



8th Fiscal Period  
Semi-Annual Report

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March 1, 2019 to August 31, 2019

Securities Code: 3462

Nomura Real Estate Master Fund, Inc.





Office



Logistics

# Driving the Market as One of Japan's Largest REITs



Residential



Retail

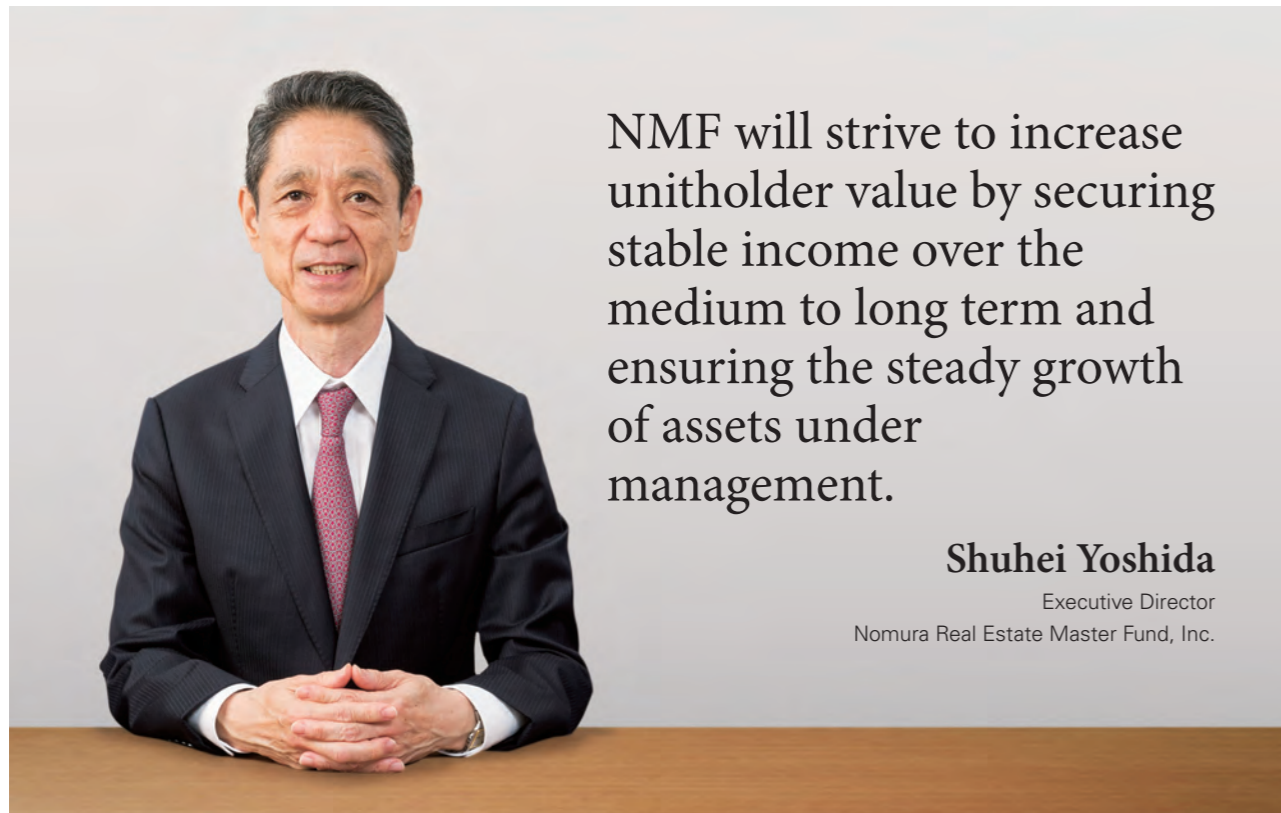


Hotel

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Message from the Management



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.

**To Our Unitholders**

In the 8th fiscal period, NMF expanded its asset size to over ¥1 trillion through external growth realized by its first domestic and international public offerings (global offerings) since its founding while advancing internal growth backed by an ongoing strong leasing market centering on the office building sector.

As a result, at the end of the 8th fiscal period, NMF's portfolio comprised 289 properties with a total acquisition price of ¥1,011.2 billion. Operating revenues totaled ¥36,617 million, operating profit reached ¥14,265 million, and net income came to ¥11,690 million. With these, the per-unit distribution for the 8th fiscal period came to ¥3,209.

Through the abovementioned global offerings, NMF improved its portfolio quality by acquiring 10 excellent properties developed by the sponsor, and also at the same time lowered the LTV ratio and further increased distribution.

Concerning the promotion of activities on environmental, social and governance (ESG) by NMF, NMF's efforts to increase information disclosure and such have been recognized, and in May 2019, NMF was included in the MSCI Japan ESG Select Leaders Index, which the Government Pension Investment Fund (GPIF) utilizes when conducting passive management.

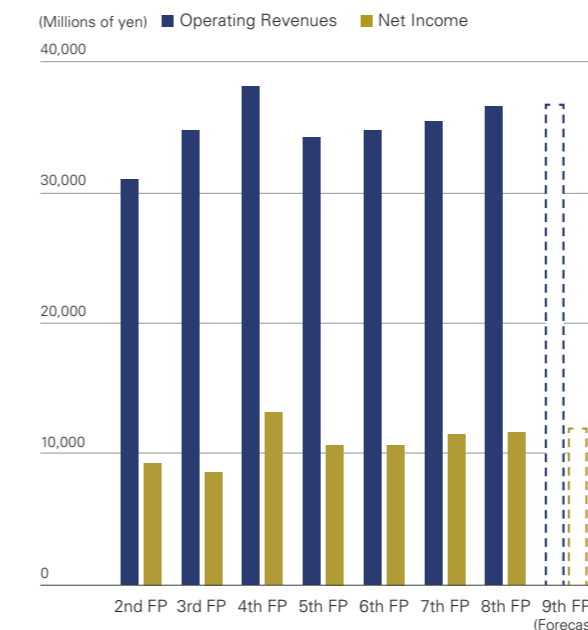
We remain strongly committed to enhancing performance and will manage the fund's assets with the aim of living up to the expectations and trust of our unitholders.

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

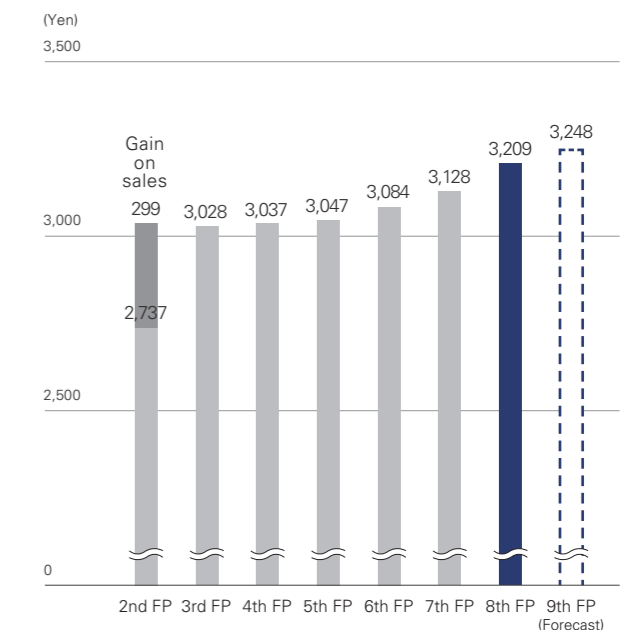
| PERFORMANCE HIGHLIGHTS  |                    |                    |                               |
|---|--------------------|--------------------|-------------------------------|
|   | 7th Fiscal Period  | 8th Fiscal Period  | 9th Fiscal Period (forecast)* |
| <b>Cash Distribution per Unit</b><br>(including distribution in excess of net income) | ¥3,128             | ¥3,209             | ¥3,248                        |
| <b>Operating Revenues</b>   | ¥35,428 million    | ¥36,617 million    | ¥36,712 million               |
| <b>Net Income</b>   | ¥11,560 million    | ¥11,690 million    | ¥11,976 million               |
| <b>Total Assets</b>   | ¥1,117,851 million | ¥1,164,767 million | ¥1,162,579 million            |
| <b>Net Assets</b>   | ¥569,843 million   | ¥600,910 million   | ¥598,295 million              |
| <b>Net Assets per Unit</b>  | ¥131,853           | ¥132,146           | ¥131,571                      |

\* The above forecast distribution is calculated based on certain assumptions as disclosed in "SUMMARY OF FINANCIAL RESULTS (REIT) For the 8th Fiscal Period Ended August 31, 2019," published October 15, 2019. 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 Revenues and Net Income**



**Cash Distribution per Unit**



Track Record of Growth since Establishment

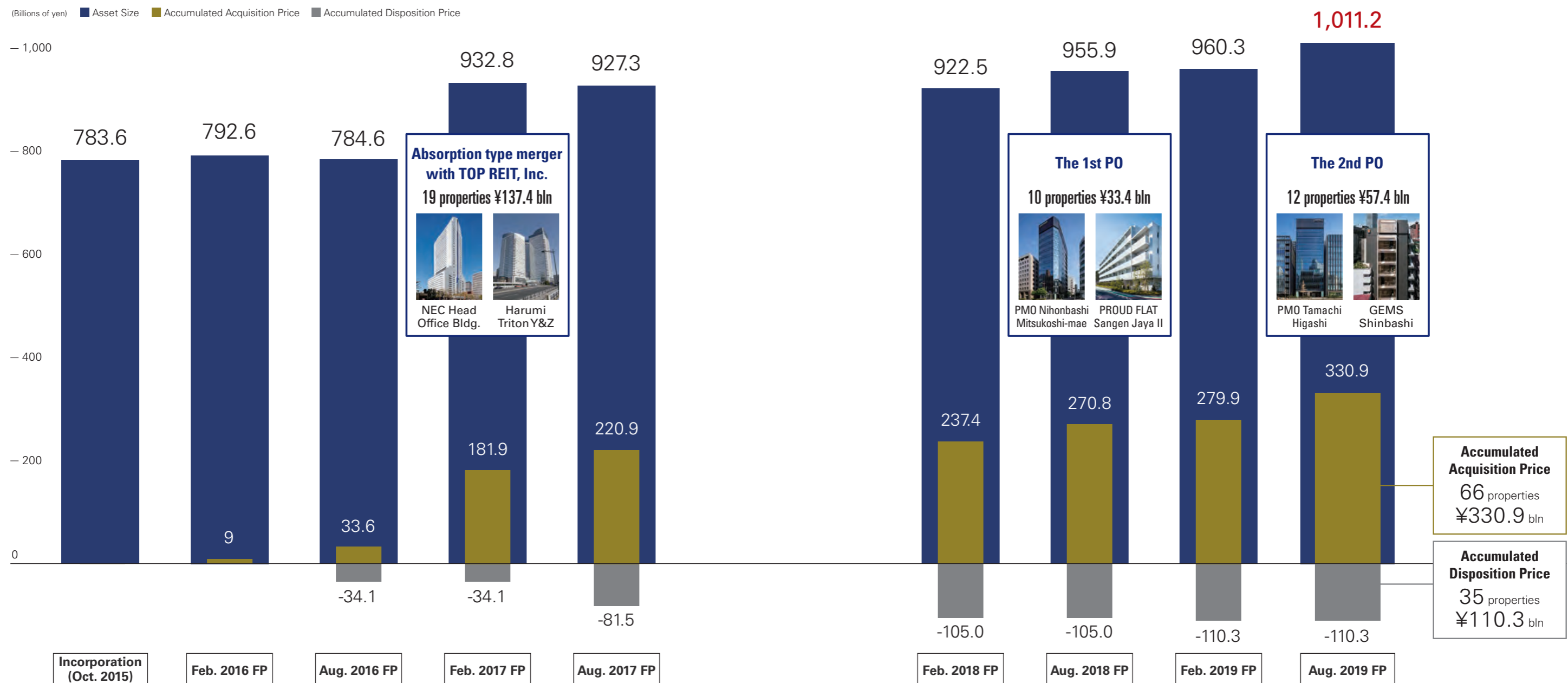
Improved portfolio quality through strategic property replacement supported by the Sponsor and achieved

steady increase in distributions.

| Incorporation               |                            |
|-----------------------------|----------------------------|
| Number of properties        | 257                        |
| Ratio of top 10 properties  | 26.8%                      |
| Ratio of Greater Tokyo area | 79.8%                      |
| Average building age        | 19.3 years                 |
| DPU                         | ¥2,656 <sup>(Note 1)</sup> |

| August 2019                        |  |
|------------------------------------|--|
| Number of properties               | 289  |
| Ratio of top 10 properties         | <b>23.1%</b>   |
| Ratio of Greater Tokyo area        | <b>82.0%</b>   |
| Average building age (without SPR) | <b>18.8 years</b><br><small>(23.1 years) <sup>(Note 2)</sup></small> |
| DPU                                | <b>¥3,209</b><br><small>(+20.8%)</small>                             |

(Billions of yen) ■ Asset Size ■ Accumulated Acquisition Price ■ Accumulated Disposition Price



(Note 1) Distributions for February 2016 (the 1st) FP are calculated on a six-month basis for 152 operating days.  
(Note 2) It is an average building age without taking into account the effect of property sales from the original portfolio at incorporation until the end of August 2019.

# Acquisitions in August 2019 (8th) Fiscal Period

Acquired 11 properties developed by the Sponsor in Greater Tokyo Area with the total acquisition price of ¥50.9 billion (average building age is 1.1 years).

### Office (Sponsor)



|   |   |  |   |
|---|---|--|---|
| PMO Tamachi Higashi<br>¥10.9 bln<br>NOI yield: 3.6% | PMO Ochanomizu<br>¥3.8 bln<br>NOI yield: 3.8% | PMO Hatchobori Shinkawa<br>¥3.8 bln<br>NOI yield: 3.9% | PMO Kyobashi Higashi<br>¥2.8 bln<br>NOI yield: 3.9% |
|---|---|--|---|

### Logistics (Sponsor)



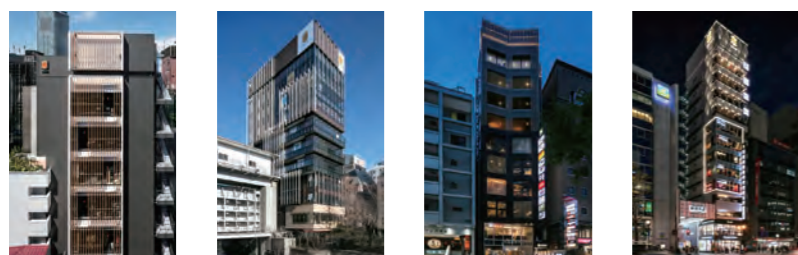
|  |
|--|
| Landport Ome I<br>¥13.6 bln<br>NOI yield: 4.6% |
|--|

### Hotel (Outside seller)



|  |
|--|
| Red Planet Naha Okinawa<br>¥2.6 bln<br>NOI yield: 5.6% |
|--|

### Retail (Sponsor)

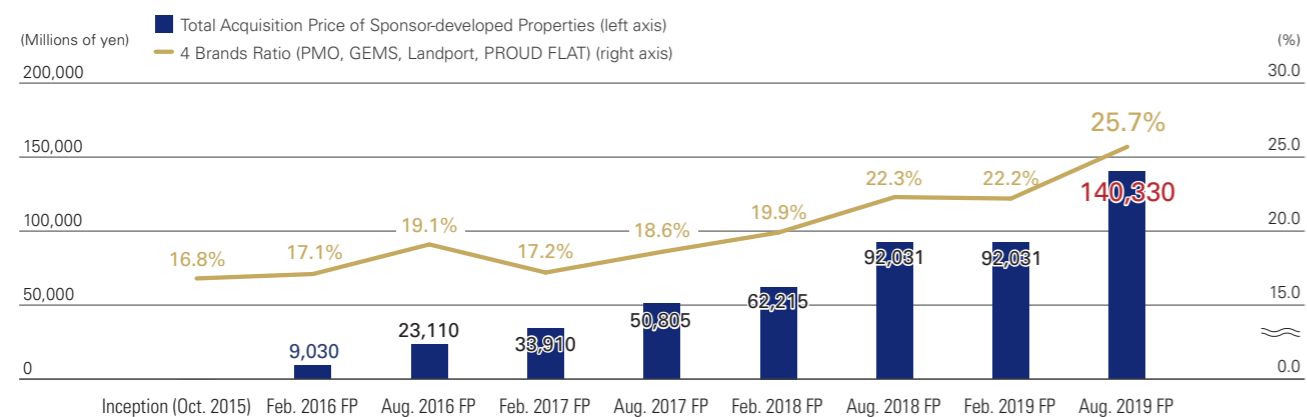


|   |   |   |   |
|---|---|---|---|
| GEMS Shinbashi<br>¥2.8 bln<br>NOI yield: 3.9% | GEMS Kayabacho<br>¥2.5 bln<br>NOI yield: 4.4% | GEMS Shin-Yokohama<br>¥1.8 bln<br>NOI yield: 5.4% | GEMS Namba<br>¥3.8 bln<br>NOI yield: 4.4% |
|---|---|---|---|

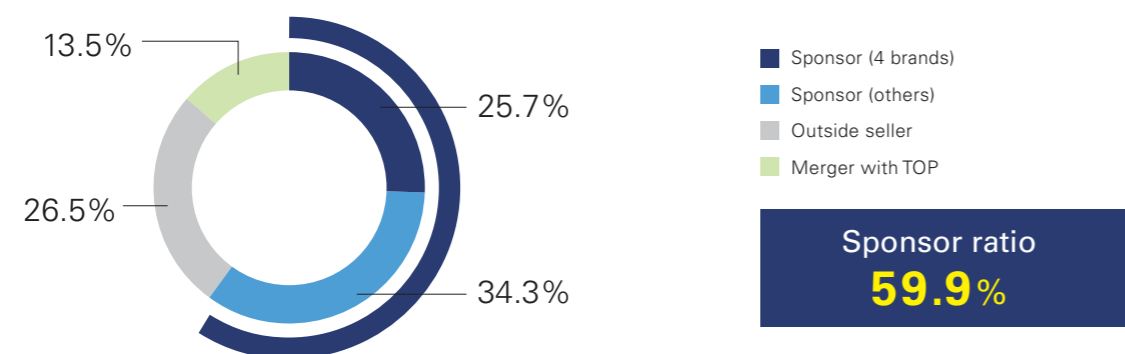


|  |
|--|
| Summit Store Honamanuma<br>¥2.1 bln<br>NOI yield: 6.0% |
|--|

### Acquisition Track Record of Sponsor-developed Properties



### Seller Breakdown for the Properties as at August 2019 Fiscal Period End (Note 4)



(Note 1) In this page, NOI yield refers to appraisal NOI yield at acquisition.  
 (Note 2) Average building age is calculated by weighted average of the building age on the acquisition date based on the acquisition price of the property.  
 (Note 3) SPR stands for Strategic Property Replacement.  
 (Note 4) Sponsor-developed properties indicate the properties acquired from Nomura Real Estate group or its real estate funds etc.

### Hotel Acquisition of Red Planet Naha Okinawa

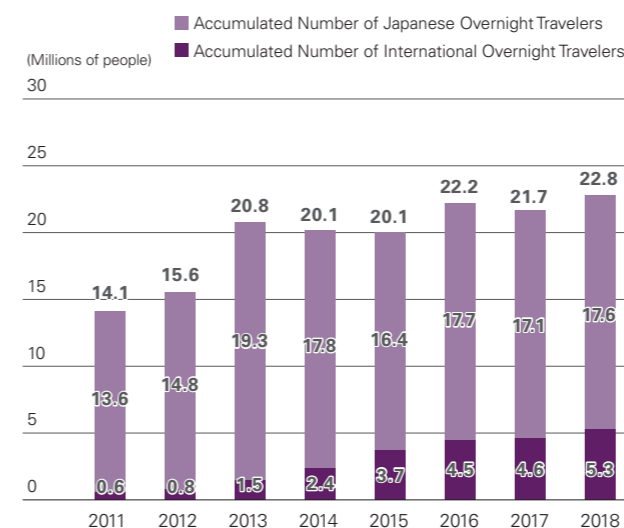
Securing stable earnings through long-term fixed contract with hotel operator and the location where a wide range of demand is expected.



Faces National Route 58 where branch offices of major companies concentrate and located in a walking distance from Kokusai-dori Street, expecting demands from both tourists and business travelers.

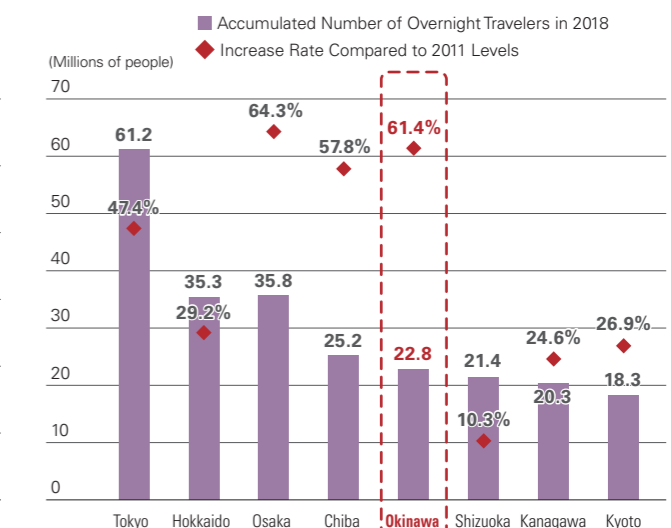
|                   |                         |                  |                                |
|-------------------|-------------------------|------------------|--------------------------------|
| Location          | Naha City, Okinawa      | Acquisition date | June 26, 2019                  |
| Acquisition price | ¥2,650 mln              | Contract type    | Long-term fixed contract       |
| Appraisal value   | ¥2,700 mln              | Hotel operator   | K.K RED PLANET HOTELS JAPAN    |
| Gross floor area  | 3,350.86 m <sup>2</sup> | Room types       | 56 double rooms, 61 twin rooms |
| Completion date   | June 6, 2008            |                  |                                |

### Change in the Accumulated Number of Overnight Travelers in Okinawa Prefecture



Source: Overnight Travel Statistics Survey (Japan Tourism Agency)

### Comparison of the Accumulated Number of Overnight Travelers in 2018 and Increase Rate of Overnight Travelers Compared to 2011 Levels by Prefecture



Source: Overnight Travel Statistics Survey (Japan Tourism Agency)

### About Red Planet Group

Red Planet Group is based in Bangkok, Thailand and operates 30 hotels in Asia including 4 hotels in Japan (Asakusa, Nagoya, Sapporo, etc.). Red Planet Japan, Inc., the parent company of the lessee of the property and the hotel operator, is a JASDAQ-listed company focusing on providing customer-oriented services such as multi-lingual support and mobile apps for a wide range of customers centering on young generations.

