Daiwa House REIT Investment Corporation

Financial Statements for the 17th Fiscal Period

(From March 1, 2016 to August 31, 2016)

DAIWA HOUSE REIT INVESTMENT CORPORATION

BALANCE SHEETS

As of February 29, 2016 and August 31, 2016

	As of	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Assets		
Current Assets:		
Cash and bank deposits (Notes 3 and 4)	¥ 23,769,479	¥ 22,578,692
Tenant receivables	56,527	89,755
Prepaid expenses	185,670	167,778
Other current assets	441	695
Total current assets	24,012,118	22,836,921
Investment Properties (Notes 5 and 6):		
Land	103,713,238	104,329,538
Buildings and improvements	98,290,417	100,484,431
Structures	3,509,049	3,578,917
Machinery and equipment	343,654	343,654
Construction in progress	3,889	13,522
Less: accumulated depreciation	(8,520,020)	(10,027,647)
Total investment properties, net	197,340,227	198,722,417
Other Assets:		
Other intangible assets	1,190	—
Investment securities (Note 4)	6,535	6,615
Long-term prepaid expenses	703,756	625,202
Investment corporation bond issuance costs	18,075	17,042
Total other assets	729,558	648,860
Total Assets	¥ 222,081,904	¥ 222,208,199

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

BALANCE SHEETS, CONTINUED

As of February 29, 2016 and August 31, 2016

	As of	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Liabilities		
Current Liabilities:		
Accounts payable	¥ 162,156	¥ 253,627
Short-term borrowings (Notes 4 and 10)	4,000,000	4,000,000
Current portion of long-term borrowings (Notes 4 and 10)	15,000,000	15,000,000
Accrued expenses	530,501	541,285
Income taxes payable	605	605
Accrued consumption taxes	86,672	141,841
Advances received	883,591	862,400
Other current liabilities	48,245	46,539
Total current liabilities	20,711,772	20,846,298
Investment corporation bonds (Notes 4 and 9)	2,000,000	2,000,000
Long-term borrowings (Notes 4 and 10)	81,000,000	81,000,000
Tenant security deposits (Note 4)	9,529,140	9,621,463
Total Liabilities	113,240,912	113,467,761
Commitment and Contingent Liabilities (Note 17)		
Net Assets (Note 8)		
Unitholders' Equity:		
Unitholders' capital Units authorized: 4,000,000 units as of February 29, 2016 and August 31, 2016 Units issued and outstanding: 350,700 units as of February 29, 2016 and August 31, 2016	105,459,198	105,459,198
Retained earnings	3,381,792	3,281,239
Total unitholders' equity	108,840,991	108,740,437
Total Net Assets	108,840,991	108,740,437
Total Liabilities and Net Assets	¥ 222,081,904	¥ 222,208,199

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month periods ended February 29, 2016 and August 31, 2016

	For the six-month periods ended	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Operating Revenues:		
Rental revenues (Note 7)	¥ 6,757,082	¥ 6,838,363
Other revenues related to property leasing (Note 7)	181,865	304,164
Total operating revenues	6,938,947	7,142,527
Operating Expenses:		
Rental expenses (Note 7)	2,383,668	2,667,964
Asset management fees	465,452	472,600
Other operating expenses	120,410	121,004
Total operating expenses	2,969,531	3,261,569
Operating Income	3,969,415	3,880,958
Non-Operating Revenues:		
Interest income	2,250	130
Interest on refund of consumption taxes	1,778	—
Insurance income	1,013	624
Gain on forfeiture of unclaimed distributions	—	1,236
Other non-operating revenues	300	80
Non-Operating Expenses:		
Interest expenses	484,399	490,318
Interest expenses on investment corporation bonds	8,275	8,365
Amortization of investment corporation bond issuance costs	1,032	1,032
Borrowing related expenses	98,799	100,960
Other	—	850
Ordinary Income	3,382,251	3,281,500
Income before Income Taxes	3,382,251	3,281,500
Income taxes-current (Note 12)	605	605
Net Income	3,381,646	3,280,895
Retained Earnings Brought Forward	146	343
Unappropriated Retained Earnings	¥ 3,381,792	¥ 3,281,239

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

For the six-month periods ended February 29, 2016 and August 31, 2016

		Unitholders' Equity			
	Number of Units	**Unitholders' Capital**	**Retained Earnings**	**Total Unitholders' Equity**	**Total Net Assets**
	(Units)	(Yen in thousands)			
Balance as of August 31, 2015	350,700	¥ 105,459,198	¥ 2,971,627	¥ 108,430,826	¥ 108,430,826
Changes during the period:					
Cash distributions declared	—	—	(2,971,481)	(2,971,481)	(2,971,481)
Net income	—	—	3,381,646	3,381,646	3,381,646
Total changes during the period	—	—	410,164	410,164	410,164
Balance as of February 29, 2016	350,700	¥ 105,459,198	¥ 3,381,792	¥ 108,840,991	¥ 108,840,991
Changes during the period:					
Cash distributions declared	—	—	(3,381,449)	(3,381,449)	(3,381,449)
Net income	—	—	3,280,895	3,280,895	3,280,895
Total changes during the period	—	—	(100,553)	(100,553)	(100,553)
Balance as of August 31, 2016	350,700	¥ 105,459,198	¥ 3,281,239	¥ 108,740,437	¥ 108,740,437

