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August 20, 2014

Financial Report for the Midterm of Fiscal Period Ending December 2014 (January 1, 2014 – June 30, 2014)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
Securities code: 8985
URL: <http://www.jhrth.co.jp/>
Representative: Yukio Isa, Executive Director

Asset management company: Japan Hotel REIT Advisors Co., Ltd.
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Scheduled date to file midterm Securities Report: September 19, 2014

Preparation of supplementary material on financial report: Yes

Holding the financial results briefing (for analysts and institutional investors): Yes

1. Summary of financial results for the midterm of the fiscal period ending December 31, 2014 (January 1, 2014 – June 30, 2014)

(1) Operating results

(Percentages show changes from the previous period)

	Operating income		Operating profit		Ordinary income		Current net profit for the midterm (full term)	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Midterm period ended June 30, 2014	5,504	15.1	3,011	35.7	2,235	57.5	2,234	56.4
June 30, 2013	4,780	-	2,220	-	1,418	-	1,429	-
Fiscal period ended December 31, 2013	11,472	57.5	5,367	106.8	3,740	164.8	3,233	(83.0)

	Current net profit per unit for the midterm (full term)
Midterm period ended June 30, 2014	Yen 852
June 30, 2013	615
Fiscal period ended December 31, 2013	1,307

(Note 1) Current net profit per unit for the midterm (full term) is calculated based on the average number of investment units during the fiscal period.

(Note 2) The midterm ended June 30, 2013 is the first midterm after change of the fiscal period. Therefore, comparison between the midterm results for this year and that of the previous year is not available.

(Note 3) Net profit for the midterm ended June 30, 2013 includes capital loss (223 million yen).

(Note 4) Current net profit for the fiscal period ended December 31, 2013 includes capital loss resulting from real estate disposition (1,189 million yen) and asset impairment (516 million yen).

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
	Millions of yen	Millions of yen	%	Yen
Midterm period ended June 30, 2014	166,687	86,719	52.0	33,083
June 30, 2013	167,446	88,107	52.6	33,612
Fiscal period ended December 31, 2013	170,727	89,756	52.6	34,241

(Note) Net asset per unit is calculated based on the number of investment units issued at the end of the midterm (full term).

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Midterm period ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2014	4,215	(860)	(6,025)	9,883
June 30, 2013	3,287	(26,063)	25,707	11,853
Fiscal period ended				
December 31, 2013	9,991	(33,349)	26,988	12,553

2. Forecasts of results for the fiscal period ending December 31, 2014 (January 1, 2014 - December 31, 2014)

(Percentages show changes from the previous period)

	Operating income		Operating profit		Ordinary income		Current net profit		Dividend per unit (Dividend from excess of earnings exclusive)	Dividend from excess of earnings per unit
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
Fiscal period ending December 31, 2014	12,667	10.4	7,260	35.3	5,496	46.9	5,494	69.9	2,058	0

(Reference) Forecasted current net profit per unit for this fiscal period: JPY2,054.- (calculated based on the average number of investment units during the period of 2,674,377 units).

(Note 1) For operating forecast with full year impact of Best Western Hotel Sapporo Nakajima Koen, which was acquired in the 15th fiscal period ending December 31, 2014, and of Mercure Sapporo and Mercure Okinawa Naha, which are scheduled to be acquired, see below “<Reference 1> Growth history of JHR and the annualized effect of asset acquisition” on p.3.

(Note 2) The allowance for the dividend, JPY251M, is scheduled to be the source of this dividend.

3. Other

(1) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

- Changes in accounting policies due to revisions to accounting standards and other regulations: No change
- Changes in accounting policies due to other reasons: No change
- Changes in accounting estimates: No change
- Restatement of prior period financial statements after error corrections: No change

(2) Number of units issued

- Total number of units issued at end of period (including treasury units)

As of June 30, 2014	2,621,281 units
As of June 30, 2013	2,621,281 units
As of December 31, 2013	2,621,281 units
- Number of treasury units at end of period

As of June 30, 2014	0 unit
As of June 30, 2013	0 unit
As of December 31, 2013	0 unit

* Status of audit procedures

As of the time of disclosure of this financial report, audit procedures for the midterm financial statements pursuant to the Financial Instruments and Exchange Act of Japan are incomplete.

* Appropriate use of forecasts of results and other special items

- Forward-looking statements presented in this financial report including forecasts of results are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors. Furthermore, we do not intend to guarantee any dividend amount by these forecasts.

