

## 5<sup>th</sup> Fiscal Period Semi-Annual Report

October 1, 2017 to February 28, 2018

Securities Code: **3462**

We will strive to enhance the fund performance to live up to the expectations and trust of our unitholders.

MASTER FUND 



## DRIVING THE MARKET AS ONE OF JAPAN'S LARGEST REIT'S

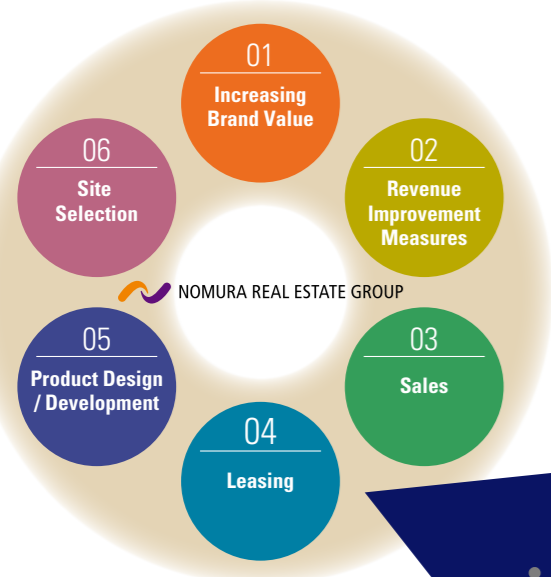
Under its Medium-to Long-term Management Strategy, NMF designated the first three to five years after its establishment as its Quality phase, and it has advanced strategic property replacements (SPRs). It has completed the phase in just two years, earlier than the initial plan. During the Quality phase, NMF successfully sold properties worth around ¥105 billion, more than double the initial replacement

target of ¥50 billion. From October 2017, NMF moved on to the next Growth phase, in which NMF will promote a growth strategy centering on external growth, internal growth and public offerings, by exerting the collective strengths of the Nomura Real Estate Group, the sponsor, and will realize a further increase in cash distributions.

### Property Acquisition Pipeline



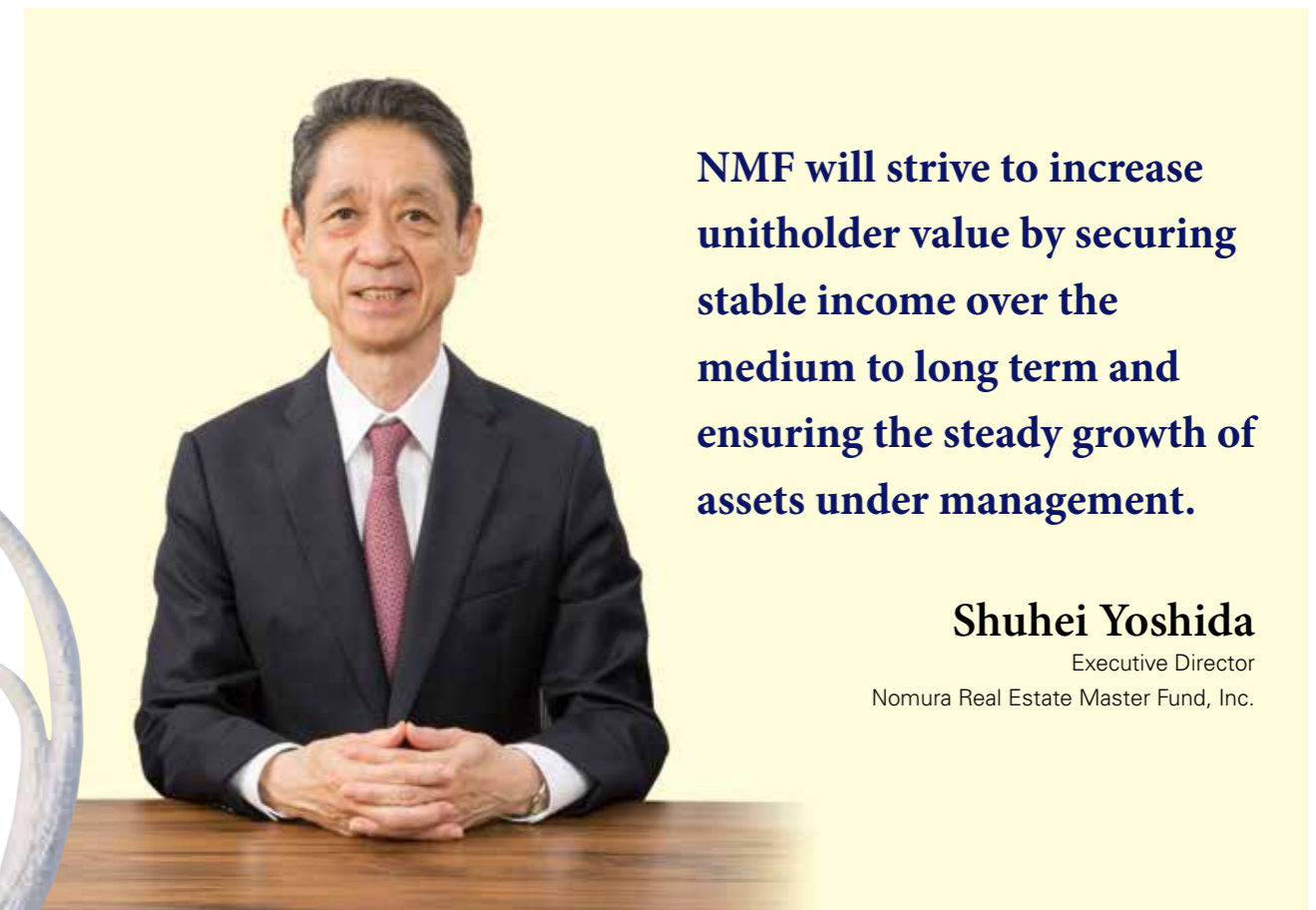
### Leasing Value Chain of the Nomura Real Estate Group



### REAL ESTATE Management Pipeline

- NOMURA REAL ESTATE DEVELOPMENT
- NOMURA REAL ESTATE PARTNERS
- GEO AKAMATSU

## TO OUR UNITHOLDERS



**NMF will strive to increase unitholder value by securing stable income over the medium to long term and ensuring the steady growth of assets under management.**

**Shuhei Yoshida**

Executive Director  
Nomura Real Estate Master Fund, Inc.

In the 5th fiscal period, as key initiatives of the Growth phase, NMF steadily advanced external growth by leveraging the Nomura Real Estate Group's property development capabilities and internal growth by making maximum use of the property management pipeline with a focus on strengthening its property brands. As a result, at the end of the 5th fiscal period, NMF's portfolio was comprised of 271 properties with a total acquisition price of ¥922.5 billion. Thanks to internal growth in upside sectors, including office and retail, operating revenues totaled ¥34,218 million, operating profit reached ¥13,212 million, and net income came to ¥10,714 million. As a result, the per-unit distribution for the 5th fiscal period came to ¥3,047.

Since the close of the 5th fiscal period, NMF has carried out its first public offering since its founding, acquired nine excellent properties developed by the sponsor, and invested in its first ever hotel. Furthermore, to express our strong ambition toward growth aimed at becoming the brand most trusted by unitholders, we rolled out a new brand strategy and adopted a new logo, featuring a deer motif, timed to align with the public offering.

In the spirit of the ideals expressed in the new logo, we remain strongly committed to enhancing performance and will manage the fund's assets with the aim of living up to the expectations and trust of our unitholders.

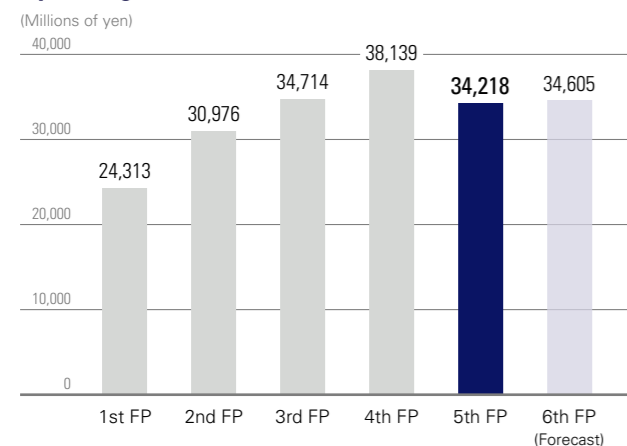
As we move forward, we ask for your continued support and encouragement.

# PERFORMANCE HIGHLIGHTS

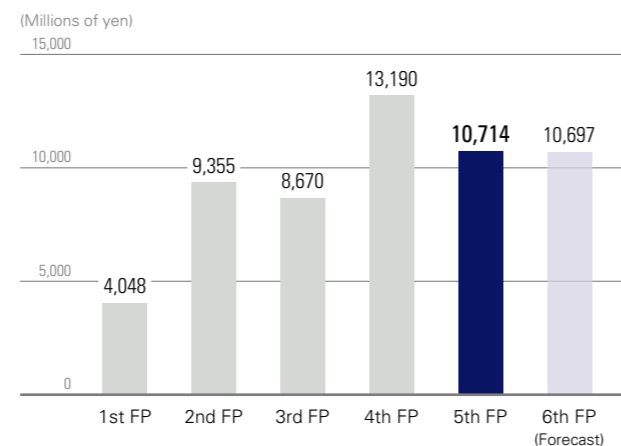
	4th Fiscal Period	5th Fiscal Period	6th Fiscal Period (forecast)*
Cash Distribution per Unit (including distribution in excess of net income)	¥ <b>3,037</b>	¥ <b>3,047</b>	¥ <b>3,081</b>
Operating Revenues	¥ 38,139 million	¥ 34,218 million	¥ 34,605 million
Operating Profit	¥ 15,735 million	¥ 13,212 million	¥ 13,253 million
Ordinary Income	¥ 13,190 million	¥ 10,715 million	¥ 10,698 million
Net Income	¥ 13,190 million	¥ 10,714 million	¥ 10,697 million
Total Assets Acquired	¥ 927,318 million	¥ 922,568 million	¥ 955,984 million
Total Assets	¥ 1,095,828 million	¥ 1,089,820 million	¥ 1,118,585 million
Interest-bearing Liabilities	¥ 488,741 million	¥ 486,198 million	¥ 497,155 million
LTV	44.6 %	44.6 %	44.4 %

\* The above forecast distribution is calculated based on certain assumptions as disclosed in "SUMMARY OF FINANCIAL RESULTS (REIT) For the 5th Fiscal Period Ended February 28, 2018", published April 13, 2018. As such, the actual distribution may differ from this forecast due to future property acquisitions or sales, changes in the real estate market, tenant changes or other changes in the circumstances surrounding NMF. The distribution forecast is not a guarantee of distributions

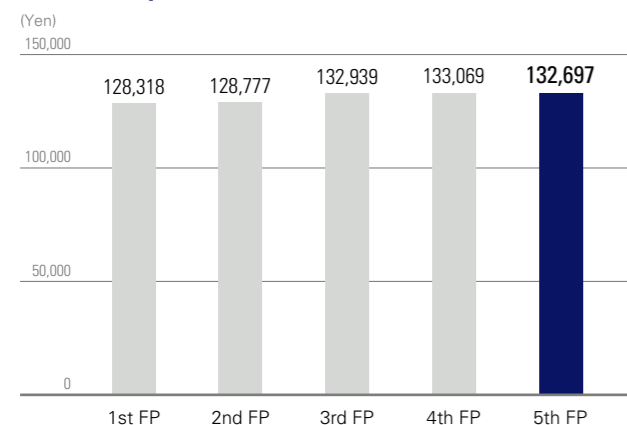
### Operating Revenue



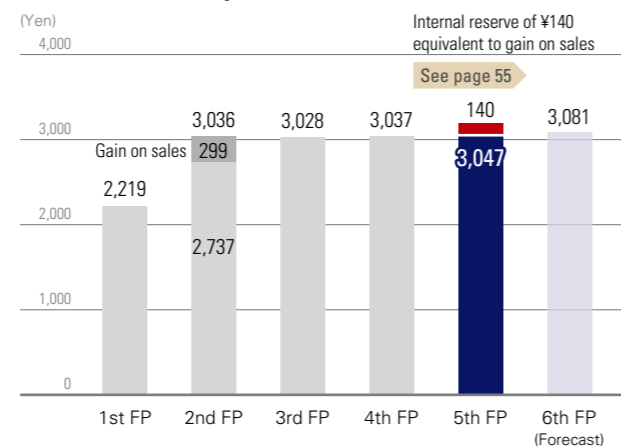
### Net Income



### Net Assets per Unit



### Cash Distribution per Unit



We have launched a new branding strategy with NMF's first public offering in our Growth Phase to express our decision to become the leading brand of the J-REITs.

We unveiled a new fund logo featuring THE DEER associating its characteristics with NMF.

### The Characteristics of THE DEER

#### Regeneration of Strong Deer Antlers

Symbolizing our resolve for a constant advancement and the number one brand that we seek

#### Keen Sense of Smell and Agility

Symbolizing our ability to meet the changes in the market environment and to react swiftly

#### Powerful Leap

Symbolizing our growth potential based on a strong support  
By Nomura Real Estate Group

## MASTER FUND

Nomura Real Estate Master Fund, Inc.



### The Logo Design of THE DEER

#### Looking Far Ahead

Our strategies with perceptions and long-term perspectives

#### Strong Front Leg Pawing the Ground

Our clear intention to build a solid performance

**We will strive to enhance the fund performance to live up to the expectations and trust of our unitholders.**

**A special page of the new brand has been opened on the website.**

Along with the introduction of the new brand, a video of the brand can be viewed.



## TRANSITIONING FROM THE QUALITY PHASE TO THE GROWTH PHASE



### Ken Okada

Director and Managing Executive Officer,  
Head of NMF Investment Management  
Group, Nomura Real Estate Asset  
Management Co., Ltd.

### Q1. Can you give us a review of the 5th fiscal period?

We made a transition to a new stage, the Growth phase, in October 2017 as we had largely completed the sale of properties subject to strategic property replacements (SPRs) with the sale of Morisia Tsudanuma in the 5th fiscal period and successfully enhanced the portfolio's quality. Including the sale of Funabashi Logistics Center that followed, we were able to achieve sales of ¥105 billion, more than double the property replacement target of ¥50 billion initially set for the Quality phase. As we focus on "external growth," "internal growth" and "conducting public offering" in the Growth phase, we have acquired Summit Store Mukodaicho from an external party in addition to acquiring four properties (PMO and GEMS) from the sponsor, Nomura Real Estate Development Co., Ltd. during the 5th fiscal period, promoting investment in a wide range of real estate with finest location and specifications.

Internal growth, which is one of the growth engines, is also considered extremely favorable, with no properties having major issues in current management status as a

result of higher portfolio competitiveness realized by SPR. We have worked to maximize rent revenues through upward rent revisions, etc., leveraging the portfolio's robust stability with a high occupancy rate of 98.6% as well as proactive negotiations with tenants based on this high occupancy rate. In particular, the office leasing market was strong and we successfully increased the average rent per tsubo by 1.1% from the previous fiscal period, partially helped by the upward rent revisions of large tenants.

As a result of pressing ahead with such internal growth, we have decided to distribute ¥3,047 for the 5th fiscal period, an increase of ¥27 (+0.8%) from the previous forecast. We believe that internal growth centering on office properties will continue for the time being. In addition, since properties developed by the sponsor are scheduled to be completed in a stream going forward, we will seek further growth of distribution driven by both internal and external growth.

### Q2. Can you explain to us about the public offering, which was the first since founding?

Along with "external growth" and "internal growth," we uphold "conducting public offerings" as another important measure in the Growth phase. As we completed

arrangements for acquiring excellent properties this time around, we carried out the first public offering since founding.

We acquired a total of ten properties, nine properties from

the sponsor and Watermark Hotel Sapporo, which is NMF's first hotel asset, through the public offering this time. The AUM will expand to over ¥950 billion after the acquisition of these properties. The nine properties from the sponsor are "PMO," "Landport" and "PROUD FLAT," the profitable leasing asset brands developed by Nomura Real Estate Development Co., Ltd. All of them are relatively new properties with high added value and enjoy strong competitiveness in the respective areas. As to Watermark Hotel Sapporo, it is located near the Susukino area, Sapporo City's busiest entertainment district, while also being very close to the Odori area, which serves as the city's business hub. The property is thus well-positioned to welcome businesspeople in need of accommodation while also attracting tourists from Japan and abroad. Going forward, we anticipate an upside in rent revenue through rebranding. (For details of the main newly acquired properties, please refer to page 13.)

Although the timing was not the best for public offering with the J-REIT market remaining weak due to concerns over a rise in the U.S. interest rates, NMF's growth story accompanying specific actions, such as accomplishment of the Quality phase which we have steadily promoted since the merger of the three REITs, transition to the Growth phase, and increase in distribution through acquisition of quality properties centering on those developed by the sponsor as well as steady internal growth, was highly recognized, resulting in strong demand as large as around 6.6 times the planned amount of issuance while the investment unit price also remaining higher than the trends of all REITs (Tokyo Stock Exchange REIT Index). We believe that NMF's

first public offering has achieved a successful outcome.

Furthermore, NMF rolled out a new brand strategy and adopted a new logo, featuring a deer motif, timed to align with the public offering. Starting as a REIT specializing in logistics and retail properties (former NMF), NMF transformed into a diversified REIT through a merger of three Nomura Real Estate-affiliated REITs and grew dramatically through a merger with the former TOP REIT; and has evolved into Japan's largest REIT. In addition, our appearance as well as our content have totally changed after having realized quality improvement through SPR. Now in light of our advancement into the new stage, the Growth phase, we decided to create a new logo to express our strong ambition toward growth aimed at becoming the brand most trusted by unitholders. (For details of the new logo, please refer to page 4.)

As we remain strongly committed to enhancing performance and to manage the fund's assets with the aim of living up to the expectations and trust of our unitholders, we appreciate your continued interest in our business.

### Overview of Public Offering (PO)

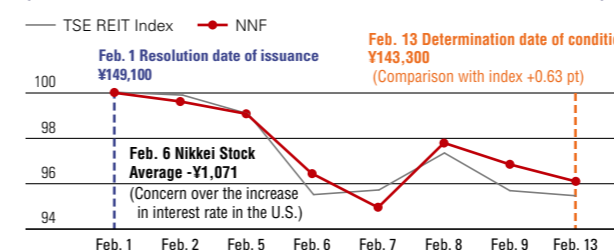
Form of offering	Domestic offering
Number of investment units offered (including third-party allotment)	138,670 units
Number of investment units issued	4,321,800 units
Issue price	¥137,474
Issue value	¥133,125
Resolution date of issuance	February 1, 2018
Determination date of conditions	February 13, 2018
Payment date (third-party allotment)	March 1, 2018 (March 20, 2018)
Total issue value (including third-party allotment)	¥18.46 billion

### Change in Indicators

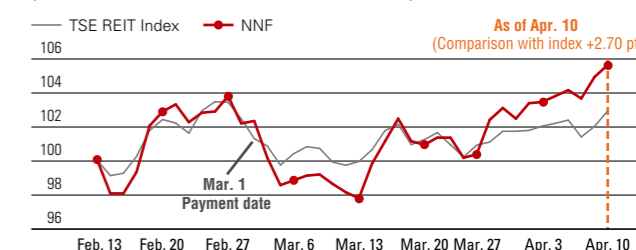
	End of previous period (end of August 2017)	Acquisition	Sales	PO	After PO (end of April 2018)
Asset size	¥927.3 billion	¥16.5 billion	¥23.4 billion	¥33.4 billion	<b>¥955.9 billion</b>
Number of properties	268 properties	5 properties	2 properties	10 properties	281 properties
Average NOI yield	5.1%	4.2%	5.1%	4.4%	5.0%
Average age	19.0 years	3.5 years	36.0 years	2.6 years	18.4 years
Ratio of properties in Tokyo area	82.0%	100%	100%	89.2%	82.1%
DPU	Initial forecast for Feb. 2018 period ¥3,020				Forecast for Aug. 2018 period <b>¥3,081 (+2.0%)</b>
LTV	44.6%				Forecast for Feb. 2019 period <b>¥3,102 (+2.7%)</b>
					<b>44.4%</b>

\* The average age of the properties in the PO are the figures indicated in the prospectus

### Changes in Investment Unit Price (from the resolution date of issuance to the determination date of conditions)



### Changes in Investment Unit Price (after the determination date of conditions)

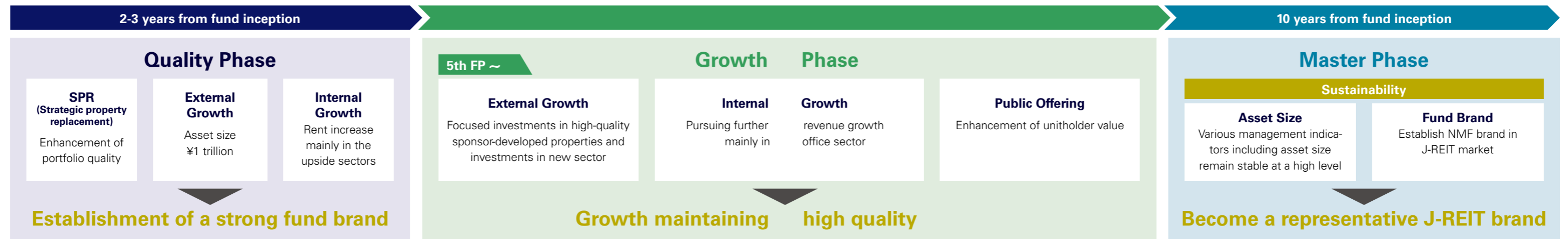


# OVERVIEW AND PROGRESS OF MEDIUM-TO LONG-TERM MANAGEMENT STRATEGY

## NMF formulates and implements medium-to long-term management strategy with an aim to become a representative J-REIT brand.