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

STATEMENTS OF CASH FLOWS

For the six-month periods ended February 29, 2016 and August 31, 2016

	For the six-month periods ended	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Cash Flows from Operating Activities:		
Income before income taxes	¥ 3,382,251	¥ 3,281,500
Depreciation	1,487,647	1,507,966
Amortization of investment corporation bond issuance costs	1,032	1,032
Interest income	(2,250)	(130)
Gain on forfeiture of unclaimed distributions	—	(1,236)
Interest expenses	492,674	498,684
(Increase) decrease in prepaid expenses	(28,253)	17,891
(Increase) decrease in long-term prepaid expenses	(188,474)	78,554
Increase in tenant receivables	(41,776)	(33,227)
Decrease in consumption taxes receivable	2,179,706	9,226
Increase in accrued consumption taxes	86,663	52,314
Increase in accounts payable	46,941	6,381
Increase in accrued expenses	97,154	8,310
Increase (decrease) in advances received	30,393	(21,191)
Increase in deposits received	14	696
Interest income received	2,250	130
Interest expenses paid	(492,589)	(496,210)
Income taxes paid	(605)	(605)
Others, net	(24,339)	(23,812)
Net Cash Provided by Operating Activities	7,028,442	4,886,276
Cash Flows from Investing Activities:		
Payments for purchases of investment properties	(7,920,514)	(2,810,171)
Net Cash Used in Investing Activities	(7,920,514)	(2,810,171)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	—	4,000,000
Repayments of short-term borrowings	—	(4,000,000)
Proceeds from long-term borrowings	24,000,000	—
Repayments of long-term borrowings	(20,000,000)	—
Distributions paid	(2,970,559)	(3,381,140)
Net Cash Provided by (Used in) Financing Activities	1,029,440	(3,381,140)
Net Change in Cash and Cash Equivalents	137,368	(1,305,035)
Cash and Cash Equivalents at the Beginning of Period	14,372,896	14,510,265
Cash and Cash Equivalents at the End of Period (Note 3)	¥ 14,510,265	¥ 13,205,229

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

DAIWA HOUSE REIT INVESTMENT CORPORATION

Notes to Financial Statements

As of and for the six-month periods ended February 29, 2016 and August 31, 2016

Note 1 – Organization and Basis of Presentation

Organization

Daiwa House REIT Investment Corporation (hereinafter referred to as the "former DHR") was established on September 14, 2007, with Daiwa House REIT Management Co., Ltd. as the organizer under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent revisions, hereinafter referred to as the "Investment Trust Act"), and completed its registration in the Kanto Local Finance Bureau on October 23, 2007.

The former DHR issued new investment units through a public offering on November 27, 2012. On the following day, November 28, 2012, the former DHR was listed on the real estate investment trust securities market of the Tokyo Stock Exchange. After its listing, the former DHR continued to expand its property portfolio and its return. As of August 31, 2016, the former DHR held 41 properties with total acquisition price of ¥ 206,363 million.

As stated in "Note 18. Subsequent Events," effective September 1, 2016, the former DHR was merged into Daiwa House Residential Investment Corporation (hereinafter referred to as the "former DHI") in an absorption-type merger with the former DHI as the surviving corporation (hereinafter referred to as the "Merger"). Upon the Merger, the former DHR was dissolved and the former DHI changed its corporate name to Daiwa House REIT Investment Corporation (hereinafter referred to as "DHR"). Please see "Note 18. Subsequent Events" for details.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act of Japan, the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements have been reformatted and translated into English from the financial statements of the former DHR prepared in accordance with Japanese GAAP. In preparing the accompanying financial statements, relevant notes have been expanded and certain reclassifications have been made from the Japanese GAAP financial statements. Certain supplementary information included in the statutory Japanese GAAP financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The former DHR maintains its accounting records in Japanese yen, the currency of the country in which the former DHR operates. As permitted by the regulations under the Financial Instruments and Exchange Act, amounts of less than thousand yen have been omitted. Unless otherwise specified, amounts of less than the units indicated are truncated, while values of ratio are rounded up or down to the nearest value of the last digit in the accompanying financial statements. As a result, totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

The former DHR's fiscal period is a six-month period ending at the end of February and August of each year.

Note 2 – Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of acquisition.

(b) Investment Properties

Investment properties are stated at cost, which include the allocated purchase price, related costs and expenses for acquisition of the trust beneficiary interests in real estate. Investment property balances are depreciated using the straight-line method over the estimated useful lives as follows:

	Years
Buildings and improvements	2 – 46
Structures	10 – 45
Machinery and equipment	19

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add to the value or prolong the useful life of a property, are expensed as incurred.

(c) Investment Securities

Debt securities classified as held-to-maturity are stated at amortized cost.

(d) Investment Corporation Bond Issuance Costs

The issuance costs of investment corporation bonds are amortized on a straight-line basis over the redemption period.

(e) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized on a straight-line basis.

(f) Income Taxes

Deferred tax assets and liabilities are computed based on the differences between the financial statements and income tax bases of assets and liabilities using the statutory tax rate.

(g) Real Estate Taxes

Investment properties are subject to various taxes, such as property taxes and city planning taxes. An owner of the properties is registered by a record maintained in each jurisdiction by the local government. The taxes are imposed on the registered record owner as of January 1 of each year, based on an assessment made by the local government.

When a property is purchased within the calendar year, the taxes for corresponding calendar year are imposed on the seller. The former DHR pays the seller the corresponding amount of the taxes for the period of property acquisition date to December 31 of the calendar year and capitalizes these amounts as acquisition costs of the property, rather than expensing them. In subsequent calendar years, such taxes on investment properties for each calendar year are charged as operating expenses. Capitalized real estate taxes amounted to ¥ 12,072 thousand and ¥ 864 thousand for the periods ended February 29, 2016 and August 31, 2016, respectively.

(h) Consumption Taxes

Consumption taxes are excluded from transaction amounts. Generally, consumption taxes paid are offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld are included in current assets while the excess of amounts withheld over payments are included in current liabilities.

(i) Hedge Accounting

The former DHR enters into derivative transactions for the purpose of hedging risks defined in the Articles of Incorporation of the former DHR in accordance with its general risk management policy. The former DHR uses interest-rate swaps as hedging instruments in order to hedge the risk of interest rate fluctuations related to borrowings. Pursuant to Japanese GAAP, the former DHR applies the special accounting treatment to interest-rate swaps which qualify for hedge accounting and meet specific criteria. Under the special accounting treatment, the related differentials paid or received under such swap contracts can be recognized and included in interest expenses or income of the hedged assets or liabilities, and the interest-rate swaps are not required to be measured at fair value separately. The assessment of hedge effectiveness has been omitted since all interest-rate swaps meet the specific criteria under the special accounting treatment.

(j) Revenue Recognition

Operating revenues primarily consist of rental revenues including fixed rental revenues. Other revenues related to property leasing consist of common area charges and other operating revenues which include utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period.

