	100.0	74	1.0	1	100.0	93	0.8
26	Chisan Inn Kamata	1	100.0	32	0.4	1	100.0	50	0.4
27	Hotel Vista Hashimoto (Note 5)	1	100.0	63	0.9	—	—	41	0.4
28	Millennia Hotel Matsuyama (Note 6)	—	—	36	0.5	—	—	—	—
29	Hotel Keihan Universal	1	100.0	161	2.2	1	100.0	561	4.9

	City (Note 7)								
30	Hotel Sunroute Shimbashi (Note 7)	5	100.0	87	1.2	5	100.0	350	3.1
31	Hilton Tokyo Bay (Note 8)	–	–	–	–	1	100.0	1,283	11.2
32	ibis Styles Kyoto Station (Note 9)	–	–	–	–	2	100.0	92	0.8
Total		38	100.0	7,283	100.0	39	100.0	11,472	100.0

(Note 1) Calculation is made with lessees that have direct lease contracts with trustees as tenants.

(Note 2) Hotel Resol Sapporo Minaminijo was transferred as of December 21, 2012.

(Note 3) Dormy Inn Namba was transferred as of January 24, 2014.

(Note 4) Pearl Hotel Kayabacho was transferred as of November 13, 2013.

(Note 5) Hotel Vista Hashimoto was transferred as of June 28, 2013.

(Note 6) Millennia Hotel Matsuyama was transferred as of September 28, 2012.

(Note 7) Hotel Keihan Universal City and Hotel Sunroute Shimbashi were acquired as of September 19, 2012.

(Note 8) Hilton Tokyo Bay was acquired as of April 26, 2013.

(Note 9) ibis Styles Kyoto Station was acquired as of October 31, 2013.

4. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2013 were as follows:

Classification	Transaction	Amounts of contract, etc. (Millions of yen) (Note 1)		Fair value (Millions of yen) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swaps			
	Payable fixed rate / Receivable floating rate	34,907	34,907	(41)
	Interest rate caps	9,413	9,413	32
Total		44,320	44,320	(9)

(Note 1) Contractual amounts, etc. of interest rate swaps and interest rate caps are based on notional principal amounts, etc.

(Note 2) Fair value is based on the price provided by counterparty financial institutions, etc.

5. Other assets

All of the real estate beneficial interest in trust held by JHR is included in “3. Details of property assets” presented above. There were no other major specified assets that are considered to be JHR’s main investments or are part of JHR’s portfolio as of December 31, 2013.

6. Asset holdings by country and region

There is nothing to be reported on countries and regions other than Japan.

Capital Expenditures for Portfolio Properties

1. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures for renovation work planned as of the end of the fiscal period under review for investment real estate properties held by JHR. Expenditures are expected to total ¥1,332 million, which consists of capital expenditures of ¥1,280 million and repair expenses of ¥51 million, for the next fiscal period.

Property name (Location)	Purpose	Scheduled period	Estimated construction costs (Millions of yen)		
			Total amount	Payment for the period	Total amount paid
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Renewal of guest rooms (119 rooms) on the third to eighth floors (North Wing) and the third to fifth floors (Center Wing)	From January 2014 to March 2014	332	—	13
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Painting of outer wall	From January 2014 to March 2014	69	—	—
Namba Oriental Hotel (Chuo-ku, Osaka-shi, Osaka)	Work on emergency power generator	From October 2014 to November 2014	68	—	—
Total			470	—	13

(Note) For new construction and renewal works, estimated construction costs include that for buildings, annexed structures, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned repair work and whether or not the repair work will be performed may change.

2. Capital expenditures during the period (Note)

For investment real estate properties held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥854 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥40 million. In aggregate, there was ¥895 million of construction work.

Property name (Location)	Purpose	Period	Construction costs (Millions of yen)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of the large-size banquet room on the fourth floor	August 2013	89
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Renewal of “Grand Cinq” restaurant	From June 2013 to July 2013	45
Total			134

(Note) For new construction and renewal work, construction costs include those for buildings, annexed structures, etc. as well as those classified as furniture and fixtures.

3. Cash reserves for the long-term repairs and maintenance plan (Reserve for repairs and maintenance)

JHR accumulates cash reserves from cash flows for each period as detailed below to utilize for medium- to long-term future expenditures on large-scale repairs and maintenance projects based on a long-term repairs and maintenance plan prepared for each property.

(Millions of yen)

Fiscal period	10th period (From October 1, 2010 to March 31, 2011)	11th period (From April 1, 2011 to September 30, 2011)	12th period (From October 1, 2011 to March 31, 2012)	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)
Balance at beginning of period	328	311	369	409	307
Provision during the period	79	87	90	(Note) 286	184
Reversal during the period	97	29	50	388	37
Amount carried forward	311	369	409	307	454

(Note) Figures in the above table include amounts assumed from the former JHR as a result of the merger.

Expenses and Liabilities

1. Details of expenses related to asset management, etc.

(Thousands of yen)

	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)
(a) Asset management fees (Note)	461,770	738,628
(b) Asset custody fees	14,915	23,967
(c) Administrative service fees	43,794	73,409
(d) Officers' compensation	7,200	9,600
(e) Other operating expenses	99,013	199,857
Total	626,693	1,045,461

(Note) For asset management fees for the 14th fiscal period, besides the above amounts, there are ¥244,875 thousand of fees included in the acquisition value of investment properties, etc. in purchasing the properties and ¥13,400 thousand included in loss on sales of real estate from the transfer of the properties.

2. Loans Payable

The status of loans by contractual agreement and by financial institution as of December 31, 2013 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	March 30, 2012	393	—	0.91	March 31, 2013	Repayment of ¥10,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		884	—					
	The Chiba Bank, Ltd.		759	—					
	Sompo Japan Insurance Inc.		854	—					
	The Nomura Trust and Banking Co., Ltd.		949	—					
	Subtotal		3,841	—					
	Sumitomo Mitsui Banking Corporation	March 29, 2013	—	389	0.79	March 31, 2014	Repayment of ¥7,750 thousand	(Note 11)	Secured, non-

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	The Chiba Bank, Ltd.		—	675			every 3 months, and lump-sum repayment of the remaining amount		guaranteed
	Sompo Japan Insurance Inc.		—	760					
	The Nomura Trust and Banking Co., Ltd.		—	844					
	Subtotal		—	2,669					
	Short-term loans payable – Total			3,841	2,669				
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	February 26, 2010	1,800	—	2.18	February 28, 2013	Repayment of ¥1,625 thousand every month, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Subtotal		1,800	—					
	Sumitomo Mitsui Banking Corporation	April 8, 2011	1,866	—	1.46	September 30, 2013	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 12)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		982	—					
	Subtotal		2,849	—					
	Sumitomo Mitsui Banking Corporation	March 31, 2011	—	486	1.55	March 31, 2014	Repayment of ¥12,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,458					
	Resona Bank, Limited		—	1,945					
	Shinsei Bank, Limited		—	875					
	Subtotal		—	4,765					
	Sumitomo Mitsui Banking Corporation	May 31, 2011	—	715	1.66	September 30, 2014	Repayment of ¥13,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	240					
	Resona Bank, Limited		—	1,095					
	Shinsei Bank, Limited		—	1,210					
	Subtotal		—	3,262					
	Resona Bank, Limited	February 15, 2011	—	2,000	1.55	February 15, 2014	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Shinsei Bank, Limited		—	3,000					
	Subtotal		—	5,000					
	Current portion of long-term loans payable – Total (Note 15)			4,650	13,027				
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 31, 2011	491	—	1.55	March 31, 2014	Repayment of ¥12,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,473	—					
	Resona Bank, Limited		1,965	—					
	Shinsei Bank, Limited		884	—					

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable							amount		
	Subtotal		4,814	—					
	Sumitomo Mitsui Banking Corporation	March 31, 2011	846	718	1.76 (Note 2)	September 30, 2015	Repayment of ¥7,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Shinsei Bank, Limited		242	194					
	The Tokyo Star Bank, Limited		1,424	1,266					
	Subtotal		2,514	2,178					
	Sumitomo Mitsui Banking Corporation	May 31, 2011	1,281	—	1.66	September 30, 2014	Repayment of ¥13,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		649	—					
	Resona Bank, Limited		1,454	—					
	Shinsei Bank, Limited		1,437	—					
	Subtotal		4,823	—					
	Sumitomo Mitsui Banking Corporation	February 28, 2013	—	1,781	0.95	February 29, 2016	Repayment of ¥1,625 thousand every month, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Subtotal		—	1,781					
	Resona Bank, Limited	February 15, 2011	2,000	—	1.55	February 15, 2014	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Shinsei Bank, Limited		3,000	—					
	Subtotal		5,000	—					
	Sumitomo Mitsui Banking Corporation	February 15, 2011	2,560	2,560	1.75	February 15, 2015	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Mizuho Bank, Ltd.		2,219	2,219					
	The Norinchukin Bank		2,219	2,219					
	Subtotal		6,998	6,998					
	MetLife Alico Life Insurance K.K.	February 15, 2011	5,000	5,000	2.47 (Note 6)	February 15, 2018	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Subtotal		5,000	5,000					
	The Tokyo Star Bank, Limited	March 24, 2011	3,000	3,000	1.95 (Note 3)	March 24, 2016	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Subtotal		3,000	3,000					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	2,200	2,200	1.97	March 26, 2016	Lump-sum repayment	(Note 13)	Secured, non-guaranteed
	Subtotal		2,200	2,200					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	325	225	1.61	March 26, 2016	Repayment of ¥125,000	(Note 13)	Secured, non-