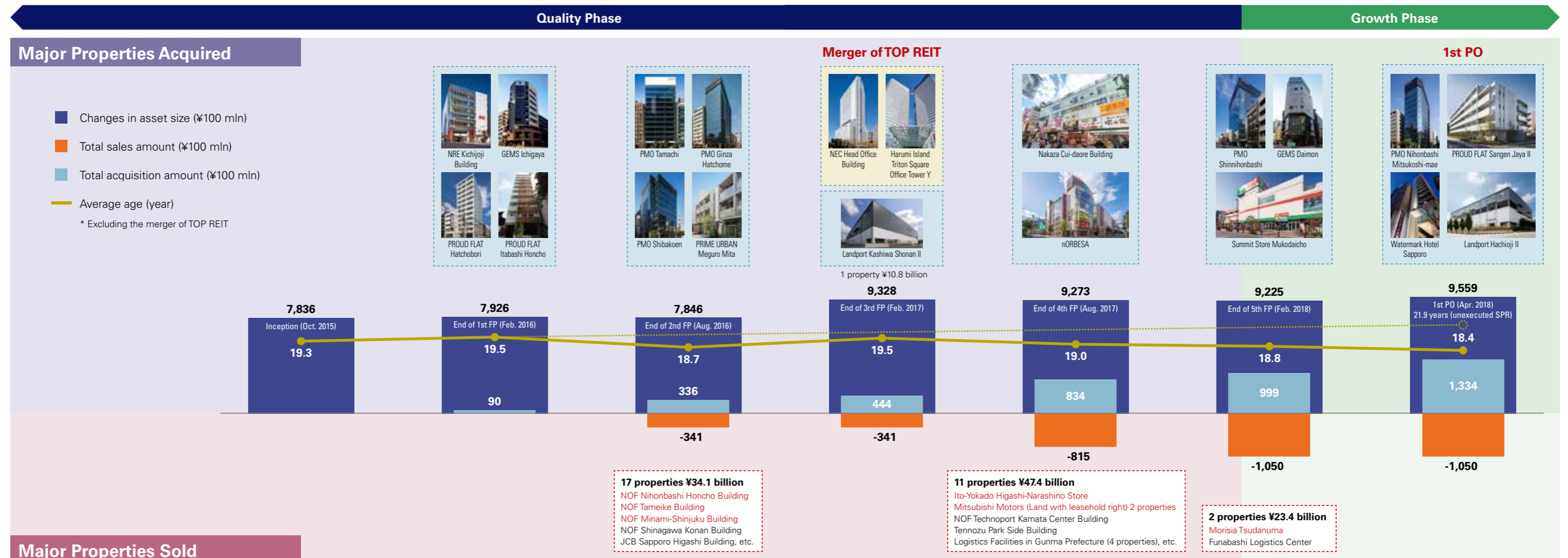
NMF adopts the basic principle of conducting stable management over the medium to long term and is formulating a medium-to long-term management strategy eyeing the 10 years from inception in order to realize this principle. NMF designated the first 2-3 years from inception as the "Quality" phase which focuses on the establishment of a strong fund brand, the following period as the "Growth" phase which maintains high quality and the 10 years from inception as the "Master" phase when NMF evolves into a representative J-REIT brand, and will implement strategies in accordance with each phase.

### Overview of Medium- to Long-term Management Strategy



### Growth Trajectory since Inception

Realizing the expansion of asset size while promoting the enhancement of portfolio quality through asset replacement

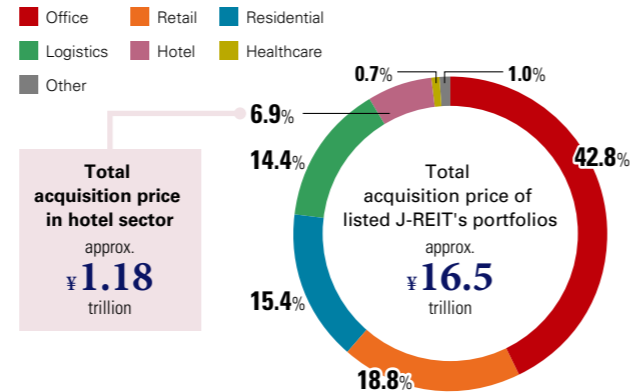


# INVESTMENT IN NEW SECTOR “HOTELS”

## Background to Entry

- 1 A sector where both stable income and upside can be expected by combining fixed rent and variable rent
- 2 Market expansion against the backdrop of stable demand for domestic accommodations and the increase in the number of foreign visitors
- 3 Further enhancement of leasing value chain of the Nomura Real Estate Group

### Listed J-REIT's Sector Diversification (as of March 31, 2018)



## Clarification of Investment Policy in Hotels through Partial Revision to Asset Management Guidelines

### Standards for determining a property's use

Upon acquisition, the leasable floor space, rent revenue and other factors attributable to each use of the acquired real estate shall be assessed to determine its main use; properties' whose main use is thus found to be as hotels shall be considered hotels. Note that hotels include any attached restaurants, meeting rooms, banquet halls, spas or similar facilities.

### Standards for determining the contract type

In principle, hotels to be acquired shall be managed as leased facilities (including variable-rent leases), and Nomura Real Estate Master Fund, Inc. shall not directly commission their operation.

### Property selection policy

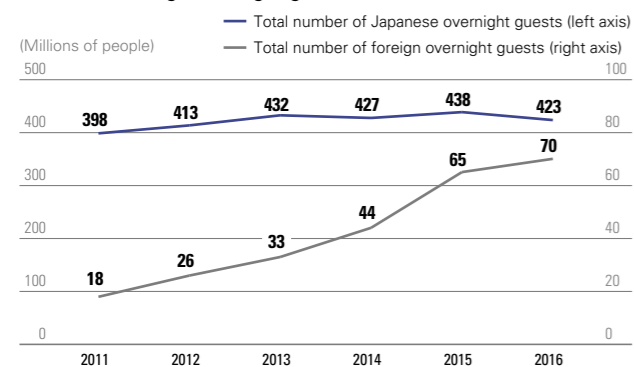
When investing in hotels, in addition to the provisions of property selection standards applied regardless of property use, the Asset Management Company's property selection policy shall be to invest with balanced consideration of profitability and stability. In particular, hotels shall be selected with regard to their location in light of such factors as the strength of the local economy, trends in visitors from overseas and the potential impact on the surrounding area of natural disasters. Furthermore, as the profitability of hotels is greatly impacted by such factors as the ability of the operator and brand strength, particular weight shall be given to the conditions of the property's lease contract and the operator's creditworthiness and substitutability. Consideration shall also be given to the division between the Asset Management Company and the operator of assets, including furniture, fixtures and equipment\*, as well as the division of the burden for repairs and renovations.

\*Indicates assets necessary for operation of hotels such as furniture, fixtures, equipment, ornaments and kitchen equipment.

## Environment Surrounding Hotels in Japan

### Total Number of Overnight Guests in Domestic Hotels

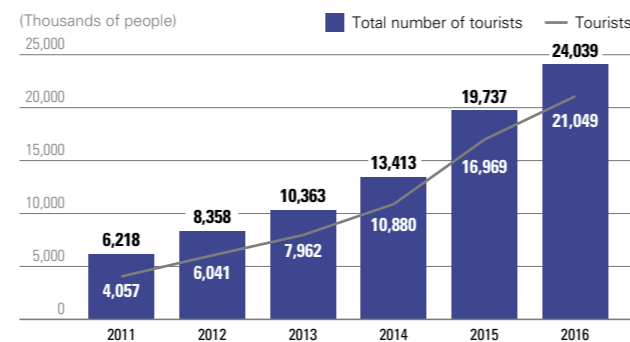
Stable demand for domestic accommodation and increase in the number of foreign overnight guests



Source: Prepared by the Asset Management Company based on "Overnight Travel Statistics Survey" of Japan Tourism Agency in the Ministry of Land, Infrastructure, Transport and Tourism

### Number of Inbound Travelers

Target of government: 40 million people in 2020  
60 million people in 2030



Source: Prepared by the Asset Management Company based on "Visitor Arrivals, Japanese Overseas Travelers" and "Visitor Arrivals by Nationality/Purpose of Visit" of Japan National Tourism Organization (JNTO)

## First Hotel Acquisition



### Watermark Hotel Sapporo

Acquisition price:	<b>¥3,600 million</b>
Location:	<b>Sapporo City, Hokkaido</b>
Appraisal NOI yield:	<b>5.1%</b>
Land area:	<b>553.20 m<sup>2</sup></b>
Leasable floor space:	<b>4,425.36 m<sup>2</sup></b>

## Expansion of Hotel Business of the Sponsor

### Overview of New Company



Name	Nomura Real Estate Hotels Co., Ltd.
Head office	1-26-2 Nishi-Shinjuku, Shinjuku, Tokyo
Capital	¥100 million
Principal shareholder (shareholding ratio)	Nomura Real Estate Holdings, Inc. (100%)
Principal business	Planning, operation and management of hotels
Established	October 17, 2017

### Property to be Developed\*

Business expansion under the brand of "NOHGA HOTEL"



## NOHGA HOTEL

<b>First property</b>
Location: <b>Taito Ward, Tokyo</b>
Number of guestrooms: <b>130</b>
Opening: <b>Autumn 2018</b> (scheduled)
Operator: <b>Nomura Real Estate Hotels Co., Ltd.</b>

\* NMF has not decided the acquisition of the property to be developed as of the date of this document and there is no guarantee that the property will be acquired in the future. Moreover, the illustration above is a rendering based on design drawing, etc. and may differ from the building that will be actually completed.

## OVERVIEW OF PROPERTIES ACQUIRED IN THE FISCAL PERIOD ENDED FEBRUARY 2018 (5TH FISCAL PERIOD)



Office	Sponsor
<b>PMO Hirakawacho</b>	
Acquisition price: <b>¥3,410 million</b>	
Acquisition date: <b>September 29, 2017</b>	
Location: <b>Chiyoda Ward, Tokyo</b>	
Completion: <b>January 2016</b>	
Land area: <b>307.79 m<sup>2</sup></b>	
Leasable floor space: <b>1,871.08 m<sup>2</sup></b>	



Office	Sponsor
<b>PMO Shinnihonbashi</b>	
Acquisition price: <b>¥4,440 million</b>	
Acquisition date: <b>September 29, 2017</b>	
Location: <b>Chuo Ward, Tokyo</b>	
Completion: <b>November 2016</b>	
Land area: <b>552.11 m<sup>2</sup></b> (Owned area: 473.11 m <sup>2</sup> / Leased area: 79.00 m <sup>2</sup> )	
Leasable floor space: <b>2,971.76 m<sup>2</sup></b>	

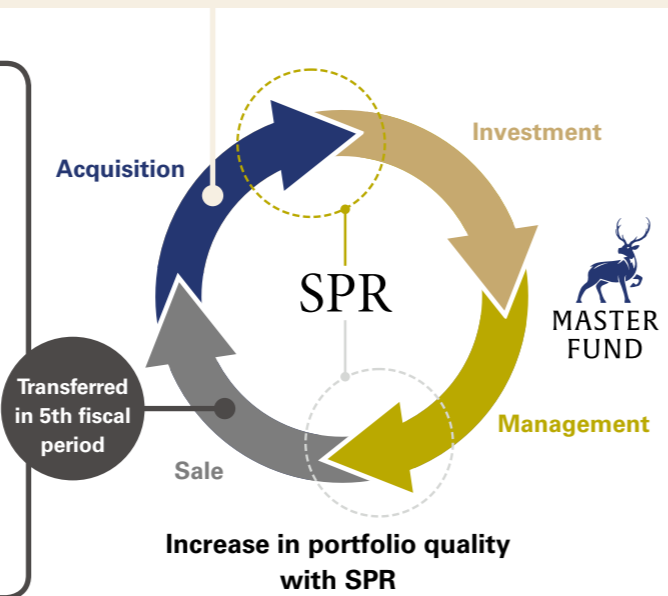


Retail	Sponsor
<b>GEMS Kanda</b>	
Acquisition price: <b>¥1,500 million</b>	
Acquisition date: <b>September 29, 2017</b>	
Location: <b>Chiyoda Ward, Tokyo</b>	
Completion: <b>June 2016</b>	
Land area: <b>198.73 m<sup>2</sup></b>	
Leasable floor space: <b>1,023.60 m<sup>2</sup></b>	



Retail	Sponsor
<b>GEMS Daimon</b>	
Acquisition price: <b>¥2,060 million</b>	
Acquisition date: <b>September 29, 2017</b>	
Location: <b>Minato Ward, Tokyo</b>	
Completion: <b>February 2016</b>	
Land area: <b>241.43 m<sup>2</sup></b>	
Leasable floor space: <b>1,175.42 m<sup>2</sup></b>	

	<table border="1"> <tr> <th>Retail</th> </tr> <tr> <td><b>Morisia Tsudanuma</b></td> </tr> <tr> <td>Transfer price: <b>¥18,000 million</b></td> </tr> <tr> <td>Book value: <b>¥17,896 million</b></td> </tr> <tr> <td>Transfer date: <b>September 29, 2017</b></td> </tr> <tr> <td>Buyer: <b>Nomura Real Estate Development Co., Ltd.</b></td> </tr> </table>	Retail	<b>Morisia Tsudanuma</b>	Transfer price: <b>¥18,000 million</b>	Book value: <b>¥17,896 million</b>	Transfer date: <b>September 29, 2017</b>	Buyer: <b>Nomura Real Estate Development Co., Ltd.</b>
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	<table border="1"> <tr> <th>Logistics</th> </tr> <tr> <td><b>Funabashi Logistics Center</b></td> </tr> <tr> <td>Transfer price: <b>¥5,480 million</b></td> </tr> <tr> <td>Book value: <b>¥4,537 million</b></td> </tr> <tr> <td>Transfer date: <b>January 19, 2018</b></td> </tr> <tr> <td>Buyer: <b>External party</b></td> </tr> </table>	Logistics	<b>Funabashi Logistics Center</b>	Transfer price: <b>¥5,480 million</b>	Book value: <b>¥4,537 million</b>	Transfer date: <b>January 19, 2018</b>	Buyer: <b>External party</b>
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Transfer date: <b>January 19, 2018</b>							
Buyer: <b>External party</b>							



Retail	External party
<b>Summit Store Mukodaicho</b>	
Acquisition price: <b>¥5,100 million</b>	
Acquisition date: <b>November 30, 2017</b>	
Location: <b>Nishi-Tokyo City, Tokyo</b>	
Completion: <b>March 2009</b>	
Land area: <b>6,166.41 m<sup>2</sup></b>	
Leasable floor space: <b>6,996.40 m<sup>2</sup></b>	

## OVERVIEW OF PROPERTIES ACQUIRED ALONG WITH THE PUBLIC OFFERING

Property name	Use	Location	Acquisition price (Millions of yen)	Appraisal value (Millions of yen)	Appraisal NOI yield	Total floor area (m <sup>2</sup> )	Completion	Acquisition date
PMO Nihonbashi Mitsukoshi-mae	Office	Chuo, Tokyo	4,310	4,520	3.5%	2,968.75	May 2016	April 2, 2018
PMO Shibadaimon	Office	Minato, Tokyo	2,130	2,180	3.9%	1,755.21	September 2014	April 2, 2018
Landport Hachioji II	Logistics	Hachioji, Tokyo	9,230	9,310	4.4%	33,028.63	September 2016	March 1, 2018
Landport Iwatsuki	Logistics	Saitama, Saitama	6,090	6,110	4.5%	24,177.15	May 2016	March 1, 2018
PROUD FLAT Yoyogi Hachiman	Residential	Shibuya, Tokyo	966	1,000	4.4%	1,081.03	January 2016	April 2, 2018
PROUD FLAT Sangen Jaya II	Residential	Setagaya, Tokyo	2,750	2,800	4.4%	3,522.92	January 2014	April 2, 2018
PROUD FLAT Soto kanda	Residential	Chiyoda, Tokyo	2,280	2,370	4.4%	2,882.48	April 2016	April 2, 2018
PROUD FLAT Nakaochiai	Residential	Shinjuku, Tokyo	844	873	4.6%	1,333.42	December 2016	April 2, 2018
PROUD FLAT Noborito	Residential	Kawasaki, Kanagawa	1,216	1,260	5.1%	2,000.91	April 2016	April 2, 2018
Watermark Hotel Sapporo	Hotel	Sapporo, Hokkaido	3,600	3,850	5.1%	4,348.23	March 2008	March 5, 2018
<b>Total</b>			<b>33,416</b>	<b>34,273</b>	<b>4.4%</b>	<b>77,098.73</b>		

**Office** **Sponsor**



**PMO Nihonbashi Mitsukoshi-mae**

Acquisition price: **¥4,310 million**

Location: **Chuo Ward, Tokyo**

Appraisal NOI yield: **3.5%**

Land area: **365.95 m<sup>2</sup>** (ownership)  
**70.52 m<sup>2</sup>** (joint ownership)

Leasable floor space: **2,267.46 m<sup>2</sup>**

**Office** **Sponsor**



**PMO Shibadaimon**

Acquisition price: **¥2,130 million**

Location: **Minato Ward, Tokyo**

Appraisal NOI yield: **3.9%**

Land area: **289.59 m<sup>2</sup>**

Leasable floor space: **1,463.36 m<sup>2</sup>**

**Logistics** **Sponsor**



**Landport Hachioji II**

Acquisition price: **¥9,230 million**

Appraisal NOI yield: **4.4%**

Location: **Hachioji City, Tokyo**

Land area: **16,466.84 m<sup>2</sup>**

Leasable floor space: **33,421.80 m<sup>2</sup>**

**Logistics** **Sponsor**



**Landport Iwatsuki**

Acquisition price: **¥6,090 million**


Appraisal NOI yield: **4.5%**

Location: **Saitama City, Saitama**

Land area: **11,926.85 m<sup>2</sup>**

Leasable floor space: **24,089.82 m<sup>2</sup>**

**Residential** **Sponsor**



**PROUD FLAT Noborito**

Acquisition price: **¥1,216 million**


Location: **Kawasaki City, Kanagawa**

Appraisal NOI yield: **5.1%**

Land area: **518.80 m<sup>2</sup>**

Leasable floor space: **1,771.77 m<sup>2</sup>**

**Residential** **Sponsor**



**PROUD FLAT Soto kanda**

Acquisition price: **¥2,280 million**

Location: **Chiyoda Ward, Tokyo**

Appraisal NOI yield: **4.4%**

Land area: **407.54 m<sup>2</sup>**

Leasable floor space: **2,344.93 m<sup>2</sup>**

**Residential** **Sponsor**



**PROUD FLAT Nakaochiai**

Acquisition price: **¥844 million**

Location: **Shinjuku Ward, Tokyo**

Appraisal NOI yield: **4.6%**

Land area: **423.28 m<sup>2</sup>**

Leasable floor space: **1,103.88 m<sup>2</sup>**

**Residential** **Sponsor**



**PROUD FLAT Yoyogi Hachiman**

Acquisition price: **¥966 million**

Location: **Shibuya Ward, Tokyo**

Appraisal NOI yield: **4.4%**

Land area: **335.87 m<sup>2</sup>**

Leasable floor space: **972.13 m<sup>2</sup>**

**Residential** **Sponsor**



**PROUD FLAT Sangen Jaya II**

Acquisition price: **¥2,750 million**

Location: **Setagaya Ward, Tokyo**

Appraisal NOI yield: **4.4%**

Land area: **1,534.91 m<sup>2</sup>**

Leasable floor space: **2,931.42 m<sup>2</sup>**

**Hotel** **External party**



**Watermark Hotel Sapporo**

Acquisition price: **¥3,600 million**

Location: **Sapporo City, Hokkaido**

Appraisal NOI yield: **5.1%**

Land area: **553.20 m<sup>2</sup>**

Leasable floor space: **4,425.36 m<sup>2</sup>**





## STRONG SPONSOR PIPELINES FOR EXTERNAL GROWTH

The sponsor has launched new brands for income-generating real estate by use of residential, logistics, office and retail, and has promoted its development and operations, starting with PROUD FLAT in 2005, Landport in 2007, PMO in 2008 and GEMS in 2012.

### Nomura Real Estate's Core Office Brand

**PMO**  
PREMIUM MIDSIZE OFFICE



PMO Nihonbashi Edo-dori PMO Kyobashi-Higashi Project

PMO is a new category of office building that is mid-sized yet offers the functionality and grade of a large-sized building to meet the needs of increasingly diverse businesses.

- Strategy 1** Office buildings where people will be proud to work, strengthening hiring and retention
- Strategy 2** Offices that enhance corporate image and reputation, helping to attract customers
- Strategy 3** Buildings with one tenant per floor to ensure efficiency, independence and safety
- Strategy 4** Places that stimulate employee motivation and communication, fostering enhanced productivity

Name	Location	Completion (plan) period	Status
✓ PMO Shibadaimon	Minato, Tokyo	Completed 2014	NMF Acquired
PMO Nihonbashi Edo-dori*	Chuo, Tokyo	Completed 2016	Operating
✓ PMO Nihonbashi Mitsukoshi-mae	Chuo, Tokyo	Completed 2016	NMF Acquired
PMO Uchi-Kanda PJ.	Chiyoda, Tokyo	Completed 2017	Operating
PMO Shibuya PJ.	Shibuya, Tokyo	Completed 2017	Operating
PMO Hanzomon PJ. (entrusted development)	Chiyoda, Tokyo	Completed 2017	Working
PMO Shinjuku-gyoen PJ (entrusted development)	Shinjuku, Tokyo	Sep. 2018	Under construction
PMO Tamachi II PJ.	Minato, Tokyo	Feb. 2018	Under construction
PMO Higashi-Shinbashi PJ.	Minato, Tokyo	Apr. 2018	Under construction
PMO Kyobashi-Higashi PJ.	Chuo, Tokyo	Apr. 2018	Under construction
PMO Ochanomizu PJ.	Chiyoda, Tokyo	Jul. 2018	Under construction
PMO Hamamatsucho PJ.	Minato, Tokyo	Nov. 2018	Under construction
PMO Kandasudacho PJ.	Chiyoda, Tokyo	Jan. 2020	Planning
PMO Hatchobori Shinkawa PJ.*	Chuo, Tokyo	Apr. 2018	Under construction
PMO Akihabara-Kita PJ.	Taito, Tokyo	Dec. 2018	Under construction
PMO Nishi-Shinjuku PJ.	Shinjuku, Tokyo	Jun. 2019	Planning
PMO Shibuya II PJ.	Shibuya, Tokyo	Aug. 2020	Planning
PMO Gotanda PJ.	Shinagawa, Tokyo	Jul. 2019	Planning
Minato-ku PJ.	Minato, Tokyo	Jul. 2020	Planning

\* Joint Venture PJ.

### Nomura Real Estate's Core Retail Facility Brand

**GEMS**



GEMS Jingu-mae PJ. GEMS Kayabacho PJ. GEMS Sangenjaya PJ.

GEMS retail facilities are located mainly in urban areas and comprised primarily of a rich variety of select restaurants.

Facilities offer new lifestyle ideas to brighten and enrich the everyday lives of nearby office workers and residents.