<Reference 1> Growth history of JHR and the annualized effect of asset acquisition

		Effective date of merger (Note 1)	End of FY12/2012	End of FY12/2013	Previously forecasted	After acquiring (scheduled) assets
No. of properties		28	28	28	27	30
Acquisition price (scheduled acquisition inclusive) (Note 2)	JPY1M	122,285	130,883	158,902	157,632	173,429
Appraisal value (Note 3)	JPY1M	117,706	131,227	166,237	165,537	188,123
NOI yield (Note 4)	%	5.9	6.2	6.2	6.5	6.6
NOI yield after depreciation (Note 5)	%	3.9	4.5	4.8	5.0	5.2
LTV (Acquisition price) (Note 6)	%	49.4	49.8	47.1	46.9	46.9
Appraisal LTV (Note 6)	%	51.4	49.7	45.0	44.6	43.2
Market cap (Note 7)	JPY1M	34,712	50,417	132,112	-	155,195
Distribution per unit	JPY	-	1,621	1,939	1,940	2,146 (Note 8)

(Note 1) Referring to the NOI yield and NOI yield after depreciation on the effective date of merger, the actual of Fiscal period ended March 2012 (12th period) has been applied for the properties owned by former Nippon Hotel Fund Investment Corporation (NHF), and the actual of Fiscal period ended March 2012 (7th period) has been applied for the properties owned by former Japan Hotel and Resort, Inc. (JHR).

(Note 2) Acquisition prices (Scheduled acquisition inclusive) indicate acquisition prices stated on the Purchase and Sales Agreement for the Beneficial Interest in Trust or Real Estate Purchase and Sale Agreement (Consumption tax, local consumption tax and the acquisition expense such as broker's fee are not included.) As for Mercure Sapporo and Mercure Okinawa Naha, (both scheduled to be acquired), acquisition prices (scheduled) are indicated.

(Note 3) As for appraisal value at the end of each fiscal year, in accordance with the asset appraisal method and standards stipulated in the Articles of Incorporation and also with the rules set by The Investment Trusts Association, Japan, appraisal value with the appraisal date at the end of relevant fiscal year is indicated. Dormy Inn Namba was sold as of January 24, 2014. Accordingly, the appraisal value of the property in the appraisal value column for End of FY12/2013 (14th period) indicates the selling price. Appraisal value for previously forecasted indicates appraisal value at the end of FY12/2013 (14th period) excluding Dormy Inn Namba. Appraisal value for After acquiring (scheduled) assets indicates the sum total of the appraisal value with the appraisal date at the end of June 2014 and the appraisal value for assets (scheduled to be) acquired, Best Western Hotel Sapporo Nakajimakoen, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha, based on the real estate appraisal report prepared by Japan Real Estate Institute with May 26, 2014, May 16, 2014 and June 1, 2014 as the pricing date, respectively.

(Note 4) NOI = Real estate operating profit – Real estate operating expense + Depreciation expense + Loss on retirement of noncurrent assets

NOI yield = NOI ÷ Acquisition price (or scheduled acquisition price)

(Note 5) NOI After depreciation = Real estate operating profit – Real estate operating expense

NOI yield after depreciation = NOI after depreciation ÷ Acquisition price (or scheduled acquisition price)

(Note 6) LTV (Acquisition price) = Total interest bearing debt ÷ Acquisition price (or scheduled acquisition price) × 100

Appraisal LTV = Total interest bearing debt ÷ total appraisal value × 100

Interest bearing debt as of Previously forecasted and for After acquiring assets (scheduled to be acquired) are

calculated with the figures of interest bearing debt as of the end of the midterm period ended December 31, 2014 added by JPY 7,426M of planned borrowing for new acquisition.

(Note 7) The amount is the market cap calculated by using the closing price of the regular transaction at Tokyo Stock Exchange, Inc. on relevant timing for each. However, the market cap on effective date of merger indicated on April 2, 2012.

Market cap after acquiring assets (scheduled to be acquired) is calculated by multiplying the sum (2,791,281 units) of the number of investment units issued (2,621,281 units) and the number of new investment units (170,000 units) which is resolved at today's board meeting by the closing price of the regular transaction at Tokyo Exchange, Inc. on August 8, 2014.

(Note 8) The dividend per unit when the asset acquisition effect for the full year was calculated.

(Note 9) The amounts less than JPY1M are rounded down. Fractions less than two decimal places are rounded off.

<Reference 2> Assumptions for forecast of the full year

- Numerical figures of Best Western Hotel Sapporo Nakajimakoen, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha are forecast calculated for the period for one year based on the information provided by the seller, etc. It is assumed that JPY85M (9 months) will be posted as the fixed asset tax and city planning tax.
- As to non-operating expenses, redeeming handling charges for borrowings associated with refinancing due to early repayment in September 2014 and redemption expenses, etc. for derivative products (Interest-cap) are excluded from finance expense.