External Growth -Strong Sponsor Pipelines-

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

4 Property Brands Developed by the Sponsor




**16 properties**  
in the pipeline



**9 properties**  
in the pipeline

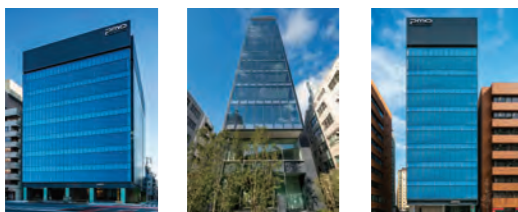


**11 properties**  
in the pipeline



**27 properties**  
in the pipeline  
(2,394 units)

Nomura Real Estate's Core Office Brand

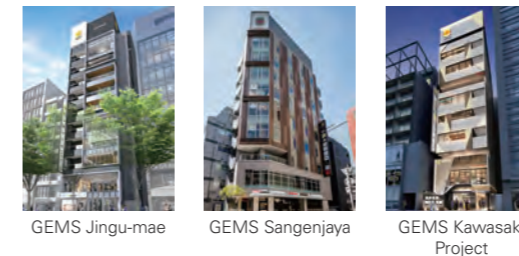


PMO is a new category of office building that is mid-sized yet offers the functionality and quality of a large sized building to meet the needs of increasingly diverse businesses.

- 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 (planned) | Status             |
|---|-----------------------|----------------------|--------------------|
| PMO Nihonbashi Edo-dorj <sup>(Note 2)</sup> | Chuo Ward, Tokyo      | Jun. 2016            | Operating          |
| PMO Uchi-Kanda                              | Chiyoda Ward, Tokyo   | May 2017             | Operating          |
| PMO Shibuya                                 | Shibuya Ward, Tokyo   | Jun. 2017            | Operating          |
| PMO Higashi Shinbashi                       | Minato Ward, Tokyo    | Apr. 2018            | Operating          |
| PMO Hamamatsucho                            | Minato Ward, Tokyo    | Nov. 2018            | Operating          |
| PMO Akihabara Kita                          | Taito Ward, Tokyo     | Dec. 2018            | Operating          |
| PMO Nishi-Shinjuku                          | Shinjuku Ward, Tokyo  | Jun. 2019            | Operating          |
| PMO Gotanda                                 | Shinagawa Ward, Tokyo | (Jul. 2019)          | Under construction |
| PMO Kanda-Manseibashi Project               | Chiyoda Ward, Tokyo   | (Jan. 2020)          | Under development  |
| PMO Hamamatsucho Daimonmae                  | Minato Ward, Tokyo    | (Jul. 2020)          | Under construction |
| PMO Shibuya 3-chome                         | Shibuya Ward, Tokyo   | (Aug. 2020)          | Under construction |
| PMO Kanda-Iwamotocho 2-chome                | Chiyoda Ward, Tokyo   | (Jan. 2021)          | Under construction |
| PMO Kojimachi                               | Chiyoda Ward, Tokyo   | (Mar. 2021)          | Planning           |
| Minato Ward Project 1                       | Minato Ward, Tokyo    | (Sep. 2022)          | Planning           |
| Chuo Ward Project                           | Chuo Ward, Tokyo      | (Mar. 2023)          | Planning           |
| Minato Ward Project 2                       | Minato Ward, Tokyo    | (Sep. 2025)          | Planning           |

Nomura Real Estate's Core Retail Facility Brand



GEMS comprise a variety of restaurants, primarily in urban areas, with a commitment to quality. Brightening and enriching the lives of nearby office workers and residents while proposing new lifestyles.

| Name                  | Location                | Completion (planned) | Status             |
|-----------------------|-------------------------|----------------------|--------------------|
| GEMS Jingu-mae        | Shibuya Ward, Tokyo     | Apr. 2018            | Operating          |
| GEMS Sangenjaya       | Setagaya Ward, Tokyo    | May 2018             | Operating          |
| GEMS Yokohama         | Yokohama City, Kanagawa | (Sep. 2019)          | Under construction |
| GEMS Sakae            | Nagoya City, Aichi      | (Oct. 2019)          | Under construction |
| GEMS Kawasaki Project | Kawasaki City, Kanagawa | (Oct. 2020)          | Under construction |
| Meguro Ward Project   | Meguro Ward, Tokyo      | (Jan. 2021)          | Planning           |
| Minato Ward Project   | Minato Ward, Tokyo      | (Apr. 2021)          | Planning           |
| Chiyoda Ward Project  | Chiyoda Ward, Tokyo     | (Feb. 2022)          | Planning           |
| Shinjuku Ward Project | Shinjuku Ward, Tokyo    | TBD                  | Planning           |

Nomura Real Estate's Core Logistics Facility Brand



Landport offers 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 (planned) | Status             |
|---|-------------------------|----------------------|--------------------|
| Landport Kawaguchi                            | Kawaguchi City, Saitama | Jun. 2019            | Operating          |
| Landport Higashi-Narashino                    | Narashino City, Chiba   | (Jul. 2019)          | Under construction |
| Landport Narashino                            | Narashino City, Chiba   | (Jan. 2020)          | Under construction |
| Landport Ome II                               | Ome City, Tokyo         | (Feb. 2020)          | Under construction |
| Landport Atsugi-Aikawacho <sup>(Note 2)</sup> | Atsugi City, Kanagawa   | (Mar. 2020)          | Under construction |
| Landport Shinonome                            | Koto Ward, Tokyo        | (May 2020)           | Under construction |
| Landport Ome III                              | Ome City, Tokyo         | (Nov. 2020)          | Under construction |
| Landport Koshigaya                            | Koshigaya City, Saitama | (Mar. 2021)          | Planning           |
| Landport Ageo                                 | Ageo City, Saitama      | (Jan. 2022)          | Planning           |
| Landport Kasukabe II                          | Kasukabe City, Saitama  | (Jul. 2024)          | Planning           |
| Landport Tama                                 | Hachioji City, Tokyo    | TBD                  | Planning           |

Developments taking advantage of property replacement with Sponsor

(Note 1) Based on NREHD presentation materials for the Consolidated Financial Results for the First Quarter, FY2020. Properties sold as of October 1, 2019 have been excluded.  
 (Note 2) Joint venture project.  
 (Note 3) As of the date of this presentation materials, NMF does not intend to acquire properties listed above.

Internal Growth -Management Status-

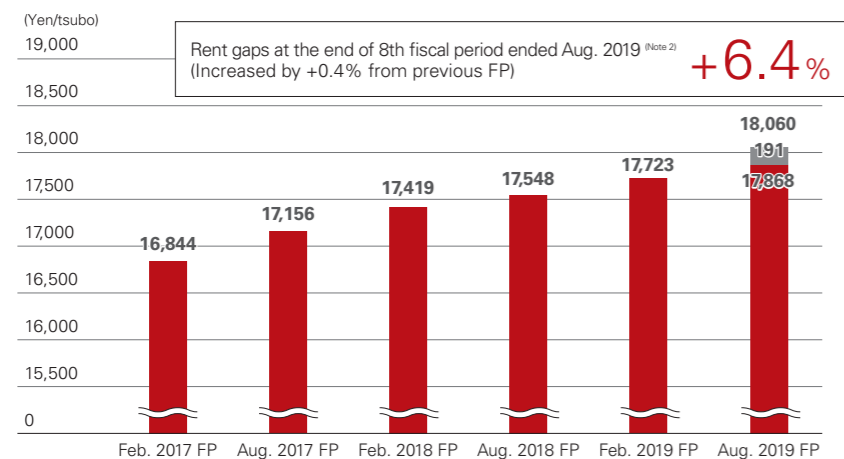
Office

Achieved an increase in average unit rent through tenant replacements and rent revisions (Increased to ¥17,868/tsubo (+0.8%) from ¥17,723/tsubo at the end of last period.)

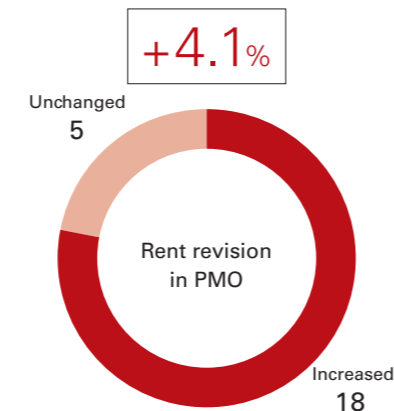
Asset Management Topics in August 2019 FP

Pursuing income growth with upside potential through active tenant replacements backed by strong leasing demand

Average Rent (Note 1)

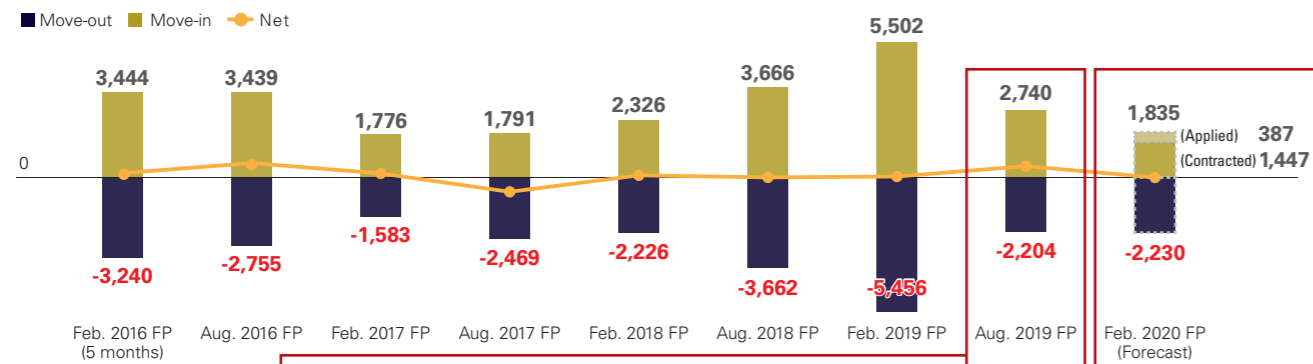


Rate of Rent Increase upon Rent Revision at PMOs



(Note 1) The calculation method for the leased area of the properties in which the entire building is leased to one tenant has been changed from the presentation material of the fiscal period ended August 2019.  
 (Note 2) It is calculated for the properties held by NMF excluding the properties for which the entire building is leased to one tenant.

Change in Floor Area from Move-ins and Move-outs (tsubo)



8th FP: Tenant Replacement Effect

**2,740 tsubo in total** The rate of rent increase **+11.4%**

Example: Upper figures show the floor area subject to replacement, and lower figures show rate of rent increase upon tenant replacement.

| Property                                   | Floor Area (tsubo) | Rate of Rent Increase |
|--|--------------------|-----------------------|
| Harumi Island Triton Square Office Tower Z | 736                | +3.2%                 |
| NMF Aoyama 1-chome Building                | 244                | +22.9%                |
| NMF Shiba Building                         | 184                | +13.3%                |

9th FP: Progress on Tenant Replacement (as of Sep. 30, 2019)

Floor area subject to move-out (scheduled): **2,230 tsubo in total**

Of the above, floor area subject to move-in (scheduled): **+16.2%**

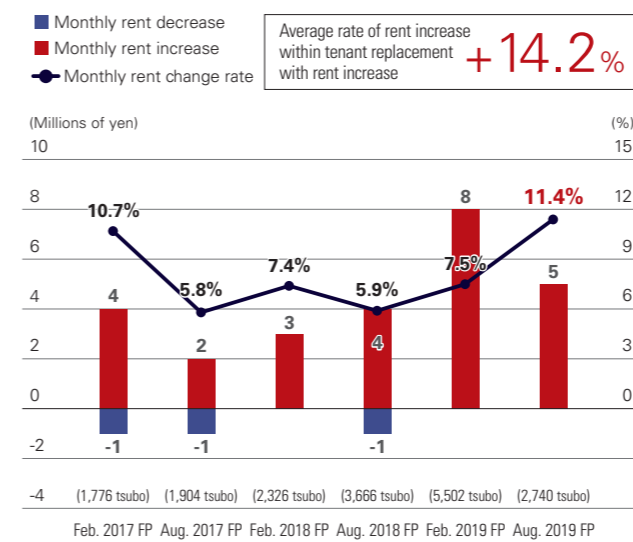
Contracted: 1,447 tsubo  
 Applied: 387 tsubo (Note)  
 Total: **1,835 tsubo**

Example: Upper figures show the floor area subject to replacement and lower figures show rent increased ratio by tenant replacement.

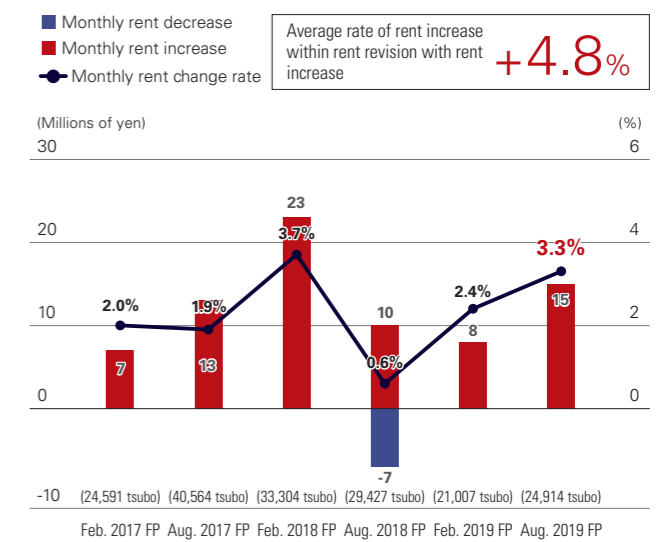
| Property                        | Floor Area (tsubo) | Rate of Rent Increase |
|---------------------------------|--------------------|-----------------------|
| NRE Higashi-nihonbashi Building | 506                | +20.0%                |
| PMO Nihonbashi Odenmachi        | 70                 | +29.5%                |
| PMO Akihabara                   | 131                | +27.0%                |

(Note) The figure shows floor area for which NMF received an application for occupancy.

Amount and Rate of Change in Monthly Rent upon Tenant Replacement (Note)



Amount and Rate of Change in Monthly Rent upon Rent Revision (Note)



(Note) Figures in parentheses are the floor area upon tenant replacement and the floor area (tsubo) subject to rent revision. The change in monthly rent is calculated as the weighted average of all subjected area.

Residential

Achieved continuous rent increase with a focus on the Greater Tokyo area through move-ins and move-outs.

Asset Management Topics in August 2019 FP

Change in monthly rent due to move-ins and move-outs or contract renewal

1 Change in monthly rent due to move-ins and move-outs  
 725 out of 1,187 units (61.1%) replaced with increased rent  
 Change in monthly rent **+2.7% (+¥3,333 thousand/month)**

2 Change in monthly rent due to contract renewals  
 72 out of 2,209 units (3.3%) renewed contract with increased rent  
 Change in monthly rent **+0.1% (+¥217 thousand/month)**

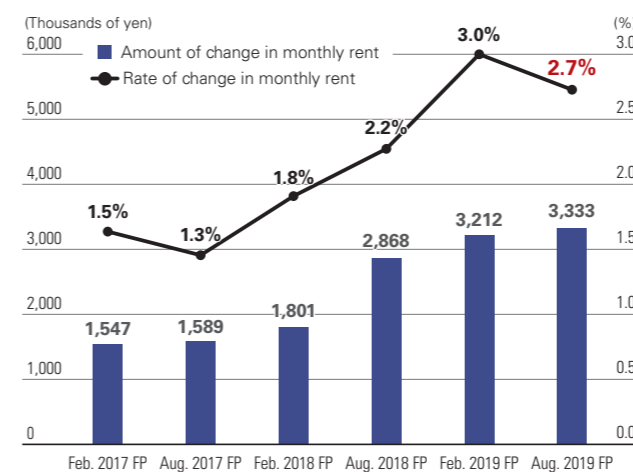
Achieved rent increase mainly in central Tokyo area through move-ins and move-outs.

Achieved firm rent increase in multi-family properties and properties in central Tokyo through move-ins and move-outs.

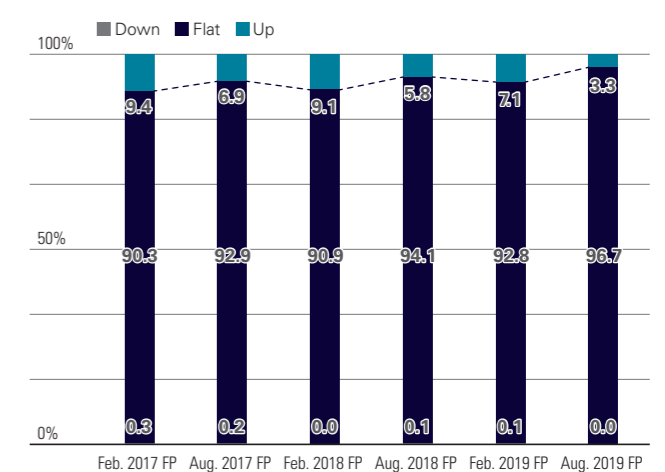
Kojimachi Millennium Garden (Residential building)

| Name of property                          | Number of units moved-in /out | Average rate of change in monthly rent | Change in monthly rent (¥ thousand/month) |
|---|-------------------------------|--|---|
| Kojimachi Millennium Garden (Residential) | 7                             | 21.2%                                  | 442                                       |
| PRIME URBAN Nihonbashi Yokoyamacho        | 11                            | 7.0%                                   | 123                                       |
| PRIME URBAN Toyosu                        | 27                            | 6.8%                                   | 229                                       |
| Fukasawa House Towers H&I                 | 13                            | 6.4%                                   | 279                                       |

Amount of Change in Monthly Rent at Move-ins and Move-outs



Rate of Change in Monthly Rent at Renewals



(Note) From the presentation material of the fiscal period ended August 2019 "Amount of change in monthly rent at move-ins and move-outs" and "Rate of change in monthly rent at renewals" are calculated including figures in the results after replacements and renewals at Kojimachi Millennium Garden (residential building), including the past fiscal period results.

Internal Growth -Management Status-

Retail

Achieved rent increase upon rent revision and tenant replacements, while maintaining stable cash flow by high occupancy rate and fixed rent.

Asset Management Topics in August 2019 FP

Rent change through tenant replacements (excluding tenant with sales-linked rent)

Floor area subject to replacement:

**1,055 tsubo**

Rent change rate

**+16.7%**

(+¥2,498 thousand/month)

Example

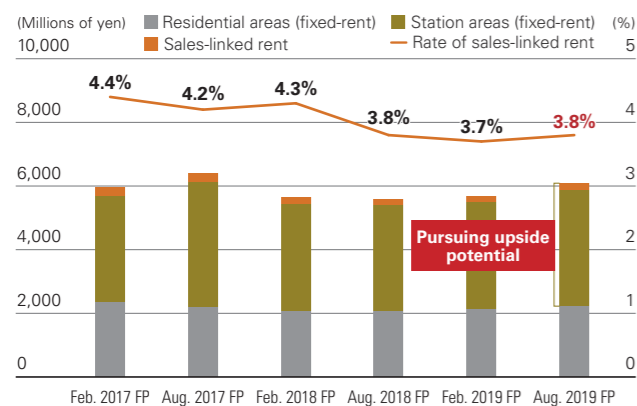


EQUINIA Shinjuku  
118 tsubo (+36.9%)

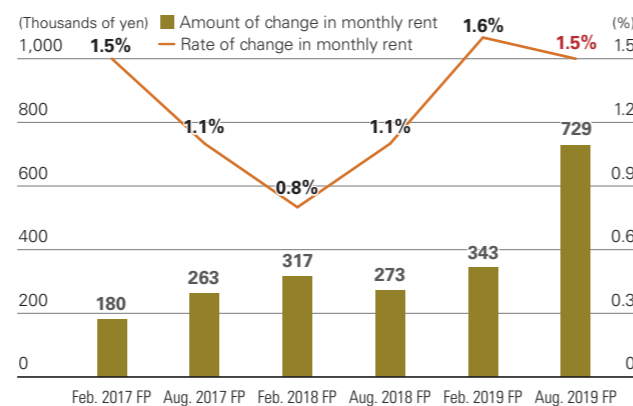


nORBASA  
772 tsubo (+16.4%)

Rent Revenue Breakdown (Overall retail)



Amount and Rate of Change in Monthly Rent upon Rent Revision (Retail properties in station area)



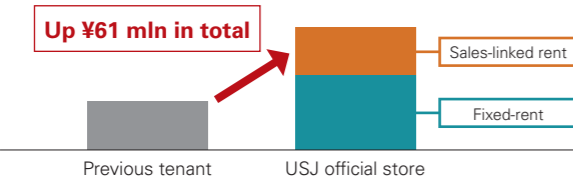
Implementation of strategic measures pursuing future upside potential.

Tenancy and Expansion of USJ Official Store at Universal CityWalk Osaka

Existing leased area (143 tsubo)

USJ official store has achieved favorable sales since its opening on July 20, 2018. The total rent (fixed-rent + sales-linked rent) was ¥61 million higher than the previous tenant during the same period.

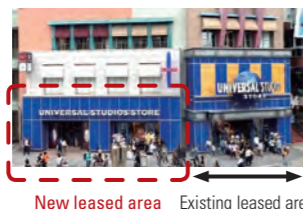
Annual Rent Comparison with the Previous Tenant (Note)



\*The graph present a comparison of sales from July 20, 2018 to July 19, 2019 with those in the same period in the previous year

Adjacent new leased area (61 tsubo) opened in July 2019.

Opened new leased area (61 tsubo) on July 1, 2019. Further rent revenues can be expected by attracting customers to the entire facility as a large scale store of 204 tsubo.



(Note) The sales-linked rent of the tenant is to be received in a lump sum once per year in March of each year, and the sales-linked rent shown in the table is that for sales from July 20, 2018 to March 31, 2019.

Renewal Plan of Nakaza Cui-daore Building

Considering a value-added plan to maximize advantages of its location in the center of Dotonbori, Osaka

External view (present)



Improvement measures (draft)

- Restructuring of store composition so that domestic and overseas visitors both can enjoy food and entertainment.
- Renovation of exterior wall to make the building's external view eye-catching.
- Increase the attractiveness from the road by widening the entrance on the first floor.
- Increase the attractiveness on the first basement floor by reviewing line of flow and commercial and environment design.

Schedule (assumption)

The first phase (in 2020 winter): Preliminary opening at 4 out of 7 floors. The second phase (in 2021 winter): Grand opening at all floors.

Logistics

Made leasing progress at Landport Iwatsuki, in addition to rent increase at contract renewal and conclusion of green lease agreement with tenants at Landport properties.