(k) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, all assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant balance sheet and income statement accounts of the accompanying financial statements.

Note 3 – Cash and Cash Equivalents

Cash and bank deposits include restricted bank deposits held in trust that are retained for repayment of tenant security deposits.

Reconciliation of the cash and bank deposits recorded on the accompanying balance sheets to the cash and cash equivalents reported in the accompanying statements of cash flows is as follows:

	As of	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Cash and bank deposits	¥ 23,769,479	¥ 22,578,692
Less: restricted bank deposits held in trust	(9,259,214)	(9,373,463)
Cash and cash equivalents	¥ 14,510,265	¥ 13,205,229

Note 4 – Financial Instruments

(a) Qualitative Information for Financial Instruments

Policy for Financial Instrument Transactions

The former DHR raises funds through borrowings, issuance of new investment units and issuance of investment corporation bonds for the acquisition of real estate properties, with the aim of ensuring stable earnings from a medium to long-term perspective and steady asset growth.

The former DHR enters into derivative transactions for the purpose of hedging interest rate risks and other risks arising from borrowings and other funding measures.

Surplus funds are managed carefully by investing in financial instruments considering risk and liquidity, with taking into consideration market environments and forecasted cash flows.

Nature and Extent of Risks arising from Financial Instruments and Risk Management

Bank deposits are used for investment of the former DHR's surplus funds. These bank deposits are exposed to credit risks such as bankruptcy of the depository financial institutions. The former DHR limits its credit risk by entering into bank deposits only with financial institutions with high credit ratings.

Proceeds from borrowings and investment corporation bonds are used to acquire real estate properties and to repay outstanding debts. These borrowings and investment corporation bonds are exposed to liquidity risk on repayment or redemption. Such risk is managed in the following ways such as trying to maintain and strengthen the ability of procurement from the capital market by issuance of investment units, establishing committed credit lines with financial institutions, monitoring forecasted cash flows on a monthly basis and keeping sufficient liquidity on hand.

For floating-rate borrowings exposed to the risk of interest rate fluctuations, the former DHR, in order to reduce the potential risk of rising interest rates, closely watches the movement of interest rates, and intends to increase the ratio of fixed- rate borrowings. As of February 29, 2016 and August 31, 2016, the former DHR has a derivative (interest-rate swap) as a hedging instrument, in order to avoid interest rate fluctuations and to fix the amount of interest payments for floating-rate long-term borrowings. The assessment of hedge effectiveness is omitted since all interest-rate swaps meet the specific criteria under the special accounting treatment.

Tenant security deposits are exposed to liquidity risk arising from the vacating of properties by tenants as a result of the termination of contract. The former DHR manages this risk by depositing into trusts.

Supplemental Explanation regarding Fair Values of Financial Instruments

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

(b) Estimated Fair Value of Financial Instruments

Book value, fair value and difference between the two as of February 29, 2016 and August 31, 2016 are as follows:

	As of					
	February 29, 2016			**August 31, 2016**		
	(Yen in thousands)					
Assets	**Book value**	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
(1) Cash and bank deposits	¥ 23,769,479	¥ 23, 769,479	¥ —	¥ 22,578,692	¥ 22,578,692	¥ —
(2) Investment securities:						
Held-to-maturity debt securities	6,535	8,583	2,047	6,615	9,274	2,658
Total	¥ 23,776,015	¥ 23,778,062	¥ 2,047	¥ 22,585,308	¥ 22,587,966	¥ 2,658
Liabilities						
(3) Short-term borrowings	4,000,000	4,000,000	—	4,000,000	4,000,000	—
(4) Current portion of long-term borrowings	15,000,000	15,022,469	22,469	15,000,000	15,011,196	11,196
(5) Investment corporation bonds	2,000,000	2,067,600	67,600	2,000,000	2,064,200	64,200
(6) Long-term borrowings	81,000,000	83,058,328	2,058,328	81,000,000	83,171,816	2,171,816
(7) Tenant security deposits	269,926	271,065	1,138	247,999	249,032	1,032
Total	¥ 102,269,926	¥104,419,462	¥ 2,149,536	¥ 102,247,999	¥104,496,245	¥ 2,248,245
Derivative transactions	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

The financial instruments whose fair values are deemed extremely difficult to determine are excluded from the table above (See Note 2 below).

Notes:

1. Methods to Estimate Fair Value of Financial Instruments

Assets:

(1) Cash and bank deposits

Due to the short maturities, the book value of these assets is deemed a reasonable approximation of their fair value. Therefore, the book value is used as the fair value.

(2) Held-to-maturity debt securities

Fair values of held-to-maturity debt securities are based on market prices. Book value, fair value and difference between the two are as follows:

	As of					
	February 29, 2016			August 31, 2016		
	(Yen in thousands)					
	Book value	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
Securities with fair value exceeding book value:						
Japanese government bonds (*)	¥ 6,535	¥ 8,583	¥ 2,047	¥ 6,615	¥ 9,274	¥ 2,658
Total	¥ 6,535	¥ 8,583	¥ 2,047	¥ 6,615	¥ 9,274	¥ 2,658

(*) These held-to-maturity debt securities have been deposited with the Tokyo Legal Affairs Bureau as security deposits in line with the requirements of the Building Lots and Building Transaction Business Act of Japan.

Liabilities:

(3) Short-term borrowings

Due to the short maturities, the book value of these liabilities is deemed a reasonable approximation of their fair value. Therefore, the book value is used as the fair value.

(4) Current portion of long-term borrowings and (6) Long-term borrowings

Fair values of fixed-rate borrowings are calculated based on the present value of principal and interest cash flows discounted at the current interest rate which is assumed to be applied if similar new borrowings were entered into.

Each borrowing at floating rate as of February 29, 2016 and August 31, 2016 is subject to the special treatment for interest-rate swaps (See “Derivative transactions” below), and the fair value of such borrowing is calculated based on the present value of principal and interest cash flows which are processed as a single unit with the interest-rate swap discounted at the current interest rate which is reasonably assumed to be applied if similar new borrowings were entered into.