Name	Location	Completion (plan) period	Status
GEMS Jingu-mae PJ.	Shibuya, Tokyo	Apr. 2018	Under construction
GEMS Kayabacho PJ.	Chuo, Tokyo	Feb. 2018	Under construction
GEMS Namba PJ.	Osaka, Osaka	Nov. 2018	Under construction
GEMS Tamachi PJ.	Minato, Tokyo	Feb. 2019	Under construction
GEMS Nishi-Shinjuku PJ.	Shinjuku, Tokyo	Not fixed	Planning
GEMS Sangenjaya PJ.	Setagaya, Tokyo	May 2018	Under construction
GEMS Shin-Yokohama PJ.	Yokohama, Kanagawa	Jul. 2018	Under construction
GEMS Shinbashi PJ.	Minato, Tokyo	Sep. 2018	Under construction
GEMS Sakae PJ.	Nagoya, Aichi	Aug. 2019	Planning
GEMS Yokohama PJ.	Yokohama, Kanagawa	Sep. 2019	Planning

#### Other Retail facilities

Jinbo-cho PJ.	Chiyoda, Tokyo	Jan. 2019	Planning
☉ Suginami PJ.	Suginami, Tokyo	Sep. 2018	Planning
Hiroo PJ.	Shibuya, Tokyo	May 2019	Planning
Katase Kaigan PJ.	Fujisawa, Kanagawa	Feb. 2019	Planning
Chayamachi PJ.	Osaka, Osaka	Jul. 2020	Planning

### Nomura Real Estate's Core Logistics Facility Brand

**Landport**



Landport Higashi-Narashino PJ. (former Ito-Yokado Higashi Narashino)

Landport logistics facilities offer advanced functionality to meet the needs of the changing logistics environment and diverse tenants.

Designed for optimized, efficient logistics to enhance tenant satisfaction.

Name	Location	Completion (plan) period	Status
✓ Landport Iwatsuki	Saitama, Saitama	Completed 2016	NMF Acquired
✓ Landport Hachioji II	Hachioji, Tokyo	Completed 2016	NMF Acquired
Landport Komaki*	Komaki, Aichi	Completed 2017	Operating
Landport Shinonome PJ.	Koto, Tokyo	Aug. 2018	Planning
Landport Narashino PJ.	Narashino, Chiba	Dec. 2019	Under construction
Landport Kawaguchi PJ.	Kawaguchi, Saitama	Jan. 2020	Planning
☉ Landport Higashi-Narashino PJ.	Narashino, Chiba	Aug. 2019	Planning
Landport Ome I PJ.	Ome, Tokyo	Nov. 2018	Under construction
Landport Ome II PJ.	Ome, Tokyo	Jun. 2020	Planning
Landport Ome III PJ.	Ome, Tokyo	Jun. 2020	Planning
Landport Koshigaya PJ.	Koshigaya, Saitama	Jun. 2020	Planning
Landport Kasukabe II PJ.	Kasukabe, Saitama	May 2021	Planning
Landport Atsugi Aikawamachi PJ.*	Atsugi, Kanagawa	Mar. 2020	Planning

\* Joint Venture PJ.

### Nomura Real Estate's Core Residential Facility Brand

**PROUD FLAT**



Tomigaya 2-chome PJ. (former Mitsubishi Motors Shibuya Store) Proud Flat Miyazakidai

PROUD FLAT properties are developed on locations optimally suited for urban rental housing selected by leveraging the Nomura Real Estate Group's information network and know-how related to housing development and sales.

Quality control and proper operations and management are ensured using Nomura Real Estate's proprietary rental housing complex design standards and quality control inspection guidelines.

Name	Location	Total units	Completion (plan) period	Status
✓ Proud Flat Sangenjaya II	Setagaya, Tokyo	70	Completed 2014	NMF Acquired
Proud Flat Higashi-Kanda	Chiyoda, Tokyo	38	Completed 2015	Operating
Proud Flat Mitsukoshi-mae	Chuo, Tokyo	40	Completed 2015	Operating
✓ Proud Flat Yoyogi Hachiman	Shibuya, Tokyo	30	Completed 2016	NMF Acquired
✓ Proud Flat Soto Kanda	Chiyoda, Tokyo	75	Completed 2016	NMF Acquired
✓ Proud Flat Noborito	Kawasaki, Kanagawa	79	Completed 2016	NMF Acquired
✓ Proud Flat Nakaochiai	Shinjuku, Tokyo	37	Completed 2016	NMF Acquired
Proud Flat Monzen Nakacho V	Koto, Tokyo	99	Oct. 2017	Under construction
Proud Flat Miyazakidai	Kawasaki, Kanagawa	82	Feb. 2018	Under construction
Proud Flat Togoshi	Shinagawa, Tokyo	99	Dec. 2018	Under construction
Proud Flat Asakusabashi II	Taito, Tokyo	87	Mar. 2019	Under construction
Proud Flat Higashi-Nihonbashi	Chuo, Tokyo	43	Oct. 2018	Under construction
Proud Flat Asakusabashi III	Taito, Tokyo	41	Aug. 2018	Under construction
Proud Flat Asakusa Kaminarimon	Taito, Tokyo	49	Jan. 2019	Under construction
Proud Flat Ryogoku	Sumida, Tokyo	90	Aug. 2019	Planning
☉ Tomigaya 2-chome PJ.	Shibuya, Tokyo	109	Feb. 2019	Planning
Kiba 5-chome PJ.	Koto, Tokyo	136	Feb. 2020	Planning
Minami-Shinagawa 2-chome PJ.	Shinagawa, Tokyo	127	Apr. 2019	Planning
Kinshicho II PJ.	Sumida, Tokyo	62	Jan. 2020	Planning
Sumida-ku PJ.	Sumida, Tokyo	35	Nov. 2019	Planning
Kameido 6-chome PJ.	Koto, Tokyo	98	Dec. 2022	Planning

✓ Properties acquired by NMF (as of April 2, 2018)

☉ Properties developed by using SPRs

\*1 Sourced from Presentation Materials for the Consolidated Financial Results for the 3rd Quarter, FY2018

\*2 NMF is not scheduled to acquire the properties stated above as of today (excluding the properties stated NMF has acquired).

# INTERNAL GROWTH — MANAGEMENT STATUS —

## Office

Average rent for properties held at the end of the 4th fiscal period remained on an upward trend (¥17,795/tsubo ▶ ¥17,987/tsubo, 1.1% increase from the previous fiscal period)

### Fiscal Period Ended February 2018 Management Topics

#### New contracts

Approximately 40% of contracts closed was for floor expansion in the same building (Average free rent 2.8 months ▶ 2.2 months)

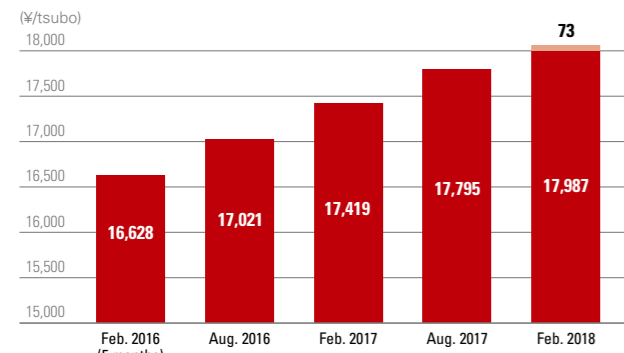
#### Results of rent revision

Rents of 12 properties out of 16 properties in PMO series were revised upwards

**Average increase rate: 5.2%**

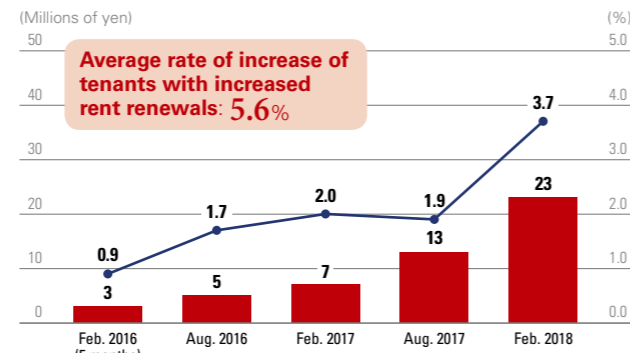
### Average Rent

■ Average unit rent of properties held as of the end of the previous fiscal period  
■ Amount affected by sales and purchases



### Rent Renewals

■ Monthly rent increase  
— Monthly rent increase rate



## Logistics

Completed leasing of Landport Atsugi. Occupancy rate of the entire portfolio is expected to be 100% from June 2018.

### Fiscal Period Ended February 2018 Management Topics

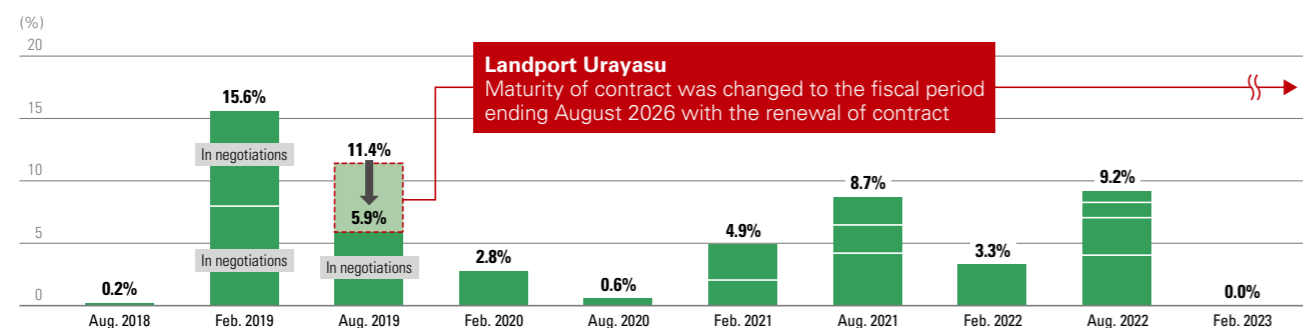
#### Lease up of Landport Atsugi

Of 14,518 tsubo in total, concluded lease contract for Zone C (3,730 tsubo). (Leasing started in June 2018)

#### Lease contract renewed for Landport Urayasu

Of 21,188 tsubo in total lease contracts maturing in fiscal period ending August 2019, renewed contract to extend lease maturity to fiscal period ending August 2026 for 10,619 tsubo

### Diversification of Tenant Contract Maturities (rent basis)



Continuously negotiated with tenants whose lease contracts will reach maturity during the fiscal periods ending February 2019 and August 2019 and promoted further diversification of contract maturities

## Retail

Seeking internal growth primarily based on stable fixed rent as well as that based on sales-linked rent

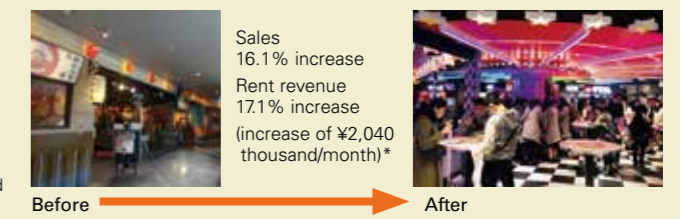
### Fiscal Period Ended February 2018 Management Topics

#### Renovated and opened "Takoyaki Museum" as "TAKOPA" (Universal CityWalk Osaka)

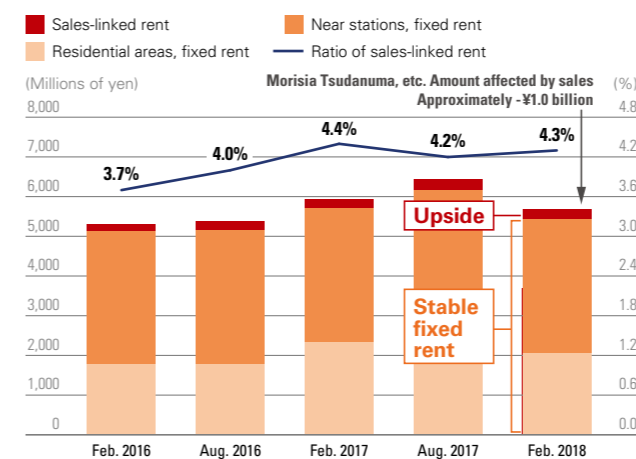
#### New leasing was completed for vacant areas at Recipe SHIMOKITA and Ichibancho stear

\* Year-on-year comparison of the actual results from March 2, 2018 when "TAKOPA" opened to April 10, 2018. Amount of increased rent (monthly) is the amount calculated by converting the increased rent during the targeted 40-day period into the amount for 30 days.

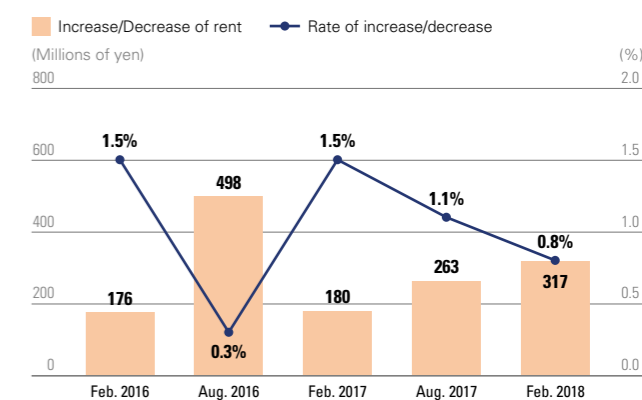
#### TAKOPA was renovated (Universal CityWalk Osaka)



### Retail (overall): Rent revenue breakdown



### Located in Front of Station: Increase/decrease of monthly rents of tenants subject to rent revisions (rate of increase/decrease)



## Residential

Steadily achieved internal growth while receiving stable rent income

### Fiscal Period Ended February 2018 Management Topics

#### Promoted upward rent revision upon tenant move-ins & move-outs/ contract renewal

#### Implemented removal of exclusive area in line with property characteristics

Realized upward revision of rent upon tenant replacement even at expensive properties.

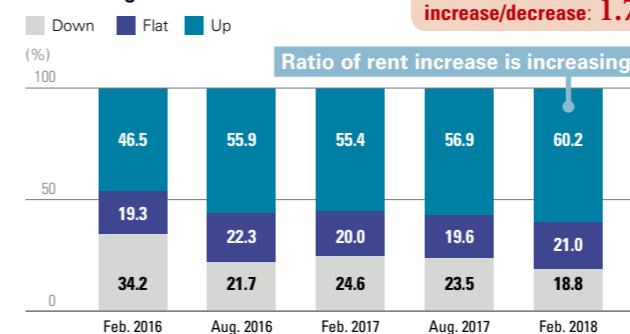
(Example) PRIME URBAN Ebisu: 1LDK 51.0 m<sup>2</sup> ¥225,000 (+¥14,000)

#### PRIME URBAN Ebisu



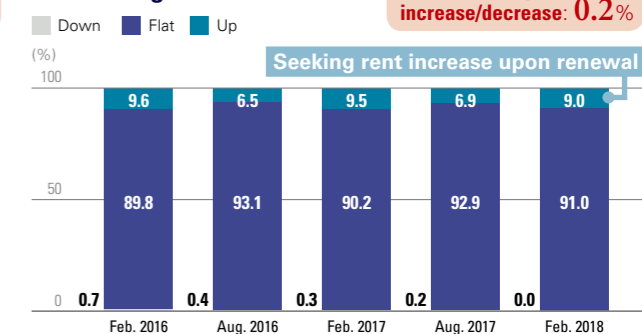
### Rent Change at Move-ins & Move-outs

Rate of monthly rent increase/decrease: 1.7%



### Rent Change at Rent Renewal

Rate of monthly rent increase/decrease: 0.2%





## ESG INITIATIVES (EXTERNAL CERTIFICATION)

NMF works with its asset management company to enhance unitholder value over the medium to long term by carrying out asset management with consideration for the environment, and society and governance (ESG).

### Signatory on PRI and UNEP FI

The asset management company became a signatory to both PRI and UNEP FI in December 2017 as the first real estate company-affiliated asset management company in Japan.

<p><b>Principles for Responsible Investment (PRI)</b></p> <p>An international network of investors established in 2006 working to realize the Six Principles for the financial industry under the leadership of Kofi Annan who was then the UN Secretary General. As of April 2018, about 2,000 institutions have signed on to PRI.</p> <p>Signatory of:</p> 	<p><b>United Nations Environment Programme Finance Initiative (UNEP FI)</b></p> <p>Established in 1992. A partnership between UNEP and financial institutions to promote the adoption of financial systems that integrate economic development and ESG issues. UNEP FI established PRI cooperating with UN Global Compact.</p> 
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### GRESB

NMF has now obtained a 5-star ranking, the highest on the five-grade scale that compares overall scores on the GRESB Real Estate Assessment, a sustainability benchmark for real estate companies and property management entities. Furthermore, in recognition of excellent disclosure of environment-and sustainability-related initiatives, the NMF received an "A" rating, the highest on a five-grade scale, under the GRESB Public Disclosure Level evaluation scheme launched in 2017.



NMF GRESB Rating in 2017	
<p>Management &amp; Policy Implementation &amp; Measurement</p> <p><b>"Green Star", "5-Star"</b></p>	<p>Public Disclosure</p> <p><b>"A"</b></p>

### DBJ Green Building Certification

43 properties in total, of which 11 properties were certified during February 2018 period.

Certified Rate\*: **54.1%**



\* Total floor space basis

### BELS

18 properties were certified as at the end of February 2018 period.

Certified Rate\*: **17.6%**



### Environment Load Reduction Working with the Sponsor

Our Sponsor, Nomura Real Estate Development Co., Ltd., will standardize the acquisition of the environment-related certifications such as DBJ Green Building and BELS with their development property brands.



## INITIATIVES FOR "E," "S" AND "G"

### Initiatives for "E (Environment)"

**Making various capital investments in owned properties to reduce the environmental burden (\*Example cases in and after 2017)**

#### Energy efficiency through promotion of LED lighting

Shinjuku Nomura Building, NRE Osaka Building, EQUINIA Shinjuku, NMF Sendai Aoba-dori Building, Ichibancho stear, PRIME URBAN Kagurazaka, etc.



#### Energy efficiency through upgrading of air-conditioning equipment, etc.

NMF Shiba-Koen Building, NMF Shinjuku Minamiguchi Building, Sagamihara Shopping Center, Izumiya Obayashi, NRE Tennozu Building, Universal CityWalk Osaka, etc.



#### Water use efficiency through installation of smart irrigation facilities

Unmanned watering using rainwater to reduce the environmental burden through water-saving. The stored rainwater can also be used in times of disaster.



### Initiatives for "S (Society)"

#### Conclusion of an agreement between Megalos Kanagawa and the Kanagawa Fire Department

An agreement has been concluded with the Kanagawa Fire Department regarding the use of pool water for firefighting, etc. in case of disasters such as a major earthquake



#### Holding of a summer festival at Shinjuku Nomura Building

We held a summer festival as an initiative to raise tenant satisfaction and contribute to the community.



#### Safety measures for unforeseen circumstances

PMO Nihonbashi Muromachi will be used as a disaster management hub in case of emergency. It stores food, blankets, etc. for 2,000 people in the tenant companies.



### Initiatives for "G (Governance)"

#### NMF's Board of Directors

In order to ensure neutrality in conducting operations of NMF, all three of the Executive Director and Supervisory Directors are chosen from among independent professionals.

Members
1 (one) Executive Director: Lawyer 2 (two) Supervisory Directors : Certified public accountant : Real estate appraiser
Frequency of meetings
Regular session: Once a month (extraordinary sessions also held)
Term of office
Two years for both Executive Director/Supervisory Directors, in principle

#### Corporate governance/compliance structure

NREAM thoroughly prevents conflicts of interest, manages risks and complies with laws and regulations by establishing a governance system that gives top priority to compliance.

Compliance Committee
Deliberates approval of significant transactions with related parties, etc. and confirms legal compliance.
Investment Committee
Deliberates basic policies, etc. on asset management and investment advisory activities and makes decisions as NREAM.

#### Training programs provided by NREAM

**Compliance training:** 12 times a year  
**BCP training:** Once a year in principle  
**Encouraging employees to obtain ARES (The Association for Real Estate Securitization) Certified Master Qualification**  
Number of qualification holders as of May 2017: 106 (No. 1 among real estate investment management companies)  
**Business-related training:** As needed (ex.: Real estate registration training, ER training, appraisal training)

## FINANCIAL HIGHLIGHTS

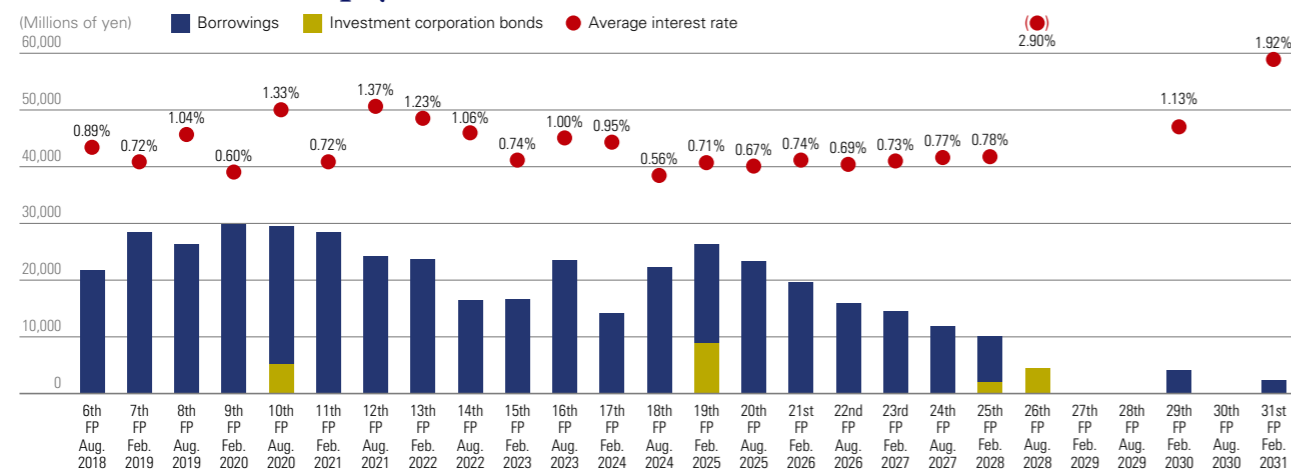
Continued to promote the lowering of average interest rate and extension of borrowing periods through refinancing utilizing the low-interest rate environment. Conducted the first issuance of investment corporation bonds since incorporation.