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Mizuho Bank, Ltd.		650	450			thousand every 3 months, and lump-sum repayment of the remaining amount		guaranteed
	The Norinchukin Bank		650	450					
	Subtotal		1,625	1,125					
	Sumitomo Mitsui Trust Bank, Limited	September 19, 2012	960	960	1.15 (Note 4)	September 19, 2015	Lump-sum repayment	(Note 14)	Secured, non-guaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					
	Sumitomo Mitsui Banking Corporation	September 19, 2012	1,200	1,200	1.35 (Note 5)	September 19, 2017	Lump-sum repayment	(Note 14)	Secured, non-guaranteed
	Shinsei Bank, Limited		960	960					
	The Tokyo Star Bank, Limited		960	960					
	Subtotal		3,120	3,120					
	The Tokyo Star Bank, Limited	November 15, 2012	500	500	1.10 (Note 7)	November 15, 2015	Lump-sum repayment	(Note 11)	Secured, non-guaranteed
	Hiroshima Bank, Ltd.		1,000	1,000					
	Sumitomo Mitsui Banking Corporation		100	100					
	Subtotal		1,600	1,600					
	The Norinchukin Bank	November 15, 2012	2,100	2,100	1.25 (Note 8)	March 26, 2016	Lump-sum repayment	(Note 11)	Secured, non-guaranteed
	Mizuho Bank, Ltd.		2,100	2,100					
	Sumitomo Mitsui Banking Corporation		453	453					
	Subtotal		4,653	4,653					
	Shinsei Bank, Limited	November 15, 2012	2,000	2,000	1.30 (Note 9)	November 15, 2017	Lump-sum repayment	(Note 11)	Secured, non-guaranteed
	The Tokyo Star Bank, Limited		500	500					
	Sumitomo Mitsui Banking Corporation		4,000	4,000					
	Subtotal		6,500	6,500					
	Sumitomo Mitsui Trust Bank, Limited	March 29, 2013	—	875	1.04	March 31, 2017	Repayment of ¥2,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 11)	Secured, non-guaranteed
	Subtotal		—	875					
	Sumitomo Mitsui Banking Corporation	September 30, 2013	—	1,847	0.83 (Note 10)	September 30, 2018	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining	(Note 11)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	972					

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable							amount		
	Subtotal		—	2,820					
	The Nomura Trust and Banking Co., Ltd.	April 26, 2013	—	1,990	0.94	April 26, 2016	Repayment of ¥11,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 14)	Secured, non-guaranteed
	The Chiba Bank, Ltd.		—	995					
	Development Bank of Japan Inc.		—	895					
	The Bank of Fukuoka		—	497					
	Subtotal		—	4,378					
	Sumitomo Mitsui Banking Corporation	April 26, 2013	—	2,189	1.14	April 26, 2018	Repayment of ¥11,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 14)	Secured, non-guaranteed
	Shinsei Bank, Limited		—	995					
	The Tokyo Star Bank, Limited		—	1,293					
	Subtotal		—	4,477					
	Sumitomo Mitsui Banking Corporation	October 31, 2013	—	500	0.78 (Note 10)	September 30, 2018	Lump-sum repayment	(Note 14)	Secured, non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,000					
	Mizuho Bank, Ltd.		—	1,000					
	Shinsei Bank, Limited		—	500					
	Subtotal		—	3,000					
	Long-term loans payable – Total (Note 15)		54,728	56,587					
	Total loans payable			63,220	72,284				

(Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to two decimal places.

(Note 2) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.80375% per annum from December 28, 2012 through September 30, 2015.

(Note 3) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 2.01375% per annum from November 15, 2012 through March 24, 2016.

(Note 4) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.20375% per annum from December 28, 2012 through September 19, 2015.

(Note 5) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.47000% per annum from December 28, 2012 through September 19, 2017.

(Note 6) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 2.54600% per annum from February 15, 2013 through February 15, 2018.

(Note 7) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.13800% per annum from February 28, 2013 through November 15, 2015.

(Note 8) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.29000% per annum from February 28, 2013 through March 26, 2016.

(Note 9) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.38000% per annum from February 28, 2013 through November 15, 2017.

(Note 10) Under the interest rate swap contract entered as of November 13, 2013, the interest rate is substantially

fixed at 0.98050% per annum from December 30, 2013 through September 30, 2018.

- (Note 11) The funds were mainly appropriated for repayment of borrowings.
- (Note 12) The funds were mainly appropriated for acquisition of the beneficial interest of real estate in trust.
- (Note 13) The funds were mainly appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses.
- (Note 14) The funds were mainly appropriated for acquisition of the beneficial interest of real estate in trust and related expenses.
- (Note 15) To present loans payable for each loan contract, ¥674 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

3. Investment corporation bonds

Investment corporation bonds issued as of December 31, 2013 were as follows:

Name	Issuance date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
First unsecured investment corporation bonds	December 28, 2010 (Note 1)	2,000	—	2.11	December 27, 2013	Lump-sum repayment	(Note 2)	Unsecured, non-guaranteed (Note 4)
Second unsecured investment corporation bonds	November 26, 2013	—	2,500	0.89	November 25, 2016	Lump-sum repayment	(Note 3)	Unsecured, non-guaranteed (Note 4)
Total		2,000	2,500					

- (Note 1) Represents investment corporation bonds assumed as a result of the merger with the former JHR as of April 1, 2012.
- (Note 2) The funds were mainly appropriated for repayment of borrowings and related expenses.
- (Note 3) The funds were mainly appropriated for redemption of the first unsecured investment corporation bonds and future acquisition of specified assets.
- (Note 4) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

4. Short-term investment corporation bonds

Not applicable.

Purchases and Sales during the Period

1. Purchases and sales of real estate properties and asset-backed securities

Asset type	Property name	Acquisition		Sale			
		Acquisition date	Acquisition price (Millions of yen) (Note 1)	Sale date	Sale price (Millions of yen) (Note 1)	Book value (Millions of yen)	Gain (loss) on sale (Millions of yen) (Note 2)
Beneficial interest of real estate in trust	Hilton Tokyo Bay	April 26, 2013	26,050	—	—	—	—
Beneficial interest of real estate in trust	ibis Styles Kyoto Station	October 31, 2013	6,600	—	—	—	—
Beneficial interest	Hotel Vista Hashimoto	—	—	June 28,	380	593	(223)

of real estate in trust				2013			
Beneficial interest of real estate in trust	Pearl Hotel Kayabacho	–	–	November 13, 2013	2,300	3,170	(965)
Total		–	32,650	–	2,680	3,763	(1,189)

(Note 1) Acquisition price and sale price indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) “Gain (loss) on sale” shows the amount calculated by deducting the book value and other selling expenses from the sale price.

2. Purchases and sales of other assets

Assets other than real estate properties and asset-backed securities were mostly bank deposits and bank deposits in trust.

3. Survey of prices of specified assets

(1) Real estate properties

Acquisition/sale	Asset type	Property name	Acquisition/sale date	Acquisition/sale price (Millions of yen) (Note 1)	Appraisal value (Millions of yen) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Beneficial interest of real estate in trust	Hilton Tokyo Bay	April 26, 2013	26,050	29,400	February 1, 2013	Daiwa Real Estate Appraisal Co., Ltd.
Acquisition	Beneficial interest of real estate in trust	ibis Styles Kyoto Station	October 31, 2013	6,600	6,740	July 31, 2013	Daiwa Real Estate Appraisal Co., Ltd.
Sale	Beneficial interest of real estate in trust	Hotel Vista Hashimoto	June 28, 2013	380	612	December 31, 2012	Morii Appraisal & Investment Consulting, Inc.
Sale	Beneficial interest of real estate in trust	Pearl Hotel Kayabacho	November 13, 2013	2,300	2,885	June 30, 2013	Chuo Real Estate Appraisal Co., Ltd.