(5) Investment corporation bonds

Fair value of investment corporation bonds is based on its reference statistical price for OTC bond transactions.

(7) Tenant security deposits

Fair values of tenant security deposits are calculated based on the present value of future cash flows discounted at the current interest rate which is estimated by taking the remaining term into consideration.

Derivative transactions:

(1) Derivative transactions for which hedge accounting is not applied… None.
(2) Derivative transactions for which hedge accounting is applied… Contracted amounts and fair values are as follows:

Hedge accounting method	Type of derivative transaction	Hedged item	As of February 29, 2016 Contracted amount Total	As of February 29, 2016 Contracted amount Due after one year	As of February 29, 2016 Fair value	As of August 31, 2016 Contracted amount Total	As of August 31, 2016 Contracted amount Due after one year	As of August 31, 2016 Fair value
			(Yen in thousands)					
Special treatment for interest-rate swaps	Interest-rate swap Receive floating/ Pay fixed	Long-term borrowings	¥ 47,500,000	¥ 47,500,000	(*)	¥ 47,500,000	¥ 47,500,000	(*)

(*) Fair value of interest-rate swap with the special treatment is included in fair value of long-term borrowings as the interest-rate swap and hedged borrowings are processed as a single unit with the hedged long-term borrowings (See "Note 1. Methods to Estimate Fair Value of Financial Instruments, (6) Long-term borrowings" above).

2. Financial Instruments Whose Fair Values are Deemed Extremely Difficult to Determine

	As of February 29, 2016	As of August 31, 2016
	(Yen in thousands)	
Tenant security deposits (*)	¥ 9,259,214	¥ 9,373,463

(*) Tenant security deposits are excluded from the scope of fair value disclosure because they are not marketable, and the actual deposit period is not estimable as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, which in turn makes it difficult to reasonably estimate future cash flows.

3. Redemption Schedule for Monetary Claims and Securities with Maturity

As of February 29, 2016	**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**
	(Yen in thousands)					
Cash and bank deposits	¥ 23,769,479	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities:						
Held-to-maturity debt securities	—	—	—	—	—	10,000
Total	¥ 23,769,479	¥ —	¥ —	¥ —	¥ —	¥ 10,000

As of August 31, 2016	**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**
	(Yen in thousands)					
Cash and bank deposits	¥ 22,578,692	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities:						
Held-to-maturity debt securities	—	—	—	—	—	10,000
Total	¥ 22,578,692	¥ —	¥ —	¥ —	¥ —	¥ 10,000

4. Repayment Schedule for Investment Corporation Bonds and Borrowings

As of February 29, 2016	**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**
	(Yen in thousands)					
Short-term borrowings	¥ 4,000,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	—	—	—	2,000,000
Long-term borrowings	15,000,000	16,000,000	—	10,000,000	1,000,000	54,000,000
Total	¥ 19,000,000	¥ 16,000,000	¥ —	¥ 10,000,000	¥ 1,000,000	¥ 56,000,000

As of August 31, 2016	**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**
	(Yen in thousands)					
Short-term borrowings	¥ 4,000,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	—	—	—	2,000,000
Long-term borrowings	15,000,000	16,000,000	—	11,000,000	3,000,000	51,000,000
Total	¥ 19,000,000	¥ 16,000,000	¥ —	¥ 11,000,000	¥ 3,000,000	¥ 53,000,000

Note 5 – Investment Properties

Investment properties as of February 29, 2016 and August 31, 2016 consist of the following:

	As of					
	February 29, 2016			August 31, 2016		
	(Yen in thousands)					
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	¥ 103,713,238	¥ —	¥ 103,713,238	¥ 104,329,538	¥ —	¥ 104,329,538
Buildings and improvements	98,290,417	(8,101,330)	90,189,086	100,484,431	(9,537,176)	90,947,254
Structures	3,509,049	(384,900)	3,124,148	3,578,917	(447,865)	3,131,051
Machinery and equipment	343,654	(33,789)	309,864	343,654	(42,604)	301,049
Construction in progress	3,889	—	3,889	13,522	—	13,522
Total	¥ 205,860,247	¥ (8,520,020)	¥ 197,340,227	¥ 208,750,064	¥ (10,027,647)	¥ 198,722,417

Note 6 – Fair Value of Investment and Rental Properties

The former DHR owns logistics and retail properties for rent in the Greater Tokyo Area and other areas. The book value, net increase in the book value and the fair value of the investment and rental properties are as follows:

	As of / For the six-month periods ended	
	February 29, 2016	August 31, 2016
	(Yen in thousands)	
Book value:		
Balance at the beginning of the period	¥ 190,886,420	¥ 197,336,338
Net increase during the period	6,449,917	1,372,556
Balance at the end of the period	¥ 197,336,338	¥ 198,708,894
Fair value	¥ 230,328,000	¥ 234,978,000

Notes:

1. Book value is stated at acquisition cost less accumulated depreciation.
2. The increase in the fiscal period ended February 29, 2016 is mainly due to the acquisition of DREAM TOWN ALi (¥ 7,830,871 thousand) and the decrease is mainly due to recognition of depreciation expense of ¥ 1,487,307 thousand. The increase in the fiscal period ended August 31, 2016 is mainly due to the acquisition of an extension building of D Project Tosu (¥ 2,620,215 thousand) and the decrease is mainly due to recognition of depreciation expense of ¥ 1,507,626 thousand.
3. Fair value is determined mainly by appraisal value provided from external real estate appraisers.

Note 7 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended February 29, 2016 and August 31, 2016 are as follows:

	For the six-month periods ended	
	February 29, 2016	**August 31, 2016**
	(Yen in thousands)	
Revenues from Property Leasing:		
Rental revenues	¥ 6,757,082	¥ 6,838,363
Common area charges	53,873	99,985
Others	127,991	204,179
Total revenues from property leasing	6,938,947	7,142,527
Rental Expenses:		
Real estate taxes	469,774	623,618
Property management fees	211,662	237,718
Insurance	10,167	10,259
Repairs and maintenance	75,981	94,278
Depreciation	1,487,307	1,507,626
Others	128,775	194,461
Total rental expenses	2,383,668	2,667,964
Operating Income from Property Leasing Activities	¥ 4,555,278	¥ 4,474,563

Note 8 – Net Assets

The former DHR issues only non-par value units in accordance with the Investment Trust Act and all of the issue amounts of new units are designated as stated capital. The former DHR maintains a minimum of at least ¥ 50 million of net assets as required by the Investment Trust Act.