### Status of Interest-bearing Debt (as of end of fiscal period)

	Feb. 2016 (1st FP)	Aug. 2016 (2nd FP)	Feb. 2017 (3rd FP)	Aug. 2017 (4th FP)	Feb. 2018 (5th FP)
Total interest-bearing debt	¥403,164 million	¥409,771 million	¥498,784 million	¥488,741 million	<b>¥486,198 million</b>
Average remaining duration	3.96 years	4.36 years	4.31 years	4.54 years	<b>4.52 years</b>
Average interest rate	1.09%	1.03%	0.95%	0.92%	<b>0.91%</b>
Ratio of Long-term Debt	84.1%	85.9%	83.2%	88.0%	<b>88.0%</b>
Ratio of Fixed-rate Debt	91.4%	95.8%	92.2%	94.9%	<b>95.4%</b>
LTV	43.4%	43.8%	45.1%	44.6%	<b>44.6%</b>

### Diversification of Repayment Dates

Commitment line ¥50 billion + uncommitted line of credit ¥30 billion



### Financing in February 2018 Fiscal Period

#### Refinancing

Repayment Overview		New Funding Overview	
Total	¥28,820 million	Total	¥26,320 million
Average interest rate	0.99%	Average interest rate	0.65%
Average remaining duration	5.1 years	Average remaining duration	8.5 years

\* Not included a scheduled repayment of ¥42.8 million. Average interest rate is calculated based on the interest rate upon repayment.

### Overview of Issuance of Investment Corporation Bonds

Name	Nomura Real Estate Master Fund, Inc. Second Series of Unsecured Investment Corporation Bonds (with pari passu clause among specified investment corporation bonds)
Date of issuance	November 16, 2017
Issued amount	¥2.0 billion
Term	10 years
Interest rate	0.59%

### Credit Ratings

Credit rating agency	Rating description	Note
Japan Credit Rating Agency, Ltd. (JCR)	Long-term Issuer Rating: <b>AA</b>	Rating outlook: <b>Stable</b>
Rating & Investment Information, Inc. (R&I)	Issuer Rating: <b>A+</b>	Rating outlook: <b>Stable</b>
S&P Global Ratings Japan Inc. (S&P)	Long-term Corporate Rating: <b>A</b> Short-term Corporate Rating: <b>A-1</b>	Outlook: <b>Stable</b>

### Commitment Lines\*

	Commitment Line 1	Commitment Line 2
Loan Limit (commitment period)	<b>¥40.0 billion</b> (one year)	<b>¥10.0 billion</b> (three years)
Participating Financial Institutions	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation

\* In addition to the above commitment lines, NMF has established a 1-year, ¥30.0 billion uncommitted line of credit.

## BALANCE SHEET HIGHLIGHTS

### February 2018 Fiscal Period DPU: ¥3,047 (¥27 higher than forecast)

(Millions of yen)

Item	Ended Feb. 28, 2018 (5th FP)		Differences (B) - (A)
	Forecasts (A)	Result (B)	
<b>Operating revenue</b>	33,365	34,218	853
Rental revenues	30,551	30,724	172
Other rental revenues	2,810	2,907	97
Gain on sales of real estate	3	587	583
<b>Operating expense</b>	20,860	21,006	145
Rental business expenses	14,652	14,785	133
Repair expenses	1,548	1,758	209
Tax and public dues	2,700	2,699	-1
Depreciation and amortization	4,752	4,737	-15
Others	5,651	5,590	-60
Asset management fees	2,960	3,007	46
Amortization of goodwill	2,622	2,622	-
Other operating expenses	625	591	-34
<b>Operating profit</b>	12,504	13,212	708
<b>Non-operating revenues</b>	-	12	12
<b>Non-operating expenses</b>	2,487	2,509	21
Interest expenses and other financial costs	2,479	2,457	-22
Investment unit issuance expenses	-	42	42
Other non-operating expenses	8	9	0
<b>Ordinary income</b>	10,016	10,715	698
<b>Net income</b>	10,015	10,714	699
Net income (excluding gains on sales)	10,011	10,127	115
<b>Distributions of earnings a</b>	10,286	10,976	690
<b>Distributions in excess of profit b</b>	2,346	1,769	-577
<b>Total distributions a + b</b>	12,633	12,745	112
<b>Internal reserves</b>	3	587	583
<b>Total internal reserves</b>	3,111	3,694	583
<b>DPU</b>	3,020	3,047	27
Distributions of earnings	2,459	2,624	165
Distributions in excess of retained earnings per unit [allowance for adjustment of temporary differences]	295	284	-11
Distributions in excess of retained earnings per unit [other distributions in excess of net earnings]	266	139	-127
<b>Total assets</b>	1,085,296	1,089,820	4,523
<b>Acquisition price</b>	922,128	922,568	440
Interest-bearing debt	482,698	486,198	3,500
LTV	44.5%	44.6%	0.1%
Market capitalization	-	612,410	-
<b>NOI</b>	23,461	23,583	121
<b>FFO</b>	17,388	17,489	100

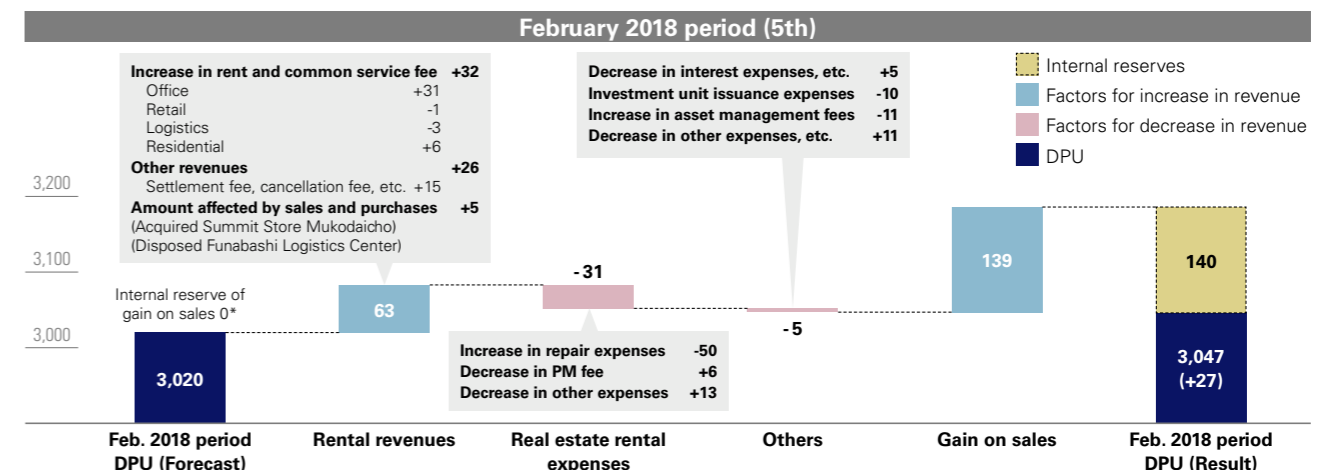
### Main factors accounting for differences between Feb. 2018 period forecasts and results

(Millions of yen)

<b>Net income (excluding gain on sales)</b>	<b>+115</b>
<b>Real estate rental profits</b>	<b>+136</b>
1. Real estate rental profits of existing properties	
(1) Rental revenues	(+246)
Increase in revenue of existing properties	+181
Incurrence of settlement fee, cancellation fee, etc.	+65
(2) Real estate rental business expenses	(-135)
Increase in repair and maintenance	-213
Increase in restoration work, etc.	-69
Emergency preventive maintenance work	-37
Renewal work ▶ Repair work	-50
Decrease in PM fee (revision fee, etc.)	+29
2. Real estate rental revenues and expenses due to properties acquired or sold	(+26)
Increase in rental revenues	+24
Decrease in real estate rental expenses	+2
<b>Operating expenses excluding real estate rental expenses</b>	<b>-12</b>
Increase in asset management fee	-46
Decrease in other expenses	+34
<b>Non-operating profit or loss</b>	<b>-9</b>
Decrease in interest expenses and other financial costs	+22
Investment unit issuance expenses	-42
<b>Gain on sales of real estate (internal reserve)</b>	<b>+583</b>
Gain on sales of Funabashi LC, etc.	+583

\* Impact on net income is indicated with +/-

### Factors in Change of DPU (¥/unit)



\* It is assumed that ¥3 million of gain on sales of Morisia Tsudanuma (¥0 per unit) will be allotted to internal reserves in the forecasts for the fiscal period ended February 2018.



PORTFOLIO GALLERY (AS OF THE END OF THE 5TH FISCAL PERIOD)

**NMF Office Portfolio**

Total Office Portfolio  
**59** properties

Total Acquisition Value for Portfolio  
**¥428,110** million

**TOP 3 properties** (acquisition price)



**NEC Head Office Building**

Acquisition price: **¥44,100** million  
Location: **Minato Ward, Tokyo**  
Completion: **January 1990**



**Shinjuku Nomura Building**

Acquisition price: **¥43,900** million  
Location: **Shinjuku Ward, Tokyo**  
Completion: **May 1978**



**Kojimachi Millennium Garden**

Acquisition price: **¥26,700** million  
Location: **Chiyoda Ward, Tokyo**  
Completion: **May 2000**

**NMF Retail Portfolio**

Total Office Portfolio  
**34** properties

Total Acquisition Value for Portfolio  
**¥159,783** million

**TOP 3 properties** (acquisition price)



**Universal CityWalk Osaka**

Acquisition price: **¥15,500** million  
Location: **Osaka City, Osaka**  
Completion: **June 2001**



**Yokosuka More's City**

Acquisition price: **¥13,640** million  
Location: **Yokosuka City, Kanagawa**  
Completion: **July 1997**



**Nakaza Cui-daore Building**

Acquisition price: **¥11,600** million  
Location: **Osaka City, Osaka**  
Completion: **February 2004**



**NRE Shibuya Dogenzaka Building**

Acquisition price: **¥5,310** million  
Location: **Shibuya Ward, Tokyo**  
Completion: **March 1999**



**NMF Shinjuku Minamiguchi Building**

Acquisition price: **¥10,000** million  
Location: **Shibuya Ward, Tokyo**  
Completion: **April 1974**



**Faret Tachikawa Center Square**

Acquisition price: **¥3,850** million  
Location: **Tachikawa City, Tokyo**  
Completion: **December 1994**



**NRE Kichijoji Building**

Acquisition price: **¥10,410** million  
Location: **Musashino City, Tokyo**  
Completion: **July 2014**



**Recipe SHIMOKITA**

Acquisition price: **¥10,407** million  
Location: **Setagaya Ward, Tokyo**  
Completion: **July 2011**



**Izumiya Senrioka**

Acquisition price: **¥8,930** million  
Location: **Suita City, Osaka**  
Completion: **June 2000**



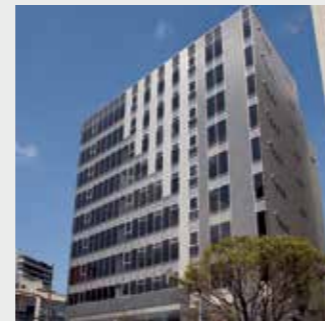
**NRE Sapporo Building**

Acquisition price: **¥4,140** million  
Location: **Sapporo City, Hokkaido**  
Completion: **July 2008**



**NMF Nagoya Yanagibashi Building**

Acquisition price: **¥2,280** million  
Location: **Nagoya City, Aichi**  
Completion: **March 1991**



**NMF Tenjin-Minami Building**

Acquisition price: **¥2,230** million  
Location: **Fukuoka City, Fukuoka**  
Completion: **February 2008**



**FESTA SQUARE**

Acquisition price: **¥2,600** million  
Location: **Saitama City, Saitama**  
Completion: **September 2008**



**EQUINIA Aobadai**

Acquisition price: **¥1,560** million  
Location: **Sendai City, Miyagi**  
Completion: **November 1982**



**Sagamiara Shopping Center**

Acquisition price: **¥6,840** million  
Location: **Sagamihara City, Kanagawa**  
Completion: **August 1993** etc.

PORTFOLIO GALLERY (AS OF THE END OF THE 5TH FISCAL PERIOD)

**NMF Logistics Portfolio** Total Office Portfolio  
**17** properties | Total Acquisition Value for Portfolio  
**¥145,730** million

**TOP 3 properties** (acquisition price)



**Landport Urayasu**

Acquisition price: **¥17,400** million  
Location: **Urayasu City, Chiba**  
Completion: **May 2008**



**Landport Itabashi**

Acquisition price: **¥15,710** million  
Location: **Itabashi Ward, Tokyo**  
Completion: **January 2008**



**Landport Kawagoe**

Acquisition price: **¥13,700** million  
Location: **Kawagoe City, Saitama**  
Completion: **May 2009**



**Landport Atsugi**

Acquisition price: **¥11,410** million  
Location: **Atsugi City, Kanagawa**  
Completion: **March 2007**



**Sagamihara Tana Logistics Center**

Acquisition price: **¥10,600** million  
Location: **Sagamihara City, Kanagawa**  
Completion: **October 2007**



**Hanyu Logistics Center**

Acquisition price: **¥3,810** million  
Location: **Hanyu City, Saitama**  
Completion: **February 2006**



**Kawaguchi Logistics Center A Tower**

Acquisition price: **¥3,750** million  
Location: **Kawaguchi City, Saitama**  
Completion: **April 1996**



**Hirakata Kuzuha Logistics Center**

Acquisition price: **¥3,460** million  
Location: **Hirakata City, Osaka**  
Completion: **April 2003**



**Landport Hachioji**

Acquisition price: **¥8,250** million  
Location: **Hachioji City, Tokyo**  
Completion: **November 2008**

**NMF Residential Portfolio** Total Office Portfolio  
**150** properties | Total Acquisition Value for Portfolio  
**¥184,045** million

**TOP 3 properties** (acquisition price)



**Fukasawa House Towers H&I**

Acquisition price: **¥7,140** million  
Location: **Setagaya Ward, Tokyo**  
Completion: **June 2004**



**PRIME URBAN Toyosu**

Acquisition price: **¥5,290** million  
Location: **Koto Ward, Tokyo**  
Completion: **January 2005**



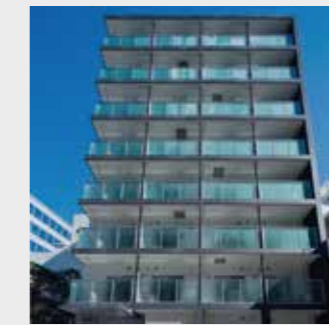
**PRIME URBAN Sapporo Riverfront**

Acquisition price: **¥4,480** million  
Location: **Sapporo City, Hokkaido**  
Completion: **January 2008**



**PRIME URBAN Meguro Mita**

Acquisition price: **¥1,058** million  
Location: **Meguro Ward, Tokyo**  
Completion: **July, 2008**



**PROUD FLAT Shibuya Sakuragaoka**

Acquisition price: **¥750** million  
Location: **Shibuya Ward, Tokyo**  
Completion: **January 2008**



**PRIME URBAN Shibaura LOFT**

Acquisition price: **¥1,830** million  
Location: **Minato Ward, Tokyo**  
Completion: **July 2006**



**PRIME URBAN Kagurazaka**

Acquisition price: **¥2,900** million  
Location: **Shinjuku Ward, Tokyo**  
Completion: **March 2008**



**PRIME URBAN Musashi Kosugi comodo**

Acquisition price: **¥1,940** million  
Location: **Kawasaki City, Kanagawa**  
Completion: **February 1987**



**PROUD FLAT Shin Osaka**

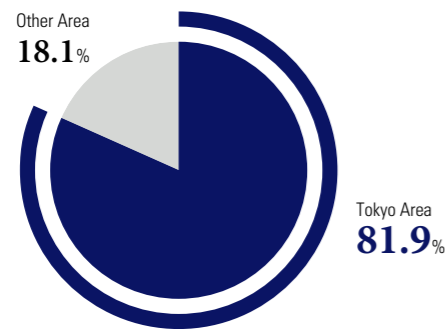
Acquisition price: **¥1,620** million  
Location: **Osaka City, Osaka**  
Completion: **September 2009**

## PORTFOLIO SUMMARY

	Properties	Acquisition price	Appraisal value	Building age	Floor area
<b>Total</b>	<b>271</b>	<b>¥ 922,568 million</b>	<b>¥ 1,001,250 million</b>	<b>18.8 years</b>	<b>2,244,174.79 m<sup>2</sup></b>
<b>Office</b>	<b>59</b>	<b>¥ 428,110 million</b>	<b>¥ 455,390 million</b>	<b>24.9 years</b>	<b>785,359.33 m<sup>2</sup></b>
<b>Retail (Near stations)</b>	<b>19</b>	<b>¥ 106,617 million</b>	<b>¥ 119,430 million</b>	<b>16.7 years</b>	<b>235,465.16 m<sup>2</sup></b>
<b>Retail (Residential areas)</b>	<b>25</b>	<b>¥ 53,166 million</b>	<b>¥ 61,304 million</b>	<b>17.9 years</b>	<b>205,499.69 m<sup>2</sup></b>
<b>Logistics</b>	<b>17</b>	<b>¥ 145,730 million</b>	<b>¥ 170,430 million</b>	<b>10.4 years</b>	<b>660,643.59 m<sup>2</sup></b>
<b>Residential</b>	<b>150</b>	<b>¥ 184,045 million</b>	<b>¥ 189,546 million</b>	<b>13.0 years</b>	<b>357,207.02 m<sup>2</sup></b>
<b>Other</b>	<b>1</b>	<b>¥ 4,900 million</b>	<b>¥ 5,150 million</b>	<b>—</b>	<b>—</b>

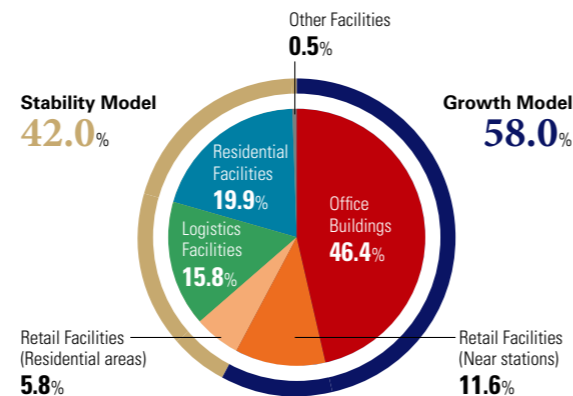
### Diversification by Area

Properties are also spread among various geographical areas with 80% or more of the properties in the Tokyo area and about 20% in three major metropolitan areas and government designated cities.



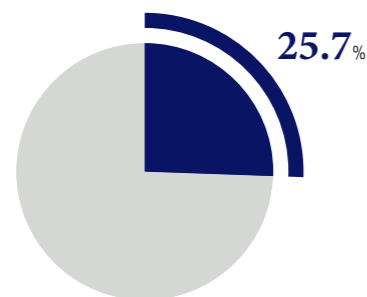
### Diversification by Use

The portfolio is also allocated by use to provide further stability.