(Note 1) Acquisition price and sale price indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) The above appraisals were made by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

(2) Other

For transactions made by JHR that require research on price, etc. pursuant to the provisions of Article 201 of the Investment Trusts Act, except for transactions described in “(1) Real estate properties” above, the research was commissioned to KPMG AZSA LLC.

JHR has received from KPMG AZSA LLC a research report on one interest rate swap contract and three interest rate cap contracts during the period from January 1, 2013 to December 31, 2013.

4. Transactions with interested parties and major shareholders (Note 1)

(1) Transactions

(Millions of yen)

Category	Price (Note 2) (Note 3)		
	Purchase price	Sale price	Real estate operating revenue
Total amount	32,650	2,680	11,472
	Amount of purchases from related parties and major shareholders	Amount of sales from related parties and major shareholders	Amount of real estate operating income from related parties and major shareholders
	– [–%]	– [–%]	6,731 [58.7%]
Breakdown of transactions with related parties and major shareholders			
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	5,506 [48.0%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,225 [10.7%]
Total	– [–%]	– [–%]	6,731 [58.7%]

(Note 1) Interested parties and major shareholders are the Asset Management Company's interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trusts Act (hereinafter referred to as "interested parties, etc.") and the Asset Management Company's major shareholders defined in Article 29-4, paragraph 2 of the Financial Instruments and Exchange Act. The amounts in "(1) Transactions" above and "(2) Amounts of fees paid" below include transactions with those interested parties, etc. and major shareholders as well as sponsor-related parties stipulated in the Asset Management Company's management rules for transactions with sponsor-related persons, which include 1. Interested parties, etc., 2. The Asset Management Company's shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 10% or more stake, 5. Persons who ceased to fall under 1. or 4. within one year, and 6. Persons who are deemed appropriate by the compliance officer to be treated as sponsor-related persons in light of the rules for transactions with sponsor-related persons and the purpose of these rules.

(Note 2) Purchase price and sale price indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 3) The figures in brackets show the ratio of the amount to the total amount from related parties and major shareholders, rounded off to one decimal place.

(2) Amount of fees paid

(Thousands of yen)

Classification	Total amounts of fees paid (A)	Breakdown of transactions with related parties and major shareholders		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	103,096	Hotel Management Japan Co., Ltd.	5,760	5.6

(Note) Includes basic fees under the property management agreement as well as outsourcing expenses related to routine maintenance and management of buildings and facilities.

5. Transactions with the Asset Management Company in other businesses of the Asset Management Company

The Asset Management Company only engages in investment management and does not engage in any businesses related to the financial instruments business, building lots and buildings transactions, or real estate specified joint enterprise business. There are no applicable transactions.

Financial Information

1. Assets, liabilities, equity, and profit and loss

For the status of assets, liabilities, equity, and profit and loss, please refer to “II. BALANCE SHEETS,” “III. STATEMENTS OF INCOME,” “IV. STATEMENTS OF CHANGES IN NET ASSETS” and “V. NOTES TO FINANCIAL STATEMENTS.”

2. Changes in calculation method of depreciation

Not applicable.

3. Changes in evaluation method of real estate properties

Not applicable.

4. Beneficiary certificates of investment trusts set up by JHR

Not applicable.

Other

(1) Announcements

The following shows the summary of major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR’s Board of Officers.

Approval date	Item	Summary
April 10, 2013	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units was entrusted to Daiwa Securities Co., Ltd. and SMBC Nikko Securities Inc.
September 3, 2013	Comprehensive resolution on the issuance of investment corporation bonds and entrustment of accompanying administration (Note)	A comprehensive resolution was made on the issuance of investment corporation bonds with the issuance period between September 11, 2013 and September 10, 2015 with the total amount issued of up to ¥100.0 billion, and the decision on matters regarding the issuance of investment corporation bonds, including entrustment of the administration, was left to the discretion of the Executive Director.
November 27, 2013	Partial change of an asset management agreement	In terms of the following matters, an asset management agreement was partially changed in accordance with the modification of the Articles of Incorporation on which a resolution was made at JHR’s 6th General Meeting of Unitholders. - Add a provision that enables acquisition of own investment units for consideration - Change the asset management fee system and review the

		percentage of fees to take utmost care of investors' interest - Amend the scope of assets considered to be the main investments that are the basis for calculation of asset management fees, and others
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(Note) On November 26, 2013, the second unsecured investment corporation bonds were issued. General administration on the second unsecured investment corporation bonds was entrusted to Sumitomo Mitsui Banking Corporation.

JHR held its 6th General Meeting of Unitholders on November 28, 2013. The following shows the summary of major matters that were approved at the General Meeting of Unitholders.

Proposal	Summary
Partial amendment to the Articles of Incorporation	For the following reasons, the Articles of Incorporation are partially amended. - Newly establish a provision that enables JHR to acquire its own investment units - Clarify the type and scope of assets considered to be investments - Change the asset management fee system and review the percentage of fees to take utmost care of investors' interest - Amend the scope of assets considered to be the main investments that are the basis for calculation of asset management fees, and others
Election of one Executive Director	Yukio Isa was reappointed as Executive Director. The term of office is two years from December 1, 2013.
Election of two Supervisory Director	Hiroshi Matsuzawa and Tetsuya Mishiku were reappointed as Supervisory Directors. The term of office is two years from December 1, 2013.
Election of one substitute Executive Director	Hiroyuki Suzuki was newly appointed as a substitute Corporate Officer.

(2) Other

Unless otherwise noted, amounts and ratios in this document are rounded down and rounded off to the stated unit, respectively.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
December 31, 2013 and 2012

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
ASSETS		
Current assets:		
Cash and deposits (<i>Notes 3, 4 and 5</i>)	¥ 6,356,081	¥ 4,147,511
Cash and deposits in trust (<i>Notes 3 and 5</i>)	6,197,207	4,774,787
Operating accounts receivable	753,808	705,961
Prepaid expenses	329,729	324,846
Income taxes receivable	405	800
Other current assets	5,278	6,243
Total current assets	13,642,511	9,960,151
Property and equipment, at cost (<i>Notes 4, 12, 15, 18, 19, 20 and 21</i>)		
Machinery and equipment	129,562	101,987
Tools, furniture and fixtures	748,924	609,922
Buildings in trust (<i>Note 11</i>)	57,994,577	52,286,117
Structures in trust	654,368	534,568
Machinery and equipment in trust	243,405	234,994
Tools, furniture and fixtures in trust	133,069	134,600
Land in trust	82,502,566	59,212,599
Construction in progress in trust	14,573	20,160
	142,421,049	113,134,949
Less: Accumulated depreciation	(5,891,461)	(3,981,000)
Net property and equipment	136,529,587	109,153,949
Intangible assets:		
Software	38,407	49,952
Leasehold rights in trust (<i>Note 4</i>)	19,774,039	19,774,039
Other intangible assets	11,647	12,327
Total intangible assets	19,824,094	19,836,320
Other assets:		
Security deposits	12,500	22,500
Leasehold and security deposits in trust	158,323	158,323
Long-term prepaid expenses	445,294	427,685
Derivative assets (<i>Note 16</i>)	35,759	9,823
Investment unit issuance costs	62,355	55,109
Investment corporation bond issuance costs	17,499	-
Total other assets	731,733	673,442
Total assets	¥170,727,927	¥139,623,863

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
December 31, 2013 and 2012

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
LIABILITIES AND NET ASSETS		
Current liabilities:		
Operating accounts payable	¥ 238,954	¥ 298,690
Short-term loans payable (<i>Notes 4, 5 and 6</i>)	2,669,150	3,841,980
Current portion of investment corporation bond (<i>Notes 5 and 7</i>)	-	2,000,000
Current portion of long-term loans payable (<i>Notes 4, 5, 6 and 16</i>)	13,701,860	5,280,175
Accounts payable	46,197	36
Accrued expenses	398,909	320,774
Income taxes payable	1,210	302
Consumption tax payable	113,717	132,926
Advances received	634,692	638,335
Dividends payable	7,208	6,159
Deposits received	74,895	11,734
Other current liabilities	375	9,461
Total current liabilities	17,887,171	12,540,575
Long-term liabilities:		
Investment corporation bond (<i>Notes 5 and 7</i>)	2,500,000	-
Long-term loans payable (<i>Notes 4, 5, 6 and 16</i>)	55,913,055	54,098,080
Tenant leasehold and security deposits (<i>Note 5</i>)	2,010,520	2,010,520
Tenant leasehold and security deposits in trust (<i>Note 5</i>)	2,615,148	1,926,295
Derivative liabilities (<i>Note 16</i>)	44,789	34,747
Deferred tax liabilities (<i>Note 13</i>)	1,028	3,355
Total long-term liabilities	63,084,541	58,072,998
Total liabilities	80,971,713	70,613,573
Net assets (<i>Note 8</i>):		
Unitholders' equity:		
Unitholders' capital		
Units authorized: 20,000,000 units	48,845,323	28,260,193
Units issued and outstanding; 2,621,281 units and 2,111,281 units as of December 31, 2013 and 2012, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Dividend reserve	16,017,484	-
Total voluntary reserve	16,017,484	-
Unappropriated retained earnings	3,235,030	19,031,977
Total surplus	40,998,912	40,778,375
Total unitholders' equity	89,844,236	69,038,569
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (<i>Note 16</i>)	(88,022)	(28,279)
Total valuation and translation adjustments	(88,022)	(28,279)
Total net assets	89,756,213	69,010,289
Total liabilities and net assets	¥170,727,927	¥ 139,623,863