Note 9 – Investment Corporation Bonds

The following summarizes the status of the former DHR's first unsecured investment corporation bonds with special pari passu conditions among specified investment corporation bonds as of February 29, 2016 and August 31, 2016. The bonds would be repaid on lump-sum basis on the maturity date.

				As of	
Description	**Issue date**	**Maturity date**	**Interest rate**	**February 29, 2016**	**August 31, 2016**
				(Yen in thousands)	
The former DHR 1st Unsecured Bonds	December 24, 2014	December 24, 2024	Fixed rate of 0.826%	¥ 2,000,000	¥ 2,000,000
Total				¥ 2,000,000	¥ 2,000,000

Note 10 – Short-Term and Long-Term Borrowings

Short-term and long-term borrowings consist of the following:

	As of	
	February 29, 2016	August 31, 2016
	(Yen in thousands)	
Unguaranteed, unsecured floating-rate borrowings due 2016 with average interest rate of 0.26%	¥ 4,000,000	¥ —
Unguaranteed, unsecured floating-rate borrowings due 2017 with average interest rate of 0.21%	—	4,000,000
Short-term borrowings	¥ 4,000,000	¥ 4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2016 with average interest rate of 0.83%	¥ 15,000,000	¥ 15,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2017 with average interest rate of 0.96%	16,000,000	16,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2019 with average interest rate of 1.29%	10,000,000	10,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2020 with average interest rate of 0.57%	1,000,000	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2021 with average interest rate of 1.05% (*)	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2021 with average interest rate of 0.51% (*)	7,000,000	7,000,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 1.21% (*)	3,500,000	3,500,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 0.87% (*)	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2022 with average interest rate of 0.65% (*)	4,000,000	4,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 1.50% (*)	2,000,000	2,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 0.99% (*)	4,000,000	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2023 with average interest rate of 1.00%	1,000,000	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2023 with average interest rate of 0.71% (*)	4,000,000	4,000,000
Unguaranteed, unsecured floating-rate borrowings due 2024 with average interest rate of 1.52% (*)	3,000,000	3,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2024 with average interest rate of 0.73%	1,000,000	1,000,000
Unguaranteed, unsecured floating-rate borrowings due 2025 with average interest rate of 1.23% (*)	4,000,000	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2025 with average interest rate of 1.18%	3,000,000	3,000,000
Unguaranteed, unsecured floating-rate borrowings due 2025 with average interest rate of 0.97% (*)	4,000,000	4,000,000

	As of	
	February 29, 2016	August 31, 2016
	(Yen in thousands)	
Unguaranteed, unsecured floating-rate borrowings due 2026 with average interest rate of 2.03% (*)	2,000,000	2,000,000
Unguaranteed, unsecured floating-rate borrowings due 2026 with average interest rate of 1.09% (*)	4,000,000	4,000,000
Unguaranteed, unsecured fixed-rate borrowings due 2027 with average interest rate of 1.46%	1,500,000	1,500,000
Total	¥ 96,000,000	¥ 96,000,000
Less: current portion	15,000,000	15,000,000
Long-term borrowings, less current portion	¥ 81,000,000	¥ 81,000,000

(*) The former DHR entered into an interest-rate swap contract to avoid interest rate fluctuation risk. The average interest rate is calculated after taking into consideration the effect of the interest-rate swap.

During the fiscal period ended February 28, 2013, the former DHR established a committed credit line of ¥ 10,000,000 thousand with financial institutions. Of the committed credit line, ¥ 10,000,000 thousand are available as of February 29, 2016 and August 31, 2016.

Note 11 – Leases

The future minimum rental revenues under existing non-cancelable operating leases as of February 29, 2016 and August 31, 2016 are as follows:

	As of	
	February 29, 2016	August 31, 2016
	(Yen in thousands)	
Due within one year	¥ 11,178,100	¥ 11,448,139
Due after one year	76,680,733	75,386,615
Total	¥ 87,858,833	¥ 86,834,754

Note 12 – Income Taxes

The former DHR is subject to Japanese corporate income taxes on all of its taxable income. However, the former DHR may deduct the amount distributed to its unitholders from its taxable income when certain requirements, including a requirement to distribute in excess of 90% of distributable profit for the fiscal period, are met under the Special Taxation Measure Act of Japan. If the former DHR does not satisfy all of the requirements as specified in the Act, the entire taxable income of the former DHR will be subject to regular corporate income taxes in Japan.

The following table summarizes the significant difference between the statutory tax rate and the former DHR's effective tax rate for financial statement purposes.

	For the six-month periods ended	
	February 29, 2016	August 31, 2016
Statutory tax rate	32.31%	32.31%
Deductible cash distributions	(32.30)	(32.31)
Changes in valuation allowance	(0.01)	(0.00)
Others	0.02	0.02
Effective tax rate	0.02%	0.02%

The significant components of deferred tax assets and liabilities as of February 29, 2016 and August 31, 2016 are as follows:

	As of	
	February 29, 2016	August 31, 2016
	(Yen in thousands)	
Deferred tax assets:		
Tax loss carried forward	¥ 179,542	¥ 175,561
Total deferred tax assets	179,542	175,561
Valuation allowance	(179,542)	(175,561)
Net deferred tax assets	¥ —	¥ —

Note 13 – Per Unit Information

Earnings per unit for the periods ended February 29, 2016 and August 31, 2016 and net assets per unit as of February 29, 2016 and August 31, 2016 are as follows:

	For the six-month periods ended	
	February 29, 2016	August 31, 2016
Earnings per Unit:	(Yen)	
Net income per unit	¥ 9,642	¥ 9,355
Weighted average number of units outstanding (units)	350,700	350,700

	As of	
	February 29, 2016	August 31, 2016
	(Yen)	
Net Assets per Unit	¥ 310,353	¥ 310,066

The computation of earnings per unit is based on the weighted average number of units outstanding during the period. The computation of net assets per unit is based on the number of units outstanding at each period end as stated on the balance sheets.