Asset Management Topics in August 2019 FP

Contract renewal at Hanyu Logistics Center

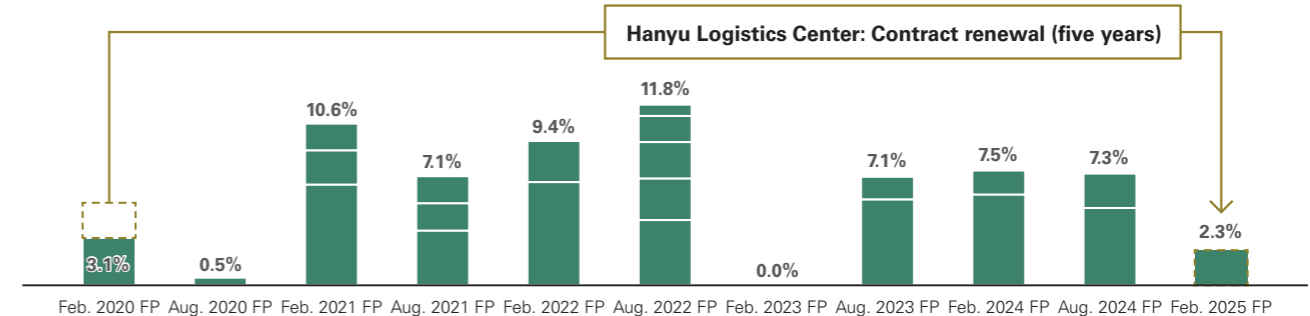
Due to the expiration of the fixed-lease term, a five-year extension of the contract was concluded with improved economic conditions (Rent increase rate +8.7%)



Conclusion of green lease agreement accompanied by LED installment work Sagamihara Tana Logistics Center (15,261 tsubo)

- Achieved rent increase by 0.8% until 2028.
- All repair costs can be recovered during the contract period.
- Expected annual power reduction of approximately 60% at sites where LED devices are installed and replaced. (Note)

Lease Maturity (Rent basis)

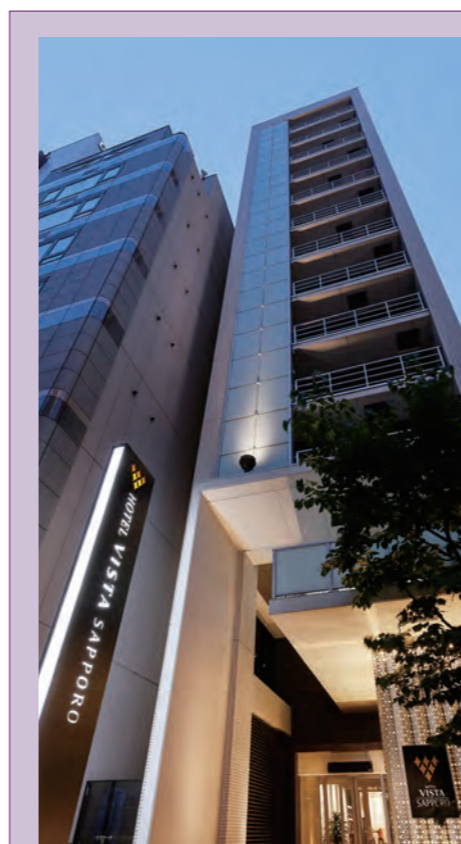


Landport Iwatsuki In the zone of 7,287tsubo, the departure of the tenant is scheduled on December 1, 2019. → NMF has received an application for tenancy regarding approximately 50% (3,535tsubo) of the concerning zone, and for the rest of the zone, NMF also has been in discussion with other tenant for tenancy.

(Note) The annual reduction in power consumption at Sagamihara Tana Logistics Center is the anticipated reduction in the area where LED devices are installed and replaced.

Hotels

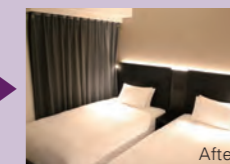
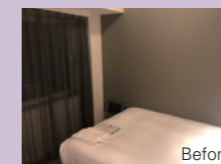
Improved profitability through multilayered value-up measures at Hotel Vista Sapporo Odori.



RevPAR has been increasing trend since acquisition through promotion of rebranding and renewal.

- Rebranding in June 2018
  - Opening under the name of "Hotel Vista Sapporo Odori" upon change of the operator.
- Renovation works from October 2018 to April 2019
  - Conversion to Double-room from Single-room (12 rooms), to Twin-room from Double-room (12 rooms)
  - Decoration works in common area (front desk area, corridor etc.)
  - Installation works of laundry room and smoking area
  - Promotion through online booking

Conversion to Twin-room from Single-room



**Purpose**  
By increasing the number of twin and double rooms, we aim to increase sales per room by making it easier to meet the demand for group guests such as inbound guests.

Operational performance before and after renewal

|      |                | Rebranded open |       |       |        |        |        |
|------|----------------|----------------|-------|-------|--------|--------|--------|
|      |                | March          | April | May   | June   | July   | August |
| 2018 | RevPAR         | 3,818          | 3,260 | 4,682 | 7,904  | 9,591  | 10,374 |
|      | Occupancy Rate | 55.3%          | 46.3% | 54.9% | 80.1%  | 84.6%  | 86.0%  |
|      | ADR            | 6,908          | 7,049 | 8,521 | 9,870  | 11,336 | 12,063 |
| 2019 | RevPAR         | 4,479          | 4,750 | 7,245 | 8,835  | 10,197 | 9,932  |
|      | Occupancy Rate | 66.0%          | 64.1% | 79.4% | 84.2%  | 85.7%  | 82.9%  |
|      | ADR            | 6,783          | 7,414 | 9,125 | 10,496 | 11,898 | 11,986 |

\* August 2019 was affected by a decrease in the number of foreign visitors to Japan



ESG Measures

Included in the MSCI Japan ESG Select Leader's Index and obtained a "5-star" rating for three consecutive years in GRESB real estate assessment.

Inclusion in MSCI Japan ESG Select Leader's Index

NMF has been included in the MSCI Japan ESG Select Leader's Index at regular reconfigurations in May 2019.



About MSCI Japan ESG Select Leader's Index  
The MSCI Japan ESG Select Leaders Index is an index to represent companies with high ESG performance selected based on the data from the MSCI Japan IMI Top 700 Index. The index has been selected by the Government Pension Investment Fund ("GPIF") as one of their ESG indices for their passive investment strategy.

MSCI ESG Ratings, upgrading two ranks from "BB" previous year.

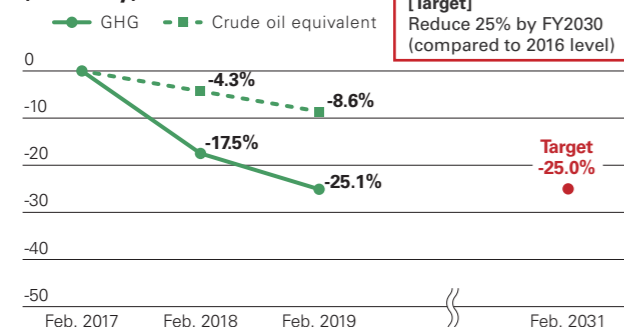
- Disclosure of green certification acquisition targets and increase in the ratio of green certification acquisition
- Disclosure of employee training results and satisfaction surveys

Points highly evaluated

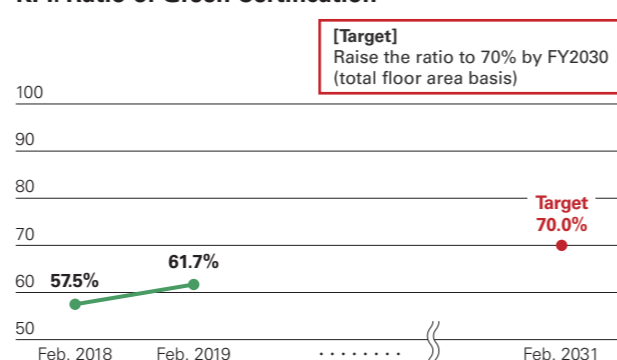
(Note) The inclusion of NMF in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of NMF by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

ESG Measures (E: Environment)

KPI: Greenhouse gas (GHG) Emissions per Floor Area (intensity)



KPI: Ratio of Green Certification (Note)

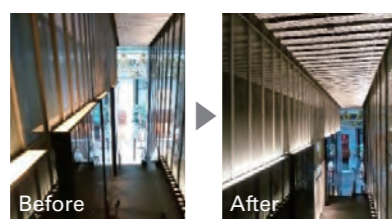


(Note) Our properties with Green Certifications refer to those certified with any of DBJ Green Building Certification, BELS and CASBEE, etc.

Specific Measures to Reduce Environmental Impact

Invested Capital in Owned Properties to Reduce our Environmental Impact (examples below are from the 8th FP)

- Saving Energy with LED Lighting
  - Shinjuku Nomura Building
  - NMF Shin-Yokohama Building
  - NMF Aoyama 1-chome Building
  - Ichibancho stear
  - Sagamiyara Tana LC
  - Landport Kawagoe
  - Common area of 23 residential properties, others



Total power reduction amount by the works during the 8th FP  
**-2,152 Mwh/year (approx. -59.9%)**

- Saving Water by Upgrading Toilets
  - NMF Shinjuku EAST Building



- Saving Energy by Upgrading Air Conditioners
  - NEC Head Office Building
  - Sapporo North Plaza
  - NMF Osaka Building

Total power reduction amount by the works during the 8th FP  
**-61 Mwh/year (approx. -17.7%)**

Planned energy-saving work based on the results of the checks

Conducted energy-saving checks

Plans future energy-saving works based on the results of the checks



Percentage of checked areas (as of August 31, 2019)  
**63.2%**  
(Total floor area basis)

GRESB (2019)

"5-Star" in the Real Estate Assessment for three consecutive years

"A" in the Public Disclosure Level for three consecutive years

About GRESB  
GRESB is an annual benchmarking program aimed at evaluating environmental, social and governance (ESG) initiatives undertaken by real estate businesses, GRESB was established in 2009 by major Europe's largest pension fund administrators, which have also taken the lead in establishing the UN Principles for Responsible Investment, acting as its advocates. A total of 1,005 entities globally, comprising real estate companies, REITs and funds, participated in the 2019 Assessment.

3rd / 40 entities in Global, Diversified - Listed Sector

1st / 13 entities in Domestic, Diversified Sector

ESG Measures (S: Society)

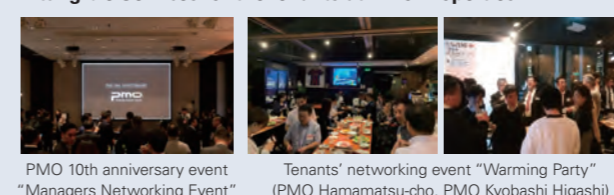
Initiatives for Resilience Against Natural Disasters

Utilization of the 250 meters mesh seismic intensity warning mail system (since July 2019)  
Based on the seismic intensity information provided by National Research Institute for Earth Science and Disaster Resilience, the NMF is able to receive emails with the estimated seismic intensity of each area where the properties are located and estimated damages to the buildings from the system, utilizing a 250 meters mesh. The initial response can be accelerated by grasping the status of individual properties at an early stage.

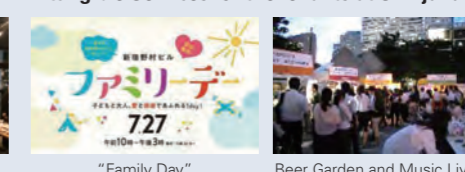


- Disaster prevention at properties owned
  - PMO Nihonbashi Muromachi: Functioned as disaster prevention base with emergency necessities (blankets, food, etc.) for 2,000 tenants employees.
  - Shinjuku Nomura Building: Functioned as a temporary evacuation shelter to accommodate stranded people in the event of disaster upon the agreement with Shinjuku City Office.

Intangible Services for the Tenants at PMO Properties



Intangible Services for the Tenants at Shinjuku Nomura Building



ESG Measures (G: Governance)

Diversity of Directors of the Investment Corporation

Appointment of one female supervisory director and reappointment of two supervisory directors was resolved at the Second General Meeting of Unitholders held on May 23, 2019. The term of office began on June 1, 2019. Diversity in directors of the investment corporation and further governance is expected to be secured.

| Appointed directors   |                                |                       |
|-----------------------|--------------------------------|-----------------------|
| Executive director    | Shuhei Yoshida (Reappointment) | Lawyer                |
| Supervisory directors | Mineo Uchiyama (Reappointment) | Accountant            |
|                       | Koichi Owada (Reappointment)   | Real estate appraiser |
|                       | Mika Okada (New appointment)   | Lawyer                |

\*Directors are all external experts.

Compliance Training Sessions at the Asset Management Company

| Month  | Training Session Theme   | Attendance Rate |
|--------|--|-----------------|
| Mar-18 | Summary of compliance training program for the fiscal year of 2017   | 98.1%           |
| Apr-18 | Schedule of compliance training program for the fiscal year of 2018  | 100.0%          |
| May-18 | Responding to antisocial forces  | 100.0%          |
| Jun-18 | Insider transaction regulations  | 100.0%          |
| Jul-18 | Insider transaction regulations (Web training)   | 100.0%          |
| Aug-18 | Statutory books and legal documents  | 100.0%          |
| Sep-18 | Statutory books and legal documents (Web training)   | 100.0%          |
| Oct-18 | Information management   | 100.0%          |
| Nov-18 | Information management (Web training)  | 100.0%          |
| Dec-18 | Regulations on related party transactions  | 100.0%          |
| Jan-19 | Regulations on related party transactions (Web training)   | 100.0%          |
| Feb-19 | Case study from issues pointed out in inspection to financial instruments business operators by the authority and its member association | 100.0%          |

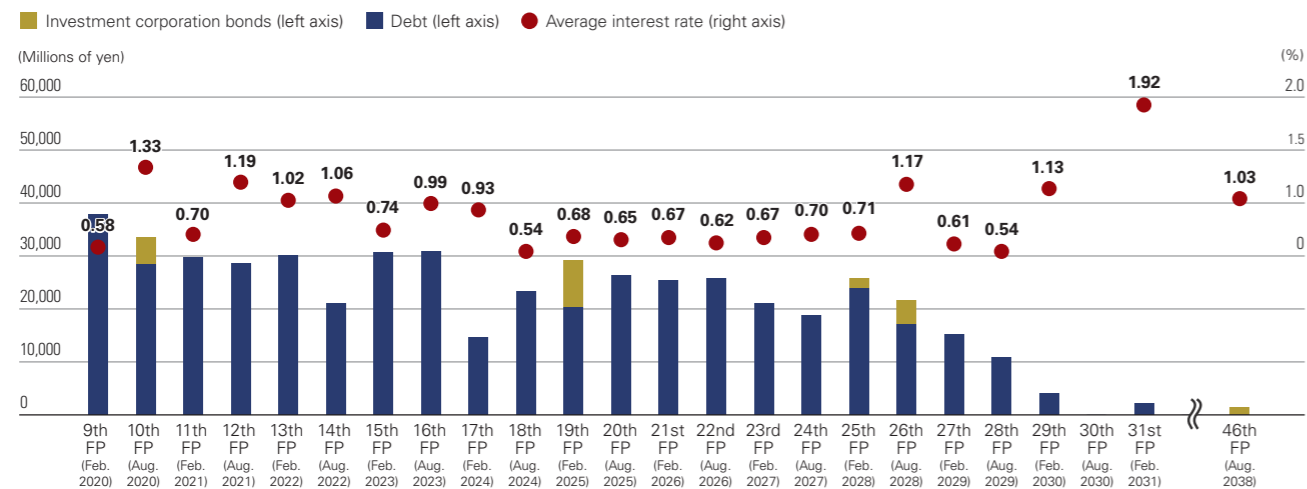
# Financing Status

Pursuing low interest rates and prolonged borrowing periods through refinancing.

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

|                             | Feb. 2016<br>(1st FP) | Aug. 2016<br>(2nd FP) | Feb. 2017<br>(3rd FP) | Aug. 2017<br>(4th FP) | Feb. 2018<br>(5th FP) | Aug. 2018<br>(6th FP) | Feb. 2019<br>(7th FP) | Aug. 2019<br>(8th FP) |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Interest-bearing debt | ¥403,164 million      | ¥409,771 million      | ¥498,784 million      | ¥488,741 million      | ¥486,198 million      | ¥497,155 million      | ¥497,112 million      | ¥510,770 million      |
| Average remaining duration  | 3.96 years            | 4.36 years            | 4.31 years            | 4.54 years            | 4.52 years            | 4.61 years            | 4.52 years            | 4.64 years            |
| Average interest rate       | 1.09%                 | 1.03%                 | 0.95%                 | 0.92%                 | 0.91%                 | 0.88%                 | 0.87%                 | 0.83%                 |
| Ratio of long-term debt     | 84.1%                 | 85.9%                 | 83.2%                 | 88.0%                 | 88.0%                 | 87.2%                 | 86.9%                 | 86.0%                 |
| Ratio of fixed-rate debt    | 91.4%                 | 95.8%                 | 92.2%                 | 94.9%                 | 95.4%                 | 95.4%                 | 95.4%                 | 94.1%                 |
| LTV                         | 43.4%                 | 43.8%                 | 45.1%                 | 44.6%                 | 44.6%                 | 44.4%                 | 44.5%                 | 43.9%                 |

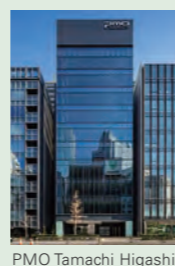
## Diversification of Repayment Dates



## Issuance of Investment Corporation Bonds (Green Bonds) on September 20, 2019

| 4th Unsecured Investment Corporation Bond (Green Bond) |  |
|--|--|
| Total amount of Issuance                               | ¥3,000 million   |
| Interest rate  | 0.53%  |
| Payment date   | September 20, 2019   |
| Redemption date  | September 20, 2029   |
| Collateral / Guarantee                                 | Not provided   |
| Use of Proceeds  | Used for a part of the refinancing for the borrowings for acquiring PMO Tamachi Higashi. |

As part of its efforts to promote ESG activities for a sustainable society, NMF has established a Green Finance Framework (NMF has obtained top rating "Green1 (F)" of "JCR Green Finance Framework Assessment") and issued its first Green Bond on September 20, 2019.



The issuance of ¥3,000 million of the Green Bond attracted strong demand, with 15 investors announcing their intent to invest in the bond.

## Issuance of Investment Corporation Bonds on September 20, 2019

| 5th Unsecured Investment Corporation Bond |                    |
|---|--------------------|
| Total amount of Issuance                  | ¥5,000 million     |
| Interest rate                             | 0.90%              |
| Payment date                              | September 20, 2019 |
| Redemption date                           | September 20, 2039 |
| Collateral / Guarantee                    | Not provided       |

## Credit Ratings

| Credit rating agency                          | Rating description  |
|---|---|
| Japan Credit Rating Agency, Ltd. (JCR)        | Long-term issuer rating: <b>AA</b>  |
| Rating and Investment Information, Inc. (R&I) | Issuer rating: <b>A+</b>  |
| S&P Global Ratings Japan Inc. (S&P)           | Long-term Issuer credit rating: <b>A</b><br>Short-term Issuer credit rating: <b>A-1</b> |

# Balance Sheet Highlights

DPU for August 2019 FP is ¥3,209, up ¥81 (+2.6%) from the February 2019 FP results.

(Millions of yen)

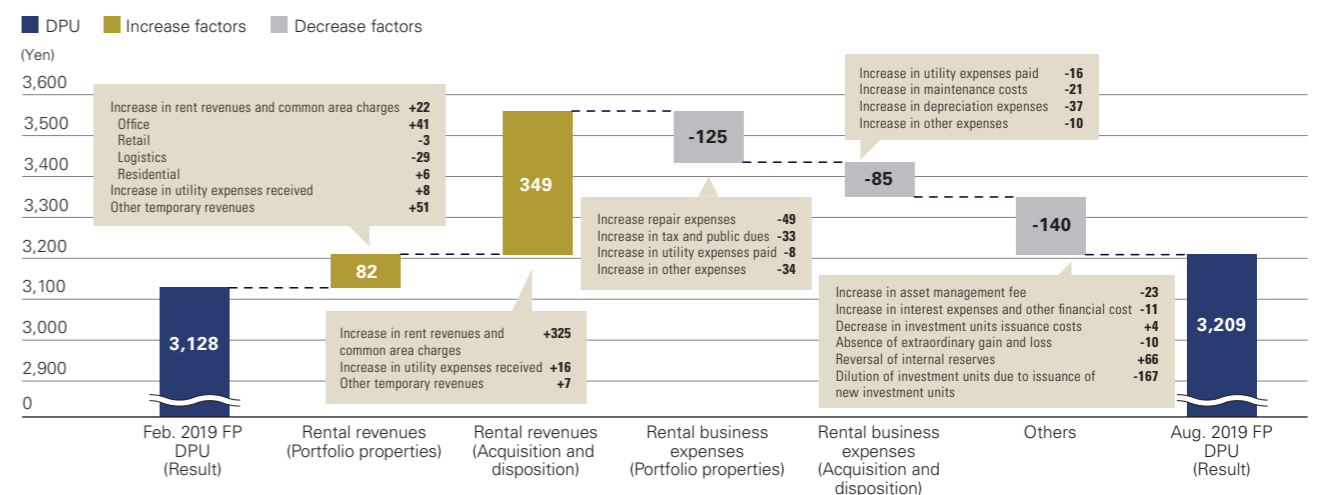
|   | Ended Feb. 28, 2019<br>(7th FP) | Ended Aug. 31, 2019<br>(8th FP) | Differences   |
|---|---------------------------------|---------------------------------|---------------|
|   | Result (A)                      | Result (B)                      | (B) - (A)     |
| <b>Operating Revenue</b>  | <b>35,428</b>                   | <b>36,617</b>                   | <b>1,188</b>  |
| Rental revenues   | 31,885                          | 33,388                          | 1,503         |
| Other rental revenues   | 2,857                           | 3,222                           | 365           |
| Gain on sales of real estate  | 685                             | 6                               | -679          |
| <b>Operating Expenses</b>   | <b>21,372</b>                   | <b>22,351</b>                   | <b>979</b>    |
| Rental business expenses  | 14,977                          | 15,887                          | 909           |
| Repair expenses   | 1,515                           | 1,727                           | 212           |
| Tax and public dues   | 2,831                           | 2,982                           | 151           |
| Depreciation and amortization   | 4,911                           | 5,135                           | 223           |
| Others  | 5,719                           | 6,041                           | 322           |
| Loss on sales of real estate  | 23                              | -                               | -23           |
| Asset management fees   | 3,124                           | 3,224                           | 100           |
| Amortization of goodwill  | 2,622                           | 2,622                           | -             |
| Other operating expenses  | 625                             | 617                             | -7            |
| <b>Operating Income</b>   | <b>14,056</b>                   | <b>14,265</b>                   | <b>209</b>    |
| <b>Non-operating Revenues</b>   | <b>7</b>                        | <b>5</b>                        | <b>-1</b>     |
| <b>Non-operating Expenses</b>   | <b>2,546</b>                    | <b>2,578</b>                    | <b>31</b>     |
| Interest Expenses and other financial costs   | 2,462                           | 2,514                           | 51            |
| Investment units issuance costs   | 75                              | 55                              | -19           |
| Other non-operating expenses  | 8                               | 8                               | 0             |
| <b>Ordinary Income</b>  | <b>11,516</b>                   | <b>11,692</b>                   | <b>176</b>    |
| <b>Extraordinary Loss</b>   | <b>45</b>                       | <b>-</b>                        | <b>-45</b>    |
| <b>Net Income</b>   | <b>11,560</b>                   | <b>11,690</b>                   | <b>129</b>    |
| <b>Net income (excluding realized gain)</b>   | <b>(10,898)</b>                 | <b>(11,684)</b>                 | <b>(785)</b>  |
| <b>Distribution of Earnings a</b>   | <b>11,336</b>                   | <b>11,691</b>                   | <b>355</b>    |
| <b>Distribution in Excess of Net Earnings b</b>   | <b>2,182</b>                    | <b>2,901</b>                    | <b>718</b>    |
| <b>Total Distributions a+b</b>  | <b>13,518</b>                   | <b>14,592</b>                   | <b>1,073</b>  |
| <b>Internal Reserves</b>  | <b>662</b>                      | <b>-282</b>                     | <b>-</b>      |
| <b>(Total Internal Reserves)</b>  | <b>(4,357)</b>                  | <b>(4,074)</b>                  | <b>(-282)</b> |
| <b>DPU</b>  | <b>3,128</b>                    | <b>3,209</b>                    | <b>81</b>     |
| Distributions of earnings per unit  | 2,623                           | 2,571                           | -52           |
| Distributions in excess of retained earnings per unit [allowance for adjustment of temporary differences] | 361                             | 342                             | -19           |
| Distributions in excess of retained earnings per unit [other distributions in excess of net earnings]     | 144                             | 296                             | 152           |
| <b>Total Assets</b>   | <b>1,117,851</b>                | <b>1,164,767</b>                | <b>46,915</b> |
| <b>Acquisition Price</b>  | <b>955,984</b>                  | <b>1,011,279</b>                | <b>55,295</b> |
| Interest-bearing debt   | 497,112                         | 510,770                         | 13,657        |
| LTV   | 44.5%                           | 43.9%                           | -0.6%         |
| Market capitalization   | 659,506                         | 843,524                         | 184,017       |
| <b>NOI</b>  | <b>24,677</b>                   | <b>25,859</b>                   | <b>1,182</b>  |
| <b>FFO</b>  | <b>18,392</b>                   | <b>19,447</b>                   | <b>1,055</b>  |