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Statements of Income

For the year ended December 31, 2013 and the nine months ended December 31, 2012

	<i>Thousands of yen</i>	
	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Operating revenues (Note 9):		
Real estate operating income	¥ 11,277,162	¥ 7,175,209
Other real estate operating income	195,761	108,548
Total operating revenues	11,472,924	7,283,758
Operating expenses:		
Real estate operating costs (Note 9)	3,870,583	2,668,078
Loss on sale of real estate properties (Note 10)	1,189,084	1,393,381
Asset management fee	738,628	461,770
Asset custody fee	23,967	14,915
Administrative service fees	73,409	43,794
Directors' compensation	9,600	7,200
Other operating expenses	199,857	99,013
Total operating expenses	6,105,130	4,688,153
Operating income	5,367,794	2,595,604
Non-operating income:		
Interest income	1,996	791
Gain of forfeiture of unclaimed dividends	1,744	1,850
Gain on insurance claims	2,329	-
Interest on tax refunds	806	362
Government subsidy income	35,637	-
Gain on negative goodwill (Notes 19 and 20)	-	18,578,273
Other	-	0
Total non-operating income	42,514	18,581,278
Non-operating expenses:		
Interest expense	1,053,352	805,491
Interest expense on investment corporation bond	43,888	31,709
Borrowing costs	491,126	337,186
Amortization of investment corporation bond issuance costs	580	-
Amortization of investment unit issuance costs	36,437	11,399
Loss on derivative instruments (Note 16)	8,632	-
Advanced depreciation deduction of property and equipment (Note 11)	24,921	-
Impairment loss (Notes 12 and 20)	516,779	958,275
Other	45	30
Total non-operating expenses	2,175,763	2,144,091
Income before income taxes	3,234,544	19,032,791
Income taxes (Note 13):		
Current	1,210	806
Deferred	-	38
Total income taxes	1,210	845
Net income	¥ 3,233,334	¥ 19,031,946

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Statements of Changes in Net Assets

For the year ended December 31, 2013 and the nine months ended December 31, 2012

	Thousands of yen						
	Unitholders' equity						
	Surplus						Total unitholders' equity
	Unitholders' capital	Capital surplus	Dividend reserve	Total voluntary reserve	Unappropriated retained earnings	Total surplus	
Balance, April 1, 2012	¥ 23,161,729	¥ -	¥ -	¥ -	¥ 473,912	¥ 473,912	¥ 23,635,641
Changes of items during the period:							
Issuance of new investment units	5,098,464	-	-	-	-	-	5,098,464
Increase by merger (Note 19)	-	21,746,398	-	-	-	21,746,398	21,746,398
Dividends paid	-	-	-	-	(473,881)	(473,881)	(473,881)
Net income	-	-	-	-	19,031,946	19,031,946	19,031,946
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-
Total changes of items during the period	5,098,464	21,746,398	-	-	18,558,065	40,304,463	45,402,927
Balance, December 31, 2012	28,260,193	21,746,398	-	-	19,031,977	40,778,375	69,038,569
Changes of items during the year:							
Issuance of new investment units	20,585,130	-	-	-	-	-	20,585,130
Addition to dividend reserve	-	-	16,017,484	16,017,484	(16,017,484)	-	-
Dividends paid	-	-	-	-	(3,012,797)	(3,012,797)	(3,012,797)
Net income	-	-	-	-	3,233,334	3,233,334	3,233,334
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-
Total changes of items during the year	20,585,130	-	16,017,484	16,017,484	(15,796,947)	220,536	20,805,666
Balance, December 31, 2013	¥ 48,845,323	¥ 21,746,398	¥ 16,017,484	¥ 16,017,484	¥ 3,235,030	¥ 40,998,912	¥ 89,844,236

	Thousands of yen		
	Valuation and translation adjustments		
	Deferred gains or (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, April 1, 2012	¥ -	¥ -	¥ 23,635,641
Changes of items during the period:			
Issuance of new investment units	-	-	5,098,464
Increase by merger (Note 19)	-	-	21,746,398
Dividends paid	-	-	(473,881)
Net income	-	-	19,031,946
Net changes of items other than unitholders' equity	(28,279)	(28,279)	(28,279)
Total changes of items during the period	(28,279)	(28,279)	45,374,648
Balance, December 31, 2012	(28,279)	(28,279)	69,010,289
Changes of items during the year:			
Issuance of new investment units	-	-	20,585,130
Addition to dividend reserve	-	-	-
Dividends paid	-	-	(3,012,797)
Net income	-	-	3,233,334
Net changes of items other than unitholders' equity	(59,743)	(59,743)	(59,743)
Total changes of items during the year	(59,743)	(59,743)	20,745,923
Balance, December 31, 2013	¥ (88,022)	¥ (88,022)	¥ 89,756,213

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Statements of Cash Flows

For the year ended December 31, 2013 and the nine months ended December 31, 2012

	<i>Thousands of yen</i>	
	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Cash flows from operating activities:		
Income before income taxes	¥ 3,234,544	¥ 19,032,791
Depreciation and amortization	2,297,350	1,592,745
Loss on disposal of property and equipment	8,005	9,132
Loss on derivative instruments	8,632	-
Government subsidy income	(35,637)	-
Advanced depreciation deduction of property and equipment	24,921	-
Gain on negative goodwill	-	(18,578,273)
Amortization of investment corporation bond issuance costs	580	-
Amortization of investment unit issuance costs	36,437	11,399
Impairment loss	516,779	958,275
Decrease in property and equipment in trust due to sales	3,763,543	2,203,823
Interest income	(1,996)	(791)
Interest expense	1,097,240	837,200
Interest on tax refunds	(806)	(362)
(Increase) decrease in operating accounts receivable	(47,846)	(376,130)
(Increase) decrease in prepaid expenses	(4,882)	(251,662)
(Increase) decrease in long-term prepaid expenses	(17,609)	9,544
Increase (decrease) in operating accounts payable	49,673	(453,041)
Increase (decrease) in accounts payable	46,161	36
Increase (decrease) in accrued expenses	65,035	85,312
Increase (decrease) in consumption tax payable	(19,208)	49,612
Increase (decrease) in advances received	(3,642)	82,109
Increase (decrease) in deposits received	63,160	11,734
Other – net	(7,285)	3,600
Subtotal	11,073,151	5,227,054
Interest received	1,996	791
Interest paid	(1,084,141)	(890,716)
Interest received on tax refunds	806	362
Income taxes – paid	92	(3,336)
Net cash provided by operating activities	9,991,905	4,334,155
Cash flows from investing activities:		
Purchases of property and equipment in trust	(33,875,735)	(11,705,781)
Purchases of property and equipment	(208,522)	(112,386)
Purchases of intangible assets	-	(16,516)
Proceeds from (payments for) security deposits in trust	10,000	(10,555)
Proceeds from tenant leasehold and security deposits in trust	759,374	495,827
Reimbursements of tenant leasehold and security deposits in trust	(70,521)	-
Government subsidy received	35,637	-
Net cash used in investing activities	¥ (33,349,766)	¥ (11,349,411)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION

Statements of Cash Flows

For the year ended December 31, 2013 and the nine months ended December 31, 2012

	<i>Thousands of yen</i>	
	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 2,949,980	¥ -
Repayments of short-term loans payable	(4,122,810)	(118,020)
Proceeds from long-term loans payable	17,407,175	18,753,200
Repayments of long-term loans payable	(7,170,515)	(13,882,695)
Proceeds from investment corporation bond	2,500,000	-
Repayments of investment corporation bond	(2,000,000)	-
Proceeds from issuance of investment units	20,541,446	5,052,035
Payments for investment corporation bond issuance costs	(18,080)	-
Payments for derivative instruments	(86,595)	-
Dividends paid	(3,011,748)	(1,084,385)
Proceeds from collection of security deposits	-	207,823
Net cash provided by financing activities	<u>26,988,851</u>	<u>8,927,958</u>
Net increase in cash and cash equivalents	3,630,990	1,912,702
Cash and cash equivalents at beginning of year (<i>Note 3</i>)	8,922,299	3,024,168
Increase in cash and cash equivalents resulting from merger (<i>Notes 17 and 19</i>)	-	3,985,428
Cash and cash equivalents at end of year (<i>Note 3</i>)	<u>¥ 12,553,289</u>	<u>¥ 8,922,299</u>

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Notes to Financial Statements

For the year ended December 31, 2013 and the nine months ended December 31, 2012

1. Organization

Japan Hotel REIT Investment Corporation (“JHR”), formerly known as Nippon Hotel Fund Investment Corporation (the “former NHF”), was established under the Act on Investment Trusts and Investment Corporations (the “Investment Trust Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) Section on the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

Focusing on hotels, which are important and profitable parts of the social infrastructure, JHR primarily invests in real estate assets that are wholly or partially used as hotels and real estate-related assets that are in themselves real estate equivalents pertaining to such real estate assets or that are backed by such real estate or real estate equivalents.