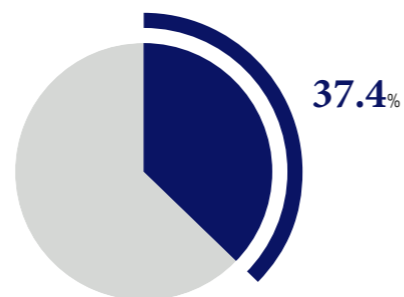
### Diversification by Property

Top Ten Properties as a Percentage of Portfolio

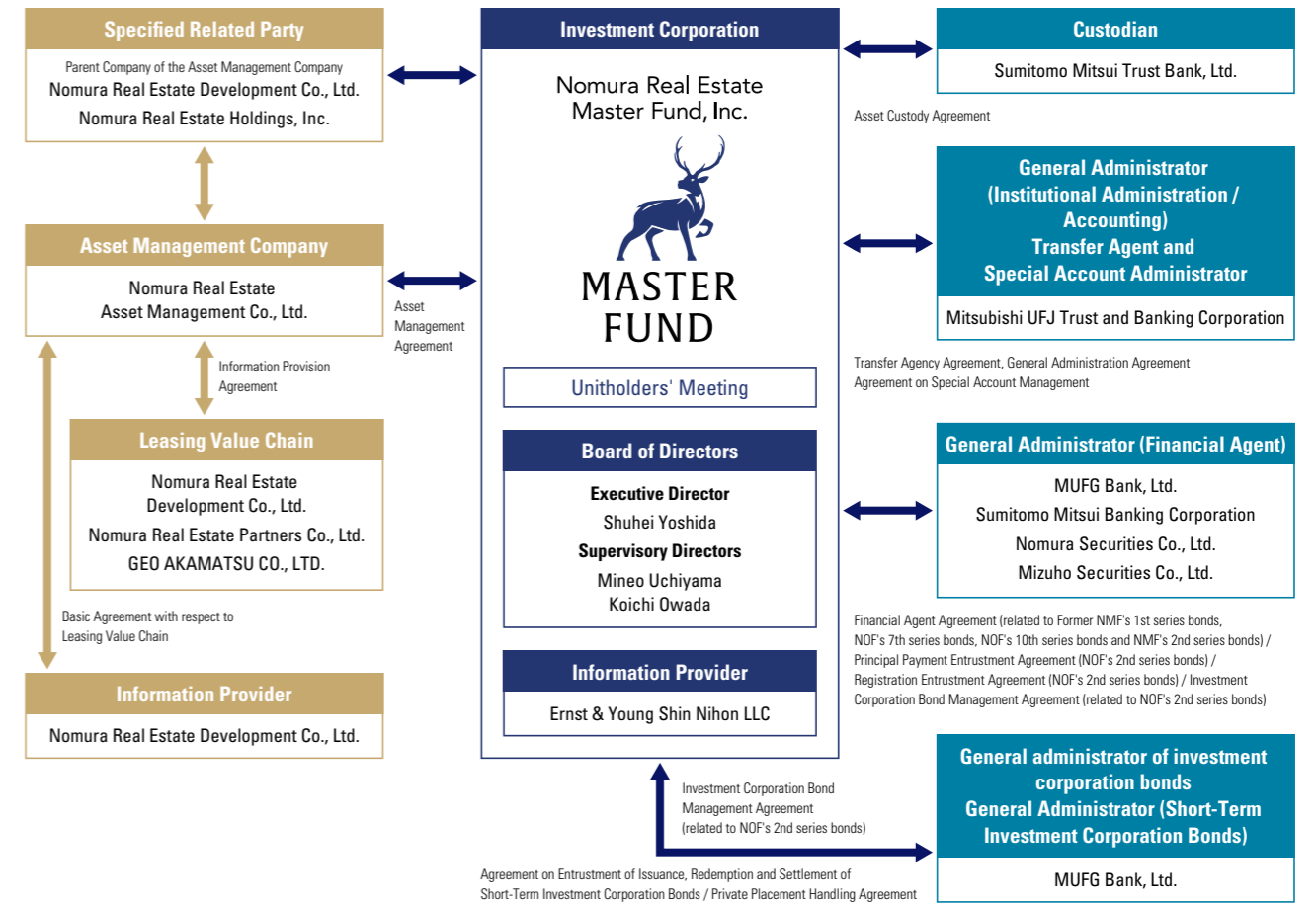


### Diversification by Tenant

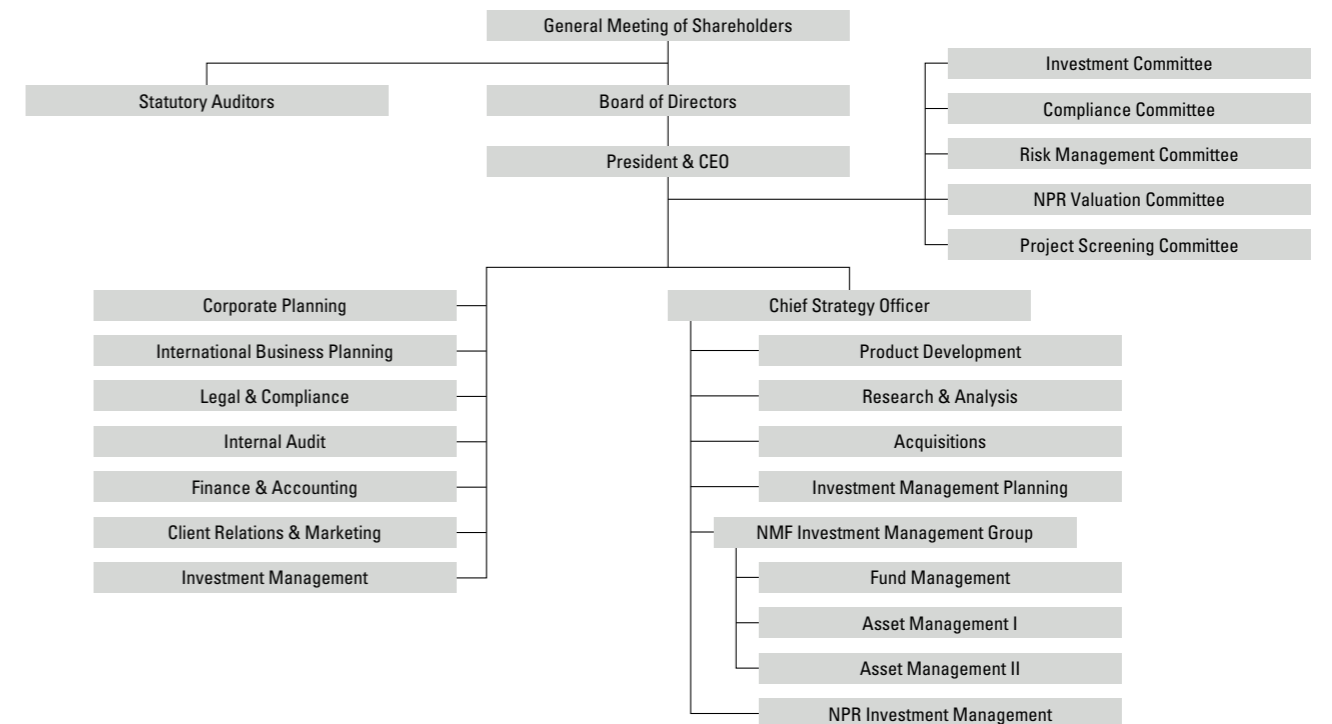
Top Ten Tenants as a Percentage of Portfolio



### Structure of NMF



### Organization of NREAM





## BALANCE SHEET

Thousands of Yen

	As of February 28, 2018	As of August 31, 2017
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and bank deposits	¥ 76,536,939	¥ 71,227,676
Rental receivables	556,648	787,203
Income taxes receivable	55	56
Other current assets	973,715	1,289,537
<b>Total current assets</b>	<b>78,067,357</b>	<b>73,304,472</b>
<b>Property and Equipment:</b>		
Land	629,702,460	629,968,513
Buildings and structures	301,548,314	306,496,171
Machinery and equipment	904,607	828,600
Tools, furniture and fixtures	569,890	609,927
Leased assets	23,901	23,901
Construction in progress	99,000	5,229
Subtotal	932,848,172	937,932,341
Less accumulated depreciation	(26,882,795)	(23,357,245)
<b>Net property and equipment</b>	<b>905,965,377</b>	<b>914,575,096</b>
<b>Investments and Other Assets:</b>		
Goodwill	93,453,709	96,075,952
Leasehold rights	8,960,080	8,580,708
Intangible assets	49,157	33,060
Long-term prepaid expenses	1,725,576	1,692,617
Long-term deposits	537,247	566,019
Security deposits	945,964	945,754
Derivatives Assets	74,639	35,372
Deferred investment corporation bond issuance costs	40,964	19,667
<b>Total investments and other assets</b>	<b>105,787,336</b>	<b>107,949,149</b>
<b>Total Assets</b>	<b>¥1,089,820,070</b>	<b>¥1,095,828,717</b>

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

Thousands of Yen

	As of February 28, 2018	As of August 31, 2017
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	¥ 2,223,179	¥ 3,078,365
Current portion of investment corporation bonds	—	4,000,000
Current portion of long-term debt	58,315,600	54,760,600
Lease obligations	3,798	6,630
Other accounts payable	2,437,546	1,536,891
Accrued expenses	291,069	333,667
Accrued income taxes	605	605
Accrued consumption taxes	223,118	1,227,566
Rent received in advance	4,896,719	4,942,250
Unearned revenue	263,513	300,134
Derivatives liabilities	49,325	50,649
Other current liabilities	46,668	299,281
<b>Total current liabilities</b>	<b>68,751,140</b>	<b>70,536,638</b>
<b>Long-term Liabilities:</b>		
Investment corporation bonds	20,500,000	18,500,000
Long-term debt	407,382,800	411,480,600
Lease obligations	1,592	2,956
Long-term advanced received	449,678	574,828
Security deposits from tenants	36,525,325	36,575,246
Derivatives liabilities	1,118,775	1,509,405
<b>Total long-term liabilities</b>	<b>465,978,170</b>	<b>468,643,035</b>
<b>Total Liabilities</b>	<b>534,729,310</b>	<b>539,179,673</b>
<b>NET ASSETS</b>		
<b>Unitholders' Equity:</b>		
Unitholders' capital	162,791,125	162,592,574
Surplus		
Capital surplus	394,012,959	394,012,959
Allowance for temporary difference adjustment	(7,169,176)	(7,367,727)
Other deductions from capital surplus	(6,000,468)	(5,801,917)
Total deductions from capital surplus	(13,169,644)	(13,169,644)
Net capital surplus	380,843,315	380,843,315
Retained earnings	12,549,780	14,737,837
Total surplus	393,393,095	395,581,152
<b>Total unitholders' equity</b>	<b>556,184,220</b>	<b>558,173,726</b>
<b>Valuation and Translation Adjustments:</b>		
Deferred gains or losses on hedges	(1,093,460)	(1,524,682)
<b>Total valuation and translation adjustments</b>	<b>(1,093,460)</b>	<b>(1,524,682)</b>
<b>Total Net Assets</b>	<b>555,090,760</b>	<b>556,649,044</b>
<b>Total Liabilities and Net Assets</b>	<b>¥1,089,820,070</b>	<b>¥1,095,828,717</b>

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

## STATEMENT OF INCOME AND RETAINED EARNINGS

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
<b>OPERATING REVENUES AND EXPENSES</b>		
<b>Operating Revenues:</b>		
Real estate rental revenues	¥33,631,626	¥35,032,000
Gain on sales of real estate	587,250	3,107,662
	34,218,876	38,139,662
<b>Operating Expenses:</b>		
Real estate rental expenses	14,785,472	15,962,926
Asset management fees	3,007,250	3,063,129
Asset custody fees	56,139	56,591
Administrative service fees	154,620	174,470
Amortization of goodwill	2,622,243	2,622,243
Other operating expenses	380,816	524,491
	21,006,540	22,403,850
<b>Operating Income</b>	<b>13,212,336</b>	<b>15,735,812</b>
<b>NON-OPERATING REVENUES AND EXPENSES</b>		
<b>Non-Operating Revenues:</b>		
Interest income	636	366
Reversal of dividends payable	11,437	23,673
Interest on refund	—	853
Other non-operating revenues	19	48
	12,092	24,940
<b>Non-Operating Expenses:</b>		
Interest expense	1,873,773	1,950,878
Interest expenses on investment corporation bonds	187,114	206,638
Amortization of investment corporation bond issuance costs	2,147	1,372
Loan arrangement fees	396,804	405,750
Investment unit issuance expenses	42,462	—
Other non-operating expenses	6,863	5,311
	2,509,163	2,569,949
<b>Ordinary Income</b>	<b>10,715,265</b>	<b>13,190,803</b>
<b>Income before Income Taxes</b>	<b>10,715,265</b>	<b>13,190,803</b>
<b>Income Taxes:</b>		
Current	605	605
	605	605
<b>Net Income</b>	<b>10,714,660</b>	<b>13,190,198</b>
Retained earnings brought forward	1,835,120	1,547,639
<b>Retained Earnings at End of Period</b>	<b>¥12,549,780</b>	<b>¥14,737,837</b>

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

## STATEMENT OF CHANGES IN NET ASSETS

For the period from September 1, 2017 to February 28, 2018

	Thousands of Yen						
	Unitholders' Equity						
	Surplus						
	Capital surplus						
	Deductions from capital surplus						
	Units	Unitholders' capital	Capital surplus	Allowance for temporary difference adjustment	Other deductions from capital surplus	Total deduction from capital surplus	Net capital surplus
Balance as of September 1, 2017	4,183,130	¥162,592,574	¥394,012,959	(¥7,367,727)	(¥5,801,917)	(¥13,169,644)	¥380,843,315
Distributions of retained earnings	—	—	—	—	—	—	—
Reversal of allowance for temporary difference adjustments	—	198,551	—	198,551	(198,551)	—	—
Distributions in excess of net earnings from allowance for temporary difference adjustments	—	—	—	—	—	—	—
Other distributions in excess of net earnings	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—
<b>Balance as of February 28, 2018</b>	<b>4,183,130</b>	<b>¥162,791,125</b>	<b>¥394,012,959</b>	<b>(¥7,169,176)</b>	<b>(¥6,000,468)</b>	<b>(¥13,169,644)</b>	<b>¥380,843,315</b>

	Thousands of Yen						
	Unitholders' Equity			Valuation and Translation Adjustments			
	Surplus			Total valuation and translation adjustments			
	Retained earnings	Total surplus	Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets	
Balance as of September 1, 2017	¥14,737,837	¥395,581,152	¥558,173,726	(¥1,524,682)	(¥1,524,682)	¥556,649,044	
Distributions of retained earnings	(12,704,166)	(12,704,166)	(12,704,166)	—	—	(12,704,166)	
Reversal of allowance for temporary difference adjustments	(198,551)	(198,551)	—	—	—	—	
Distributions in excess of net earnings from allowance for temporary difference adjustments	—	—	—	—	—	—	
Other distributions in excess of net earnings	—	—	—	—	—	—	
Net income	10,714,660	10,714,660	10,714,660	—	—	10,714,660	
Net changes of items other than unitholders' equity	—	—	—	431,222	431,222	431,222	
<b>Balance as of February 28, 2018</b>	<b>¥12,549,780</b>	<b>¥393,393,095</b>	<b>¥556,184,220</b>	<b>(¥1,093,460)</b>	<b>(¥1,093,460)</b>	<b>¥555,090,760</b>	

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

For the period from March 1, 2017 to August 31, 2017

	Thousands of Yen						
	Unitholders' Equity						
	Surplus						
	Capital surplus						
	Deductions from capital surplus						
	Units	Unitholders' capital	Capital surplus	Allowance for temporary difference adjustment	Other deductions from capital surplus	Total deduction from capital surplus	Net capital surplus
Balance as of March 1, 2017	4,183,130	¥161,883,753	¥394,012,959	(¥5,374,246)	(¥3,800,508)	(¥9,174,754)	¥384,838,205
Distributions of retained earnings	—	—	—	—	—	—	—
Reversal of allowance for temporary difference adjustments	—	708,821	—	708,821	(708,821)	—	—
Distributions in excess of net earnings from allowance for temporary difference adjustments	—	—	—	(2,702,302)	—	(2,702,302)	(2,702,302)
Other distributions in excess of net earnings	—	—	—	—	(1,292,588)	(1,292,588)	(1,292,588)
Net income	—	—	—	—	—	—	—
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—
<b>Balance as of August 31, 2017</b>	<b>4,183,130</b>	<b>¥162,592,574</b>	<b>¥394,012,959</b>	<b>(¥7,367,727)</b>	<b>(¥5,801,917)</b>	<b>(¥13,169,644)</b>	<b>¥380,843,315</b>

	Thousands of Yen						
	Unitholders' Equity			Valuation and Translation Adjustments			
	Surplus			Total valuation and translation adjustments			
	Retained earnings	Total surplus	Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets	
Balance as of March 1, 2017	¥10,928,088	¥395,766,293	¥557,650,046	(¥1,545,634)	(¥1,545,634)	¥556,104,412	
Distributions of retained earnings	(8,671,628)	(8,671,628)	(8,671,628)	—	—	(8,671,628)	
Reversal of allowance for temporary difference adjustments	(708,821)	(708,821)	—	—	—	—	
Distributions in excess of net earnings from allowance for temporary difference adjustments	—	(2,702,302)	(2,702,302)	—	—	(2,702,302)	
Other distributions in excess of net earnings	—	(1,292,588)	(1,292,588)	—	—	(1,292,588)	
Net income	13,190,198	13,190,198	13,190,198	—	—	13,190,198	
Net changes of items other than unitholders' equity	—	—	—	20,952	20,952	20,952	
<b>Balance as of August 31, 2017</b>	<b>¥14,737,837</b>	<b>¥395,581,152</b>	<b>¥558,173,726</b>	<b>(¥1,524,682)</b>	<b>(¥1,524,682)</b>	<b>¥556,649,044</b>	

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

## STATEMENT OF CASH FLOWS

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
<b>CASH FLOWS</b>		
<b>Cash Flows from Operating Activities</b>		
Income before income taxes	¥10,715,265	¥13,190,803
Depreciation	4,738,060	4,862,891
Amortization of goodwill	2,622,243	2,622,243
Investment unit issuance expenses	42,462	—
Amortization of investment corporation bond issuance costs	2,147	1,372
Interest income	(636)	(366)
Interest expense	2,060,887	2,157,516
Loss on disposal of property and equipment	6,257	4,998
Decrease (Increase) in rental receivables	226,257	(324,497)
Decrease (Increase) in long-term prepaid expenses	(32,959)	(92,370)
Decrease (Increase) in long-term deposits	28,772	(32,777)
Increase (Decrease) in trade accounts payable	(855,186)	667,990
Increase (Decrease) in other accounts payable	318	(59,416)
Decrease (Increase) in consumption taxes receivables	—	147,670
Increase (Decrease) in accrued consumption taxes	(1,004,448)	1,227,566
Increase (Decrease) in accrued expenses	839,836	9,344
Increase (Decrease) in rent received in advance	(45,531)	(141,432)
Decrease in property and equipment in trust due to sales	22,433,392	43,502,593
Decrease in intangible assets in trust due to sales	1,829	—
Other	59,388	(54,162)
Subtotal	41,838,353	67,689,966
Interest received	636	366
Interest paid	(2,264,761)	(2,389,746)
Income taxes paid	(604)	(1,606)
<b>Net cash provided by (used in) operating activities</b>	<b>39,573,624</b>	<b>65,298,980</b>
<b>Cash Flows from Investing Activities</b>		
Payments for purchases of property and equipment	(18,540,241)	(43,360,739)
Payments for purchases of leasehold rights and intangible assets	(397,311)	(470)
Reimbursement of security deposits to tenants	(1,599,528)	(2,881,873)
Proceeds from security deposits from tenants	1,553,906	1,565,683
Payments of security deposits	(210)	—
Proceeds from security deposits	—	11,000
<b>Net cash provided by (used in) investing activities</b>	<b>(18,983,384)</b>	<b>(44,666,399)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from short-term debt	—	31,700,000
Repayments of short-term debt	—	(36,700,000)
Proceeds from long-term debt	24,320,000	45,070,000
Repayment of long-term debt	(24,862,800)	(45,112,800)
Proceeds from issuance of investment corporation bonds	2,000,000	—
Redemption of investment corporation bonds	(4,000,000)	(5,000,000)
Payments of investment corporation bond issuance costs	(23,445)	—
Distributions to unitholders	(12,712,708)	(8,699,524)
Distributions in excess of net earnings from allowance for temporary difference adjustments	(1,109)	(2,701,640)
Other distributions in excess of net earnings	(915)	(1,291,980)
<b>Net cash provided by (used in) financing activities</b>	<b>(15,280,977)</b>	<b>(22,735,944)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>5,309,263</b>	<b>(2,103,363)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>71,227,676</b>	<b>73,331,039</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>¥76,536,939</b>	<b>¥71,227,676</b>

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

## NOTES TO FINANCIAL STATEMENTS

## 1. ORGANIZATION

Nomura Real Estate Master Fund, Inc. (NMF) is a real estate investment corporation formed to own and invest primarily in logistics facilities, retail facilities, offices and residential facilities. NMF is externally managed by a licensed asset management company, Nomura Real Estate Asset Management Co., Ltd. ("NREAM"). NREAM is a wholly-owned subsidiary of Nomura Real Estate Holdings, Inc. NMF was established on October 1, 2015 through the consolidation type merger involving the former Nomura Real Estate Master Fund, Inc. (hereinafter the "former NMF"), Nomura Real Estate Office Fund, Inc. (hereinafter "NOF") and Nomura Real Estate Residential Fund, Inc. (hereinafter "NRF"), and listed its investment securities (TSE code: 3462) on the Real Estate Investment Trust Section of the Tokyo Stock Exchange on October 2 of the same year.

NMF adopts the basic policy of investing primarily in real estate and other assets to secure stable income and steady growth of assets under management over the medium to long term. In order to realize this basic policy, NMF adopts an investment strategy that centers on the Greater Tokyo area (Tokyo, Kanagawa, Chiba and Saitama prefectures), which has strong tenant demand, while also considering regional diversification through the three major metropolitan areas and cabinet-order designated cities, etc. By combining the "diversified type strategy" in which investments are made in facilities of a variety of sectors such as logistics facilities, retail facilities, offices and residential facilities with the "large-scale REIT strategy," which pursues the effects of diversifying properties and tenants, to make the portfolio more stable as well as with the utilization of the "leasing value chain" with the Nomura Real Estate Group, the sponsor, NMF will aim to increase unitholder value by securing stable income and steady growth of assets under management over the medium to long term.

## 2. BASIS OF PRESENTATION

NMF maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), including provisions set forth in the Investment Trust Act of Japan, the Companies Act of Japan, the Financial Instruments and Exchange Act of Japan and related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are a translation of the audited financial statements of NMF, which were prepared in accordance with Japanese GAAP and were presented in NMF's Securities Report filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan. In addition, the notes to financial statements include certain information that might not be required under Japanese GAAP but is presented herein as additional information. Amounts have been rounded to the nearest thousand yen in the accompanying financial statements and the notes thereto, whereas amounts were truncated in the Japanese financial statements prepared in accordance with Japanese GAAP.

NMF's fiscal period is a six-month period which ends at the end of February or August. NMF does not prepare consolidated financial statements because it has no subsidiaries.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments that are highly liquid, readily convertible to cash, with an insignificant risk of market value fluctuation, and with a maturity of three months or less when purchased.

## Property and equipment

Property and equipment are stated at cost, which includes the purchase price and related costs for acquisition, less accumulated depreciation.

Depreciation is calculated by the straight-line method over the estimated useful lives of the fixed assets outlined below:

Buildings	3 - 70 years
Structures	2 - 45 years
Machinery and equipment	2 - 15 years
Tools, furniture and fixtures	2 - 20 years

## Intangible assets

Intangible assets are amortized by the straight-line method.

Goodwill is amortized using the straight-line method over 20 years.

## NOTES TO FINANCIAL STATEMENTS

**Long-term prepaid expenses**

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

**Impairment of fixed assets**

NMF reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of its fixed assets may not be recoverable. An impairment loss is recognized if the carrying value of an asset exceeds the aggregate estimated future cash flows. If a fixed asset is determined to be impaired, it is written down to its recoverable amount and the write-down is recorded as an impairment loss during the period in which it occurs.

**Deferred investment corporation bond issuance costs**

Deferred investment corporation bond issuance costs are amortized by the straight-line method over the respective terms of the bonds.

**Investment unit issuance expenses**

The entire amount is expensed as incurred.

**Allowance for doubtful accounts**

For allowance for doubtful accounts against possible losses arising from default on receivables, the uncollectable amount is estimated and recorded by investigating collectability based on historical loan loss ratios for general receivables and on a case-by-case examination for doubtful and other specific receivables.

**Accounting treatment of beneficial interests in real estate**

All assets and liabilities held in trust, for which the real estate in possession of NMF was entrusted, and all related earnings and expenses incurred are reflected in the accompanying balance sheet and statement of income and retained earnings, respectively.

**Revenue recognition**

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including utility charge reimbursements, parking space rental revenues and other income. 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 are reasonably estimated.

**Property related taxes**

Property in Japan is subject to property taxes, urban planning taxes and depreciable property taxes on a calendar year basis. The taxes related to property are generally imposed based on the value of the relevant property and incurred for the fiscal period. The seller of a property is liable for property related taxes for the period from the purchase date through the end of that calendar year because taxes are imposed on the owner registered in the record as of January 1 for the entire year based on the assessment made by the local government. The amount applicable to the buyer of a property is usually settled between each party and capitalized as part of the acquisition cost of the property. The capitalized property related taxes amounted to ¥135,274 thousand for the fiscal period ended August 31, 2017, and ¥12,466 thousand for the fiscal period ended February 28, 2018.

**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 applicable statutory tax rates.

**Consumption taxes**

Consumption taxes received and paid are not included in the accompanying statement of income and retained earnings.

**Derivative financial instruments**

NMF utilizes interest-rate swap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. NMF defers recognition of gains or losses resulting from changes in the fair value of interest rate swap contracts which meet the criteria for deferral hedge accounting.