Note 14 – Distribution Information

The former DHR's Articles of Incorporation stipulates that the former DHR is required to make a distribution in excess of 90% of distributable profit as defined in the Special Taxation Measure Act of Japan for each fiscal period. In accordance with the distribution policy, the former DHR generally intends to distribute approximately 100% of retained earnings.

	For the six-month periods ended	
	February 29, 2016	**August 31, 2016**
	(Yen)	
Unappropriated retained earnings	¥ 3,381,792,820	¥ 3,281,239,201
Cash distributions declared (*)	3,381,449,400	3,281,149,200
Retained earnings brought forward	¥ 343,420	¥ 90,001

(*) For the six-month period ended August 31, 2016, the amount stated is the total cash payment upon the Merger.

Cash distributions are declared by the board of directors after the end of each period. Such distributions are payable to unitholders of record at the end of each period. A distribution in respect of the six-month period ended February 29, 2016 of ¥ 9,642 per investment unit, amounting to a total cash distributions declared of ¥ 3,381,449,400, was proposed and approved at the board of directors meeting on April 15, 2016.

As stated in "Note 18. Subsequent Events," effective September 1, 2016, the former DHR was merged into the former DHI and dissolved. Based on the merger agreement concluded between the former DHR and the former DHI, DHR makes the cash payments at the amount calculated by dividing the distributable profit recognized on the day before the effective date of the Merger by the number of units issued and outstanding on the same date, to the unitholders listed or recorded on the final unitholders' register of the former DHR as of the same date (fractions are round down). Accordingly, the amount of payment per unit was determined to be ¥ 9,356 by dividing ¥ 3,281,239,201 of unappropriated retained earnings for the six-month period ended August 31, 2016 by 350,700 units of the total number of investment units issued and outstanding. Thus, DHR commenced to make the payments of ¥ 3,281,149,200, calculated by multiplying ¥ 9,356 of the payment per unit by 350,700 units, on November 14, 2016.

Note 15 – Related-Party Transactions

Related-party transactions for the periods ended February 29, 2016 and August 31, 2016 are as follows:

For the six-month period ended February 29, 2016

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Information Service Co., Ltd.	Taito-ku, Tokyo	¥ 200	Asset management business	—	Master lessee and entrustment of property management	Property management fees	¥ 85,800	Accounts payable	¥ 69,883
							Cost of utilities	86,916		
							Other expenses related to rent business	9,482		
							Repairs and maintenance (Note 3)	31,496		
							Purchase of trust beneficiary interests in real estate (Note 5)	7,790,000	—	—
							Rental revenues	440,919	Advances received	76,950
							—	—	Tenant security deposits	879,288
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Royal Co., Ltd.	Chiyoda-ku, Tokyo	500	Asset management business	—	Entrustment of property management	Property management fees	7,983	Accounts payable	3,577
							Other expenses related to rent business	13,580		
							Repairs and maintenance (Note 3)	56,208		
							Rental revenues	750	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa LifeNext Co. Ltd.	Minato-ku, Tokyo	130	Asset management business	—	Repairs and maintenance of properties	Property management fees	6,289	Accounts payable	16,638
							Repairs and maintenance (Note 3)	16,662		
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Energy Co., Ltd.	Abeno-ku, Osaka	50	Environment business	—	Lease of equipment held	Rental revenues	11,616	Advances received	2,090
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Logistics Co., Ltd.	Nishi-ku, Osaka	3,764	Transportation business	—	Lease of real estate held	Rental revenues	241,500	Advances received	42,262
							—	—	Tenant security deposits	313,648
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House Reform Co., Ltd.	Kita-ku, Osaka	100	Renovation business	—	Repairs and maintenance of properties	Repairs and maintenance (Note 3)	155	Accounts payable	167

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	ENESERVE CORPO-RATION	Otsu-shi, Shiga	¥7,629	Environment business	—	Management of real estate held	Property management fees	¥360	—	¥—
Company of which major corporate unitholders hold a majority of voting rights	MEDIA TECH INC.	Nishi-ku, Osaka	50	Information and communication business	—	Use of homepage server	Other operating expenses	148	Accounts payable	26
Company of which major corporate unitholders hold a majority of voting rights	KOKANKYO ENGINEER-ING Corp.	Shibuya-ku, Tokyo	73	Environment business	—	Management of real estate held	Property management fees	990	—	—
Company of which major corporate unitholders hold a majority of voting rights	DesignArc Co., Ltd.	Nishi-ku, Osaka	450	Interior business	—	Repair and maintenance of real estate held	Repair and maintenance (Note 3)	130	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House REIT Management Co., Ltd.	Chuo-ku, Tokyo	200	Investment management business	—	Entrustment of asset management	Asset management fee (Note 6)	484,927	Accrued expenses	502,688
Major corporate unitholder	Daiwa House Industry Co., Ltd.	Kita-ku, Osaka	161,699	Construction business	12.2	Master lessee and entrustment of property management	Property management fees	89,205	Accounts payable	20,418
							Repairs and maintenance (Note 3)	29,645		
							Rental revenues	238,500	Advances received	42,930
							—	—	Tenant security deposits	238,500