In the nine months ended December 31, 2012, the former NHF, as the surviving entity, merged with Japan Hotel and Resort, Inc. (the “former JHR”), as the dissolved entity, with an effective date of April 1, 2012 (the “merger”). In conjunction with the merger, the former NHF changed its name to Japan Hotel REIT Investment Corporation, marking a new start as the only REIT specializing in hotel properties in Japan.

Through the merger, nine properties held by the former JHR were succeeded by JHR. As a result, as of the effective date of the merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2013, JHR has ownership interests in 28 properties.

2. Summary of Significant Accounting Policies

a. Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English (with some reclassifications and expanded descriptions) from the financial statements of JHR prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. JHR has not prepared consolidated financial statements, as JHR has no subsidiaries.

JHR changed its reporting period from six months to twelve months ending December 31, pursuant to the resolution of the 5th General Meeting of Unitholders held on February 24, 2012. Due to this change, the term of the fiscal period ended December 31, 2012 consisted of the nine months from April 1, 2012 to December 31, 2012.

b. Cash and cash equivalents

Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts and banks, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and are subject to little risk of change in value.

c. Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of major property and equipment components are as follows:

Machinery and equipment	2 to 12 years
Tools, furniture and fixtures	2 to 20 years
Buildings in trust	2 to 65 years
Structures in trust	2 to 65 years
Machinery and equipment in trust	10 to 35 years
Tools, furniture and equipment in trust	2 to 29 years

d. Intangible assets

Intangible assets are amortized using the straight-line method.

e. Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight-line method.

f. Investment unit issuance costs

Investment unit issuance costs are amortized using the straight-line method over three years.

The issuance of new investment units through a public offering on April 17, 2013 was carried out under a firm commitment underwriting agreement in which an underwriting securities company commits to buy all of the investment units being offered at an issue price and sells them at an offering price different from such issue price to general investors (the “spread method”).

No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥721,650 thousand representing the difference between the offering price and the issue price of all new investment units issued.

g. Investment corporation bond issuance costs

Investment corporation bond issuance costs are amortized using the interest method over the respective terms of the bond.

h. Income taxes

Deferred tax assets and liabilities have been recognized in the financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

i. Taxes on property and equipment

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs”. Cash paid for property taxes and city planning taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes included in the acquisition cost of real properties was ¥104,803 thousand for the year ended December 31, 2013 and ¥21,332 thousand for the nine months ended December 31, 2012.

j. Derivatives and hedging activities

JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Article of Incorporation, mainly arising from adverse fluctuations in interest rates on loans payable. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which the unrealized gain or loss is deferred as a component of net assets.

JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and hedged items and assessing the ratio between the changes.

k. Accounting treatment of beneficiary interests in trust assets including real estate

For trust beneficiary interests in real estate, all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are recorded separately in the accompanying balance sheet and income statement accounts.

l. Consumption taxes

Consumption taxes are excluded from the transaction amounts. However, non-deductible consumption taxes on property and equipment are included in the acquisition cost of the respective assets.

m. Rounding of amounts presented in the financial statements

The amounts have been rounded down to the nearest thousands or millions in the accompanying financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2012 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
Cash and deposits	¥ 6,356,081	¥ 4,147,511
Cash and deposits in trust	6,197,207	4,774,787
Cash and cash equivalents	¥ 12,553,289	¥ 8,922,299

4. Pledged Assets and Secured Liabilities

The carrying amount of assets pledged as collateral and the secured liabilities as of December 31, 2013 and 2012 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
Assets pledged:		
Cash and deposits	¥ 6,328,424	¥ 3,743,278
Machinery and equipment	101,572	90,178
Tools, furniture and fixtures	374,761	415,538
Buildings in trust	52,609,359	48,555,368
Structures in trust	579,472	499,380
Machinery and equipment in trust	205,494	205,777
Tools, furniture and fixtures in trust	71,564	83,589
Land in trust	82,502,566	59,212,599
Construction in progress in trust	14,573	20,160
Leasehold rights in trust	19,774,039	19,774,039
Total	¥ 162,561,828	¥ 132,599,909
Secured liabilities:		
Short-term loans payable	¥ 2,669,150	¥ 3,841,980
Current portion of long-term loans payable	13,701,860	5,280,175
Long-term loans payable	55,913,055	54,098,080
Total	¥ 72,284,065	¥ 63,220,235

5. Financial Instruments

a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust Act. As a policy, JHR procures funds through issuance of investment units etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

The floating rate loans payable are exposed to risks of interest rate fluctuation. In order to mitigate interest rate risk, JHR may enter into derivative transactions swapping the floating interest rate to a fixed interest rate, if necessary.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the asset management company. Derivative transactions are arranged by the finance department of the asset management company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and committees set forth in its decision-making standards and resolution of JHR's board of officers.

Loans payable and corporate bonds are exposed to liquidity risks. The finance department of the asset management company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitor compliance with restrictive covenants set forth in loan agreements. JHR manages liquidity risks by controlling the ratio of short-term and long-term loans payable considering the current financial environment through approval and resolution by authorized personnel and committees in the asset management company and resolution of JHR's board of officers.

(3) Supplemental explanation regarding fair value of financial instruments

The carrying amount of derivative transactions described in "5.b. Fair values of financial instruments" does not indicate market risk related to derivative transactions.

b. Fair Value of Financial Instruments

Carrying amounts on the balance sheets, fair values, and the differences between them as of December 31, 2013 and 2012 were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table.

<i>Thousands of yen</i>			
As of December 31, 2013			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 6,356,081	¥ 6,356,081	¥ -
(ii) Cash and deposits in trust	6,197,207	6,197,207	-
Total	¥ 12,553,289	¥ 12,553,289	¥ -
(iii) Short-term loans payable	¥ 2,669,150	¥ 2,669,150	¥ -
(v) Current portion of long-term loans payable	13,701,860	13,701,860	-
(vi) Investment corporation bond	2,500,000	2,500,250	250
(vii) Long-term loans payable	55,913,055	55,913,055	-
Total	¥ 74,784,065	¥ 74,784,315	¥ 250
(viii) Derivative transactions (*)	¥ (9,030)	¥ (9,030)	¥ -
<i>Thousands of yen</i>			
As of December 31, 2012			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 4,147,511	¥ 4,147,511	¥ -
(ii) Cash and deposits in trust	4,774,787	4,774,787	-
Total	¥ 8,922,299	¥ 8,922,299	¥ -
(iii) Short-term loans payable	¥ 3,841,980	¥ 3,841,980	¥ -
(iv) Current portion of investment corporation bond	2,000,000	2,002,600	2,600
(v) Current portion of long-term loans payable	5,280,175	5,280,175	-
(vii) Long-term loans payable	54,098,080	54,098,080	-
Total	¥ 65,220,235	¥ 65,222,835	¥ 2,600
(viii) Derivative transactions (*)	¥ (24,923)	¥ (24,923)	¥ -

(*) Receivables and payables arising from derivative transactions are presented on a net basis and numbers in parenthesis denote net payables.

Notes:

(1) Methods to measure fair value of financial instruments

(i) Cash and deposits, (ii) cash and deposits in trust, (iii) short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

(iv) Current portion of investment corporation bond, (vi) investment corporation bond

The fair value of investment corporation bond is measured based on the market price.

(v) Current portion of long-term loans payable, (vii) long-term loans payable

The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are revised periodically to reflect market interest rate.

(viii) Derivative transactions

The information on the fair value for derivative transactions is presented in Note 16.

(2) Information on financial instruments whose fair values are considered extremely difficult to measure as of December 31, 2013 and 2012 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
	Carrying amount	
Tenant leasehold and security deposits	¥ 2,010,520	¥ 2,010,520
Tenant leasehold and security deposits in trust	2,615,148	1,926,295
Total	¥ 4,625,668	¥ 3,936,815

Tenant leasehold and security deposits are not subject to fair value disclosure because they have no market price and their actual deposit periods are not estimable, thus making a reasonable estimate of future cash flows difficult.