Although deferral hedge accounting is generally applied, NMF applies the special treatment to those interest-rate swap contracts that meet the criteria for such special treatment. Under the special treatment, interest-rate swaps are not remeasured at fair value; instead, the net amount paid or received under the interest rate swap contract is recognized and included in interest expense or income.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of February 28, 2018 and August 31, 2017 consist of the following:

	Thousands of Yen	
	As of February 28, 2018	As of August 31, 2017
Cash and bank deposits	¥76,536,939	¥71,227,676
Cash and cash equivalents	¥76,536,939	¥71,227,676

Important contents of the non-cash transactions:

Not applicable.

**5. ASSETS PLEDGED AS COLLATERAL AND SECURED LIABILITIES**

The assets pledged as collateral are as follows:

	Thousands of Yen	
	As of February 28, 2018	As of August 31, 2017
Buildings in trust	¥3,327,532	¥3,319,061
Land in trust	6,096,368	6,096,368
Tools, furniture and fixtures in trust	206	—
<b>Total</b>	<b>¥9,424,107</b>	<b>¥9,415,429</b>

The secured liabilities are as follows:

	Thousands of Yen	
	As of February 28, 2018	As of August 31, 2017
Tenant leasehold and security deposits in trust	¥726,648	¥726,648
<b>Total</b>	<b>¥726,648</b>	<b>¥726,648</b>

**6. SCHEDULE OF PROPERTY AND EQUIPMENT**

Property and equipment as of February 28, 2018 and August 31, 2017 consist of the following:

	Thousands of Yen			
	As of February 28, 2018		As of August 31, 2017	
	Acquisition costs	Book value	Acquisition costs	Book value
Land	¥223,024,637	¥223,024,637	¥214,805,613	¥214,805,613
Buildings and structures	121,861,494		118,505,725	
Accumulated depreciation	(8,494,264)	113,367,230	(6,669,922)	111,835,803
Machinery and equipment	620,043		597,359	
Accumulated depreciation	(298,651)	321,392	(235,885)	361,474
Tools, furniture and fixtures	190,500		143,823	
Accumulated depreciation	(37,880)	152,620	(23,985)	119,838
Land in trust	406,677,823	406,677,823	415,162,900	415,162,900
Buildings and structures in trust	179,686,820		187,990,446	
Accumulated depreciation	(17,892,399)	161,794,421	(16,282,808)	171,707,638
Machinery and equipment in trust	284,564		231,241	
Accumulated depreciation	(36,334)	248,230	(24,553)	206,688
Tools, furniture and fixtures in trust	379,390		466,104	
Accumulated depreciation	(104,417)	274,973	(105,142)	360,962
Lease assets in trust	23,901		23,901	
Accumulated depreciation	(18,850)	5,051	(14,950)	8,951
Construction in progress	99,000	99,000	5,229	5,229
<b>Total</b>	<b>¥905,965,377</b>	<b>¥905,965,377</b>	<b>¥914,575,096</b>	<b>¥914,575,096</b>

## NOTES TO FINANCIAL STATEMENTS

## 7. SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

Short-term debt and current portion of long-term debt as of February 28, 2018 and August 31, 2017 consist of the following:

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)
Unsecured loans from banks due on September 26, 2017	—	—	¥ 4,000,000	0.15000%
Unsecured loans from banks due on December 26, 2017	—	—	12,900,000	1.03775%
Unsecured loans from a bank due on February 26, 2018	—	—	1,000,000	1.84650%
Unsecured loans from banks due on February 26, 2018	—	—	1,500,000	0.43727%
Unsecured loans from banks due on February 27, 2018	—	—	5,420,000	1.12013%
Unsecured loans from a bank due on March 27, 2018	¥ 2,355,000	1.08448%	2,355,000	1.08448%
Unsecured loans from banks due on March 27, 2018	4,670,000	0.65545%	4,670,000	0.63000%
Unsecured loans from banks due on April 27, 2018	1,230,000	0.65545%	1,230,000	0.63000%
Unsecured loans from banks due on May 28, 2018	12,200,000	0.86250%	12,200,000	0.86250%
Unsecured loans from a bank due on June 26, 2018	2,000,000	1.09000%	2,000,000	1.09000%
Unsecured loans from a bank due on August 27, 2018	2,000,000	1.03500%	2,000,000	1.03500%
Unsecured loans from banks due on August 27, 2018	5,400,000	0.99000%	5,400,000	0.99000%
Unsecured loans from banks due on November 26, 2018	2,000,000	0.93600%	—	—
Unsecured loans from banks due on November 26, 2018	4,000,000	0.72500%	—	—
Unsecured loans from banks due on November 26, 2018	3,000,000	0.77650%	—	—
Unsecured loans from a bank due on November 26, 2018	1,000,000	0.48250%	—	—
Unsecured loans from banks due on November 26, 2018	1,700,000	0.50250%	—	—
Unsecured loans from banks due on December 26, 2018	6,375,000	0.16545%	—	—
Unsecured loans from banks due on February 26, 2019	3,000,000	1.44450%	—	—
Unsecured loans from a bank due on February 26, 2019	2,000,000	0.90759%	—	—
Unsecured loans from banks due on February 26, 2019	5,300,000	0.87695%	—	—
Unsecured loans from a bank due on May 26, 2025 (Note 2)	42,800	2.17000%	42,800	2.17000%
Unsecured loans from a bank due on May 26, 2025 (Note 2)	42,800	2.21812%	42,800	2.21812%
<b>Total</b>	<b>¥58,315,600</b>		<b>¥54,760,600</b>	

Note 1: The weighted-average interest rate is weighted by the balance of each borrowing at the end of the period and rounded to the nearest fifth decimal place. As for the borrowings, which were hedged by interest-rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate the weighted average of interest.

Note 2: Repay ¥10.7 million of principal at each repayment date during the period between August 26, 2013, and February 26, 2025, and repay ¥497.1 million on May 26, 2025, the last repayment date

- (1) NMF entered into ¥10,000 million credit facilities in the form of commitment lines with two financial institutions for the fiscal period ended February 28, 2018. The total unused amount of such credit facilities was ¥10,000 million as of February 28, 2018.
- (2) NMF entered into ¥40,000 million credit facilities in the form of commitment lines with five financial institutions for the fiscal period ended February 28, 2018. The total unused amount of such credit facilities was ¥35,000 million as of February 28, 2018.
- (3) NMF entered into ¥10,000 million credit facilities in the form of commitment lines with two financial institutions for the fiscal period ended August 31, 2017. The total unused amount of such credit facilities was ¥10,000 million as of August 31, 2017.
- (4) NMF entered into ¥40,000 million credit facilities in the form of commitment lines with five financial institutions for the fiscal period ended August 31, 2017. The total unused amount of such credit facilities was ¥40,000 million as of August 31, 2017.

## 8. LONG-TERM DEBT

Long-term debts as of February 28, 2018 and August 31, 2017 consist of the following:

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)
Unsecured loans from banks due on November 26, 2018	—	—	¥ 2,000,000	0.93600%
Unsecured loans from banks due on November 26, 2018	—	—	4,000,000	0.72500%
Unsecured loans from banks due on November 26, 2018	—	—	3,000,000	0.77650%
Unsecured loans from a bank due on November 26, 2018	—	—	1,000,000	0.48250%
Unsecured loans from banks due on November 26, 2018	—	—	1,700,000	0.50250%
Unsecured loans from banks due on December 26, 2018	—	—	6,375,000	0.14000%
Unsecured loans from banks due on February 26, 2019	—	—	3,000,000	1.44450%
Unsecured loans from a bank due on February 26, 2019	—	—	2,000,000	0.90759%
Unsecured loans from banks due on February 26, 2019	—	—	5,300,000	0.87695%
Unsecured loans from banks due on March 29, 2019	¥ 4,500,000	0.81625%	4,500,000	0.81625%
Unsecured loans from banks due on March 29, 2019	4,000,000	0.89635%	4,000,000	0.89635%
Unsecured loans from banks due on May 27, 2019	9,000,000	1.11750%	9,000,000	1.11750%
Unsecured loans from a bank due on May 27, 2019	1,000,000	1.04875%	1,000,000	1.04875%
Unsecured loans from a bank due on May 27, 2019	1,100,000	0.69894%	1,100,000	0.69894%
Unsecured loans from a bank due on August 26, 2019	2,200,000	1.22000%	2,200,000	1.22000%
Unsecured loans from banks due on August 26, 2019	5,700,000	1.25200%	5,700,000	1.25200%
Unsecured loans from banks due on August 26, 2019	2,500,000	1.27625%	2,500,000	1.27625%
Unsecured loans from banks due on August 26, 2019	4,700,000	0.81080%	4,700,000	0.81080%
Unsecured loans from banks due on October 28, 2019	3,000,000	0.22545%	3,000,000	0.20000%
Unsecured loans from banks due on October 28, 2019	4,000,000	0.19545%	4,000,000	0.17000%
Unsecured loans from banks due on November 26, 2019	1,600,000	1.16500%	1,600,000	1.16500%
Unsecured loans from banks due on November 26, 2019	4,000,000	0.72650%	4,000,000	0.72650%
Unsecured loans from banks due on November 26, 2019	5,600,000	0.54065%	5,600,000	0.54065%
Unsecured loans from banks due on November 26, 2019	3,450,000	0.37420%	3,450,000	0.37420%
Unsecured loans from banks due on February 26, 2020	5,750,000	1.01150%	5,750,000	1.01150%
Unsecured loans from banks due on February 26, 2020	2,500,000	0.64685%	2,500,000	0.64685%
Unsecured loans from banks due on May 26, 2020	10,000,000	1.33750%	10,000,000	1.33750%
Unsecured loans from a bank due on May 26, 2020	800,000	1.25875%	800,000	1.25875%
Unsecured loans from a bank due on May 27, 2020	1,000,000	1.48625%	1,000,000	1.48625%
Unsecured loans from banks due on May 29, 2020	4,000,000	0.43000%	4,000,000	0.43000%
Unsecured loans from a bank due on August 26, 2020	1,100,000	1.53674%	1,100,000	1.53674%
Unsecured loans from a bank due on August 26, 2020	800,000	1.28277%	800,000	1.28277%
Unsecured loans from banks due on August 26, 2020	4,700,000	1.18000%	4,700,000	1.18000%
Unsecured loans from a bank due on August 26, 2020	500,000	1.15566%	500,000	1.15566%
Unsecured loans from banks due on August 26, 2020	4,500,000	1.08100%	4,500,000	1.08100%
Unsecured loans from a bank due on August 26, 2020	1,000,000	0.72000%	1,000,000	0.72000%
Unsecured loans from banks due on September 28, 2020	3,000,000	0.22545%	—	—
Unsecured loans from banks due on November 26, 2020	3,500,000	0.46075%	3,500,000	0.46075%
Unsecured loans from banks due on November 26, 2020	2,350,000	0.46190%	2,350,000	0.46190%
Unsecured loans from a bank due on November 26, 2020	500,000	0.47375%	500,000	0.47375%
Unsecured loans from banks due on February 26, 2021	5,000,000	1.35250%	5,000,000	1.35250%
Unsecured loans from a bank due on February 26, 2021	2,000,000	1.17750%	2,000,000	1.17750%
Unsecured loans from banks due on February 26, 2021	2,000,000	1.19211%	2,000,000	1.19211%
Unsecured loans from banks due on February 26, 2021	2,000,000	0.80832%	2,000,000	0.80832%
Unsecured loans from a bank due on February 26, 2021	3,000,000	0.86350%	3,000,000	0.86350%
Unsecured loans from banks due on February 26, 2021	2,120,000	0.85050%	2,120,000	0.85050%
Unsecured loans from a bank due on February 26, 2021	500,000	0.46725%	500,000	0.46725%
Unsecured loans from a bank due on February 26, 2021	2,000,000	0.22560%	2,000,000	0.22560%

## NOTES TO FINANCIAL STATEMENTS

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)
Unsecured loans from banks due on February 26, 2021	2,800,000	0.14700%	2,800,000	0.14700%
Unsecured loans from a bank due on February 26, 2021	400,000	0.21810%	400,000	0.21810%
Unsecured loans from banks due on May 26, 2021	8,000,000	1.56250%	8,000,000	1.56250%
Unsecured loans from a bank due on May 26, 2021	1,000,000	1.46375%	1,000,000	1.46375%
Unsecured loans from a bank due on May 27, 2021	1,000,000	1.68200%	1,000,000	1.68200%
Unsecured loans from a bank due on May 27, 2021	3,500,000	1.62500%	3,500,000	1.62500%
Unsecured loans from banks due on July 26, 2021	4,180,000	1.23920%	4,180,000	1.23920%
Unsecured loans from a bank due on August 26, 2021	2,700,000	1.24100%	2,700,000	1.24100%
Unsecured loans from banks due on August 26, 2021	3,600,000	0.81585%	3,600,000	0.81585%
Unsecured loans from a bank due on November 26, 2021	2,000,000	1.30289%	2,000,000	1.30289%
Unsecured loans from banks due on November 26, 2021	2,000,000	1.11662%	2,000,000	1.11662%
Unsecured loans from banks due on November 26, 2021	4,900,000	0.97410%	4,900,000	0.97410%
Unsecured loans from a bank due on January 26, 2022	3,500,000	1.48300%	3,500,000	1.48300%
Unsecured loans from banks due on February 28, 2022	4,500,000	1.31850%	4,500,000	1.31850%
Unsecured loans from a bank due on February 28, 2022	2,750,000	1.29600%	2,750,000	1.29600%
Unsecured loans from banks due on February 28, 2022	4,000,000	1.16000%	4,000,000	1.16000%
Unsecured loans from banks due on May 26, 2022	5,500,000	1.25900%	5,500,000	1.25900%
Unsecured loans from banks due on May 31, 2022	4,500,000	0.82500%	4,500,000	0.82500%
Unsecured loans from banks due on August 26, 2022	2,980,000	1.19700%	2,980,000	1.19700%
Unsecured loans from a bank due on August 26, 2022	3,000,000	1.09133%	3,000,000	1.09133%
Unsecured loans from banks due on August 26, 2022	4,000,000	1.08034%	4,000,000	1.08034%
Unsecured loans from a bank due on August 26, 2022	1,000,000	0.32886%	1,000,000	0.32886%
Unsecured loans from banks due on September 30, 2022	4,000,000	0.76250%	4,000,000	0.76250%
Unsecured loans from banks due on November 28, 2022	2,100,000	0.92280%	2,100,000	0.92280%
Unsecured loans from a bank due on November 28, 2022	1,800,000	1.05000%	1,800,000	1.05000%
Unsecured loans from banks due on November 28, 2022	4,550,000	1.11000%	4,550,000	1.11000%
Unsecured loans from banks due on November 28, 2022	1,500,000	0.98624%	1,500,000	0.98624%
Unsecured loans from a bank due on November 28, 2022	1,000,000	0.71221%	1,000,000	0.71221%
Unsecured loans from banks due on November 28, 2022	1,500,000	0.69250%	1,500,000	0.69250%
Unsecured loans from a bank due on February 27, 2023	1,300,000	1.13250%	1,300,000	1.13250%
Unsecured loans from banks due on February 27, 2023	2,800,000	0.40740%	2,800,000	0.40740%
Unsecured loans from banks due on February 28, 2023	10,000,000	0.48700%	10,000,000	0.48700%
Unsecured loans from a bank due on May 26, 2023	2,000,000	1.86500%	2,000,000	1.86500%
Unsecured loans from a bank due on May 26, 2023	2,000,000	1.89500%	2,000,000	1.89500%
Unsecured loans from a bank due on May 26, 2023	1,000,000	1.83875%	1,000,000	1.83875%
Unsecured loans from a bank due on May 26, 2023	1,000,000	0.41250%	1,000,000	0.41250%
Unsecured loans from a bank due on May 26, 2023	2,500,000	0.43408%	2,500,000	0.43408%
Unsecured loans from a bank due on August 28, 2023	1,000,000	1.14850%	1,000,000	1.14850%
Unsecured loans from a bank due on August 28, 2023	1,000,000	1.15850%	1,000,000	1.15850%
Unsecured loans from a bank due on August 28, 2023	1,000,000	1.18032%	1,000,000	1.18032%
Unsecured loans from a bank due on August 28, 2023	4,000,000	1.20772%	4,000,000	1.20772%
Unsecured loans from banks due on August 28, 2023	6,100,000	1.08510%	6,100,000	1.08510%
Unsecured loans from a bank due on August 28, 2023	1,000,000	0.43466%	1,000,000	0.43466%
Unsecured loans from a bank due on August 28, 2023	1,000,000	0.41000%	1,000,000	0.41000%
Unsecured loans from banks due on August 31, 2023	6,700,000	0.55700%	6,700,000	0.55700%
Unsecured loans from banks due on November 27, 2023	2,000,000	1.75900%	2,000,000	1.75900%
Unsecured loans from banks due on November 27, 2023	2,600,000	0.82800%	2,600,000	0.82800%
Unsecured loans from banks due on November 27, 2023	4,000,000	0.49380%	4,000,000	0.49380%
Unsecured loans from banks due on November 27, 2023	1,500,000	0.47483%	1,500,000	0.47483%
Unsecured loans from a bank due on February 26, 2024	2,750,000	1.59400%	2,750,000	1.59400%
Unsecured loans from banks due on February 26, 2024	1,300,000	0.53630%	1,300,000	0.53630%

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)
Unsecured loans from banks due on May 27, 2024	1,100,000	0.51000%	1,100,000	0.51000%
Unsecured loans from a bank due on May 27, 2024	2,700,000	0.46376%	2,700,000	0.46376%
Unsecured loans from a bank due on May 27, 2024	2,000,000	0.53676%	2,000,000	0.53676%
Unsecured loans from a bank due on June 26, 2024	2,700,000	0.85925%	2,700,000	0.85925%
Unsecured loans from a bank due on June 26, 2024	2,700,000	0.49533%	2,700,000	0.49533%
Unsecured loans from a bank due on August 26, 2024	3,000,000	0.58175%	3,000,000	0.58175%
Unsecured loans from a bank due on August 26, 2024	2,430,000	0.49971%	2,430,000	0.49971%
Unsecured loans from banks due on August 26, 2024	5,670,000	0.49485%	5,670,000	0.49485%
Unsecured loans from a bank due on November 26, 2024	2,250,000	0.50825%	2,250,000	0.50825%
Unsecured loans from banks due on November 26, 2024	3,000,000	0.58000%	3,000,000	0.58000%
Unsecured loans from a bank due on November 26, 2024	1,800,000	0.55979%	1,800,000	0.55979%
Unsecured loans from a bank due on November 26, 2024	500,000	0.52384%	—	—
Unsecured loans from banks due on February 26, 2025	4,200,000	0.62675%	4,200,000	0.62675%
Unsecured loans from a bank due on February 26, 2025	1,000,000	0.52140%	1,000,000	0.52140%
Unsecured loans from banks due on February 26, 2025	3,000,000	0.53936%	3,000,000	0.53936%
Unsecured loans from banks due on February 26, 2025	1,500,000	0.53880%	—	—
Unsecured loans from a bank due on May 26, 2025	2,000,000	0.60286%	2,000,000	0.60286%
Unsecured loans from a bank due on May 26, 2025	2,000,000	0.60286%	2,000,000	0.60286%
Unsecured loans from banks due on May 26, 2025	2,800,000	0.60286%	2,800,000	0.60286%
Unsecured loans from a bank due on May 26, 2025	1,000,000	0.61434%	1,000,000	0.61434%
Unsecured loans from banks due on August 26, 2025	3,000,000	0.56380%	3,000,000	0.56380%
Unsecured loans from banks due on August 26, 2025	4,050,000	0.58727%	4,050,000	0.58727%
Unsecured loans from banks due on August 26, 2025	1,850,000	0.67915%	1,850,000	0.67915%
Unsecured loans from banks due on August 26, 2025	2,600,000	0.60489%	2,600,000	0.60489%
Unsecured loans from banks due on August 26, 2025	3,000,000	0.58380%	3,000,000	0.58380%
Unsecured loans from a bank due on November 26, 2025	1,100,000	1.09830%	1,100,000	1.09830%
Unsecured loans from a bank due on November 26, 2025	1,100,000	1.06250%	1,100,000	1.06250%
Unsecured loans from a bank due on November 26, 2025	2,000,000	1.03955%	2,000,000	1.03955%
Unsecured loans from a bank due on November 26, 2025	2,000,000	0.59639%	2,000,000	0.59639%
Unsecured loans from a bank due on November 26, 2025	2,000,000	0.60448%	2,000,000	0.60448%
Unsecured loans from banks due on November 26, 2025	4,200,000	0.64616%	4,200,000	0.64616%
Unsecured loans from a bank due on November 26, 2025	900,000	0.65123%	900,000	0.65123%
Unsecured loans from a bank due on November 26, 2025	1,300,000	0.64278%	1,300,000	0.64278%
Unsecured loans from a bank due on November 26, 2025	1,000,000	0.59499%	—	—
Unsecured loans from banks due on February 26, 2026	4,000,000	0.74080%	4,000,000	0.74080%
Unsecured loans from a bank due on May 26, 2026	2,500,000	0.63995%	2,500,000	0.63995%
Unsecured loans from a bank due on May 26, 2026	1,100,000	0.65267%	—	—
Unsecured loans from a bank due on August 26, 2026	2,700,000	0.67591%	2,700,000	0.67591%
Unsecured loans from a bank due on August 26, 2026	2,700,000	0.67591%	2,700,000	0.67591%
Unsecured loans from banks due on August 26, 2026	3,000,000	0.77669%	3,000,000	0.77669%
Unsecured loans from a bank due on August 26, 2026	1,000,000	0.70414%	1,000,000	0.70414%
Unsecured loans from banks due on August 26, 2026	3,000,000	0.67483%	3,000,000	0.67483%
Unsecured loans from a bank due on November 26, 2026	2,000,000	0.76000%	2,000,000	0.76000%
Unsecured loans from a bank due on November 26, 2026	2,000,000	0.74229%	2,000,000	0.74229%
Unsecured loans from banks due on November 26, 2026	4,165,000	0.73506%	4,165,000	0.73506%
Unsecured loans from banks due on November 26, 2026	4,000,000	0.69956%	—	—
Unsecured loans from banks due on February 26, 2027	2,320,000	0.71500%	—	—
Unsecured loans from banks due on May 26, 2027	3,060,000	0.78177%	3,060,000	0.78177%
Unsecured loans from banks due on May 26, 2027	2,300,000	0.74736%	—	—
Unsecured loans from banks due on August 26, 2027	4,000,000	0.76843%	4,000,000	0.76843%
Unsecured loans from banks due on August 26, 2027	2,600,000	0.76290%	—	—

## NOTES TO FINANCIAL STATEMENTS

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)	Amount (Thousands of yen)	Weighted-average interest rate (Note 1)
Unsecured loans from a bank due on November 26, 2027	2,000,000	0.89209%	2,000,000	0.89209%
Unsecured loans from banks due on November 26, 2027	5,000,000	0.79571%	—	—
Unsecured loans from a bank due on February 28, 2028	1,000,000	0.82130%	—	—
Unsecured loans from a bank due on November 26, 2029	2,000,000	1.12506%	2,000,000	1.12506%
Unsecured loans from a bank due on November 26, 2029	2,000,000	1.12506%	2,000,000	1.12506%
Unsecured loans from a bank due on October 28, 2030	1,100,000	1.92250%	1,100,000	1.92250%
Unsecured loans from a bank due on October 28, 2030	1,100,000	1.91700%	1,100,000	1.91700%
Unsecured loans from a bank due on May 26, 2025 (Note 2)	753,900	2.17000%	775,300	2.17000%
Unsecured loans from a bank due on May 26, 2025 (Note 2)	753,900	2.21812%	775,300	2.21812%
<b>Total</b>	<b>¥407,382,800</b>		<b>¥411,480,600</b>	

Note 1: The weighted-average interest rate is weighted by the balance of each borrowing at the end of the period and rounded to the nearest fifth decimal place. As for the borrowings, which were hedged by interest-rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate the weighted average of interest.