## Main Factors Accounting for Differences Between the 7th Results and the 8th Results

(Millions of yen)

| <b>Operating Revenue</b>   | <b>1,188</b>  |
|--|---------------|
| Rental revenues  | 1,503         |
| Rent and common area charges of portfolio properties (excluding impact of LP Urayasu)    | 266           |
| Impact of tenant turnover at LP Urayasu  | -170          |
| Impact of acquisition/disposition  | 1,406         |
| Other rental revenues  | 365           |
| Seasonal changes in utility expenses received, etc.                                      | 108           |
| Cancellation penalty fee, etc.   | 256           |
| Absence of gain on sales (4 residential properties)                                      | -679          |
| <b>Operating Expense</b>   | <b>979</b>    |
| Rental Business Expenses   | 909           |
| Seasonal changes in utility expenses paid, etc.  | 109           |
| Rental business expenses of portfolio properties (excluding utility expenses paid)       | 503           |
| Impact of acquisition/disposition (excluding utility expenses paid)                      | 297           |
| Absence of gain on sale of real estate (PRIME URBAN Chikusa)                             | -23           |
| Asset management fees/Other operating expenses   | 92            |
| <b>Non-operating Expenses</b>  | <b>31</b>     |
| Interest Expenses and other financial costs  | 51            |
| Investment units issuance costs  | -19           |
| <b>Extraordinary Loss</b>  | <b>-45</b>    |
| Absence of gain on natural disasters in 7th FP (Insurance income > Restoration expenses) | -45           |
| <b>Net Income</b>  | <b>129</b>    |
| <b>Reversal of Internal Reserves</b>   | <b>288</b>    |
|  | (63 yen/unit) |

## Main Factors in Change of DPU (¥/unit)



# Market Review

## Office

### Vacancy Rate (Tokyo Central Five Wards)



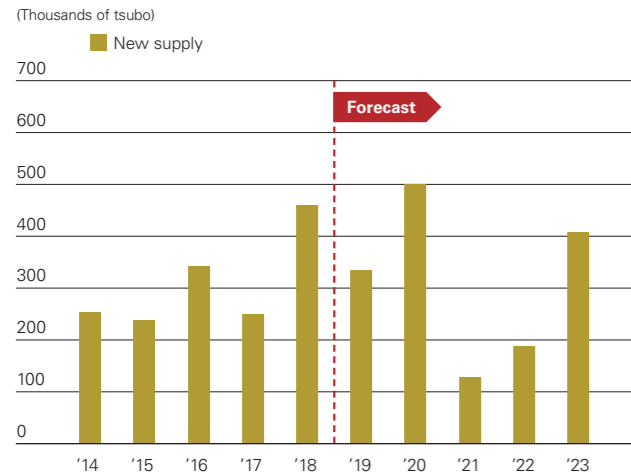
Source: Prepared by NREAM based on data from Miki Shoji Co., Ltd.

### Average Monthly Rent (Tokyo Central Five Wards)



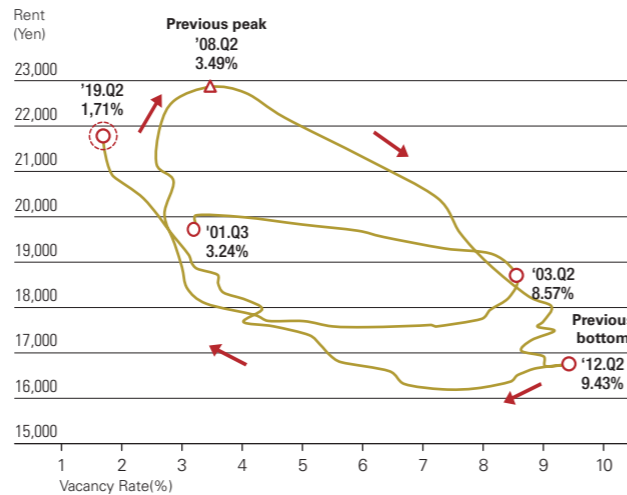
Source: Prepared by NREAM based on data from Miki Shoji Co., Ltd.

### Supply of Office Buildings (Tokyo Central Five Wards)



Source: Prepared by NREAM based on data from Miki Shoji Co., Ltd.

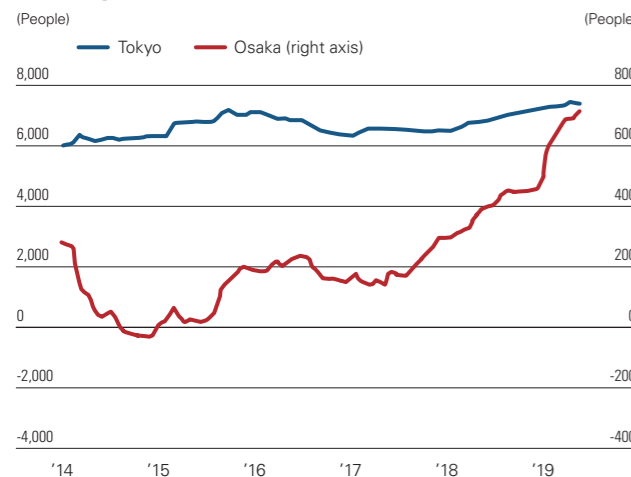
### Rent and Vacancy Rate Matrix (Tokyo Central Five Wards)



Source: Prepared by NREAM based on data from Miki Shoji Co., Ltd.

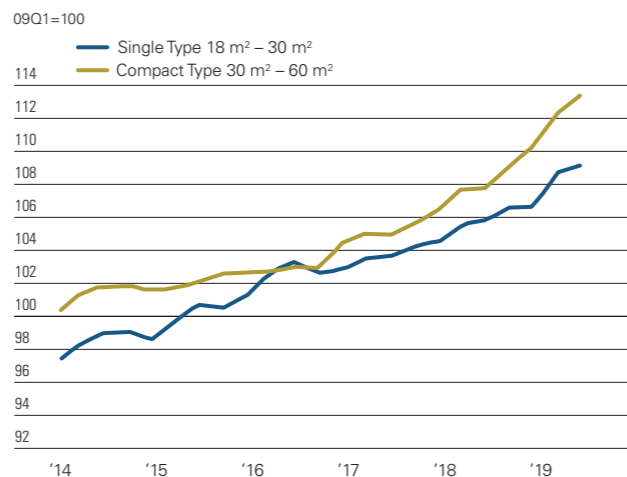
## Residential

### Net Population Inflow (12-month moving average)



Source: Prepared by Ministry of Internal Affairs and Communications

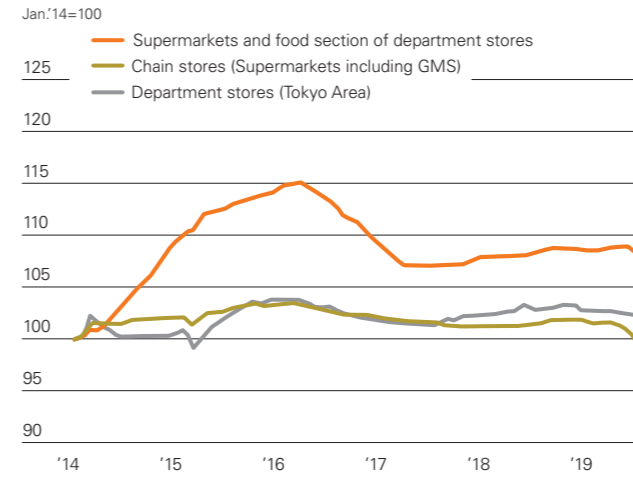
### Rental Condominium Rent Index (Tokyo's 23 Wards)



Source: Prepared by NREAM based on data from At Home Co., Ltd. and Sumitomo Mitsui Trust Research Institute Co., Ltd.

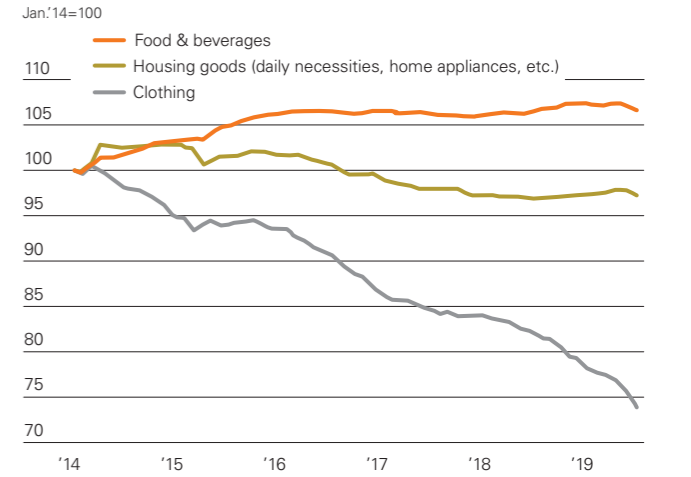
## Retail

### Retail Sales Volume by Store Type (12-month moving average)



Source: Prepared by NREAM based on data from the Ministry of Economy, Trade and Industry, Japan Chain Store Association, and Japan Department Stores Association

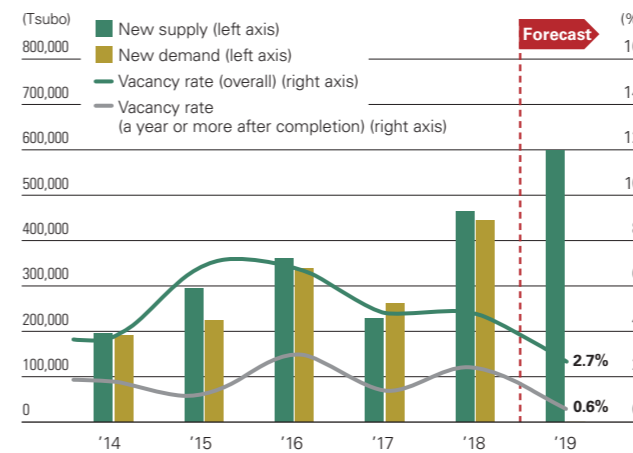
### Retail Sales Volume by Product Type (12-month moving average)



Source: Prepared by NREAM based on data from Japan Chain Store Association

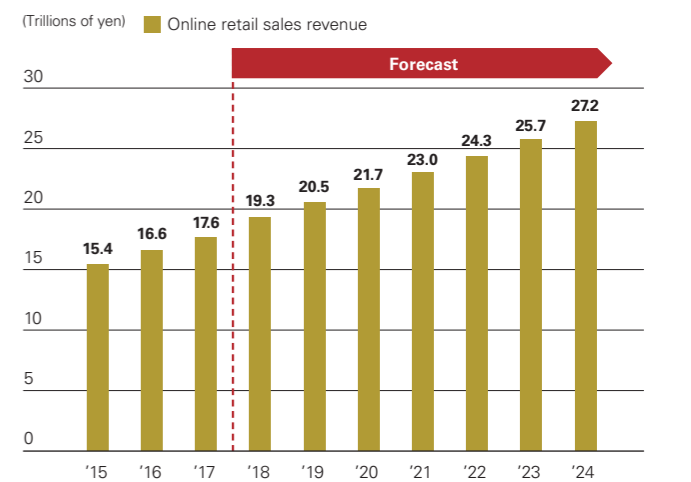
## Logistics

### Large-Scale Rental Logistics Facility Supply and Demand in the Tokyo Metropolitan Area (as of Q2 2019)



Source: Prepared by NREAM based on data from CBRE  
\*Vacancy rate shows figures as of the end of every December

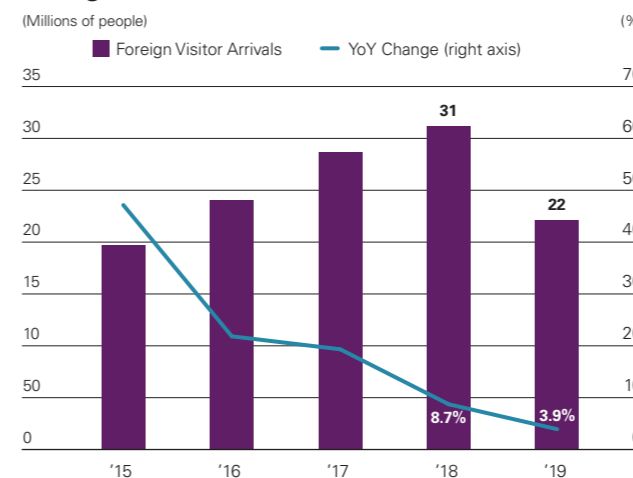
### Japanese Ecommerce (B2C) Market



Source: Prepared by NREAM based on data from Nomura Research Institute, Ltd.  
\* Years show fiscal years

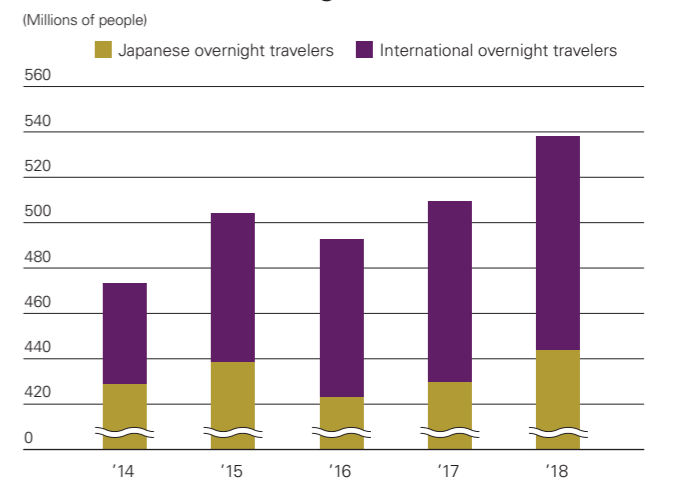
## Hotels

### Foreign Visitor Arrivals



Source: Prepared by NREAM based on data from JNTO  
\* Amount in 2019 is estimated.

### Total Number of Overnight Guests



Source: Prepared by NREAM based on data from Tourism Agency

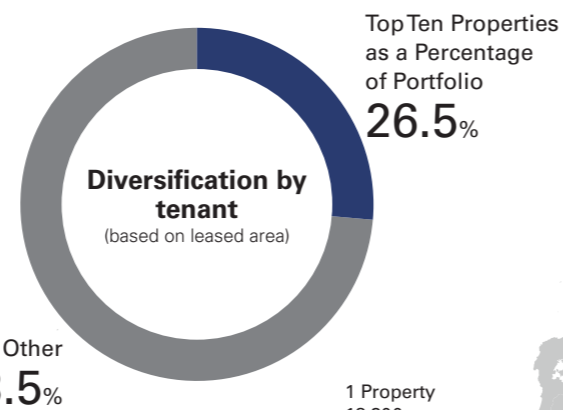
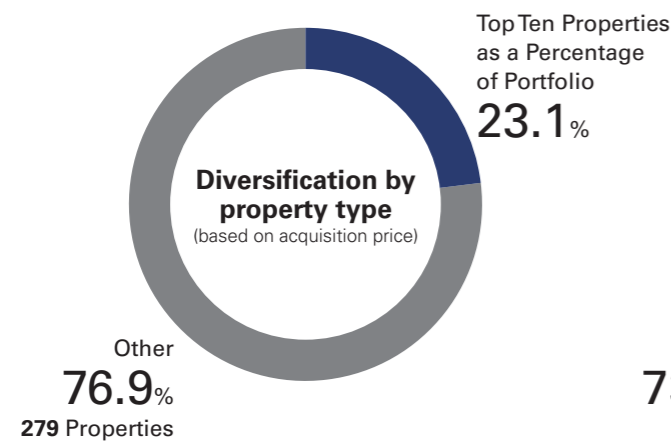
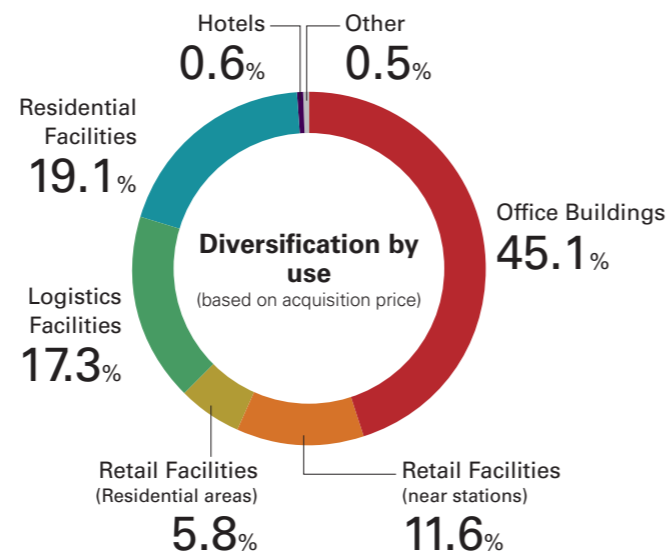
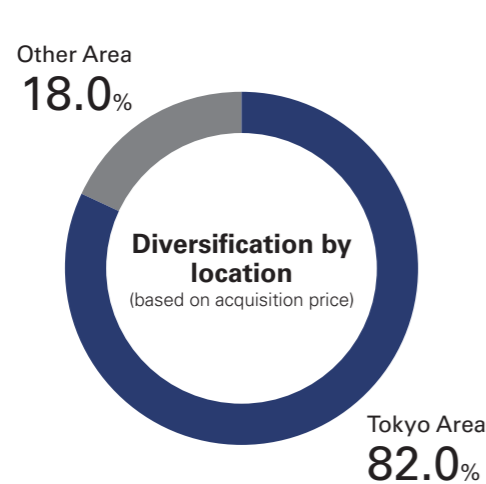
Portfolio Analysis (as of Aug. 31, 2019)