(3) Redemption schedule for monetary claims as of December 31, 2013 and 2012:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2013						
Cash and deposits	¥ 6,356,081	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	6,197,207	-	-	-	-	-
Total	¥12,553,289	¥ -	¥ -	¥ -	¥ -	¥ -

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2012						
Cash and deposits	¥ 4,147,511	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	4,774,787	-	-	-	-	-
Total	¥ 8,922,299	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bond as of December 31, 2013 and 2012.

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2013						
Short-term loans payable	¥ 2,669,150	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	13,701,860	-	-	-	-	-
Investment corporation bond	-	-	2,500,000	-	-	-
Long-term loans payable	-	14,275,430	16,093,625	10,542,250	15,001,750	-
Total	¥16,371,010	¥14,275,430	¥18,593,625	¥10,542,250	¥15,001,750	¥ -

Thousands of yen						
As of December 31, 2012	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans payable	¥ 3,841,980	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of investment corporation bond	2,000,000	-	-	-	-	-
Current portion of long-term loans payable	5,280,175	-	-	-	-	-
Long-term loans payable	-	15,063,550	14,436,330	9,978,200	9,620,000	5,000,000
Total	¥11,122,155	¥15,063,550	¥14,436,330	¥ 9,978,200	¥ 9,620,000	¥ 5,000,000

6. Short-term and Long-term loans payable

Short-term and long-term loans payable as of December 31, 2013 and 2012 consisted of the following:

		Millions of yen			
		As of December 31, 2013	For the year ended December 31, 2013	As of December 31, 2012	
	Maturity date	Amount	Interest rate (*1)	Amount	
Short-term loans payable:					
Secured loan, payable ¥10,000 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2013	¥ -	0.91%	¥	3,841
Secured loan, payable ¥7,750 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2014	2,669	0.79%		-
Sub-total		2,669			3,841
Long-term loans payable:					
Secured loan, payable ¥1,625 thousand monthly and the remaining balance in a lump-sum at maturity	February 28, 2013	-	2.18%		1,800
Secured loan, payable ¥7,250 thousand quarterly and the remaining balance in a lump-sum at maturity	September 30, 2013	-	1.46%		2,849
Secured loan, payable ¥12,250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2014	4,765	1.55%		4,814
Secured loan, payable ¥13,250 thousand quarterly and the remaining balance in a lump-sum at maturity	September 30, 2014	3,262	1.66%		4,823
Secured loan, payable in a lump-sum at maturity	February 15, 2014	5,000	1.55%		5,000
Secured loan, payable ¥7,000 thousand quarterly and the remaining balance in a lump-sum at maturity (*3)	September 30, 2015	2,178	1.76%		2,514
Secured loan, payable ¥1,625 thousand quarterly and the remaining balance in a lump-sum at maturity	February 29, 2016	1,781	0.95%		-
Secured loan, payable in a lump-sum at maturity	February 15, 2015	6,998	1.75%		6,998
Secured loan, payable in a lump-sum at maturity (*7)	February 15, 2018	5,000	2.47%		5,000
Secured loan, payable in a lump-sum at maturity (*4)	March 24, 2016	3,000	1.95%		3,000
Secured loan, payable in a lump-sum at maturity (*2)	March 26, 2016	2,200	1.97%		2,200
Secured loan, payable ¥125,000 thousand quarterly and the remaining balance in a lump-sum at maturity	March 26, 2016	1,125	1.61%		1,625
Secured loan, payable in a lump-sum at maturity (*5)	September 19, 2015	2,880	1.15%		2,880
Secured loan, payable in a lump-sum at maturity (*6)	September 19, 2017	3,120	1.35%		3,120
Secured loan, payable in a lump-sum at maturity (*8)	November 15, 2015	1,600	1.10%		1,600
Secured loan, payable in a lump-sum at maturity (*9)	March 26, 2016	4,653	1.25%		4,653
Secured loan, payable in a lump-sum at maturity (*10)	November 15, 2017	6,500	1.30%		6,500
Secured loan, payable ¥2,250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2017	875	1.04%		-
Secured loan, payable ¥7,250 thousand quarterly and the remaining balance in a lump-sum at maturity (*11)	September 30, 2018	2,820	0.83%		-
Secured loan, payable ¥11,000 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2016	4,378	0.94%		-
Secured loan, payable ¥11,250 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2018	4,477	1.14%		-
Secured loan, payable in a lump-sum at maturity (*11)	September 30, 2018	3,000	0.78%		-
Sub-total		69,614			59,378
Total of short-term and long-term loans payable		¥ 72,284		¥	63,220

Notes:

(*1) The interest rate represents the weighted average rate during the period based on the number of days and outstanding balance of the loan payable except for the interest rate described in (*2) below. The interest rate is rounded to the nearest second decimal place.

(*2) The interest rate for this loan payable is a fixed rate and rounded to the nearest second decimal place.

(*3) The interest rate for this loan payable is, in effect, fixed at 1.80375% for the period from December 28, 2012 through September 30, 2015 due to the execution of an interest rate swap agreement on October 10, 2012.

(*4) The interest rate for this loan payable is, in effect, fixed at 2.01375% for the period from November 15, 2012 through March 24, 2016 due to the execution of an interest rate swap agreement on October 10, 2012.

(*5) The interest rate for this loan payable is, in effect, fixed at 1.20375% for the period from December 28, 2012 through September 19, 2015 due to the execution of an interest rate swap agreement on October 10, 2012.

(*6) The interest rate for this loan payable is, in effect, fixed at 1.47000% for the period from December 28, 2012 through September 19, 2017 due to the execution of an interest rate swap agreement on October 10, 2012.

(*7) The interest rate for this loan payable is, in effect, fixed at 2.54600% for the period from February 15, 2013 through February 15, 2018 due to the execution of an interest rate swap agreement on October 10, 2012.

(*8) The interest rate for this loan payable is, in effect, fixed at 1.13800% for the period from February 28, 2013 through November 15, 2015 due to the execution of an interest rate swap agreement on December 13, 2012.

(*9) The interest rate for this loan payable is, in effect, fixed at 1.29000% for the period from February 28, 2013 through March 26, 2016 due to the execution of an interest rate swap agreement on December 13, 2012.

(*10) The interest rate for this loan payable is, in effect, fixed at 1.38000% for the period from February 28, 2013 through November 15, 2017 due to the execution of an interest rate swap agreement on December 13, 2012.

(*11) The interest rate for this loan payable is, in effect, fixed at 0.98050% for the period from December 30, 2013 through September 30, 2018 due to the execution of an interest rate swap agreement on November 13, 2013.

The annual maturities of long-term loan payable as of December 31, 2013 were as follows:

Years ending December 31	Millions of yen
2014	¥ 13,701
2015	14,275
2016	16,093
2017	10,542
2018	15,001
2019 and thereafter	-
Total	¥ 69,614

7. Investment Corporation Bond

Investment corporation bond as of December 31, 2013 and 2012 consisted of the following:

	Millions of yen	
	As of December 31, 2013	As of December 31, 2012
Unsecured investment corporation bond at interest rate of 2.11%, due on December 27, 2013 (*1)	¥ -	¥ 2,000
Unsecured investment corporation bond at interest rate of 0.89%, due on November 25, 2016	2,500	-
Total	¥ 2,500	¥ 2,000

Note:

(*1) This investment corporation bond was assumed by JHR as a result of the merger on April 1, 2012.

The annual maturities of the investment corporation bond as of December 31, 2013 were as follows:

Years ending December 31	Millions of yen
2014	¥ -
2015	-
2016	2,500
2017	-
2018	-
2019 and thereafter	-
Total	¥ 2,500

8. Net Assets

JHR maintains at least ¥50,000 thousand in minimum net assets as required by the Investment Trust Act.

9. Real Estate Operating Revenues and Expenses

The components of “Real estate operating income” and “Real estate operating costs” for the year ended December 31, 2013 and the nine months ended December 31, 2012 were as follows:

	Thousands of yen	
	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Operating revenues:		
Real estate operating income:		
Fixed rent	¥ 8,465,465	¥ 5,118,021
Variable rent	2,370,041	1,929,664
Income from management contract	441,655	127,524
Sub-total	11,277,162	7,175,209
Other real estate operating income:		
Parking lots	56,879	26,649
Other incidental income	18,937	8,329
Utilities	102,762	59,054
Other	17,182	14,515
Sub-total	195,761	108,548
Total operating revenues	11,472,924	7,283,758
Real estate operating costs:		
Land lease and other rent expenses	474,954	278,850
Property taxes	721,254	530,958
Outsourcing expenses (*1)	147,574	89,177
Nonlife insurance	25,906	18,976
Depreciation and amortization	2,297,350	1,592,118
Loss on disposal of property and equipment	8,005	9,132
Repairs	40,804	36,042
Utilities	103,782	58,698
Trust fees	42,785	39,164
Other	8,165	14,958
Total real estate operating costs	3,870,583	2,668,078
Net real estate operating income	¥ 7,602,340	¥ 4,615,679

Note:

(*1) Outsourcing expenses include management contract fees of ¥44,477 thousand for the year ended December 31, 2013 and ¥14,637 thousand for the nine months ended December 31, 2012.