Note 2: Installments of ¥10.7 million will be made on the 26th day of every third month starting on August 26, 2013, with the remaining payment of ¥497.1 million to be repaid on May 26, 2025.

The scheduled repayment amounts of long-term debt for each of the five years after the balance sheet date (excluding the current portion of long-term debt) are as follows.

	Thousands of Yen			
	1-2 years	2-3 years	3-4 years	4-5 years
As of August 31, 2017	¥63,160,600	¥58,385,600	¥52,235,600	¥44,715,600
<b>As of February 28, 2018</b>	<b>¥64,685,600</b>	<b>¥59,655,600</b>	<b>¥47,715,600</b>	<b>¥51,615,600</b>

## 9. INVESTMENT CORPORATION BONDS

Details of investment corporation bonds outstanding are summarized as follows.

	As of February 28, 2018		As of August 31, 2017	
	Amount (Thousands of yen)	Interest rate (Note 1)	Amount (Thousands of yen)	Interest rate (Note 1)
NOF's 2nd series of unsecured investment corporation bonds due on March 16, 2020	¥ 5,000,000	2.47%	¥ 5,000,000	2.47%
NOF's 7th series of unsecured investment corporation bonds due on March 17, 2028	4,500,000	2.90%	4,500,000	2.9%
NOF's 9th series of unsecured investment corporation bonds due on November 24, 2017	—	—	4,000,000	1.52%
Former NMF's 1st series of unsecured investment corporation bonds due on October 30, 2024	3,000,000	0.87%	3,000,000	0.87%
NOF's 10th series of unsecured investment corporation bonds due on November 25, 2024	6,000,000	1.02%	6,000,000	1.02%
NMF's 2nd series of unsecured investment corporation bonds due on November 16, 2027	2,000,000	0.59%	—	—
<b>Total</b>	<b>¥20,500,000</b>		<b>¥22,500,000</b>	

Note 1: The interest rate is rounded to the nearest second decimal place.

The scheduled redemption amounts of investment corporation bonds for each of the five years after the balance sheet date are as follows.

	Thousands of Yen				
	Within a year	1-2 years	2-3 years	3-4 years	4-5 years
As of August 31, 2017	¥4,000,000	—	¥5,000,000	—	—
<b>As of February 28, 2018</b>	<b>—</b>	<b>—</b>	<b>¥5,000,000</b>	<b>—</b>	<b>—</b>

## 10. UNITHOLDERS' EQUITY

NMF issues only non-par value investment units in accordance with the Investment Trust Act. The entire amount of the issue price of new units is designated as stated capital. NMF is required to maintain net assets of at least ¥50,000 thousand as set

forth in the Investment Trust Act.

## 11. ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

The movement in the allowance for temporary difference adjustments on the Balance Sheet was as follows:

## For the period from September 1, 2017 to February, 2018

## 1. Reason, related assets and amounts

Related assets, etc.	Reason	Initial amount	Balance at the end of previous period	Allowance set aside during period	Reversal during period	Balance at the end of current period	Thousands of Yen
							Reason for reversal
Goodwill	Amortization of goodwill	¥4,244,641	¥4,244,641	—	—	¥4,244,641	—
Land, buildings, etc.	Merger expenses	4,029,136	1,491,074	—	(¥ 91,221)	1,399,853	Sale and depreciation of properties for which merger expenses were recorded
Deferred gains or losses on hedges	Loss on interest-rate swaps recognized at the end of the fiscal period	2,867,595	1,545,633	—	(20,951)	1,524,682	Changes in fair value of derivative transactions
Land, buildings, etc.	Impairment loss	269,797	86,379	—	(86,379)	—	Sale of properties for which impairment loss were recorded
Increase - subtotal		—	7,367,727	—	(198,551)	7,169,176	—
<b>Total</b>		—	<b>¥7,367,727</b>	—	<b>(¥198,551)</b>	<b>¥7,169,176</b>	—

## 2. Method of reversal

## (1) Amortization of goodwill

In principle, amortization of goodwill is not reversed.

## (2) Merger expenses

Item	Method of reversal
Buildings, etc.	Upon depreciation and sale, etc., the corresponding amount is scheduled to be reversed.
Land	Upon sale, etc., the corresponding amount is scheduled to be reversed.
Buildings in trust, etc.	Upon depreciation or sale, etc., the corresponding amount is scheduled to be reversed.
Land in trust	
Leasehold rights	Upon sale, etc., the corresponding amount is scheduled to be reversed.
Leasehold rights in trust	

## (3) Impairment loss

Upon the sale of the relevant properties, the corresponding amount is scheduled to be reversed.

## (4) Deferred gains or losses on hedges.

Based on changes in the fair value of derivatives used as hedging instruments, the corresponding amount is scheduled to be reversed.

## For the period from March 1, 2017 to August 31, 2017

## 1. Reason, related assets and amounts

Related assets, etc.	Reason	Initial amount	Balance at the end of previous period	Allowance set aside during period	Reversal during period	Balance at the end of current period	Thousands of Yen
							Reason for reversal
Goodwill	Amortization of goodwill	¥4,244,641	¥1,622,398	¥2,622,243	—	¥4,244,641	—
Land, buildings, etc.	Merger expenses	4,029,136	1,497,394	(6,320)	—	1,491,074	—
Deferred gains or losses on hedges	Loss on interest-rate swaps recognized at the end of the fiscal period	2,867,595	2,254,454	—	(¥708,821)	1,545,633	Changes in fair value of derivative transactions
Land, buildings, etc.	Impairment loss	269,797	—	86,379	—	86,379	—
Long-term deposits	Shortfall of reserve for repair	15,186	—	—	—	—	—

## NOTES TO FINANCIAL STATEMENTS

Related assets, etc.	Reason	Initial amount	Balance at the end of previous period	Allowance set aside during period	Reversal during period	Balance at the end of current period	Reason for reversal
Increase - subtotal		—	5,374,246	2,702,302	(708,821)	7,367,727	—
Buildings, building improvements, etc.	Depreciation deficiency equivalent	(1,302,167)	—	—	—	—	—
Unearned revenue, etc.	Write-down of loss on interest rate swap due to merger	(216,262)	—	—	—	—	—
Other	—	(¥ 76,769)	—	—	—	—	—
Decrease - subtotal		—	—	—	—	—	—
<b>Total</b>		—	¥5,374,246	¥2,702,302	(¥708,821)	¥7,367,727	—

## 2. Method of reversal

## (1) Amortization of goodwill

In principle, amortization of goodwill is not reversed.

## (2) Merger expenses

Item	Method of reversal
Buildings, etc.	Upon depreciation and sale, etc., the corresponding amount is scheduled to be reversed.
Land	Upon sale, etc., the corresponding amount is scheduled to be reversed.
Buildings in trust, etc.	Upon depreciation or sale, etc., the corresponding amount is scheduled to be reversed.
Land in trust	
Leasehold rights	Upon sale, etc., the corresponding amount is scheduled to be reversed.
Leasehold rights in trust	

## (3) Impairment loss

Upon the sale of the relevant properties, the corresponding amount is scheduled to be reversed.

## (4) Deferred gains or losses on hedges.

Based on changes in the fair value of derivatives used as hedging instruments, the corresponding amount is scheduled to be reversed.

## 12. PER UNIT INFORMATION

The net asset values per unit and the net income per unit as of February 28, 2018 and August 31, 2017 were as follows:

	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Net assets per unit	¥132,697	¥133,069
Net income per unit	¥ 2,561	¥ 3,153

Note 1: The net income per unit is calculated by dividing net income by the weighted-average number of units outstanding.  
Note 2: The basis for calculating net income per unit is as follows.

	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Net income (Thousands of yen)	¥10,714,661	¥13,190,198
Amount not available to ordinary unitholders (Thousands of yen)	—	—
Net income available to ordinary unitholders (Thousands of yen)	¥10,714,661	¥13,190,198
Average number of units during the period (Units)	4,183,130	4,183,130

## 13. RELATED PARTY TRANSACTIONS

## For the periods from September 1, 2017 to February 28, 2018 and from March 1, 2017 to August 31, 2017

Parent Company and major corporate unitholders

Not applicable

Subsidiaries and affiliates

Not applicable

Fellow subsidiary companies

Not applicable

Directors and major individual unitholders

Not applicable

## 14. INCOME TAXES

NMF, as an investment corporation, is subject to corporate income taxes at a statutory tax rate of approximately 31.74% for the fiscal period ended February 28, 2018. However, NMF may deduct dividend distributions paid to its unitholders from its taxable income amounts, provided such distributions meet the requirements under the Act on Special Measures Concerning Taxation of Japan. Under this act, an investment corporation must meet a number of tax requirements, including a requirement to distribute in excess of 90% of its distributable income for the fiscal period, in order to deduct such amounts. If the investment corporation does not satisfy all of the requirements, the entire taxable income of the investment corporation will be subject to regular corporate income taxes.

Since NMF distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥12,745,997 thousand for the fiscal period ended February 28, 2018, such distributions were treated as deductible distributions for purposes of corporate income taxes.

The following summarizes breakdown of deferred tax assets and liabilities:

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Deferred tax asset:		
Valuation difference on other assets acquired by merger	¥21,567,576	¥21,965,966
Deferred gains or losses on hedges	345,465	481,704
Unearned revenue	224,444	275,398
Write-offs for long-term prepaid expenses	22,194	25,634
Depreciation costs of trust leasehold rights	978	855
Subtotal	22,160,657	22,749,557
Valuation allowance	(¥22,160,657)	(¥22,749,557)
Total non-current deferred tax assets	—	—
Total deferred tax assets	—	—
Net deferred tax assets	—	—

The following summarizes the significant differences between the statutory tax rate and the effective tax rate.

	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Statutory tax rate	31.74%	31.74%
Deductible cash distributions	(35.26%)	(16.57%)
Valuation of allowance	(4.24%)	(21.48%)
Amortization of goodwill	7.77%	6.31%
Other	0.01%	0.00%
Effective tax rate	0.01%	0.00%

## 15. FINANCIAL INSTRUMENTS

## Overview

## (1) Policy for Financial Instruments

Upon acquisition of property-related assets, NMF may raise funds through certain financing methods including borrowings, issuance of investment corporation bonds and issuance of investment units. In financing through interest-bearing debt, to secure stable financing capability and reduce future risks of rising interest rates, NMF's investment policy is to secure



## NOTES TO FINANCIAL STATEMENTS

longer-term, fixed-rate borrowings with well-diversified maturities.

NMF enters into derivative transactions only for the purpose of reducing risk of future interest rate fluctuations and does not engage in speculative transactions.

## (2) Type and Risk of Financial Instruments and Related Risk Management

Debts and investment corporation bonds are primarily used to fund the acquisition of property-related assets as well as the repayment of debts and redemption of investment corporation bonds. NMF is exposed to liquidity risk of being unable to meet its obligations on scheduled due dates. NMF controls and limits such risk by diversifying not only the financial institutions, but also the type of financing to include the effective use of surplus funds and direct financing from the capital markets such as issuance of investment units. In addition, NMF is exposed to the market risk arising from fluctuations in interest rates on its floating-rate debts. However, the effect of such risk on the operation of NMF is limited by maintaining the LTV ratio at low levels and the ratio of long-term fixed-rate debts to total debt at high levels. Furthermore, NMF may utilize derivative transactions (interest-rate swap transactions) as a hedging instrument to reduce the market risk under floating-rate debts by swapping such floating-rate interest payments for fixed-rate interest payments.

Bank deposits are held as a means of investing surplus funds, and NMF is exposed to the credit risk that financial institutions may default. However, the effect of such risk is limited by diversifying the financial institutions with which surplus funds are deposited.

## (3) Supplementary Explanation on Estimated Fair Value of Financial Instruments

The fair value of financial instruments is based on the quoted market price, if applicable. When there is no quoted market price available, fair value is reasonably estimated. Certain assumptions are used for the estimation of fair value. Accordingly, the result of such estimation may change if different assumptions are used. Furthermore, the contractual amounts of derivative transactions stated in "22. Derivatives and Hedge Accounting" below do not represent the market risk involved in these derivative transactions.

## Fair Value of Financial Instruments

## For the period from September 1, 2017 to February 28, 2018

The following table summarizes the carrying value and the estimated fair values of financial instruments as of February 28, 2018.

	Thousands of Yen		
	Carrying value <sup>(Note 1)</sup>	Fair value <sup>(Note 2)</sup>	Difference
(i) Cash and bank deposits	¥ 76,536,939	¥ 76,536,939	—
(ii) Current portion of investment corporation bonds	—	—	—
(iii) Current portion of long-term debt	(58,315,600)	(58,423,277)	¥ 107,677
(iv) Investment corporation bonds	(20,500,000)	(21,791,171)	1,291,171
(v) Long-term debt	(407,382,800)	(412,310,168)	¥4,927,368
(vi) Derivative transactions	(¥ 1,097,928)	(¥ 1,097,928)	—

## For the period from March 1, 2017 to August 31, 2017

The following table summarizes the carrying value and the estimated fair values of financial instruments as of August 31, 2017.

	Thousands of Yen		
	Carrying value <sup>(Note 1)</sup>	Fair value <sup>(Note 2)</sup>	Difference
(i) Cash and bank deposits	¥ 71,227,676	¥ 71,227,676	—
(ii) Current portion of investment corporation bonds	(4,000,000)	(4,011,828)	¥ 11,828
(iii) Current portion of long-term debt	(54,760,600)	(54,912,627)	152,027
(iv) Investment corporation bonds	(18,500,000)	(19,932,756)	1,432,756
(v) Long-term debt	(411,480,600)	(417,122,162)	¥5,641,562
(vi) Derivative transactions	(¥ 1,539,851)	(¥ 1,539,851)	—

Note 1: The numbers in parenthesis indicate liabilities.

Note 2: Method for determining the fair value of financial instruments and derivative transactions

(i) Cash and bank deposits

As these items are settled within a short-term period, their fair value is nearly equal to the carrying value. Therefore, for these items, the carrying value is reported as the fair value.

(ii) Current portion of investment corporation bonds and (iv) Investment corporation bonds

The fair value of investment corporation bonds issued by NMF is determined based on their market prices.

(iii) Current portion of long-term debt and (v) Long-term debt

For floating-rate long-term debt, the carrying value is reported as it is considered to be approximately equal to the fair value because such debt reflects the market interest rates within a short-term period. (However, the fair value of certain floating-rate long-term debt that qualifies for the special treatment of interest-rate swaps (see "21. Derivatives and Hedge Accounting") is determined by discounting the sum of its principal and interest payments net of any

cash flows from the interest-rate swap at a rate reasonably estimated to be applicable to similar fixed-rate debt.) The fair value of fixed-rate long-term debt is determined by discounting the sum of its principal and interest payments at a rate reasonably estimated to be applicable to similar fixed-rate debt.

(vi) Derivative transactions

See "21. Derivatives and Hedge Accounting."

Note 3: Redemption schedule for cash and bank deposits as of February 28, 2018

	Thousands of Yen					
	Due within one year	After one year, within two years	After two years, within three years	After three years, within four years	After four years, within five years	After five years
Cash and bank deposits	¥76,536,939	—	—	—	—	—
<b>Total</b>	¥76,536,939	—	—	—	—	—

Redemption schedule for cash and bank deposits as of August 31, 2017

	Thousands of Yen					
	Due within one year	After one year, within two years	After two years, within three years	After three years, within four years	After four years, within five years	After five years
Cash and bank deposits	¥71,227,676	—	—	—	—	—
<b>Total</b>	¥71,227,676	—	—	—	—	—

Note 4: Redemption schedule for debt as of February 28, 2018

	Thousands of Yen					
	Due within one year	After one year, within two years	After two years, within three years	After three years, within four years	After four years, within five years	After five years
Investment corporation bonds	—	—	¥ 5,000,000	—	—	¥ 15,500,000
Long-term debt	¥58,315,600	¥64,685,600	¥59,655,600	¥47,715,600	¥51,615,600	¥183,710,400
<b>Total</b>	¥58,315,600	¥64,685,600	¥64,655,600	¥47,715,600	¥51,615,600	¥199,210,400

Redemption schedule for debt as of August 31, 2017

	Thousands of Yen					
	Due within one year	After one year, within two years	After two years, within three years	After three years, within four years	After four years, within five years	After five years
Investment corporation bonds	¥4,000,000	—	¥5,000,000	—	—	¥13,500,000
Long-term debt	¥54,760,600	¥63,160,600	¥58,385,600	¥52,235,600	¥44,715,600	¥192,983,200
<b>Total</b>	¥58,760,600	¥63,160,600	¥63,385,600	¥52,235,600	¥44,715,600	¥206,483,200

## 16. INVESTMENT AND RENTAL PROPERTIES

NMF owns leasable office, leasable retail facilities, leasable logistics facilities, leasable residential (including land) in Greater Tokyo area and other areas for the purpose of earning revenue from leasing. The following table summarizes the carrying value and the estimated fair value of these properties.

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Carrying value		
Balance at beginning of the period	¥ 923,155,804	¥ 928,836,719
Amount of increase (decrease) during the period	(8,321,623)	(5,680,915)
Balance at end of the period	914,834,180	923,155,804
Fair value at end of the period	¥1,001,250,000	¥1,002,630,000

Note 1: The carrying value represents the acquisition cost less accumulated depreciation.

Note 2: Of the change in investment and rental properties, the increase during the previous period is mainly attributable to the acquisition of nORBESA (¥8,638,004 thousand), NRE Kichijoji Building (¥5,141,844 thousand), Nakaza Cui-daore Building (¥12,165,807 thousand), Landport Kashiwa Shonan I (¥10,040,496 thousand), PRIME URBAN Gakugei Daigaku Parkfront (¥1,402,842 thousand), Proud Flat Omori III (¥1,165,489 thousand), Proud Flat Kinshicho (¥831,191 thousand), Summit Store Narita-Higashi(Land) (¥744,810 thousand). The decrease during the previous period is mainly attributable to the sale of NOF Technoport Kamata Center Building (¥4,725,469 thousand), NOF Nihonbashi Honcho Building (¥10,889,175 thousand), Tennozu Park Side Building (¥12,467,899 thousand), Mitsubishi Motors Shibuya (Land) (¥1,586,458 thousand), Mitsubishi Motors Suginami (Land) (¥748,922 thousand), Ito-Yokado Higashi-Narashino Store (¥641,752 thousand), Merad Owada (¥6,510,260 thousand), Ota Nitta Logistics Center (¥3,081,630 thousand), Ota Higashishinmachi Logistics Center (¥1,958,017 thousand), Ota Kiyohara Logistics Center (¥578,054 thousand) and Chiyodamachi Logistics Center (¥314,953 thousand) as well as depreciation (¥4,858,613 thousand). The increase during the current period is mainly attributable to the acquisition of PMO Shinnihonbashi (¥4,496,617 thousand), PMO Hirakawacho (¥3,460,311 thousand), GEMS Daimon (¥2,087,357 thousand), GEMS Kanda (¥1,520,710 thousand) and Summit Store Mukodaicho (¥5,159,847 thousand). The decrease during the current period is mainly attributable to the sale of Morisia Tsudanuma (¥17,897,287 thousand) and Funabashi Logistics Center (¥4,537,933 thousand) as well as depreciation (¥4,733,427 thousand).

Note 3: Fair value at the end of the period is the appraisal value or survey price determined by an outside real estate appraiser. However, the scheduled transfer price is used as the fair value for Morisia Tsudanuma in the previous period.

The real estate rental revenues and expenses for the fiscal period ended February 28, 2018 are presented in "18. Breakdown of Real Estate Rental Revenues and Expenses."

## NOTES TO FINANCIAL STATEMENTS

## 17. SEGMENT INFORMATION

For the periods from September 1, 2017 to February 28, 2018 and from March 1, 2017 to August 31, 2017

## Segment Information

Since NMF has been engaged in the real estate leasing business as a single segment, segment information has been omitted.

## Related Information

## 1. Information about products and services

Since revenues from external customers of products and services within a single segment are more than 90 percent of total operating revenues, information about products and services has been omitted.

## 2. Information about geographical areas

## (1) Revenues

Since more than 90 percent of the total operating revenues were generated from external customers in Japan, geographical breakdown of revenues has been omitted.

## (2) Property and equipment

Since more than 90 percent of the total property and equipment on the balance sheet are located in Japan, geographical breakdown of property and equipment has been omitted.