NUMBER OF PROPERTIES

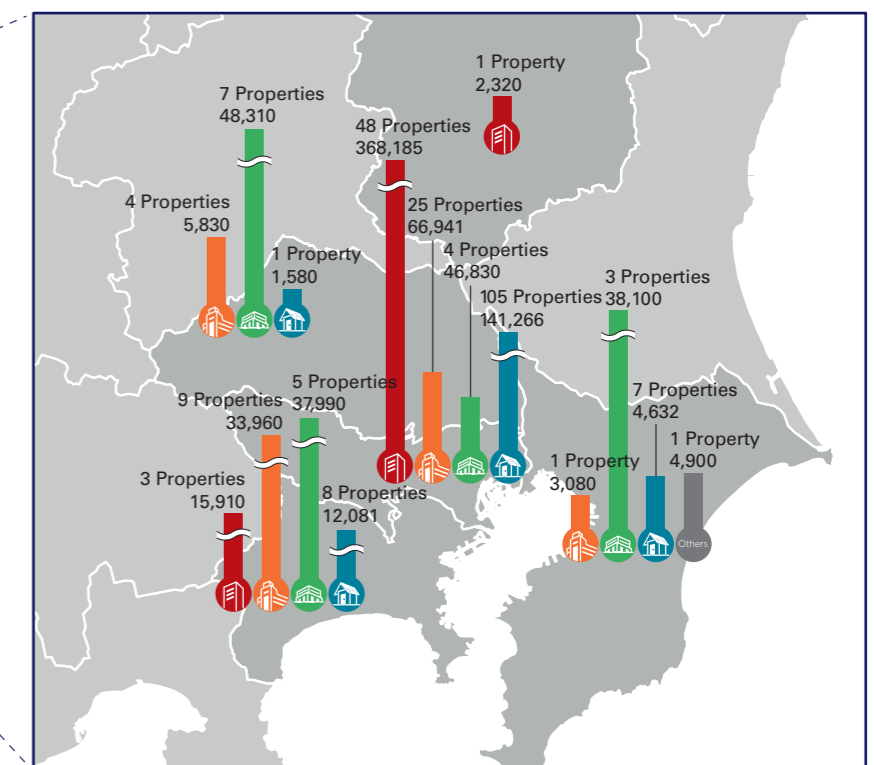
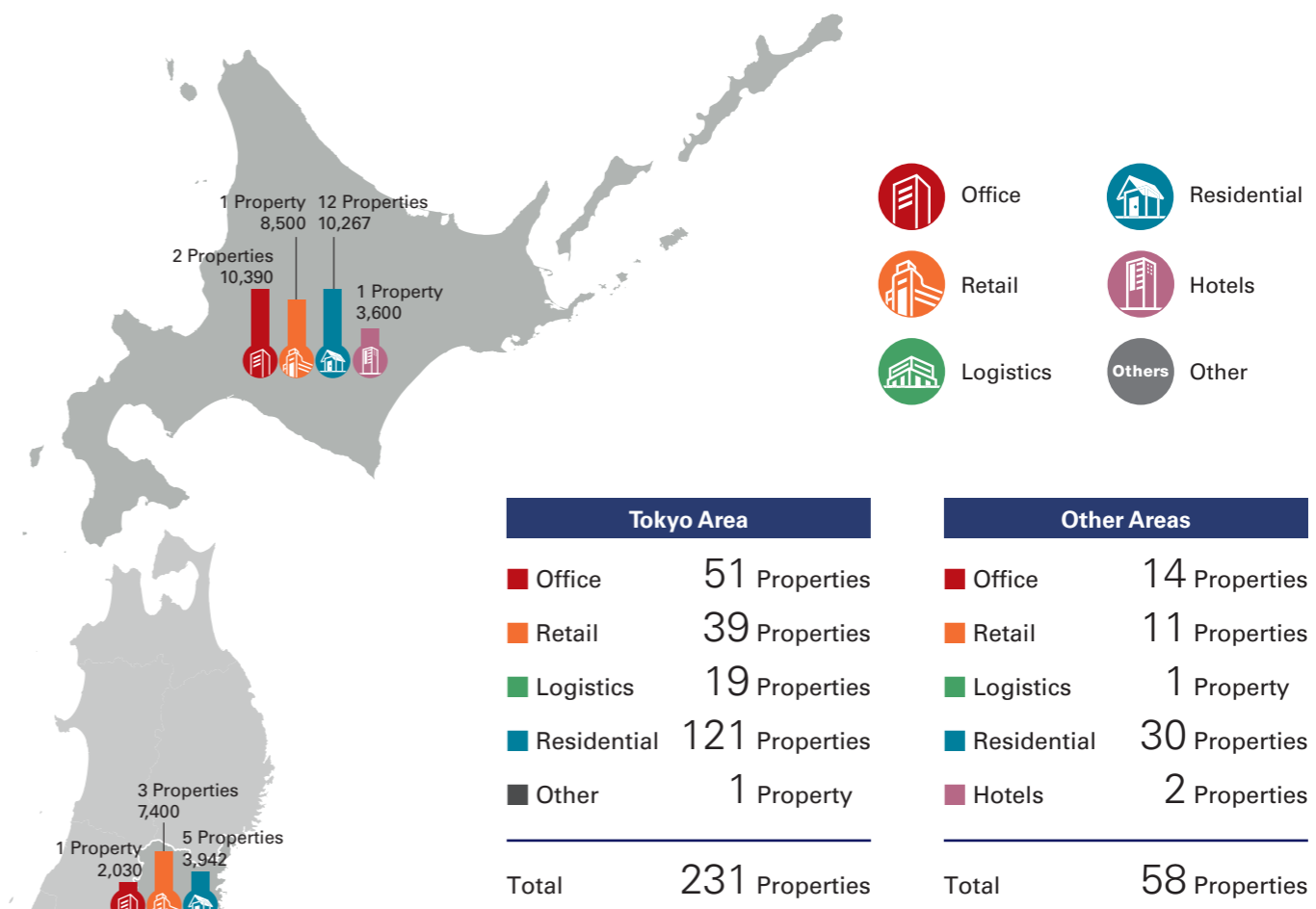
ASSET SIZE

OCCUPANCY RATE

289 properties    ¥1,011,279 million    99.3%



Portfolio Distribution (property locations in Japan, millions of yen)



For a detailed list of properties in our portfolio, visit the website below.  
<https://www.nre-mf.co.jp/en/portfolio/index.html>

(Note) In the diversification by tenant, the leased areas of properties under pass-through master lease agreements are calculated based on the leased areas of end tenants.

Portfolio Gallery

Office

TOP 3 Properties (acquisition price)

**1** **NEC Head Office Building**  
 Location: Minato Ward, Tokyo  
 Acquisition price: ¥44,100 million  
 Total floor area: 144,476.05 m<sup>2</sup>



**2** **Shinjuku Nomura Building**  
 Location: Shinjuku Ward, Tokyo  
 Acquisition price: ¥43,900 million  
 Total floor area: 117,258.88 m<sup>2</sup>



**3** **Kojimachi Millennium Garden**  
 Location: Chiyoda Ward, Tokyo  
 Acquisition price: ¥26,700 million  
 Total floor area: 16,050.53 m<sup>2</sup>



Retail

TOP 3 Properties (acquisition price)

**1** **Universal CityWalk Osaka**  
 Location: Osaka City, Osaka  
 Acquisition price: ¥15,500 million  
 Total floor area: 86,888.64 m<sup>2</sup>



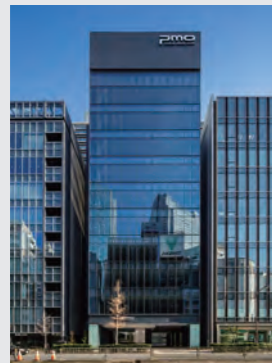
**2** **Yokosuka More's City**  
 Location: Yokosuka City, Kanagawa  
 Acquisition price: ¥13,640 million  
 Total floor area: 43,890.82 m<sup>2</sup>



**3** **Nakaza Cui-daore Building**  
 Location: Osaka City, Osaka  
 Acquisition price: ¥11,600 million  
 Total floor area: 8,280.08 m<sup>2</sup>



**PMO Tamachi Higashi** **NEW**  
 Location: Minato Ward, Tokyo  
 Total floor area: 7,088.17 m<sup>2</sup>



**NMF Shibuya Koen-dori Building**  
 Location: Shibuya Ward, Tokyo  
 Total floor area: 5,358.55 m<sup>2</sup>



**NMF Shiba Building**  
 Location: Minato Ward, Tokyo  
 Total floor area: 11,425.20 m<sup>2</sup>



**GEMS Kayabacho** **NEW**  
 Location: Chuo Ward, Tokyo  
 Total floor area: 1,779.29 m<sup>2</sup>



**NRE Kichijoji Building**  
 Location: Musashino City, Tokyo  
 Total floor area: 5,550.35 m<sup>2</sup>



**covirma machida**  
 Location: Machida City, Tokyo  
 Total floor area: 4,209.06 m<sup>2</sup>



**NRE Tennozu Building**  
 Location: Shinagawa Ward, Tokyo  
 Total floor area: 25,260.48 m<sup>2</sup>



**SORA Shin-Osaka 21**  
 Location: Osaka City, Osaka  
 Total floor area: 38,252.92 m<sup>2</sup>



**Omron Kyoto Center Building**  
 Location: Kyoto City, Kyoto  
 Total floor area: 34,616.84 m<sup>2</sup>



**Sagamihara Shopping Center**  
 Location: Sagami-hara City, Kanagawa  
 Total floor area: 56,351.42 m<sup>2</sup>



**Konami Sports Club Fuchu**  
 Location: Fuchu City, Tokyo  
 Total floor area: 12,214.97 m<sup>2</sup>






**EQUINIA Aobadori**  
 Location: Sendai City, Miyagi  
 Total floor area: 5,692.03 m<sup>2</sup>



Portfolio Gallery




Logistics

TOP 3 Properties (acquisition price)

|  |  |   |
|--|--|---|
| <p><b>1</b></p> <p><b>Landport Urayasu</b></p> <p>Location: Urayasu City, Chiba<br/>Acquisition price: ¥17,400 million<br/>Total floor area: 71,570.64 m<sup>2</sup></p>  | <p><b>2</b></p> <p><b>Landport Itabashi</b></p> <p>Location: Itabashi Ward, Tokyo<br/>Acquisition price: ¥15,710 million<br/>Total floor area: 53,561.44 m<sup>2</sup></p>  | <p><b>3</b></p> <p><b>Landport Kawagoe</b></p> <p>Location: Kawagoe City, Saitama<br/>Acquisition price: ¥13,700 million<br/>Total floor area: 72,352.88 m<sup>2</sup></p>  |
|--|--|---|

Residential

TOP 3 Properties (acquisition price)

|   |   |  |
|---|---|--|
| <p><b>1</b></p> <p><b>Fukasawa House Towers H&amp;I</b></p> <p>Location: Setagaya Ward, Tokyo<br/>Acquisition price: ¥7,140 million<br/>Total floor area: 12,135.36 m<sup>2</sup></p>  | <p><b>2</b></p> <p><b>PRIME URBAN Toyosu</b></p> <p>Location: Koto Ward, Tokyo<br/>Acquisition price: ¥5,290 million<br/>Total floor area: 9,630.96 m<sup>2</sup></p>  | <p><b>3</b></p> <p><b>PRIME URBAN Sapporo Riverfront</b></p> <p>Location: Sapporo City, Hokkaido<br/>Acquisition price: ¥4,480 million<br/>Total floor area: 21,239.84 m<sup>2</sup></p>  |
|---|---|--|

Landport Ome I

NEW

Location: Ome City, Tokyo  
Total floor area: 57,721.34 m<sup>2</sup>



Landport Atsugi

Location: Atsugi City, Kanagawa  
Total floor area: 49,504.38 m<sup>2</sup>



Landport Kashiwa Shonan II

Location: Kashiwa City, Chiba  
Total floor area: 51,485.62 m<sup>2</sup>



PROUD FLAT Sangenjaya II

Location: Setagaya Ward, Tokyo  
Total floor area: 3,522.92 m<sup>2</sup>



PRIME URBAN Meguro Mita

Location: Meguro Ward, Tokyo  
Total floor area: 1,101.06 m<sup>2</sup>



PRIME URBAN Shibaura LOFT

Location: Minato Ward, Tokyo  
Total floor area: 2,429.98 m<sup>2</sup>



Landport Hachioji I

Location: Hachioji City, Tokyo  
Total floor area: 33,028.63 m<sup>2</sup>



Landport Hachioji II

Location: Hachioji City, Tokyo  
Total floor area: 35,948.63 m<sup>2</sup>



Kawaguchi Ryoke Logistics Center

Location: Kawaguchi City, Saitama  
Total floor area: 41,867.82 m<sup>2</sup>



PRIME URBAN Kagurazaka

Location: Shinjuku Ward, Tokyo  
Total floor area: 1,886.34 m<sup>2</sup>



PRIME URBAN Musashi Kosugi comoda

Location: Kawasaki City, Kanagawa  
Total floor area: 4,233.62 m<sup>2</sup>



Serenite Shinsaibashi Grande

Location: Osaka City, Osaka  
Total floor area: 7,794.23 m<sup>2</sup>



# Distribution Policy

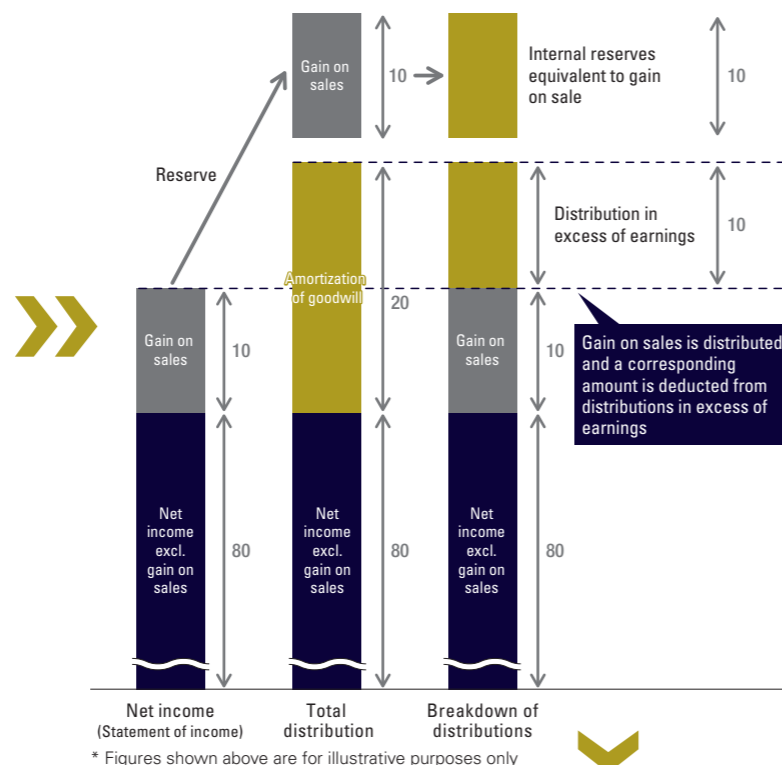
## Basic Distribution Policy

Distribute net earnings + amortization of goodwill



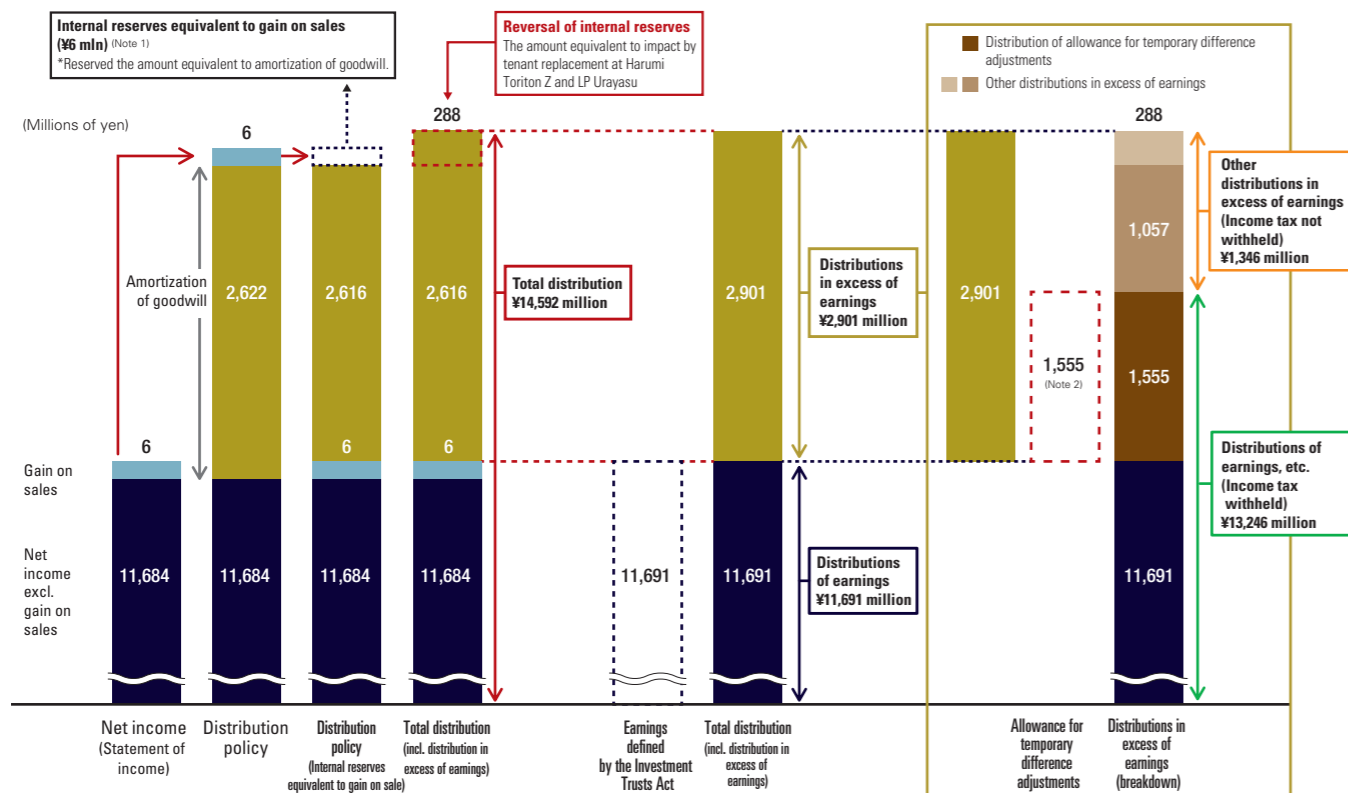
## Distribution Policy for Periods with Gain on Sales

Distributions in excess of earnings may be adjusted to retain cash of an amount equivalent to gain on sale of real estate to promote stable medium- to long-term management.



\* Figures shown above are for illustrative purposes only

## Distributions in Excess of Net Earnings in the 8th Fiscal Period

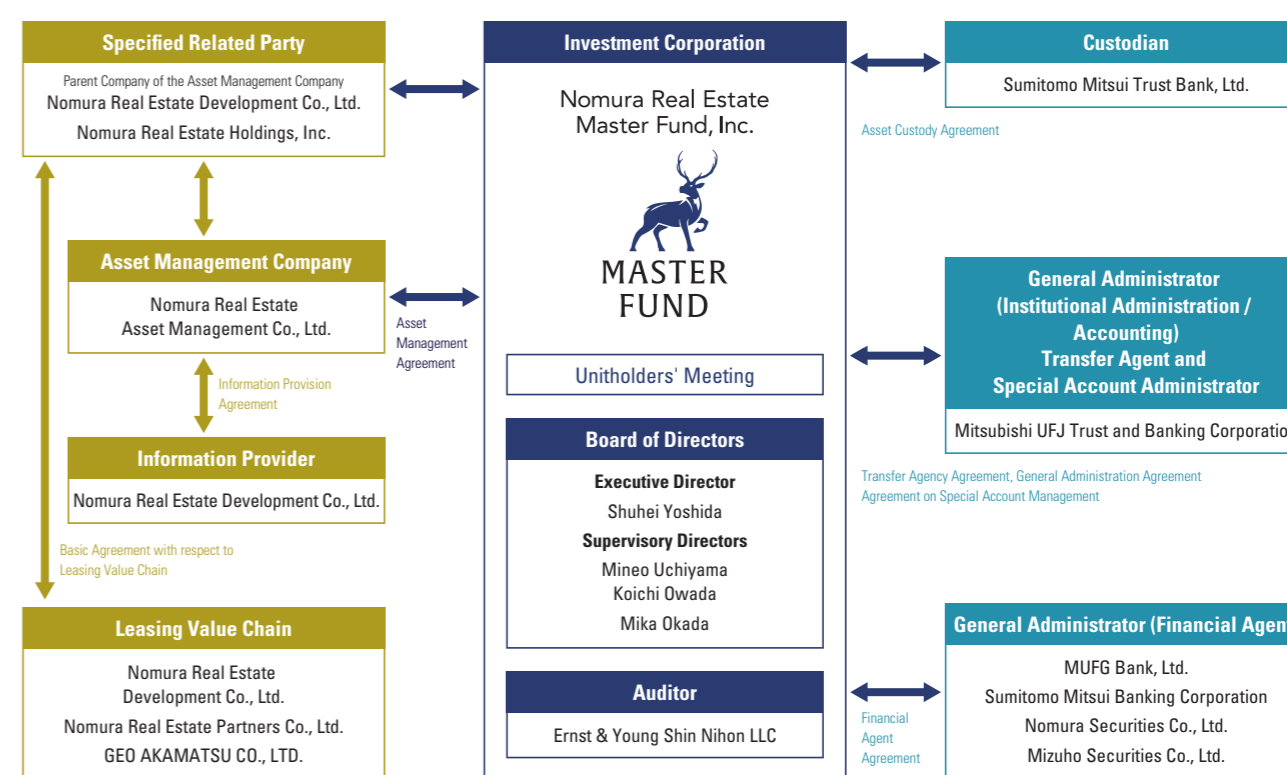


(Note 1) When there is a gain on sales, NMF's policy is, in principle, to set aside an amount equivalent to the gain that is not more than the amount of amortization of goodwill as retained earnings within the scope that will not be subject to income tax. For the 8th fiscal period, NMF will retain earnings under the amount of distributions in excess of net earnings (distribution reducing unitholders' capital for tax purposes) though the gain on sale from the sale of partial land of PRIME URBAN Shinjuku Kawadacho has been generated, and therefore it does not expect the internal reserves equivalent to gain on sales to be taxed.

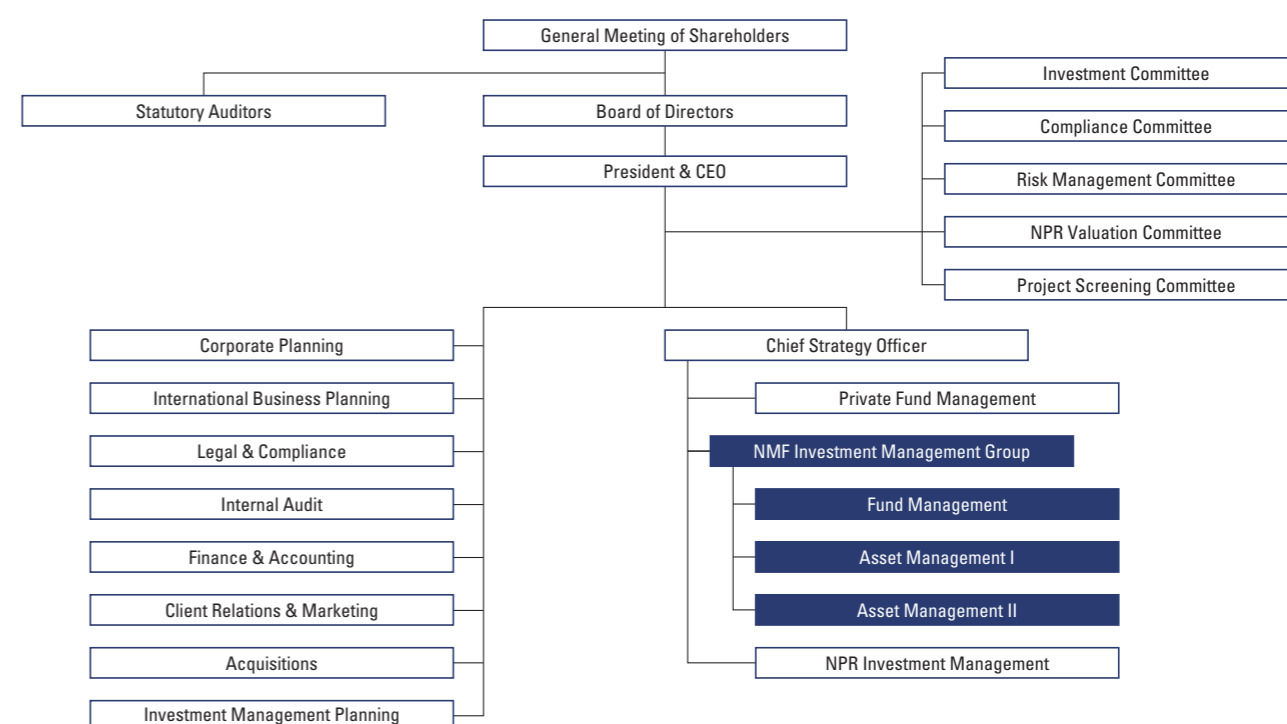
(Note 2) The amount is obtained by deducting underdepreciation, etc. (provision deduction items) attributable to the difference between depreciation in tax and accounting treatments from amortization of goodwill, etc. (provision addition items).