10. Loss on Sale of Real Estate Properties

The components of “Loss on sale of real estate properties” for the year ended December 31, 2013 and the nine months ended December 31, 2012 were as follows:

	<i>Thousands of yen</i>			
	For the year ended December 31, 2013		For the nine months ended December 31, 2012	
	Hotel Vista Hashimoto	Pearl Hotel Kayabacho	Millennia Hotel Matsuyama	Hotel Resol Sapporo Minaminijo
Proceeds from sale of properties	¥ 380,000	¥ 2,300,000	¥ 422,000	¥ 420,000
Cost of sale of properties	593,174	3,170,368	1,380,189	823,633
Other selling expenses	10,360	95,180	23,774	7,784
Loss on sale of real estate properties	¥ 223,535	¥ 965,549	¥ 981,963	¥ 411,418

11. Advanced Depreciation Deduction of Property and Equipment

The advanced depreciation deduction of property and equipment for the year ended December 31, 2013 and the nine months ended December 31, 2012 represents the amounts deducted from acquisition costs for the following property and equipment due to government subsidies received:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Buildings in trust	¥ 24,921	¥ -

12. Impairment Loss

JHR identified groups of assets based on each real estate property, which were individually reviewed for impairment. The recoverable amounts were measured at the net sales price. The net sales price is calculated as the sales price, which is based on an appraisal made by a licensed real estate appraiser, less estimated selling costs.

<For the year ended December 31, 2013>

JHR recorded an impairment loss for the following asset groups for the year ended December 31, 2013:

	Purpose of use	Location	Category	<i>Thousands of yen</i>
				Amount
Dormy Inn Namba	Hotel	Osaka-shi, Osaka	Land in trust	¥ 220,001
			Buildings and other property and equipment in trust	¥ 296,777

For the year ended December 31, 2013, in connection with the beneficial interest sale and purchase agreement that JHR entered into on December 19, 2013, the book values of property and equipment were written down to their respective recoverable amounts by ¥516,779 thousand. The amount consisted of ¥292,049 thousand for buildings in trust, ¥525 thousand for structures in trust, ¥1,796 thousand for machinery and equipment in trust, ¥2,405 thousand for tools, furniture and fixtures in trust, and ¥220,001 thousand for land in trust.

<For the nine months ended December 31, 2012>

JHR recorded an impairment loss for the following asset groups for the nine months ended December 31, 2012:

	Purpose of use	Location	Category	<i>Thousands of yen</i>	
				Amount	
Hotel Vista Hashimoto	Hotel	Sagamihara-shi, Kanagawa	Land in trust	¥	627,255
			Buildings and other property and equipment in trust	¥	331,020

For the nine months ended December 31, 2012, in light of the future market environment as influenced by competitor hotels, the book values of property and equipment were written down to their respective recoverable amounts by ¥958,275 thousand. The amount consisted of ¥326,015 thousand for buildings in trust, ¥4,281 thousand for structures in trust, ¥723 thousand for tools, furniture and fixtures in trust, and ¥627,255 thousand for land in trust.

13. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2013 and 2012 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2013	As of December 31, 2012
Deferred tax assets – noncurrent:		
Valuation difference on assets acquired by the merger	¥ 2,126,163	¥ 2,177,012
Impairment loss	176,531	326,753
Deferred losses on hedges	30,745	11,869
Total gross deferred tax assets – noncurrent	2,333,441	2,515,635
Valuation allowance	(2,333,441)	(2,515,635)
Total deferred tax assets – noncurrent	-	-
Deferred tax liabilities – noncurrent:		
Deferred gains on hedges	1,028	3,355
Total deferred tax liabilities – noncurrent	1,028	3,355
Net deferred tax liabilities – noncurrent	¥ 1,028	¥ 3,355

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the year ended December 31, 2013 and for the nine months ended December 31, 2012 was as follows:

	For the year ended December 31, 2013	For the nine months ended December 31, 2012
Normal effective statutory tax rate	36.59%	36.59%
Gain on negative goodwill	-	(37.04)
Deduction for dividends paid	(29.93)	(1.14)
Change in valuation allowance	(6.22)	1.49
Other – net	(0.40)	0.10
Actual effective tax rate	0.04%	0.00%

14. Amounts per Unit

Net income per unit for the year ended December 31, 2013 and the nine months ended December 31, 2012 were as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
	<u>Net income</u>	<u>Weighted- average units</u>	<u>Net income per unit</u>
For the year ended December 31, 2013			
Basic net income per unit - Net income attributable to common unitholders	¥ 3,233,334	2,473,171	¥ 1,307
For the nine months ended December 31, 2012			
Basic net income per unit - Net income attributable to common unitholders	¥ 19,031,946	1,959,732	¥ 9,711

Notes:

(1) The computation of net income per unit is based on the weighted-average number of units outstanding during the period.

(2) Diluted net income per unit is not presented since there are no potentially dilutive units for the year ended December 31, 2013 and the nine months ended December 31, 2012.

Net assets per unit as of December 31, 2013 and 2012 were as follows:

	<i>Yen</i>	
	<u>As of December 31, 2013</u>	<u>As of December 31, 2012</u>
Net assets per share	¥ 34,241	¥ 32,686

15. Leases

As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. As of December 31, 2013 and 2012, future minimum rental revenue under the non-cancellable operating leases is as follows:

	<i>Thousands of yen</i>	
	<u>As of December 31, 2013</u>	<u>As of December 31, 2012</u>
Due within one year	¥ 1,483,459	¥ 1,483,459
Due after one year	7,452,533	8,932,811
Total	<u>¥ 8,935,992</u>	<u>¥ 10,416,270</u>

16. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is applied as of December 31, 2013 and 2012 were as follows:

As of December 31, 2013	Method of accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥34,907,250	¥34,907,250	¥ (41,779)
Interest rate caps	Deferral method	Long-term loans payable	9,413,500	9,413,500	32,749
Total			¥44,320,750	¥44,320,750	¥ (9,030)

As of December 31, 2012	Method of accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after One year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥29,217,500	¥29,217,500	¥ (24,923)

Notes:

(*1) The contract amounts of the interest rate swap and interest rate cap are presented based on the notional principal amounts.

(*2) The fair value is measured at the quoted price obtained from the counterparty financial institutions.

17. Supplemental Cash Flow Information

On April 1, 2012, the former NHF, as the acquiring company, merged with the former JHR, as the acquired company under the Accounting Standard for Business Combinations, and was accounted for using the purchase method. As a result of the merger, JHR acquired assets and assumed liabilities of the former JHR at the date of merger as follows:

	Thousands of yen
Current assets	¥ 4,304,913
Non-current assets	79,461,287
Total assets	¥ 83,766,200
Current liabilities	¥ 14,757,315
Long-term liabilities	27,993,090
Total liabilities	¥ 42,750,405

Capital surplus increased by ¥21,746,398 thousand due to the merger.

18. Investment and Rental Properties

JHR owns investment and rental properties to earn lease income and income from management contracts. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

	Thousands of yen			
	Carrying amount (*1)			Fair value (*3)
	January 1, 2013	Net increase (*2)	December 31, 2013	December 31, 2013
Hotels	¥ 128,342,605	¥ 27,411,061	¥ 155,753,667	¥ 166,237,000

Notes:

(*1) Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any. Amounts of machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets other than leasehold rights in trust and facility usage rights are not included.

(*2) Increase during the year ended December 31, 2013 principally represents the acquisition of Hilton Tokyo Bay for ¥26,354 million and Ibis Styles Kyoto Station for ¥6,765 million. Decrease during the year ended December 31, 2013 principally represents the sale of Hotel Visa Hashimoto for ¥593 million and Pearl Hotel Kayabacho for ¥3,170 million, and the recognition of an impairment loss of ¥516 million on Dormy Inn Namba.

(*3) Fair value of properties as of December 31, 2013 is generally the appraisal value measured by licensed real estate appraisers. The fair value of Dormy Inn Namba as of December 31, 2013 is stated at the estimated sales price.