For the six-month period ended August 31, 2016

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Information Service Co., Ltd.	Chiyoda-ku, Tokyo	¥ 200	Asset management business	—	Master lessee and entrustment of property management	Property management fees	¥ 119,985	Accounts payable	¥ 96,692
							Cost of utilities	156,932		
							Other expenses related to rent business	15,170		
							Repairs and maintenance (Note 3)	112,778		
							Rental revenues	441,144	Advances received	76,950
							—	–	Tenant security deposits	879,288
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Royal Co., Ltd.	Chiyoda-ku, Tokyo	500	Asset management business	—	Entrustment of property management	Property management fees	20	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa LifeNext Co. Ltd.	Minato-ku, Tokyo	130	Asset management business	—	Repairs and maintenance of properties	Property management fees	6,364	Accounts payable	15,893
							Repairs and maintenance (Note 3)	21,311		
							Miscellaneous expenses	40	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Energy Co., Ltd.	Abeno-ku, Osaka	50	Environment business	—	Lease of equipment held	Rental revenues	11,616	Advances received	2,090
							Repairs and maintenance (Note 3)	70,895	—	—
Company of which major corporate unitholders hold a majority of voting rights	Daiwa Logistics Co., Ltd.	Nishi-ku, Osaka	3,764	Transportation business	—	Lease of real estate held	Rental revenues	241,797	Advances received	43,790
							—	—	Tenant security deposits	313,648
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House Reform Co., Ltd.	Kita-ku, Osaka	100	Renovation business	—	Repairs and maintenance of properties	Repairs and maintenance (Note 3)	17,334	—	—
Company of which major corporate unitholders hold a majority of voting rights	ENESERVE CORPO-RATION	Otsu-shi, Shiga	7,629	Environment business	—	Management of real estate held	Repairs and maintenance (Note 3)	200	—	–
Company of which major corporate unitholders hold a majority of voting rights	MEDIA TECH INC.	Nishi-ku, Osaka	50	Information and communication business	—	Use of homepage server	Other operating expenses	148	—	–

Classification	Name	Location	Capital stock	Principal business or occupation	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Notes 1 and 2)	Account	Balance at the end of period (Note 1)
			Yen in millions		%			Yen in thousands		Yen in thousands
Company of which major corporate unitholders hold a majority of voting rights	Daiwa House REIT Management Co., Ltd. (Note 4)	Chuo-ku, Tokyo	¥200	Investment management business	—	Entrustment of asset management	Asset management fee (Notes 4 and 6)	¥479,100	Accrued expenses	¥510,408
Major corporate unitholder	Daiwa House Industry Co., Ltd.	Kita-ku, Osaka	161,699	Construction business	12.2	Master lessee and entrustment of property management	Property management fees	90,609	Accounts payable	117,270
							Other expenses related to rent business	1,759		
							Repairs and maintenance (Note 3)	107,472		
							Miscellaneous expenses	595	—	—
							Purchase of trust beneficiary interests in real estate (Note 5)	2,600,000	—	—
							Rental revenues	238,500	Advances received	42,930
							—	—	Tenant security deposits	238,500

Notes:

1. Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.
2. The terms and conditions of related-party transactions are on an arm’s length basis.
3. Repairs and maintenance include capital expenditures and repair costs covered by insurance.
4. In connection with the Merger between the former DHR and the former DHI on September 1, 2016, Daiwa House REIT Management Co., Ltd. (hereinafter referred to as the “Asset Manager”) was merged into Daiwa House Asset Management Co., Ltd. (hereinafter referred to as “DHAM”) in an absorption-type merger with DHAM as the surviving corporation on the same date.
5. The amount of transaction for purchase of trust beneficiary interests in real estate does not include acquisition-related expenses, taxes and dues and consumption taxes.
6. Asset management fee includes management fee for acquisition of properties in the amount of ¥ 19,475 thousand and ¥ 6,500 thousand for the periods ended February 29, 2016 and August 31, 2016, respectively. These amounts are included in the acquisition cost of respective investment properties.

Note 16 – Segment Information

(a) Segment Information

(1) General information about reportable segments

The former DHR's reportable segments represent its components for which separate financial information is available and operating results are regularly reviewed by the highest decision making body to make decisions about resources to be allocated to the segment and assess its performance.

As the former DHR focuses on acquiring and managing logistics and retail properties in Japan, the former DHR's reportable segments are separated into two segments, "logistics property leasing business" and "retail property leasing business", based on types of portfolio assets.

(2) Method for measuring profit, assets and other items of reportable segments

The accounting policies of each reportable segment are consistent with those disclosed in "Note 2. Summary of Significant Accounting Policies." Segment profit is based on operating income.

(3) Information about profit, assets and other items is as follows:

	For the six-month period ended February 29, 2016 (Yen in thousands)			
	Logistics property leasing business	**Retail property leasing business**	**Adjustment (Note 2)**	**Amount recorded in financial statements**
Operating revenues (Note 1)	¥ 5,328,696	¥ 1,610,251	¥ —	¥ 6,938,947
Segment profit	3,557,566	972,626	(560,778)	3,969,415
Segment assets	167,346,812	42,597,025	12,138,065	222,081,904
Other items				
Depreciation	1,226,737	260,570	340	1,487,647
Increase in investment properties and intangible assets	62,426	7,878,687	—	7,941,114

Notes:

1. The former DHR's operating revenues are exclusively earned from external parties.
2. Adjustment to segment profit of ¥ (560,778) thousand consists of corporate expenses, which include asset management fees, asset custodian fees, general administration fees, directors' fees that are not allocated to any reportable segments.

   Adjustment to segment assets of ¥ 12,138,065 thousand includes ¥ 11,437,412 thousand of current assets and ¥ 700,653 thousand of other assets.

   Adjustment to depreciation of ¥ 340 thousand represents depreciation of intangible assets in corporate assets.

	For the six-month period ended August 31, 2016			
	(Yen in thousands)			
	Logistics property leasing business	**Retail property leasing business**	**Adjustment (Note 2)**	**Amount recorded in financial statements**
Operating revenues (Note 1)	¥ 5,371,113	¥ 1,771,414	¥ —	¥ 7,142,527
Segment profit	3,432,921	1,022,489	(574,452)	3,880,958
Segment assets	169,064,900	42,427,607	10,715,692	222,208,199
Other items				
Depreciation	1,243,337	264,289	340	1,507,966
Increase in investment properties and intangible assets	2,816,204	73,611	—	2,889,816

Notes:

1. The former DHR's operating revenues are exclusively earned from external parties.
2. Adjustment to segment profit of ¥ (574,452) thousand consists of corporate expenses, which include asset management fees, asset custodian fees, general administration fees, directors' fees that are not allocated to any reportable segments.
   Adjustment to segment assets of ¥ 10,715,692 thousand includes ¥ 10,086,065 thousand of current assets and ¥ 629,626 thousand of other assets.
   Adjustment to depreciation of ¥ 340 thousand represents depreciation of intangible assets in corporate assets.