# Structure and Organization

## Structure of NMF

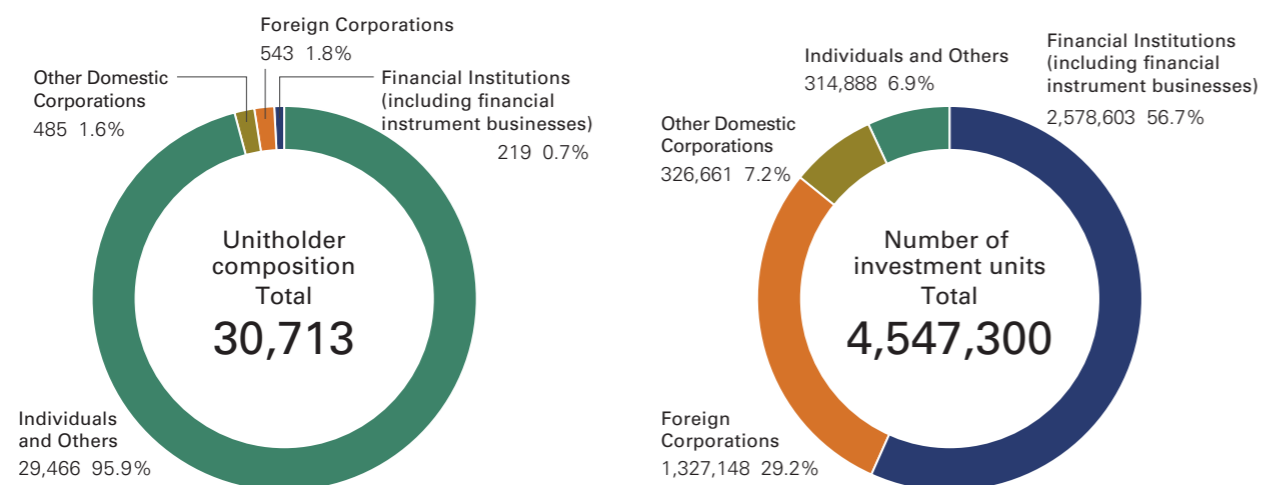


## Organization of NREAM

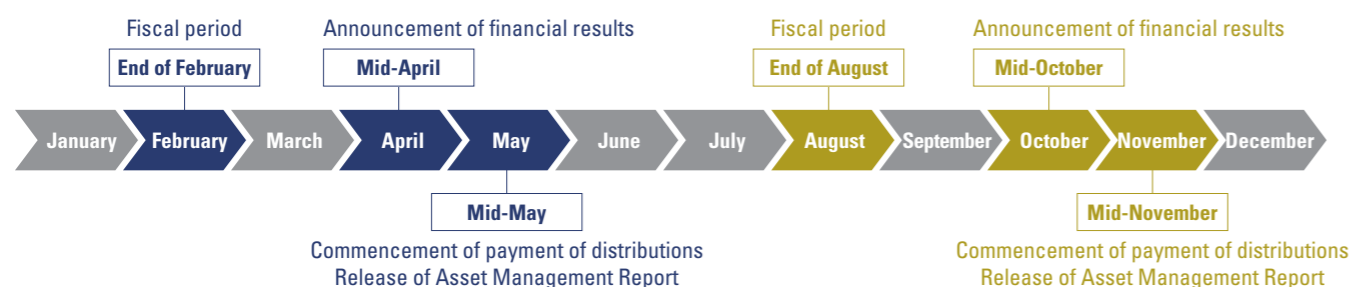


Investor Information

Composition of Unitholders



IR Calendar



Unitholder Information

The process for changing your address and other information

To change your address, name, seal, or other information, please contact the securities firm where your account was established.

Distributions

Stockholders can collect distributions at a Japan Post Bank or post office. If the receipt date has passed, please refer to instructions on the back of the distribution receipt and either send it to the Corporate Agency Division of Mitsubishi UFJ Trust and Banking Corporation or present it at the counter of one of the bank's branches. In addition, regarding distributions going forward, if you wish distributions to be paid in the form of bank deposits or other, please contact your securities firm.

Important Reminders for Unitholders

|  |   |
|--|---|
| Closing dates                                    | The last days of February and August of every year  |
| General meeting of unitholders                   | At least once every two years in principle  |
| Unitholder record date for voting eligibility    | A date announced in advance   |
| Distribution payment record dates                | The last days of February and August of every year  |
| Stock exchange listings                          | Tokyo Securities Exchange (securities code: 3462)   |
| Newspaper for announcements                      | Nihon Keizai Shimbun  |
| Share transfer agent                             | Mitsubishi UFJ Trust and Banking Corporation  |
| Contact information for the share transfer agent | Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation<br>1-1, Nikko-cho, Fuchu, Tokyo, Japan<br>TEL. 0120-232-711 (toll free) in Japan only<br>Mailing address: P.O. Box #29 Shin-Tokyo Post Office, Tokyo, Japan 137-8081<br>Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation |

WEBSITE

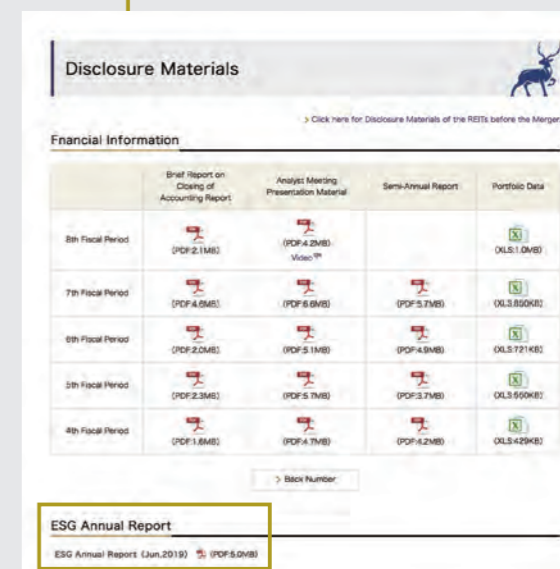
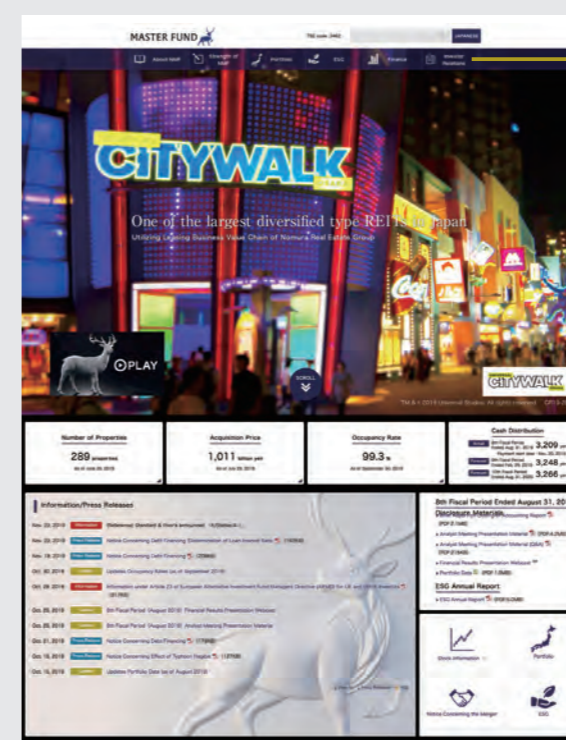
NMF strives to ensure accurate, timely disclosure through its website. For convenience, the website also offers a variety of other information, including the following.

- An overview of NMF and its features; information about the Asset Management Company
- A 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 content and use it to provide timely information.

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

Nomura Master Fund

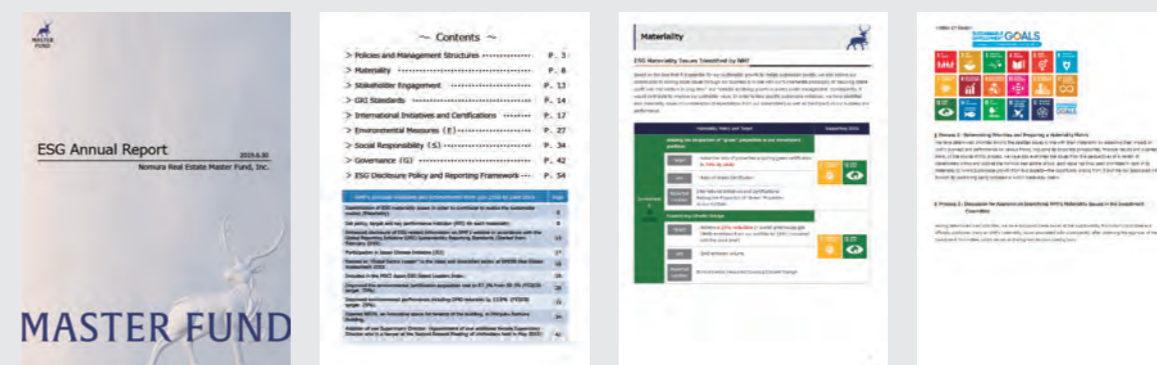


The latest news is aggregated on the home page. (An RSS feed is available.)

Excel files with detailed data are available for download.

Posted ESG Annual Report

Our first sustainability report covering our ESG related activities was issued in June 2019.





# BALANCE SHEET

Thousands of Yen

|   | As of February 28, 2019 | As of August 31, 2019 |
|---|-------------------------|-----------------------|
| <b>ASSETS</b>                                       |                         |                       |
| <b>Current Assets:</b>                              |                         |                       |
| Cash and bank deposits                              | 74,212,743              | 73,420,753            |
| Rental receivables                                  | 659,719                 | 695,682               |
| Consumption taxes receivable                        | —                       | 657,804               |
| Other current assets                                | 1,408,074               | 1,673,760             |
| <b>Total current assets</b>                         | <b>76,280,538</b>       | <b>76,448,000</b>     |
| <b>Property and Equipment:</b>                      |                         |                       |
| Land  | 658,380,029             | 696,240,931           |
| Buildings and structures                            | 316,625,764             | 332,825,576           |
| Machinery and equipment                             | 1,258,692               | 1,332,528             |
| Tools, furniture and fixtures                       | 971,411                 | 1,135,222             |
| Leased assets                                       | 10,107                  | 14,859                |
| Construction in progress                            | 8,186                   | 12,050                |
| Subtotal  | 977,254,192             | 1,031,561,168         |
| Less accumulated depreciation                       | (36,346,296)            | (41,470,695)          |
| <b>Net property and equipment</b>                   | <b>940,907,896</b>      | <b>990,090,472</b>    |
| <b>Investments and Other Assets:</b>                |                         |                       |
| Goodwill  | 88,209,223              | 85,586,980            |
| Leasehold rights                                    | 8,959,307               | 8,958,920             |
| Intangible assets                                   | 43,192                  | 35,565                |
| Long-term prepaid expenses                          | 1,947,644               | 2,131,942             |
| Long-term deposits                                  | 492,905                 | 508,948               |
| Security deposits                                   | 946,367                 | 946,452               |
| Derivatives assets                                  | 4,384                   | 3,320                 |
| Deferred investment corporation bond issuance costs | 59,999                  | 56,838                |
| <b>Total investments and other assets</b>           | <b>100,663,023</b>      | <b>98,228,969</b>     |
| <b>Total Assets</b>                                 | <b>1,117,851,458</b>    | <b>1,164,767,442</b>  |

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

Thousands of Yen

|  | As of February 28, 2019 | As of August 31, 2019 |
|--|-------------------------|-----------------------|
| <b>LIABILITIES</b>                                 |                         |                       |
| <b>Current Liabilities:</b>                        |                         |                       |
| Trade accounts payable                             | 1,957,136               | 2,820,452             |
| Short-term debt                                    | 500,000                 | 8,000,000             |
| Current portion of investment corporation bonds    | —                       | 5,000,000             |
| Current portion of long-term debt                  | 64,685,600              | 58,385,600            |
| Lease obligations                                  | 1,591                   | 1,082                 |
| Other accounts payable                             | 2,672,988               | 2,535,771             |
| Accrued expenses                                   | 316,253                 | 344,928               |
| Accrued income taxes                               | 870                     | 1,999                 |
| Accrued consumption taxes                          | 990,633                 | —                     |
| Rent received in advance                           | 5,036,231               | 5,260,541             |
| Unearned revenue                                   | 187,784                 | 159,244               |
| Provision for loss on disaster                     | 43,480                  | —                     |
| Derivatives liabilities                            | 52,907                  | 65,574                |
| Other current liabilities                          | 22,718                  | 9,683                 |
| <b>Total current liabilities</b>                   | <b>76,468,194</b>       | <b>82,584,878</b>     |
| <b>Long-term Liabilities:</b>                      |                         |                       |
| Investment corporation bonds                       | 22,000,000              | 17,000,000            |
| Long-term debt                                     | 409,927,200             | 422,384,400           |
| Lease obligations                                  | —                       | 4,134                 |
| Long-term advanced received                        | 261,893                 | 187,302               |
| Security deposits from tenants                     | 38,401,734              | 40,852,194            |
| Derivatives liabilities                            | 948,957                 | 843,558               |
| <b>Total long-term liabilities</b>                 | <b>471,539,785</b>      | <b>481,271,590</b>    |
| <b>Total Liabilities</b>                           | <b>548,007,980</b>      | <b>563,856,468</b>    |
| <b>NET ASSETS</b>                                  |                         |                       |
| <b>Unitholders' Equity:</b>                        |                         |                       |
| Unitholders' capital                               | 182,051,777             | 214,855,487           |
| Surplus  |                         |                       |
| Capital surplus                                    | 394,012,959             | 394,012,959           |
| Allowance for temporary difference adjustment      | (8,879,447)             | (10,439,617)          |
| Other deductions from capital surplus              | (8,678,670)             | (9,301,010)           |
| Total deductions from capital surplus              | (17,558,118)            | (19,740,627)          |
| Net capital surplus                                | 376,454,840             | 374,272,331           |
| Retained earnings                                  | 12,334,340              | 12,688,967            |
| Total surplus                                      | 388,789,181             | 386,961,298           |
| <b>Total unitholders' equity</b>                   | <b>570,840,958</b>      | <b>601,816,786</b>    |
| <b>Valuation and Translation Adjustments:</b>      |                         |                       |
| Deferred gains or losses on hedges                 | (997,480)               | (905,812)             |
| <b>Total valuation and translation adjustments</b> | <b>(997,480)</b>        | <b>(905,812)</b>      |
| <b>Total Net Assets</b>                            | <b>569,843,478</b>      | <b>600,910,974</b>    |
| <b>Total Liabilities and Net Assets</b>            | <b>1,117,851,458</b>    | <b>1,164,767,442</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<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
|---|--|--|
| <b>OPERATING REVENUES AND EXPENSES</b>                      |  |  |
| <b>Operating Revenues:</b>                                  |  |  |
| Real estate rental revenues                                 | 34,742,917   | 36,610,991   |
| Gain on sales of real estate                                | 685,596  | 6,213  |
|   | 35,428,514   | 36,617,204   |
| <b>Operating Expenses:</b>                                  |  |  |
| Real estate rental expenses                                 | 14,977,514   | 15,887,320   |
| Loss on sales of real estate                                | 23,219   | —  |
| Asset management fees                                       | 3,124,065  | 3,224,402  |
| Asset custody fees  | 57,154   | 57,119   |
| Administrative service fees                                 | 167,475  | 173,069  |
| Amortization of goodwill                                    | 2,622,242  | 2,622,242  |
| Other operating expenses                                    | 400,763  | 387,680  |
|   | 21,372,436   | 22,351,834   |
| <b>Operating Income</b>                                     | 14,056,078   | 14,265,370   |
| <b>NON-OPERATING REVENUES AND EXPENSES</b>                  |  |  |
| <b>Non-Operating Revenues:</b>                              |  |  |
| Interest income   | 378  | 596  |
| Reversal of dividends payable                               | 5,674  | 4,975  |
| Interest on refund  | 1,213  | —  |
| Other non-operating revenues                                | 11   | 107  |
|   | 7,278  | 5,679  |
| <b>Non-Operating Expenses:</b>                              |  |  |
| Interest expense  | 1,871,984  | 1,907,676  |
| Interest expenses on investment corporation bonds           | 183,376  | 185,270  |
| Amortization of investment corporation bonds issuance costs | 3,160  | 3,160  |
| Loan arrangement fees                                       | 407,627  | 421,076  |
| Investment units issuance expenses                          | 75,287   | 55,843   |
| Other non-operating expenses                                | 5,280  | 5,259  |
|   | 2,546,715  | 2,578,287  |
| <b>Ordinary Income</b>                                      | 11,516,640   | 11,692,763   |
| <b>Extraordinary Income:</b>                                |  |  |
| Insurance income  | 53,297   | —  |
|   | 53,297   | —  |
| <b>Extraordinary Losses:</b>                                |  |  |
| Loss on disaster  | 8,097  | —  |
|   | 8,097  | —  |
| <b>Income before Income Taxes</b>                           | 11,561,841   | 11,692,763   |
| <b>Income Taxes:</b>  |  |  |
| Current   | 923  | 2,055  |
|   | 923  | 2,055  |
| <b>Net Income</b>   | 11,560,917   | 11,690,708   |
| Retained earnings brought forward                           | 773,423  | 998,259  |
| <b>Retained Earnings at End of Period</b>                   | 12,334,340   | 12,688,967   |

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, 2018 to February 28, 2019

Thousands of Yen

|   | Unitholders' Equity             |                 |   |                                       |                                       |              | Net capital surplus |
|---|---------------------------------|-----------------|---|---------------------------------------|---------------------------------------|--------------|---------------------|
|   | Surplus                         |                 |   |                                       |                                       |              |                     |
|   | Capital surplus                 |                 |   |                                       |                                       |              |                     |
|   | Deductions from capital surplus |                 |   |                                       |                                       |              |                     |
| Units   | Unitholders' capital            | Capital surplus | Allowance for temporary difference adjustment | Other deductions from capital surplus | Total deductions from capital surplus |              |                     |
| Balance as of September 1, 2018   | 4,321,800                       | 181,730,086     | 394,012,959                                   | (7,878,667)                           | (7,060,439)                           | (14,939,107) | 379,073,851         |
| Distributions of retained earnings  | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| Reversal of allowance for temporary difference adjustments                                  | —                               | 321,691         | —   | 321,691                               | (321,691)                             | —            | —                   |
| Distributions in excess of net earnings from allowance for temporary difference adjustments | —                               | —               | —   | (1,322,470)                           | —                                     | (1,322,470)  | (1,322,470)         |
| Other distributions in excess of net earnings   | —                               | —               | —   | —                                     | (1,296,540)                           | (1,296,540)  | (1,296,540)         |
| Net income  | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| Net changes of items other than unitholders' equity   | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| <b>Balance as of February 28, 2019</b>  | 4,321,800                       | 182,051,777     | 394,012,959                                   | (8,879,447)                           | (8,678,670)                           | (17,558,118) | 376,454,840         |

|   | Unitholders' Equity |               |              | Valuation and Translation Adjustments |                                    |   |                  |
|---|---------------------|---------------|--------------|---------------------------------------|------------------------------------|---|------------------|
|   | Surplus             |               |              | Total unitholders' equity             | Deferred gains or losses on hedges | Total valuation and translation adjustments | Total net assets |
|   | Retained earnings   | Total surplus |              |                                       |                                    |   |                  |
| Balance as of September 1, 2018   | 11,804,535          | 390,878,386   | 572,608,472  | (771,769)                             | (771,769)                          | 571,836,702                                 |                  |
| Distributions of retained earnings  | (10,709,420)        | (10,709,420)  | (10,709,420) | —                                     | —                                  | (10,709,420)                                |                  |
| Reversal of allowance for temporary difference adjustments                                  | (321,691)           | (321,691)     | —            | —                                     | —                                  | —   |                  |
| Distributions in excess of net earnings from allowance for temporary difference adjustments | —                   | (1,322,470)   | (1,322,470)  | —                                     | —                                  | (1,322,470)                                 |                  |
| Other distributions in excess of net earnings   | —                   | (1,296,540)   | (1,296,540)  | —                                     | —                                  | (1,296,540)                                 |                  |
| Net income  | 11,560,917          | 11,560,917    | 11,560,917   | —                                     | —                                  | 11,560,917                                  |                  |
| Net changes of items other than unitholders' equity   | —                   | —             | —            | (225,710)                             | (225,710)                          | (225,710)                                   |                  |
| <b>Balance as of February 28, 2019</b>  | 12,334,340          | 388,789,181   | 570,840,958  | (997,480)                             | (997,480)                          | 569,843,478                                 |                  |

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

For the period from March 1, 2019 to August 31, 2019

Thousands of Yen

|   | Unitholders' Equity             |                 |   |                                       |                                       |              | Net capital surplus |
|---|---------------------------------|-----------------|---|---------------------------------------|---------------------------------------|--------------|---------------------|
|   | Surplus                         |                 |   |                                       |                                       |              |                     |
|   | Capital surplus                 |                 |   |                                       |                                       |              |                     |
|   | Deductions from capital surplus |                 |   |                                       |                                       |              |                     |
| Units   | Unitholders' capital            | Capital surplus | Allowance for temporary difference adjustment | Other deductions from capital surplus | Total deductions from capital surplus |              |                     |
| Balance as of March 1, 2019   | 4,321,800                       | 182,051,777     | 394,012,959                                   | (8,879,447)                           | (8,678,670)                           | (17,558,118) | 376,454,840         |
| Issuance of new investment units  | 225,500                         | 32,803,710      | —   | —                                     | —                                     | —            | —                   |
| Distributions of retained earnings  | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| Distributions in excess of net earnings from allowance for temporary difference adjustments | —                               | —               | —   | (1,560,169)                           | —                                     | (1,560,169)  | (1,560,169)         |
| Other distributions in excess of net earnings   | —                               | —               | —   | —                                     | (622,339)                             | (622,339)    | (622,339)           |
| Net income  | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| Net changes of items other than unitholders' equity   | —                               | —               | —   | —                                     | —                                     | —            | —                   |
| <b>Balance as of August 31, 2019</b>  | 4,547,300                       | 214,855,487     | 394,012,959                                   | (10,439,617)                          | (9,301,010)                           | (19,740,627) | 374,272,331         |

|   | Unitholders' Equity |               |              | Valuation and Translation Adjustments |                                    |   |                  |
|---|---------------------|---------------|--------------|---------------------------------------|------------------------------------|---|------------------|
|   | Surplus             |               |              | Total unitholders' equity             | Deferred gains or losses on hedges | Total valuation and translation adjustments | Total net assets |
|   | Retained earnings   | Total surplus |              |                                       |                                    |   |                  |
| Balance as of March 1, 2019   | 12,334,340          | 388,789,181   | 570,840,958  | (997,480)                             | (997,480)                          | 569,843,478                                 |                  |
| Issuance of new investment units  | —                   | —             | 32,803,710   | —                                     | —                                  | 32,803,710                                  |                  |
| Distributions of retained earnings  | (11,336,081)        | (11,336,081)  | (11,336,081) | —                                     | —                                  | (11,336,081)                                |                  |
| Distributions in excess of net earnings from allowance for temporary difference adjustments | —                   | (1,560,169)   | (1,560,169)  | —                                     | —                                  | (1,560,169)                                 |                  |
| Other distributions in excess of net earnings   | —                   | (622,339)     | (622,339)    | —                                     | —                                  | (622,339)                                   |                  |
| Net income  | 11,690,708          | 11,690,708    | 11,690,708   | —                                     | —                                  | 11,690,708                                  |                  |
| Net changes of items other than unitholders' equity   | —                   | —             | —            | 91,667                                | 91,667                             | 91,667                                      |                  |
| <b>Balance as of August 31, 2019</b>  | 12,688,967          | 386,961,298   | 601,816,786  | (905,812)                             | (905,812)                          | 600,910,974                                 |                  |