	<i>Thousands of yen</i>			
	Carrying amount (*1)			Fair value (*3)
	April 1, 2012	Net increase (*2)	December 31, 2012	December 31, 2012
	¥	¥	¥	¥
Hotels	43,050,585	85,292,019	128,342,605	131,227,000

Notes:

(*1) Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any. Amounts of machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets other than leasehold rights in trust and facility usage rights are not included.

(*2) Increase during the nine months ended December 31, 2012 principally represents the acquisition of rental properties for ¥78,197 million by merger and the acquisition of Hotel Keihan Universal City for ¥6,181 million and Hotel Sunroute Shimbashi for ¥4,942 million.

(*3) Fair value of properties as of December 31, 2012 is generally the appraisal value measured by licensed real estate appraisers.

Real estate operating income and costs for the year ended December 31, 2013 and the nine months ended December 31, 2012 related to the rental properties were as follows:

	<i>Thousands of yen</i>		
	For the year ended December 31, 2013		
	Real estate operating income (*1)	Real estate operating costs (*1)	Net real estate operating income
	¥	¥	¥
Hotels	11,472,924	3,870,583	7,602,340

	<i>Thousands of yen</i>		
	For the nine months ended December 31, 2012		
	Real estate operating income (*1)	Real estate operating costs (*1)	Net real estate operating income
	¥	¥	¥
Hotels	7,283,758	2,668,078	4,615,679

Note:

(*1) “Real estate operating income” and “Real estate operating costs” are income from real estate operation (including other real estate operating income) and corresponding expenses (such as depreciation, property taxes, trust fees, and repairs and maintenance expenses), and are recorded in “Operating revenues” and “Real estate operating costs”, respectively.

19. Business Combination

a. Overview of business combination

- (1) Name of acquired company
Japan Hotel and Resorts, Inc.
- (2) Description of business of acquired corporation
To invest and manage mainly specified assets under the Investment Trust Act.
- (3) Reason for business combination
The former NHF and the former JHR, as J-REITs specialized in hotels, diligently evaluated and discussed strategies in order to achieve a mixture of stability of its rental income and increase in upside potential, a further diversification of the portfolio and growth in size of assets, an improvement of liquidity resulting from increase in investment units, and an increase in total market value through the merger. As a result, the former NHF and the former JHR reached a mutual conclusion that the implementation of the merger as a strategy to overcome challenges and achieve growth together would contribute to maximize the unitholder value of both investment corporations. The former NHF and the former JHR entered into a merger agreement on December 22, 2011 and the merger became effective as of April 1, 2012.
- (4) Date of business combination
April 1, 2012
- (5) Legal form of business combination
Absorption-type merger under which the former NHF remains as a surviving company and the former JHR was dissolved as the absorbed company.
- (6) Name of corporation after business combination
Japan Hotel REIT Investment Corporation
- (7) Main reasons in determination of the acquiring company
Pursuant to the "Accounting Standard for Business Combinations", the former NHF became the acquiring company considering the presence of a unitholder with the largest share of voting rights, presence of unitholders who have the power to appoint and dismiss directors, conditions relating to the conversion ratio of units, and other factors.

b. Business period of the acquired company included in the financial statements

From April 1, 2012 to December 31, 2012

c. Calculation of acquisition costs

- (1) Acquisition costs of the acquired company and breakdown

	<i>Thousands of yen</i>
Consideration for acquisition:	
Fair value of investment units of JHR issued on the effective date	¥ 21,746,398
Expenditures directly related to acquisition:	
Due diligence expenses, etc.	691,123
Acquisition cost	<u>¥ 22,437,521</u>

- (2) Conversion ratio of investment units
JHR issued eleven units of JHR, after the unit split, for 1 unit of the former JHR. JHR conducted a 12-for-1 split of its units as at the effective date. Accordingly, the conversion ratio before taking the unit split into consideration for JHR to the former JHR = 1 : 11/12.
- (3) Basis of calculation of the conversion ratio
 - i) Analysis of the conversion ratio is conducted based on the evaluation method, including the market unit price analysis, dividend discount model, and market net assets value analysis.
 - ii) In order to assure fairness in calculating the conversion ratio, both the former NHF and the former JHR appointed a third party evaluation organization for the calculation. After comprehensive consideration of the results of the calculation and other factors, it was determined that the above conversion ratio was appropriate.

- (4) Number of investment units issued
1,162,909 units

d. Allocation of acquisition costs

- (1) Amounts and principal assets acquired and liabilities assumed at the date of business combination

	<i>Thousands of yen</i>
Current assets	¥ 4,304,913
Non-current assets	79,461,287
Total assets	<u>¥ 83,766,200</u>
Current liabilities	¥ 14,757,315
Long-term liabilities	27,993,090
Total liabilities	<u>¥ 42,750,405</u>

- (2) Amount and cause of negative goodwill

Amount of negative goodwill:	¥18,578,273 thousand
Cause:	Because the market net assets value of the former JHR exceeded the acquisition cost at the time of the business combination, the difference between those amounts was recognized as negative goodwill
Accounting treatment:	The entire amount was recorded under “Non-operating income” for the nine months ended December 31, 2012.

20. Segment Information

a. Segment information

The segment information has been omitted because JHR has only one segment, which is the hotel and real estate investment and management business.

b. Related information

- (1) Information about products and services for the year ended December 31, 2013 and the nine months ended December 31, 2012

Information about products and services has been omitted because operating revenues from external customers in a single product/service category accounted for more than 90% of total operating revenues.

- (2) Information about geographical areas for the year ended December 31, 2013 and for the nine months ended December 2012

(i) Sales

Information about geographical areas has been omitted because operating revenues in Japan accounted for more than 90% of total operating revenues.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment.

(3) Information about major customers

<For the year ended December 31, 2013>

Name of customer	Segment	<i>Thousands of yen</i>	
		Operating revenues	
Hotel Management Japan Co., Ltd.	Hotel and real estate investment and management	¥	5,506,588
The Dai-ichi Building Co., Ltd.	Hotel and real estate investment and management	¥	1,283,669
Kyoritsu Maintenance Co., Ltd.	Hotel and real estate investment and management	¥	1,225,203

<For the nine months ended December 31, 2012>

Name of customer	Segment	<i>Thousands of yen</i>	
		Operating revenues	
Hotel Management Japan Co., Ltd.	Hotel and real estate investment and management	¥	4,210,548
Kyoritsu Maintenance Co., Ltd.	Hotel and real estate investment and management	¥	919,532

c. Information about impairment loss

<For the year ended December 31, 2013>

Impairment loss of ¥516,779 thousand is not presented because JHR has only one segment.

<For the nine months ended December 31, 2012>

Impairment loss of ¥958,275 thousand is not presented because JHR has only one segment.

d. Information about gain on negative goodwill

Gain on negative goodwill of ¥18,578,273 thousand arising from the merger for the nine months ended December 31, 2012 is not presented because JHR has only one segment.

21. Subsequent Events

a. Transfer of assets

On January 24, 2014, JHR transferred its beneficial interest in Dormy Inn Namba as follows:

Name of transferred asset:	Dormy Inn Namba
Type of transferred asset:	Beneficial interest in real estate in trust
Use:	Hotel
Location:	17-12, Nambanaka 3-chome, Naniwa-ku, Osaka-shi, Osaka, and other three lots
Book value, net of impairment loss:	¥684 million (As of December 31, 2013)
Name of transferee:	(*1)
Date of transfer:	January 24, 2014
Transfer price (*2):	¥700 million

Notes:

(*1) The name of the transferee is not presented because the transferee has not agreed to disclose its name.

(*2) The transfer price does not include expenses related to the transfer, reimbursement from the transferee, such as property taxes, city planning taxes and etc., and consumption taxes.

(*3) With the above transfer, on January 24, 2014, JHR made ¥527,428 thousand of partial repayment of debts before their due dates in accordance with the basic loan agreements.

b. Issuance of investment corporation bond

JHR issued the investment corporation bond under the following conditions:

Classification:	3rd series unsecured investment corporation bond
Amount issued:	¥2 billion
Issue price:	100% of the principal amount
Interest rate:	0.92% per annum
Issuance date:	March 19, 2014
Maturity date:	March 19, 2019
Security:	Unsecured
Purpose of use:	Partial repayment of other existing debts



Independent Auditor's Report

To the Board of Directors of
Japan Hotel REIT Investment Corporation:

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation, which comprise the balance sheets as at December 31, 2013 and 2012, and the statements of income, statements of changes in net assets and statements of cash flows for the year ended December 31, 2013 and the nine months ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Japan Hotel REIT Investment Corporation as at December 31, 2013 and 2012, and their financial performance and cash flows for the year ended December 31, 2013 and the nine months ended December 31, 2012 in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

April 25, 2014
Tokyo, Japan