(b) Related Information

Information by Geographic Areas

(1) Operating revenues

Disclosure of this information has been omitted as domestic revenues account for more than 90% of the total operating revenues.

(2) Investment properties

Disclosure of this information has been omitted as domestic investment properties account for more than 90% of the book value of the total investment properties.

Information on Major Tenants

A major tenant is a tenant that accounts for 10% or more of the operating revenues recorded in the statements of income and retained earnings. Details are as follows:

	Revenues for the six-month periods ended		
	February 29, 2016	August 31, 2016	Related segment
	(Yen in thousands)		
Hitachi Capital Corporation	¥ — (Note)	¥ — (Note)	Logistics property leasing business

Note: Not disclosed, as consent for disclosure has not been obtained from the tenant.

Note 17 – Commitment and Contingent Liabilities

Asahi Security Co., Ltd., the tenant of D Project Shin-Misato, filed a claim in the Tokyo District Court on June 27, 2014 against Mitsubishi UFJ Trust and Banking Corporation, the trustee of the property, for requesting confirmation of a reduction of approximately 16% in the rent compared with the current level for the period from May 2014. This case is currently pending.

DHR believes that the current rent is reasonable and intends to make a point through the trustee in future court proceedings.

Even if the claim were admitted by the Court in full, its impact on the former DHR's net income for the fiscal period ended August 31, 2016, would be less than 4%. With respect to the outcome of this case, DHR is unable to estimate the possible loss or range of losses that could potentially result from it as of the balance sheet date.

Note 18 – Subsequent Events

(a) Merger with the Former Daiwa House Residential Investment Corporation

On September 1, 2016, the former DHR was merged into the former DHI in an absorption-type merger (the "Merger") with the former DHI as the surviving corporation and the former DHR as the absorbed corporation. Upon the Merger, the former DHI changed its corporate name from Daiwa House Residential Investment Corporation to Daiwa House REIT Investment Corporation.

(1) Purpose of the Merger

The former DHR and the former DHI concluded the merger agreement on April 15, 2016, expecting the following to result from the Merger: (i) enhanced external growth potential and further internal growth opportunities through the shift to a diversified REIT, (ii) improvement of the position in the J-REIT market and asset-management flexibility through scale enhancement, and (iii) acceleration of growth leveraging the value chain of the Daiwa House Group's integrated capabilities.

(2) Merger type

The Merger was an absorption-type merger with the former DHI as the surviving corporation. The former DHR was dissolved upon the Merger.

(3) Merger ratio

For the Merger, 2.2 units of the former DHI were allotted to the former DHR unitholders per one former DHR unit. Since this generated fractions less than one unit for the number of investment units delivered, those fractional units less than one unit were sold through market transactions in accordance with statutory provisions. DHR commenced to make the payments of the proceeds from the sale on November 1, 2016 to the unitholders who held fractions in proportion to the number of their holdings.

(4) Cash payment upon the Merger

Instead of cash distributions to the former DHR unitholders for the former DHR's final fiscal period ended on the day before the effective date of the Merger, DHR commenced to make the payments on November 14, 2016 to the unitholders listed or recorded on the final unitholders' register of the former DHR as of the day before the effective date of the Merger in the total amount of ¥ 3,281,149,200, which was equivalent to the amount of cash distributions for the final fiscal period calculated based on the former DHR's distributable profit.

(5) The following summarizes the performance of the surviving corporation (the former DHI) in the final fiscal period ended August 31, 2016. The business purpose of the former DHI was to manage the investment corporation assets by investing mainly in real estate properties under the Investment Trust Act.

Operating revenues	¥ 9,691 million
Net income	3,213 million
Total assets	258,266 million
Total liabilities	147,223 million
Net assets	111,042 million

(b) Acquisition of Assets

On September 28, 2016, DHR acquired trust beneficiary interests in the following properties based on the purchase agreements concluded by the former DHR on April 15, 2016.

Property name	Acquisition price (Note 1) (Yen in thousands)	Seller (Note 2)
Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi)	¥ 7,600,000	Daiwa House Industry Co., Ltd. DO Shin-Toshin Development Tokutei Mokuteki Kaisha
D Project Hibiki Nada	2,080,000	Daiwa House Industry Co., Ltd.
D Project Morioka II	1,280,000	Daiwa House Industry Co., Ltd.
Sports Depo and GOLF5 Kokurahigashi IC Store	2,230,000	Daiwa House Industry Co., Ltd.

Notes:

1. The acquisition prices do not include acquisition-related expenses, taxes and dues, and consumption taxes.
2. As Daiwa House Industry Co., Ltd. is an interested party as defined in the Investment Trust Act, the Asset Manager has gone through the necessary discussion and approval procedures in accordance with its internal rules to prevent any potential conflicts of interest.
   DO Shin-Toshin Development Tokutei Mokuteki Kaisha, the seller of Naha Shin-Toshin Center Building (Daiwa Roynet Hotel Naha-Omoromachi), is not an interested party under the Investment Trust Act. This Tokutei

Mokuteki Kaisha, however, is a special purpose company set up with the aim of acquiring, holding and disposing of specified assets partially invested in by Daiwa House Industry Co., Ltd., which is the parent company of the Asset Manager, and is classified as an interested party as stipulated in the Asset Manager's internal rules to avoid transactions with conflicts of interest. Therefore, the Asset Manager has gone through the necessary discussion and approval procedures.

Independent Auditor's Report

To the Board of Directors of Daiwa House REIT Investment Corporation:

We have audited the accompanying financial statements of Daiwa House REIT Investment Corporation, which comprise the balance sheets as at February 29, 2016 and August 31, 2016, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for each of the six-month periods then ended, 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 Daiwa House REIT Investment Corporation as at February 29, 2016 and August 31, 2016, and their financial performance and cash flows for each of the six-month periods then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following.
As discussed in Note18 (a) to the financial statements, on September 1, 2016, Daiwa House REIT Investment Corporation was merged into Daiwa House Residential Investment Corporation, whose corporate name was changed to Daiwa House REIT Investment Corporation on the same date.

KPMG AZSA LLC

November 21, 2016
Tokyo, Japan