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

## STATEMENT OF CASH FLOWS

|   | Thousands of Yen   |  |
|---|--|--|
|   | For the period<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
| <b>CASH FLOWS</b>   |  |  |
| <b>Cash Flows from Operating Activities</b>   |  |  |
| Income before income taxes  | 11,561,841   | 11,692,763   |
| Depreciation  | 4,913,913  | 5,137,887  |
| Amortization of goodwill  | 2,622,242  | 2,622,242  |
| Investment units issuance expenses  | 75,287   | 55,843   |
| Amortization of investment corporation bonds issuance costs                                 | 3,160  | 3,160  |
| Increase (Decrease) in provision for loss on disaster                                       | 25,557   | (43,480)   |
| Interest income   | (378)  | (596)  |
| Interest expense  | 2,055,360  | 2,092,946  |
| Loss on disposal of property and equipment  | 2,352  | 5,302  |
| Decrease (Increase) in rental receivables   | 59,436   | (37,771)   |
| Decrease (Increase) in long-term prepaid expenses   | (39,163)   | (184,298)  |
| Decrease (Increase) in long-term deposits   | 34,880   | (16,043)   |
| Increase (Decrease) in trade accounts payable   | (601,578)  | 863,316  |
| Increase (Decrease) in other accounts payable   | 52,250   | (21,753)   |
| Decrease (Increase) in consumption taxes receivables  | 206,657  | (657,804)  |
| Increase (Decrease) in accrued consumption taxes  | 990,633  | (990,633)  |
| Increase (Decrease) in accrued expenses   | 55,198   | 8,739  |
| Increase (Decrease) in rent received in advance   | (33,203)   | 224,309  |
| Decrease in property and equipment due to sales   | 4,574,369  | 14,403   |
| Other   | (114,659)  | (280,470)  |
| Subtotal  | 26,444,158   | 20,488,065   |
| Interest received   | 378  | 596  |
| Interest paid   | (2,186,260)  | (2,166,900)  |
| Income taxes paid   | (2,174)  | (925)  |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>24,256,101</b>  | <b>18,320,837</b>  |
| <b>Cash Flows from Investing Activities</b>   |  |  |
| Payments for purchases of property and equipment  | (11,768,260)   | (54,380,717)   |
| Payments for purchases of leasehold rights and intangible assets                            | (5,698)  | (551)  |
| Reimbursement of security deposits to tenants   | (1,133,099)  | (1,016,699)  |
| Proceeds from security deposits from tenants  | 1,690,034  | 3,468,968  |
| Proceeds from security deposits   | —  | 35   |
| <b>Net cash provided by (used in) investing activities</b>                                  | <b>(11,217,024)</b>  | <b>(51,928,965)</b>  |
| <b>Cash Flows from Financing Activities</b>   |  |  |
| Proceeds from short-term debt   | —  | 13,600,000   |
| Repayments of short-term debt   | —  | (6,100,000)  |
| Proceeds from long-term debt  | 28,375,000   | 40,900,000   |
| Repayments of long-term debt  | (28,417,800)   | (34,742,800)   |
| Proceeds from issuance of investment corporation bonds                                      | —  | 32,803,710   |
| Payments of investment units issuance expenses  | (7,400)  | (123,730)  |
| Distributions to unitholders  | (10,715,350)   | (11,334,400)   |
| Distributions in excess of net earnings from allowance for temporary difference adjustments | (1,322,360)  | (1,563,076)  |
| Other distributions in excess of net earnings   | (1,295,252)  | (623,564)  |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>(13,383,164)</b>  | <b>32,816,137</b>  |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                 | <b>(344,086)</b>   | <b>(791,990)</b>   |
| <b>Cash and Cash Equivalents at Beginning of Period</b>                                     | <b>74,556,830</b>  | <b>74,212,743</b>  |
| <b>Cash and Cash Equivalents at End of Period</b>   | <b>74,212,743</b>  | <b>73,420,753</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 office buildings, retail facilities, logistics 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 office buildings, retail facilities, logistics 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       | 4 - 15 years |
| Tools, furniture and fixtures | 3 - 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 units issuance expenses

The entire amount is expensed as incurred.

### Allowances and provisions

(1) 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.

(2) Provision for loss on disaster

The amount that is reasonably estimated at the end of the fiscal period under review is recorded to cover expenditures for restoration etc. following Typhoon Trami in 2018.

### 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 ¥2,052 thousand for the fiscal period ended February 28, 2019, and ¥182,534 thousand for the fiscal period ended August 31, 2019.

### 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, 2019 and August 31, 2019 consist of the following:

|                           | Thousands of Yen        |                       |
|---------------------------|-------------------------|-----------------------|
|                           | As of February 28, 2019 | As of August 31, 2019 |
| Cash and bank deposits    | 74,212,743              | 73,420,753            |
| Cash and cash equivalents | 74,212,743              | 73,420,753            |

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, 2019 | As of August 31, 2019 |
| Buildings in trust                     | 3,324,031               | 3,349,815             |
| Land in trust                          | 6,096,368               | 6,096,368             |
| Structures in trust                    | 2,634                   | 2,581                 |
| Tools, furniture and fixtures in trust | 164                     | 143                   |
| <b>Total</b>                           | <b>9,423,198</b>        | <b>9,448,908</b>      |

The secured liabilities are as follows:

|   | Thousands of Yen        |                       |
|---|-------------------------|-----------------------|
|   | As of February 28, 2019 | As of August 31, 2019 |
| 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, 2019 and August 31, 2019 consist of the following:

|  | Thousands of Yen        |                    |                       |                    |
|--|-------------------------|--------------------|-----------------------|--------------------|
|  | As of February 28, 2019 |                    | As of August 31, 2019 |                    |
|  | Acquisition costs       | Book value         | Acquisition costs     | Book value         |
| Land                                   | 248,639,023             | 248,639,023        | 282,632,048           | 282,632,048        |
| Buildings and structures               | 132,378,523             |                    | 145,727,184           |                    |
| Accumulated depreciation               | (12,165,774)            | 120,212,749        | (14,332,350)          | 131,394,833        |
| Machinery and equipment                | 699,374                 |                    | 729,577               |                    |
| Accumulated depreciation               | (405,602)               | 293,771            | (465,179)             | 264,397            |
| Tools, furniture and fixtures          | 275,363                 |                    | 333,772               |                    |
| Accumulated depreciation               | (77,742)                | 197,620            | (103,877)             | 229,895            |
| Land in trust                          | 409,741,005             | 409,741,005        | 413,608,883           | 413,608,883        |
| Buildings and structures in trust      | 184,247,241             |                    | 187,098,392           |                    |
| Accumulated depreciation               | (23,416,164)            | 160,831,076        | (26,202,758)          | 160,895,634        |
| Machinery and equipment in trust       | 559,318                 |                    | 602,951               |                    |
| Accumulated depreciation               | (77,583)                | 481,735            | (106,849)             | 496,102            |
| Tools, furniture and fixtures in trust | 696,047                 |                    | 801,449               |                    |
| Accumulated depreciation               | (194,795)               | 501,252            | (249,652)             | 551,797            |
| Lease assets in trust                  | 10,107                  |                    | 14,859                |                    |
| Accumulated depreciation               | (8,633)                 | 1,473              | (10,028)              | 4,830              |
| Construction in progress               | 8,186                   | 8,186              | 12,050                | 12,050             |
| <b>Total</b>                           | <b>940,907,896</b>      | <b>940,907,896</b> | <b>990,090,472</b>    | <b>990,090,472</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, 2019 and August 31, 2019 consist of the following:

|   | As of February 28, 2019      |   | As of August 31, 2019        |   |
|---|------------------------------|---|------------------------------|---|
|   | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> |
| Unsecured loans from banks due on April 2, 2019                     | 500,000                      | 0.46091%  | —                            | —   |
| Unsecured loans from banks due on February 26, 2020                 | —                            | —   | 8,000,000                    | 0.46545%  |
| Unsecured loans from banks due on March 29, 2019                    | 4,500,000                    | 0.81625%  | —                            | —   |
| Unsecured loans from banks due on March 29, 2019                    | 4,000,000                    | 0.89635%  | —                            | —   |
| Unsecured loans from banks due on May 27, 2019                      | 9,000,000                    | 1.11750%  | —                            | —   |
| Unsecured loans from a bank due on May 27, 2019                     | 1,000,000                    | 1.04875%  | —                            | —   |
| Unsecured loans from a bank due on May 27, 2019                     | 1,100,000                    | 0.69894%  | —                            | —   |
| Unsecured loans from banks due on August 26, 2019                   | 5,700,000                    | 1.25200%  | —                            | —   |
| Unsecured loans from a bank due on August 26, 2019                  | 2,200,000                    | 1.22000%  | —                            | —   |
| Unsecured loans from banks due on August 26, 2019                   | 2,500,000                    | 1.27625%  | —                            | —   |
| Unsecured loans from banks due on August 26, 2019                   | 4,700,000                    | 0.81080%  | —                            | —   |
| Unsecured loans from banks due on October 28, 2019                  | 3,000,000                    | 0.23091%  | 3,000,000                    | 0.24545%  |
| Unsecured loans from banks due on October 28, 2019                  | 4,000,000                    | 0.20091%  | 4,000,000                    | 0.21545%  |
| 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%  |
| Unsecured loans from a bank due on May 26, 2020                     | —                            | —   | 800,000                      | 1.25875%  |
| Unsecured loans from a bank due on May 27, 2020                     | —                            | —   | 1,000,000                    | 1.48625%  |
| Unsecured loans from banks due on May 29, 2020                      | —                            | —   | 4,000,000                    | 0.43000%  |
| Unsecured loans from a bank due on August 26, 2020                  | —                            | —   | 1,100,000                    | 1.53674%  |
| Unsecured loans from a bank due on August 26, 2020                  | —                            | —   | 800,000                      | 1.28277%  |
| Unsecured loans from banks due on August 26, 2020                   | —                            | —   | 4,700,000                    | 1.18000%  |
| Unsecured loans from a bank due on August 26, 2020                  | —                            | —   | 500,000                      | 1.15566%  |
| Unsecured loans from banks due on August 26, 2020                   | —                            | —   | 4,500,000                    | 1.08100%  |
| Unsecured loans from a bank due on August 26, 2020                  | —                            | —   | 1,000,000                    | 0.72000%  |
| Unsecured loans from a bank due on May 26, 2025 <sup>(Note 2)</sup> | 42,800                       | 2.17000%  | 42,800                       | 2.17000%  |
| Unsecured loans from a bank due on May 26, 2025 <sup>(Note 2)</sup> | 42,800                       | 2.21812%  | 42,800                       | 2.21812%  |
| <b>Total</b>  | <b>65,185,600</b>            |   | <b>66,385,600</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.

- (1) The Company entered into ¥10,000 million credit facilities in the form of commitment lines with two financial institutions for the fiscal period ended February 28, 2019. The total unused amounts of such credit facilities were ¥10,000 million as of February 28, 2019.
- (2) The Company entered into ¥40,000 million credit facilities in the form of commitment lines with four financial institutions for the fiscal period ended February 28, 2019. The total unused amounts of such credit facilities were ¥39,500 million as of February 28, 2019.
- (3) The Company entered into ¥10,000 million credit facilities in the form of commitment lines with two financial institutions for the fiscal period ended August 31, 2019. The total unused amounts of such credit facilities were ¥10,000 million as of August 31, 2019.
- (4) The Company entered into ¥40,000 million credit facilities in the form of commitment lines with four financial institutions for the fiscal period ended August 31, 2019. The total unused amounts of such credit facilities were ¥32,000 million as of August 31, 2019.

## 8. LONG-TERM DEBT

Long-term debts as of February 28, 2019 and August 31, 2019 consist of the following:

|  | As of February 28, 2019      |   | As of August 31, 2019        |   |
|--|------------------------------|---|------------------------------|---|
|  | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> |
| Unsecured loans from banks due on May 26, 2020       | 10,000,000                   | 1.33750%  | —                            | —   |
| Unsecured loans from a bank due on May 26, 2020      | 800,000                      | 1.25875%  | —                            | —   |
| Unsecured loans from a bank due on May 27, 2020      | 1,000,000                    | 1.48625%  | —                            | —   |
| Unsecured loans from banks due on May 29, 2020       | 4,000,000                    | 0.43000%  | —                            | —   |
| Unsecured loans from a bank due on August 26, 2020   | 1,100,000                    | 1.53674%  | —                            | —   |
| Unsecured loans from a bank due on August 26, 2020   | 800,000                      | 1.28277%  | —                            | —   |
| Unsecured loans from banks due on August 26, 2020    | 4,700,000                    | 1.18000%  | —                            | —   |
| Unsecured loans from a bank due on August 26, 2020   | 500,000                      | 1.15566%  | —                            | —   |
| Unsecured loans from banks due on August 26, 2020    | 4,500,000                    | 1.08100%  | —                            | —   |
| Unsecured loans from a bank due on August 26, 2020   | 1,000,000                    | 0.72000%  | —                            | —   |
| Unsecured loans from banks due on September 28, 2020 | 3,000,000                    | 0.23091%  | 3,000,000                    | 0.24545%  |
| 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 November 26, 2020  | 1,230,000                    | 0.20091%  | 1,230,000                    | 0.21545%  |
| 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%  |
| 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 March 26, 2021     | 4,670,000                    | 0.23091%  | 4,670,000                    | 0.24545%  |
| 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 banks due on December 27, 2021  | 6,375,000                    | 0.23091%  | 6,375,000                    | 0.24545%  |
| 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%  |

## NOTES TO FINANCIAL STATEMENTS

|  | As of February 28, 2019      |   | As of August 31, 2019        |   |  | As of February 28, 2019      |   | As of August 31, 2019        |   |
|--|------------------------------|---|------------------------------|---|--|------------------------------|---|------------------------------|---|
|  | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate<br>(Note 1) | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate<br>(Note 1) |  | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate<br>(Note 1) | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate<br>(Note 1) |
| Unsecured loans from banks due on September 30, 2022 | 4,000,000                    | 0.76250%  | 4,000,000                    | 0.76250%  | 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 November 28, 2022  | 2,100,000                    | 0.92280%  | 2,100,000                    | 0.92280%  | 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 November 28, 2022  | 4,550,000                    | 1.11000%  | 4,550,000                    | 1.11000%  | 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 November 28, 2022 | 1,800,000                    | 1.05000%  | 1,800,000                    | 1.05000%  | 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 November 28, 2022  | 1,500,000                    | 0.98624%  | 1,500,000                    | 0.98624%  | Unsecured loans from a bank due on May 26, 2025      | 1,000,000                    | 0.50506%  | 1,000,000                    | 0.50506%  |
| 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 May 26, 2025       | 2,000,000                    | 0.46301%  | 2,000,000                    | 0.46301%  |
| Unsecured loans from banks due on November 28, 2022  | 1,500,000                    | 0.69250%  | 1,500,000                    | 0.69250%  | Unsecured loans from banks due on August 26, 2025    | 3,000,000                    | 0.56380%  | 3,000,000                    | 0.56380%  |
| 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 August 26, 2025    | 4,050,000                    | 0.58727%  | 4,050,000                    | 0.58727%  |
| 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 August 26, 2025    | 1,850,000                    | 0.67915%  | 1,850,000                    | 0.67915%  |
| Unsecured loans from banks due on February 28, 2023  | 10,000,000                   | 0.48700%  | 10,000,000                   | 0.48700%  | Unsecured loans from banks due on August 26, 2025    | 2,600,000                    | 0.60489%  | 2,600,000                    | 0.60489%  |
| Unsecured loans from a bank due on May 26, 2023      | 2,000,000                    | 1.86500%  | 2,000,000                    | 1.86500%  | 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 May 26, 2023      | 2,000,000                    | 1.89500%  | 2,000,000                    | 1.89500%  | 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 May 26, 2023      | 1,000,000                    | 1.83875%  | 1,000,000                    | 1.83875%  | 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 May 26, 2023      | 1,000,000                    | 0.41250%  | 1,000,000                    | 0.41250%  | 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 May 26, 2023      | 2,500,000                    | 0.43408%  | 2,500,000                    | 0.43408%  | 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 August 28, 2023   | 1,000,000                    | 1.14850%  | 1,000,000                    | 1.14850%  | Unsecured loans from a bank due on November 26, 2025 | 2,000,000                    | 0.60448%  | 2,000,000                    | 0.60448%  |
| Unsecured loans from a bank due on August 28, 2023   | 1,000,000                    | 1.15850%  | 1,000,000                    | 1.15850%  | 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 August 28, 2023   | 1,000,000                    | 1.18032%  | 1,000,000                    | 1.18032%  | 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 August 28, 2023   | 4,000,000                    | 1.20772%  | 4,000,000                    | 1.20772%  | Unsecured loans from a bank due on November 26, 2025 | 1,300,000                    | 0.64278%  | 1,300,000                    | 0.64278%  |
| 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 November 26, 2025 | 1,000,000                    | 0.59499%  | 1,000,000                    | 0.59499%  |
| 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 November 26, 2025 | 500,000                      | 0.56311%  | 500,000                      | 0.56311%  |
| 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 February 26, 2026  | 4,000,000                    | 0.74080%  | 4,000,000                    | 0.74080%  |
| Unsecured loans from a bank due on August 28, 2023   | 500,000                      | 0.41435%  | 500,000                      | 0.41435%  | Unsecured loans from banks due on February 26, 2026  | 2,500,000                    | 0.59592%  | 2,500,000                    | 0.59592%  |
| 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 February 26, 2026  | 800,000                      | 0.37630%  | 800,000                      | 0.37630%  |
| Unsecured loans from banks due on November 27, 2023  | 2,000,000                    | 1.75900%  | 2,000,000                    | 1.75900%  | Unsecured loans from a bank due on February 26, 2026 | —                            | —   | 500,000                      | 0.39196%  |
| 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 February 26, 2026  | —                            | —   | 1,500,000                    | 0.17136%  |
| Unsecured loans from banks due on November 27, 2023  | 4,000,000                    | 0.49380%  | 4,000,000                    | 0.49380%  | Unsecured loans from a bank due on May 26, 2026      | 2,500,000                    | 0.63995%  | 2,500,000                    | 0.63995%  |
| 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 May 26, 2026      | 1,100,000                    | 0.65267%  | 1,100,000                    | 0.65267%  |
| 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 May 26, 2026       | 3,600,000                    | 0.60880%  | 3,600,000                    | 0.60880%  |
| Unsecured loans from banks due on February 26, 2024  | 1,300,000                    | 0.53630%  | 1,300,000                    | 0.53630%  | Unsecured loans from a bank due on May 26, 2026      | 1,000,000                    | 0.59614%  | 1,000,000                    | 0.59614%  |
| Unsecured loans from a bank due on February 26, 2024 | 500,000                      | 0.24000%  | 500,000                      | 0.24000%  | Unsecured loans from a bank due on May 26, 2026      | —                            | —   | 1,100,000                    | 0.37000%  |
| 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 August 26, 2026   | 2,700,000                    | 0.67591%  | 2,700,000                    | 0.67591%  |
| 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 August 26, 2026   | 2,700,000                    | 0.67591%  | 2,700,000                    | 0.67591%  |
| Unsecured loans from a bank due on May 27, 2024      | 2,000,000                    | 0.53676%  | 2,000,000                    | 0.53676%  | 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 June 26, 2024     | 2,700,000                    | 0.85925%  | 2,700,000                    | 0.85925%  | Unsecured loans from a bank due on August 26, 2026   | 1,000,000                    | 0.70414%  | 1,000,000                    | 0.70414%  |
| Unsecured loans from a bank due on June 26, 2024     | 2,700,000                    | 0.49533%  | 2,700,000                    | 0.49533%  | 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 August 26, 2024   | 3,000,000                    | 0.58175%  | 3,000,000                    | 0.58175%  | Unsecured loans from a bank due on August 26, 2026   | 1,000,000                    | 0.64500%  | 1,000,000                    | 0.64500%  |
| Unsecured loans from a bank due on August 26, 2024   | 2,430,000                    | 0.49971%  | 2,430,000                    | 0.49971%  | Unsecured loans from a bank due on August 26, 2026   | 1,000,000                    | 0.42118%  | 1,000,000                    | 0.42118%  |
| 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 August 26, 2026   | —                            | —   | 500,000                      | 0.43627%  |
| Unsecured loans from a bank due on August 26, 2024   | —                            | —   | 1,000,000                    | 0.28624%  | Unsecured loans from banks due on August 26, 2026    | —                            | —   | 1,500,000                    | 0.20880%  |
| Unsecured loans from a bank due on November 26, 2024 | 2,250,000                    | 0.50825%  | 2,250,000                    | 0.50825%  | Unsecured loans from a bank due on November 26, 2026 | 2,000,000                    | 0.76000%  | 2,000,000                    | 0.76000%  |
| 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, 2026 | 2,000,000                    | 0.74229%  | 2,000,000                    | 0.74229%  |
| Unsecured loans from a bank due on November 26, 2024 | 1,800,000                    | 0.55979%  | 1,800,000                    | 0.55979%  | Unsecured loans from banks due on November 26, 2026  | 4,165,000                    | 0.73506%  | 4,165,000                    | 0.73506%  |
| Unsecured loans from a bank due on November 26, 2024 | 500,000                      | 0.52384%  | 500,000                      | 0.52384%  | Unsecured loans from banks due on November 26, 2026  | 4,000,000                    | 0.69956%  | 4,000,000                    | 0.69956%  |
| Unsecured loans from banks due on November 26, 2024  | 2,000,000                    | 0.42630%  | 2,000,000                    | 0.42630%  | Unsecured loans from banks due on November 26, 2026  | 1,500,000                    | 0.64999%  | 1,500,000                    | 0.64999%  |
| Unsecured loans from banks due on February 26, 2025  | 4,200,000                    | 0.62675%  | 4,200,000                    | 0.62675%  | Unsecured loans from banks due on November 26, 2026  | 2,000,000                    | 0.60750%  | 2,000,000                    | 0.60750%  |
| 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, 2027  | 2,320,000                    | 0.71500%  | 2,320,000                    | 0.71500%  |
| 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, 2027  | 1,500,000                    | 0.46630%  | 1,500,000                    | 0.46630%  |
| Unsecured loans from banks due on February 26, 2025  | 1,500,000                    | 0.53880%  | 1,500,000                    | 0.53880%  | Unsecured loans from a bank due on February 26, 2027 | —                            | —   | 500,000                      | 0.44859%  |
| Unsecured loans from banks due on February 26, 2025  | 1,000,000                    | 0.50604%  | 1,000,000                    | 0.50604%  | Unsecured loans from banks due on February 26, 2027  | —                            | —   | 1,000,000                    | 0.48144%  |