## 3. Information about major clients

For the period from September 1, 2017 to February 28, 2018

Customer name	Revenues (Thousands of yen)	Related segment name
Nomura Real Estate Partners Co., Ltd.	¥4,773,517	Rental real estate business

For the period from March 1, 2017 to August 31, 2017

Customer name	Revenues (Thousands of yen)	Related segment name
Nomura Real Estate Partners Co., Ltd.	¥4,708,156	Rental real estate business

## 18. BREAKDOWN OF REAL ESTATE RENTAL REVENUES AND EXPENSES

Real estate rental revenues and expenses for the fiscal period ended February 28, 2018 and August 31, 2017 consist of the following:

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Real estate rental revenues	¥33,631,626	¥35,032,000
Rental revenues	30,724,009	31,656,774
Rental revenues	28,294,469	29,096,278
Common area charges	2,429,540	2,560,496
Other rental revenues	2,907,617	3,375,226
Parking revenues	584,742	661,984
Incidental income	2,198,013	2,507,620
Other miscellaneous revenues	124,862	205,622
Real estate rental expenses	14,785,472	15,962,926
Property management costs	1,592,436	1,697,881
Property management fees	888,376	955,304
Property and other taxes	2,699,056	2,883,602
Utility expenses	1,784,615	2,013,032
Casualty insurance	43,247	46,032
Repairs and maintenance	1,758,409	2,083,226
Land rents	210,440	208,035
Depreciation	4,737,224	4,862,343
Other rental expenses	1,071,669	1,213,471
Real estate rental profits	¥18,846,154	¥19,069,074

## 19. BREAKDOWN OF GAIN AND LOSS ON SALES OF REAL ESTATE

	Thousands of Yen	
	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
Gain on sale of real estate		
Proceeds from sale of real estate	¥23,480,000	¥47,414,250
Cost of real estate	22,435,221	43,502,593
Other related sales expense	457,529	803,995
Gain on sale of real estate	¥ 587,250	¥ 3,107,662
Loss on sale of real estate		
Proceeds from sale of real estate	—	—
Cost of real estate	—	—
Other related sales expense	—	—
Loss on sale of real estate	—	—

## 20. LEASES

The future minimum rental revenues from tenants under non-cancelable operating lease of properties as of February 28, 2018 and August 31, 2017 are summarized as follows:

	Thousands of Yen	
	As of February 28, 2018	As of August 31, 2017
Due within one year	¥ 29,455,791	¥ 32,493,388
Due after one year	76,898,092	82,875,214
<b>Total</b>	¥106,353,883	¥115,368,602

## 21. DERIVATIVES AND HEDGE ACCOUNTING

## Derivative transactions as of February 28, 2018

(1) There were no derivative financial instruments not subject to hedge accounting.

(2) Derivative financial instruments subject to hedge accounting were as follows:

Hedge accounting method	Type of derivative instruments	Main hedged item	Notional amount		Fair value (Note 2)
			(Note 1)	Due after one year	
Principal treatment method	Interest-rate swaps: Received/floating and paid/fixed	Long-term debt	¥134,780,000	¥116,080,000	(¥1,097,928) (Note 3)
Special treatment of interest-rate swaps	Interest-rate swaps: Received/floating and paid/fixed	Long-term debt	101,696,700	83,753,900	(1,043,451) (Note 4)
<b>Total</b>			¥236,476,700	¥199,833,900	(¥2,141,379)

Note 1: Contract amount is based on notional amount.

Note 2: Fair value is measured by swap counterparty, based on the actual market interest rate, etc.

Note 3: Out of the fair value, (¥4,467 thousand) is booked as "accrued expenses" on the Balance Sheet.

Note 4: Out of the fair value, (¥1,043,451 thousand) is not marked to market on the Balance Sheet, since adopting special treatment for interest-rate swaps.

## NOTES TO FINANCIAL STATEMENTS

## Derivative transactions as of August 31, 2017

(1) There were no derivative financial instruments not subject to hedge accounting.

(2) Derivative financial instruments subject to hedge accounting were as follows:

Hedge accounting method	Type of derivative instruments	Main hedged item	Notional amount		Fair value <sup>(Note 2)</sup>
			<sup>(Note 1)</sup>	Due after one year	
Principal treatment method	Interest-rate swaps: Received/floating and paid/fixed	Long-term debt	¥154,100,000	¥129,380,000	(¥1,539,851) <sup>(Note 3)</sup>
Special treatment of interest-rate swaps	Interest-rate swaps: Received/floating and paid/fixed	Long-term debt	101,718,100	89,475,300	(1,402,532) <sup>(Note 4)</sup>
<b>Total</b>			¥255,818,100	¥218,855,300	(¥2,942,383)

Note 1: Contract amount is based on notional amount.

Note 2: Fair value is measured by swap counterparty, based on the actual market interest rate, etc.

Note 3: Out of the fair value, (¥15,169 thousand) is booked as "accrued expenses" on the Balance Sheet.

Note 4: Out of the fair value, (¥1,402,532 thousand) is not marked to market on the Balance Sheet, since adopting special treatment for interest-rate swaps.

## 22. CASH DISTRIBUTIONS

	For the period from September 1, 2017 to February 28, 2018	For the period from March 1, 2017 to August 31, 2017
1. Retained earnings at end of period	¥12,549,780,041	¥14,737,836,769
2. Distributions in excess of retained earnings	¥1,769,463,990	—
Of which, allowance for temporary difference adjustment	¥1,188,008,920	—
Of which, other distributions in excess of net income	¥581,455,070	—
3. Incorporation into unitholders' capital	¥478,516,800	¥198,551,954
Of which, reversal of allowance for temporary difference adjustments	¥478,516,800	¥198,551,954
4. Distributions	¥12,745,997,110	¥12,704,165,810
[Distributions (per unit)]	(¥3,047)	(¥3,037)
Of which, distributions of earnings	¥10,976,533,120	¥12,704,165,810
[Of which, distributions of earnings (per unit)]	(¥2,624)	(¥3,037)
Of which, allowance for temporary difference adjustments	¥1,188,008,920	—
[Of which, allowance for temporary difference adjustments (per unit)]	(¥284)	—
Of which, other distributions in excess of net income	¥581,455,070	—
[Of which, other distributions in excess of net income (per unit)]	(¥139)	—
4. Retained earnings carried forward	¥1,094,730,121	¥1,835,119,005

Calculation method of distribution amount

NMF calculates distributions in accordance with the cash distribution policies as specified in Article 36, Paragraphs 1 and 2 of NMF's Articles of Incorporation. For the fiscal period ended February 28, 2018, NMF decided to pay ¥12,745,997,110 in distributions, for a distribution per unit of ¥3,047. This figure was calculated as ¥10,714,661,036 in net income plus ¥2,622,242,820 in amortization of goodwill minus ¥587,249,509 in gains on sale of real estate, for a subtotal of ¥12,745,997,110, from which the portion for which per-unit distributions comprising the types of dividends laid out below would be less than ¥1 was excluded. Total distributions comprise distributions of earnings and distributions in excess of net income. Distributions of earnings came to ¥10,976,533,120 (¥2,624 per unit), calculated as income as stipulated in Article 136 Paragraph 1 of the Act on Investment Trusts and Investment Corporations, less reversal of allowance for temporary difference adjustments (hereinafter ATA). Distributions in excess of net income comprise a ¥1,188,008,920 (¥284 per unit) distribution of ATA and ¥581,455,070 (¥139 per unit) in other distributions in excess of net income.

## 23. INFORMATION ON ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

For the period from September 1, 2017 to February 28, 2018

1. Reason of provision related assets and amounts

		Thousands of Yen
Related assets, etc.	Reason of provision	Provision of allowance for temporary difference adjustments
Goodwill	Amortization of goodwill	¥2,622,243
Long-term deposits	Shortfall of reserve for repairs	7,570
Increase-subtotal		2,629,813
Buildings, facilities, etc.	Depreciation deficiency equivalent	(1,234,823)
Unearned revenue	Write-down of loss on interest rate swap due to merger	(161,277)
Others	—	(45,704)
Decrease-subtotal		(1,441,804)
<b>Total</b>		¥1,188,009

2. Reason for reversal, related assets and amounts

		Thousands of Yen
Related assets, etc.	Reason for reversal	Provision of allowance for temporary difference adjustments
Land, Buildings, etc.	Sale and depreciation of properties for which merger expenses were recorded	(¥ 47,295)
Deferred gains or losses on hedges	Changes in fair value of derivatives	(431,221)
<b>Total</b>		(¥478,516)

3. Method of reversal

(1) Amortization of goodwill

In principle, amortization of goodwill is not reversed.

(2) Merger expenses

Item	Method of reversal
Buildings, etc.	Upon depreciation or sale, the corresponding amount is scheduled to be reversed.
Land	Upon sale, the corresponding amount is scheduled to be reversed.
Buildings in trust, etc.	Upon depreciation or sale, the corresponding amount is scheduled to be reversed.
Land in trust, etc.	
Leasehold	Upon sale, the corresponding amount is scheduled to be reversed.
Leasehold in trust	

(3) Long-term deposits

In principle, long-term deposits are not reserved.

(4) Deferred gains or losses on hedges

The amount corresponding to changes in the fair value of derivatives used as hedging instruments is scheduled to be reversed.

For the period from March 1, 2017 to August 31, 2017

1. Reason for reversal, related assets and amounts

		Thousands of Yen
Related assets, etc.	Reason for reversal	Provision of allowance for temporary difference adjustments
Land, buildings, etc.	Sale and depreciation of properties for which merger expenses were recorded	(¥ 91,222)
Land, buildings, etc.	Sale of property on which impairment was recognized	(86,379)
Deferred gains or losses on hedges	Changes in fair value of derivatives	(20,951)
<b>Total</b>		(¥198,552)

## NOTES TO FINANCIAL STATEMENTS

## 2. Method of reversal

## (1) Amortization of goodwill

In principle, amortization of goodwill is not reversed.

## (2) Merger expenses

Item	Method of reversal
Buildings, etc.	Upon depreciation or sale, the corresponding amount is scheduled to be reversed.
Land	Upon sale, the corresponding amount is scheduled to be reversed.
Buildings in trust, etc.	Upon depreciation or sale, the corresponding amount is scheduled to be reversed.
Land in trust, etc.	
Leasehold	Upon sale, the corresponding amount is scheduled to be reversed.
Leasehold in trust	

## (3) Impairment loss

Upon the sale of the relevant properties, the corresponding amount is scheduled to be reversed.

## (4) Deferred gains or losses on hedges

The amount corresponding to changes in the fair value of derivatives used as hedging instruments is scheduled to be reversed.

## 24. SIGNIFICANT SUBSEQUENT EVENTS

**Issuance of new investment units**

At the Board of Directors' meetings held on February 1, 2018 and February 13, 2018, NMF resolved to issue new investment units, as shown below. Payments for new investment units issued via a public offering concluded on March 1, 2018, and payments for new investment units issued via a third-party allocation concluded on March 20, 2018. As a result, unitholders' capital was ¥181,251,569 thousand, and the total number of investment units issued and outstanding was 4,321,800 as of March 20, 2018.

## 1. Issuance of New Investment Units through Public Offering (Primary Offering)

Number of units offered:	132,000 units
Issue price (offer price):	¥137,474 per unit
Total issue price (total offer price):	¥18,146,568,000
Amount to be paid (issue value):	¥133,125 per unit
Total amount to be paid (total issue value):	¥17,572,500,000
Payment date:	March 1, 2018

## 2. Issuance of New Investment Units through Third-Party Allotment (Third-Party Allotment)

Number of units offered:	6,670 units
Amount to be paid (issue value):	¥133,125 per unit
Total amount to be paid (total issue value):	¥887,943,750
Payment date:	March 20, 2018
Allottee:	Nomura Securities Co., Ltd.

**Use of proceeds**

The proceeds obtained from the Primary Offering and the Third-party Allotment were used for a part of the acquisition of the nine properties acquired on March 1, 2018 and April 2, 2018.

## INDEPENDENT AUDITOR'S REPORT



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## Independent Auditor's Report

## The Board of Directors

Nomura Real Estate Master Fund, Inc.

We have audited the accompanying financial statements of Nomura Real Estate Master Fund, Inc., which comprise the balance sheet as at February 28, 2018, and the statements of income and retained earnings, changes in net assets, and cash flows from September 1, 2017 to February 28, 2018 and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nomura Real Estate Master Fund, Inc. as at February 28, 2018, and its financial performance and cash flows from September 1, 2017 to February 28, 2018 in conformity with accounting principles generally accepted in Japan.

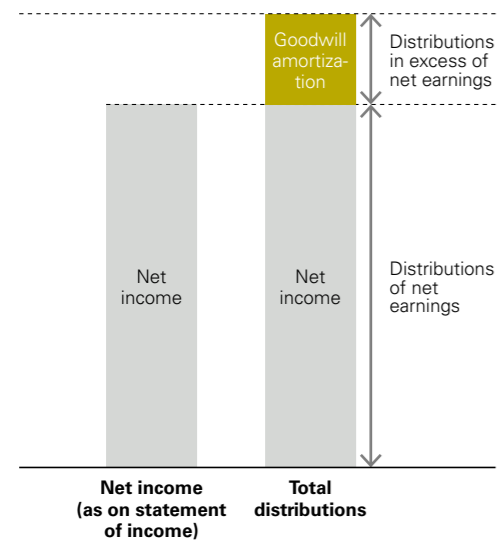
*Ernst & Young ShinNihon LLC*

May 23, 2018  
Tokyo, Japan

# RETENTION OF AMOUNT EQUIVALENT TO GAIN ON SALES

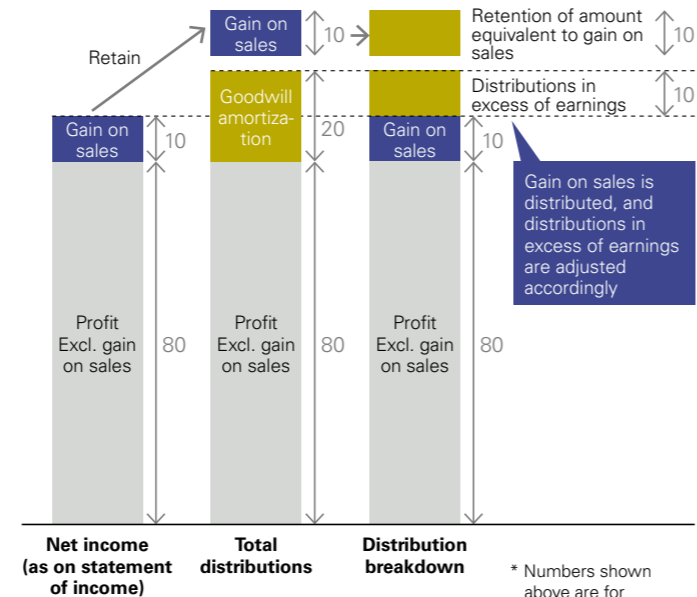
## Basic Distribution Policy

Distribute net income+ amortization of goodwill

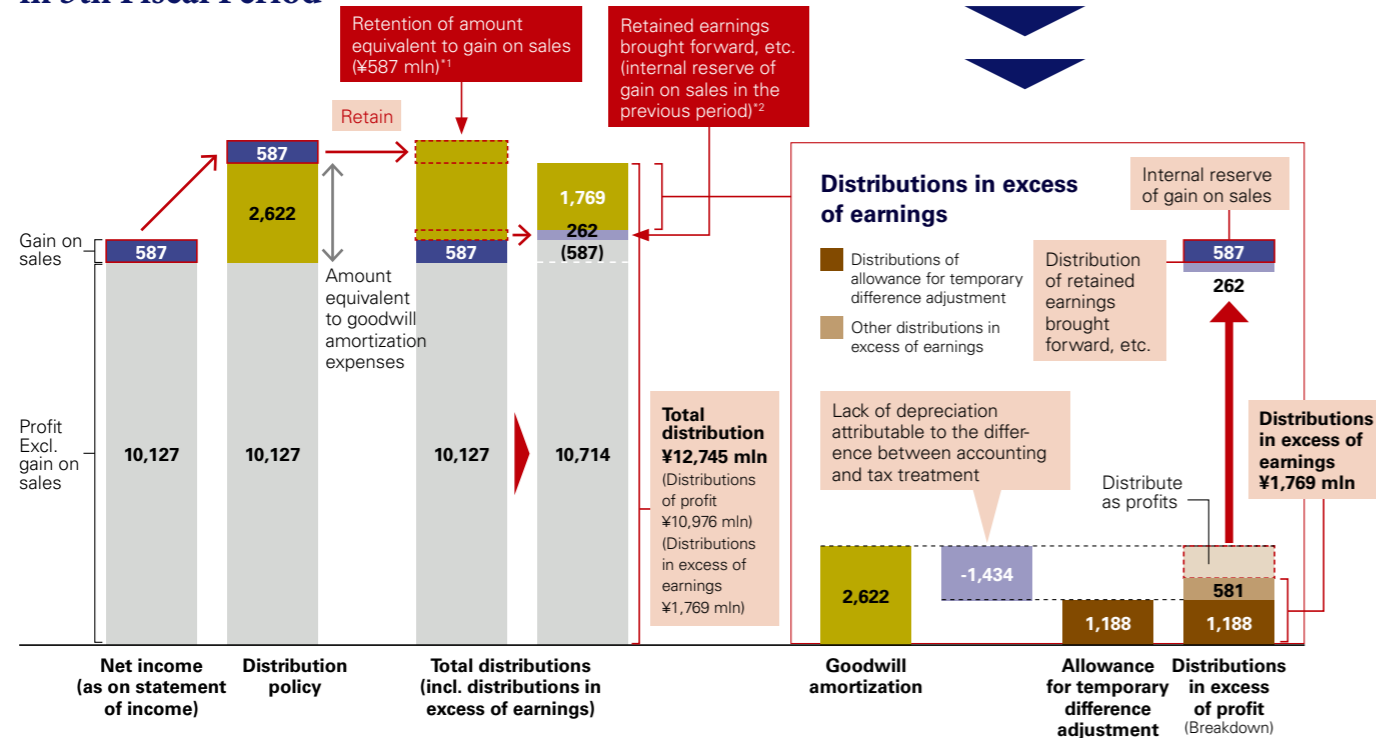


## Distribution Policy for Periods with Gain on Sales

To ensure stable distributions over the medium and long term, by adjusting distributions in excess of earnings, a cash amount equivalent to gain on sales may be designated as retained earnings.

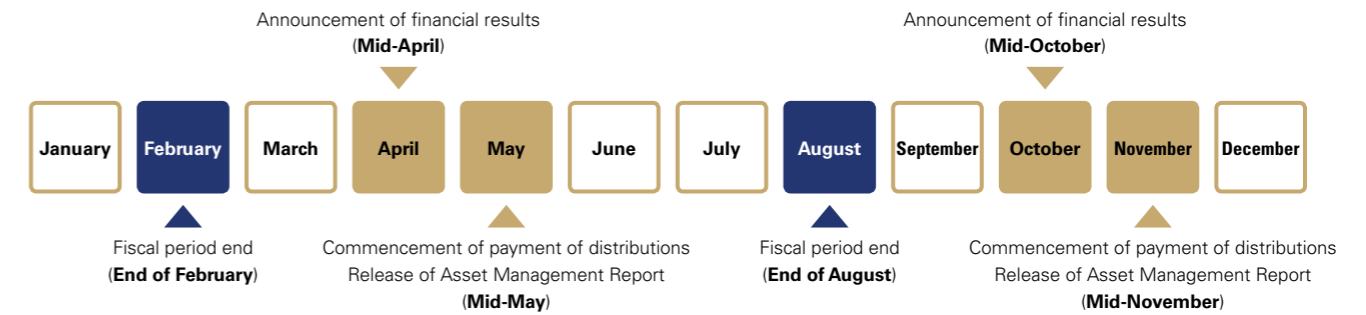


## Retention of Amount Equivalent to Gain on Sales in 5th Fiscal Period

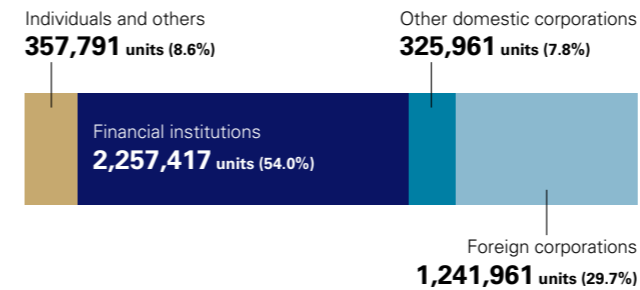


\*1 When there is a gain on sales, NMF's policy is, in principle, to set aside an amount equivalent to the gain that is not more than the amount of goodwill amortization expenses as reserves within the scope that will not be subject to income tax. For the 5th fiscal period, NMF does not expect the reserves equivalent to the period's gain on sales to be taxed because it is within the amount of distributions in excess of earnings (distribution reducing unitholders' capital for tax purposes).  
 \*2 The amount calculated by deducting the reversal of allowance for temporary difference adjustment for the 5th fiscal period (¥47 million. Excluding those attributable to deferred gains or losses on hedges) from ¥310 million as reserves of profits out of gain on sales in the previous period.

## IR Calendar



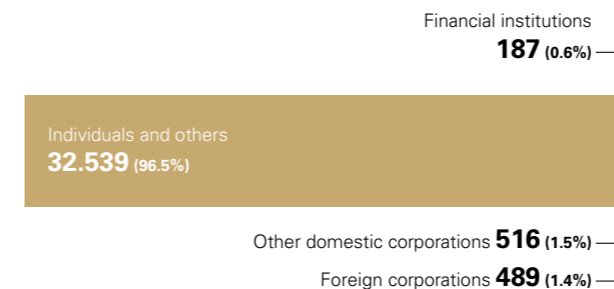
## Distribution of Investment Units



## Top 10 Unitholders

Unitholder	Units held	Share
1 Japan Trustee Services Bank, Ltd.	920,651	22.0%
2 The Master Trust Bank of Japan, Ltd.	564,057	13.5%
3 Nomura Real Estate Development Co., Ltd.	210,671	5.0%
4 The Nomura Trust and Banking Co., Ltd.	176,394	4.2%
5 Trust & Custody Services Bank, Ltd.	159,538	3.8%
6 STATE STREET BANK WEST CLIENT - TREATY 505234	124,399	3.0%
7 NOMURA BANK (LUXEMBOURG) S.A.	95,872	2.3%
8 STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	82,976	2.0%
9 STATE STREET BANK AND TRUST COMPANY 505223	54,826	1.3%
10 STATE STREET BANK AND TRUST COMPANY 505012	47,133	1.1%
<b>Total</b>	<b>2,436,517</b>	<b>58.2%</b>

## Number of Unitholders



## Web Site

<https://www.nre-mf.co.jp/en/>

NMF strives to ensure accurate, timely disclosure through its website. For convenience, the website also offers a variety of other information, including the following.

- Overview of NMF and its features; information about the Asset Management Company
- Portfolio summary; property overviews (with photos, maps, etc.); occupancy rate data
- Press releases, disclosure materials, and information on distributions and financial results

We will continue to enhance the website's contents and use it to provide timely information.