## NOTES TO FINANCIAL STATEMENTS

|   | As of February 28, 2019      |   | As of August 31, 2019        |   |
|---|------------------------------|---|------------------------------|---|
|   | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> | Amount<br>(Thousands of Yen) | Weighted-<br>average interest<br>rate <sup>(Note 1)</sup> |
| Unsecured loans from banks due on March 26, 2027                    | 1,500,000                    | 0.69068%  | 1,500,000                    | 0.69068%  |
| 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%  | 2,300,000                    | 0.74736%  |
| Unsecured loans from a bank due on May 26, 2027                     | 1,800,000                    | 0.70250%  | 1,800,000                    | 0.70250%  |
| 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%  | 2,600,000                    | 0.76290%  |
| Unsecured loans from a bank due on August 26, 2027                  | 1,000,000                    | 0.74500%  | 1,000,000                    | 0.74500%  |
| Unsecured loans from a bank due on August 26, 2027                  | 1,000,000                    | 0.51356%  | 1,000,000                    | 0.51356%  |
| Unsecured loans from banks due on August 26, 2027                   | —                            | —   | 1,500,000                    | 0.29000%  |
| 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%  | 5,000,000                    | 0.79571%  |
| Unsecured loans from a bank due on November 26, 2027                | 1,800,000                    | 0.75050%  | 1,800,000                    | 0.75050%  |
| Unsecured loans from banks due on November 26, 2027                 | 1,700,000                    | 0.70750%  | 1,700,000                    | 0.70750%  |
| Unsecured loans from banks due on November 26, 2027                 | 2,500,000                    | 0.52234%  | 2,500,000                    | 0.52234%  |
| Unsecured loans from a bank due on February 28, 2028                | 1,000,000                    | 0.82130%  | 1,000,000                    | 0.82130%  |
| Unsecured loans from a bank due on February 28, 2028                | 2,355,000                    | 0.76241%  | 2,355,000                    | 0.76241%  |
| Unsecured loans from banks due on February 28, 2028                 | 1,500,000                    | 0.78296%  | 1,500,000                    | 0.78296%  |
| Unsecured loans from a bank due on February 28, 2028                | 1,800,000                    | 0.79642%  | 1,800,000                    | 0.79642%  |
| Unsecured loans from a bank due on February 28, 2028                | —                            | —   | 2,650,000                    | 0.54205%  |
| Unsecured loans from banks due on February 28, 2028                 | —                            | —   | 1,500,000                    | 0.57365%  |
| Unsecured loans from banks due on May 26, 2028                      | 5,000,000                    | 0.79880%  | 5,000,000                    | 0.79880%  |
| Unsecured loans from a bank due on May 26, 2028                     | 2,000,000                    | 0.75922%  | 2,000,000                    | 0.75922%  |
| Unsecured loans from a bank due on May 26, 2028                     | —                            | —   | 1,550,000                    | 0.55038%  |
| Unsecured loans from a bank due on May 26, 2028                     | —                            | —   | 500,000                      | 0.54010%  |
| Unsecured loans from banks due on May 26, 2028                      | —                            | —   | 2,000,000                    | 0.54750%  |
| Unsecured loans from banks due on August 28, 2028                   | 3,600,000                    | 0.84750%  | 3,600,000                    | 0.84750%  |
| Unsecured loans from a bank due on August 28, 2028                  | 500,000                      | 0.61005%  | 500,000                      | 0.61005%  |
| Unsecured loans from banks due on August 28, 2028                   | —                            | —   | 1,000,000                    | 0.62163%  |
| Unsecured loans from a bank due on August 28, 2028                  | —                            | —   | 500,000                      | 0.62025%  |
| Unsecured loans from a bank due on August 28, 2028                  | —                            | —   | 500,000                      | 0.37500%  |
| Unsecured loans from banks due on November 27, 2028                 | 2,000,000                    | 0.81130%  | 2,000,000                    | 0.81130%  |
| Unsecured loans from banks due on November 27, 2028                 | —                            | —   | 3,000,000                    | 0.59375%  |
| Unsecured loans from banks due on February 26, 2029                 | 2,500,000                    | 0.65880%  | 2,500,000                    | 0.65880%  |
| Unsecured loans from banks due on February 26, 2029                 | —                            | —   | 1,400,000                    | 0.67098%  |
| Unsecured loans from a bank due on February 26, 2029                | —                            | —   | 500,000                      | 0.63692%  |
| Unsecured loans from a bank due on February 26, 2029                | —                            | —   | 2,300,000                    | 0.63692%  |
| Unsecured loans from a bank due on February 26, 2029                | —                            | —   | 3,500,000                    | 0.41815%  |
| Unsecured loans from banks due on May 28, 2029                      | —                            | —   | 5,000,000                    | 0.64000%  |
| Unsecured loans from banks due on August 27, 2029                   | —                            | —   | 2,000,000                    | 0.46130%  |
| Unsecured loans from banks due on August 27, 2029                   | —                            | —   | 3,900,000                    | 0.46130%  |
| 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 <sup>(Note 2)</sup> | 711,100                      | 2.17000%  | 689,700                      | 2.17000%  |
| Unsecured loans from a bank due on May 26, 2025 <sup>(Note 2)</sup> | 711,100                      | 2.21812%  | 689,700                      | 2.21812%  |
| <b>Total</b>  | <b>409,927,200</b>           |   | <b>422,384,400</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, 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 interest rate.

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 February 28, 2019      | 60,885,600        | 58,760,600        | 51,615,600        | 45,535,600        |
| <b>As of August 31, 2019</b> | <b>61,135,600</b> | <b>51,090,600</b> | <b>61,435,600</b> | <b>38,035,600</b> |

## 9. INVESTMENT CORPORATION BONDS

Details of investment corporation bonds outstanding are summarized as follows.

|   | As of February 28, 2019      |                           | As of August 31, 2019        |                           |
|---|------------------------------|---------------------------|------------------------------|---------------------------|
|   | Amount<br>(Thousands of Yen) | Interest rate<br>(Note 1) | Amount<br>(Thousands of Yen) | Interest rate<br>(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                    | 2.90%                     |
| 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%                     | 2,000,000                    | 0.59%                     |
| NMF's 3rd series of unsecured investment corporation bonds due on May 21, 2038            | 1,500,000                    | 1.03%                     | 1,500,000                    | 1.03%                     |
| <b>Total</b>  | <b>22,000,000</b>            |                           | <b>22,000,000</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 February 28, 2019      | —                | 5,000,000 | —         | —         | —         |
| <b>As of August 31, 2019</b> | <b>5,000,000</b> | <b>—</b>  | <b>—</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.

## NOTES TO FINANCIAL STATEMENTS

### 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, 2018 to February 28, 2019

##### 1. Reason, related assets and amounts

|                                    |  |                |                                       |                                   |                        |                                      | Thousands of Yen                                 |
|------------------------------------|--|----------------|---------------------------------------|-----------------------------------|------------------------|--------------------------------------|--|
| 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                              |
| Goodwill                           | Amortization of goodwill   | 9,489,126      | 5,432,649                             | 1,328,225                         | —                      | 6,760,875                            | —  |
| Land, buildings, etc.              | Merger expenses  | 4,029,135      | 1,352,557                             | (5,754)                           | —                      | 1,346,802                            | —  |
| Deferred gains or losses on hedges | Loss on interest-rate swaps recognized at the end of the fiscal period | 2,867,594      | 1,093,460                             | —                                 | (321,691)              | 771,769                              | Changes in fair value of derivative transactions |
| Increase - subtotal                |  | —              | 7,878,667                             | 1,322,470                         | (321,691)              | 8,879,447                            | —  |
| <b>Total</b>                       |  | —              | 7,878,667                             | 1,322,470                         | (321,691)              | 8,879,447                            | —  |

##### 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) 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, 2019 to August 31, 2019

##### 1. Reason, related assets and amounts

|                                    |  |                |                                       |                                   |                        |                                      | Thousands of Yen    |
|------------------------------------|--|----------------|---------------------------------------|-----------------------------------|------------------------|--------------------------------------|---------------------|
| 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 |
| Goodwill                           | Amortization of goodwill   | 12,111,369     | 6,760,875                             | 1,347,369                         | —                      | 8,108,244                            | —                   |
| Land, buildings, etc.              | Merger expenses  | 4,029,135      | 1,346,802                             | (12,910)                          | —                      | 1,333,892                            | —                   |
| Deferred gains or losses on hedges | Loss on interest-rate swaps recognized at the end of the fiscal period | 2,867,594      | 771,769                               | 225,710                           | —                      | 997,480                              | —                   |
| Increase - subtotal                |  | —              | 8,879,447                             | 1,560,169                         | —                      | 10,439,617                           | —                   |
| <b>Total</b>                       |  | —              | 8,879,447                             | 1,560,169                         | —                      | 10,439,617                           | —                   |

##### 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) 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, 2019 and August 31, 2019 were as follows:

|                     | For the period from September 1, 2018 to February 28, 2019 | For the period from March 1, 2019 to August 31, 2019 |
|---------------------|--|--|
| Net assets per unit | 131,853  | 132,146  |
| Net income per unit | 2,675  | 2,571  |

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, 2018 to February 28, 2019 | For the period from March 1, 2019 to August 31, 2019 |
|---|--|--|
| Net income (Thousands of Yen)                                   | 11,560,917   | 11,690,708   |
| Amount not available to ordinary unitholders (Thousands of Yen) | —  | —  |
| Net income available to ordinary unitholders (Thousands of Yen) | 11,560,917   | 11,690,708   |
| Average number of units during the period (Units)               | 4,321,800  | 4,545,840  |

### 13. RELATED PARTY TRANSACTIONS

#### For the periods from September 1, 2018 to February 28, 2019 and from March 1, 2019 to August 31, 2019

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

The Company, as an investment corporation, is subject to corporate income taxes at a statutory tax rate of approximately 31.51% for the fiscal period ended August 31, 2019. However, the Company 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



## NOTES TO FINANCIAL STATEMENTS

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 the Company distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥14,592,285 thousand for the fiscal period ended August 31, 2019, 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<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
| Deferred tax asset:                                     |  |  |
| Valuation difference on other assets acquired by merger | 20,840,495   | 20,452,773   |
| Deferred gains or losses on hedges                      | 315,141  | 284,970  |
| Unearned revenue  | 141,505  | 108,620  |
| Write-offs for long-term prepaid expenses               | 15,456   | 12,332   |
| Depreciation costs of trust leasehold rights            | 1,221  | 1,338  |
| Non-deductible accrued enterprise tax                   | 15   | 86   |
| Subtotal  | 21,313,836   | 20,860,121   |
| Valuation allowance                                     | (21,313,836)   | (20,860,121)   |
| 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<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
|-------------------------------|--|--|
| Statutory tax rate            | 31.51%   | 31.51%   |
| Deductible cash distributions | (35.14%)   | (35.69%)   |
| Valuation of allowance        | (3.51%)  | (2.87%)  |
| Amortization of goodwill      | 7.15%  | 7.07%  |
| Other                         | 0.01%  | 0.01%  |
| Effective tax rate            | 0.01%  | 0.02%  |

## 15. FINANCIAL INSTRUMENTS

### Overview

#### (1) Policy for Financial Instruments

Upon acquisition of property-related assets, the Company 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, the Company's investment policy is to secure longer-term, fixed-rate borrowings with well-diversified maturities.

The Company 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

Borrowings 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. The Company is exposed to liquidity risk of being unable to meet its obligations on scheduled due dates. The Company 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, the Company is exposed to the market risk arising from fluctuations in interest rates on its floating-rate debt. However, the effect of such risk on the operation of the Company is limited by maintaining the LTV ratio at low levels and the ratio of long-term fixed-rate debt to total debt at high levels. Furthermore, the Company may utilize derivative transactions (interest-rate swap transactions) as a hedging instrument to

reduce the market risk under floating-rate debt by swapping such floating-rate interest payments for fixed-rate interest payments.

Bank deposits are held as a means of investing surplus funds, and the Company 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, 2018 to February 28, 2019

The following table summarizes the carrying value and the estimated fair values of financial instruments as of February 28, 2019.

|   | Thousands of Yen                   |                                |            |
|---|------------------------------------|--------------------------------|------------|
|   | Carrying value <sup>(Note 1)</sup> | Fair value <sup>(Note 1)</sup> | Difference |
| (i) Cash and bank deposits                            | 74,212,743                         | 74,212,743                     | —          |
| (ii) Short-term debt                                  | (500,000)                          | (500,000)                      | —          |
| (iii) Current portion of investment corporation bonds | —                                  | —                              | —          |
| (iv) Current portion of long-term debt                | (64,685,600)                       | (64,808,960)                   | 123,360    |
| (v) Investment corporation bonds                      | (22,000,000)                       | (23,298,479)                   | 1,298,479  |
| (vi) Long-term debt                                   | (409,927,200)                      | (416,632,574)                  | 6,705,374  |
| (vii) Derivative transactions                         | (1,001,597)                        | (1,001,597)                    | —          |

#### For the period from March 1, 2019 to August 31, 2019

The following table summarizes the carrying value and the estimated fair values of financial instruments as of August 31, 2019.

|   | Thousands of Yen                   |                                |            |
|---|------------------------------------|--------------------------------|------------|
|   | Carrying value <sup>(Note 1)</sup> | Fair value <sup>(Note 1)</sup> | Difference |
| (i) Cash and bank deposits                            | 73,420,753                         | 73,420,753                     | —          |
| (ii) Short-term debt                                  | (8,000,000)                        | (8,000,000)                    | —          |
| (iii) Current portion of investment corporation bonds | (5,000,000)                        | (5,061,335)                    | 61,335     |
| (iv) Current portion of long-term debt                | (58,385,600)                       | (58,577,585)                   | 191,985    |
| (v) Investment corporation bonds                      | (17,000,000)                       | (18,376,555)                   | 1,376,555  |
| (vi) Long-term debt                                   | (422,384,400)                      | (432,947,922)                  | 10,563,522 |
| (vii) Derivative transactions                         | (909,813)                          | (909,813)                      | —          |

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 and (ii) Short-term debt

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.

(iii) Current portion of investment corporation bonds and (v) Investment corporation bonds

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

(iv) Current portion of long-term debt and (vi) 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 "22. 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.

(vii) Derivative transactions

See "22. Derivatives and Hedge Accounting."

## NOTES TO FINANCIAL STATEMENTS

Note 3: Redemption schedule for cash and bank deposits as of February 28, 2019.

|                        | 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 | 74,212,743          | —                                | —                                   | —                                    | —                                   | —                |
| <b>Total</b>           | <b>74,212,743</b>   | <b>—</b>                         | <b>—</b>                            | <b>—</b>                             | <b>—</b>                            | <b>—</b>         |

Redemption schedule for cash and bank deposits as of August 31, 2019

|                        | 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 | 73,420,753          | —                                | —                                   | —                                    | —                                   | —                |
| <b>Total</b>           | <b>73,420,753</b>   | <b>—</b>                         | <b>—</b>                            | <b>—</b>                             | <b>—</b>                            | <b>—</b>         |

Note 4: Redemption schedule for debt as of February 28, 2019

|                              | 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   |
| Short-term debt              | 500,000             | —                                | —                                   | —                                    | —                                   | —                  |
| Investment corporation bonds | —                   | 5,000,000                        | —                                   | —                                    | —                                   | 17,000,000         |
| Long-term debt               | 64,685,600          | 60,885,600                       | 58,760,600                          | 51,615,600                           | 45,535,600                          | 193,129,800        |
| <b>Total</b>                 | <b>65,185,600</b>   | <b>65,885,600</b>                | <b>58,760,600</b>                   | <b>51,615,600</b>                    | <b>45,535,600</b>                   | <b>210,129,800</b> |

Redemption schedule for debt as of August 31, 2019

|                              | 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   |
| Short-term debt              | 8,000,000           | —                                | —                                   | —                                    | —                                   | —                  |
| Investment corporation bonds | 5,000,000           | —                                | —                                   | —                                    | —                                   | 17,000,000         |
| Long-term debt               | 58,385,600          | 61,135,600                       | 51,090,600                          | 61,435,600                           | 38,035,600                          | 210,687,000        |
| <b>Total</b>                 | <b>71,385,600</b>   | <b>61,135,600</b>                | <b>51,090,600</b>                   | <b>61,435,600</b>                    | <b>38,035,600</b>                   | <b>227,687,000</b> |

## 16. INVESTMENT AND RENTAL PROPERTIES

The Company 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, 2018 to February 28, 2019 | For the period from March 1, 2019 to August 31, 2019 |
| Carrying value                                  |  |  |
| Balance at beginning of the period              | 947,449,625  | 949,867,203  |
| Amount of increase (decrease) during the period | 2,417,578  | 49,182,189   |
| Balance at end of the period                    | 949,867,203  | 999,049,393  |
| Fair value at end of the period                 | 1,056,994,000  | 1,123,089,000  |

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 NMF Kobe Myodani Building (¥3,604,747 thousand) and Serenite Shinsaibashi Grande (¥5,832,185 thousand). The decrease during the previous period is mainly attributable to the sale of PRIME URBAN Esaka I (¥612,553 thousand), PRIME URBAN Esaka II (¥743,930 thousand), PRIME URBAN Esaka III (¥1,095,159 thousand), PRIME URBAN Tamatsukuri (¥955,449 thousand) and PRIME URBAN Chikusa (¥1,167,276 thousand) as well as depreciation (¥4,906,599 thousand). The increase during the current period is mainly attributable to the acquisition of PMO Tamachi Higashi (¥11,055,064 thousand), PMO Hatchobori Shinkawa (¥3,863,665 thousand), PMO Kyobashi Higashi (¥2,926,836 thousand), PMO Ochanomizu (¥3,941,809 thousand), GEMS Shinbashi (¥2,856,526 thousand), GEMS Kayabacho (¥2,628,660 thousand), Summit Store Honamanuma (¥2,183,962 thousand), GEMS Shin-Yokohama (¥1,844,634 thousand), GEMS Namba (¥3,851,753 thousand), Landport Ome I (¥13,874,977 thousand) and Red Planet Naha Okinawa (¥2,692,522 thousand). The decrease during the current period is mainly attributable to the partial sale of PROUD FLAT Shinjuku Kawadacho (¥14,403 thousand) as well as depreciation expenses (¥5,130,411 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.

The real estate rental revenues and expenses for the fiscal period ended August 31, 2019 are presented in "18. Breakdown of Real Estate Rental Revenues and Expenses."

## 17. SEGMENT INFORMATION

For the periods from September 1, 2018 to February 28, 2019 and from March 1, 2019 to August 31, 2019

### Segment Information

Since the Company 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 for 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, a 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, a geographical breakdown of property and equipment has been omitted.

#### 3. Information about major clients

For the period from September 1, 2018 to February 28, 2019

| Customer name                         | Revenues (Thousands of Yen) | Related segment name        |
|---------------------------------------|-----------------------------|-----------------------------|
| Nomura Real Estate Partners Co., Ltd. | 5,086,866                   | Rental real estate business |

For the period from March 1, 2019 to August 31, 2019

| Customer name                         | Revenues (Thousands of Yen) | Related segment name        |
|---------------------------------------|-----------------------------|-----------------------------|
| Nomura Real Estate Partners Co., Ltd. | 5,169,816                   | 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, 2019 and August 31, 2019 consist of the following:

|                              | For the period from September 1, 2018 to February 28, 2019 | For the period from March 1, 2019 to August 31, 2019 |
|------------------------------|--|--|
| Real estate rental revenues  | 34,742,917   | 36,610,991   |
| Rental revenues              | 31,885,544   | 33,388,571   |
| Rental revenues              | 29,453,615   | 30,916,343   |
| Common area charges          | 2,431,928  | 2,472,228  |
| Other rental revenues        | 2,857,373  | 3,222,419  |
| Parking revenues             | 595,154  | 598,968  |
| Incidental income            | 2,189,215  | 2,368,743  |
| Other miscellaneous revenues | 73,003   | 254,707  |
| Real estate rental expenses  | 14,977,514   | 15,887,320   |
| Property management costs    | 1,626,785  | 1,716,309  |
| Property management fees     | 904,698  | 1,005,772  |
| Property and other taxes     | 2,831,124  | 2,982,222  |
| Utility expenses             | 1,774,192  | 1,883,595  |
| Casualty insurance           | 41,641   | 42,787   |
| Repairs and maintenance      | 1,515,609  | 1,727,718  |
| Land rents                   | 217,806  | 211,417  |
| Depreciation                 | 4,911,636  | 5,135,610  |
| Other rental expenses        | 1,154,020  | 1,181,885  |
| Real estate rental profits   | 19,765,403   | 20,723,671   |

## NOTES TO FINANCIAL STATEMENTS

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

|                                   | Thousands of Yen   |  |
|-----------------------------------|--|--|
|                                   | For the period<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
| Gain on sale of real estate       |  |  |
| Proceeds from sale of real estate | 4,179,000  | 23,000   |
| Cost of real estate               | 3,407,092  | 14,403   |
| Other related sales expense       | 86,310   | 2,383  |
| Gain on sale of real estate       | 685,596  | 6,213  |
| Loss on sale of real estate       |  |  |
| Proceeds from sale of real estate | 1,168,000  | —  |
| Cost of real estate               | 1,167,276  | —  |
| Other related sales expense       | 23,942   | —  |
| Loss on sale of real estate       | (23,219)   | —  |

### 20. BREAKDOWN OF EXTRAORDINARY INCOME

#### For the period from September 1, 2018 to February 28, 2019

The insurance amount of ¥139,976 thousand related to the assets damaged by the Typhoons Jebi and Trami in 2018 was offset by the loss amount of ¥86,678 thousand. Therefore, the amount of ¥53,297 thousand is recorded as insurance income.

#### For the period from March 1, 2019 to August 31, 2019

Not applicable

### 21. LEASES

The future minimum rental revenues from tenants under non-cancelable operating lease of properties as of February 28, 2019 and August 31, 2019 are summarized as follows:

|                     | Thousands of Yen        |                       |
|---------------------|-------------------------|-----------------------|
|                     | As of February 28, 2019 | As of August 31, 2019 |
| Due within one year | 31,590,571              | 34,037,212            |
| Due after one year  | 68,152,899              | 79,314,693            |
| <b>Total</b>        | 99,743,470              | 113,351,905           |

### 22. DERIVATIVES AND HEDGE ACCOUNTING

#### Derivative transactions as of February 28, 2019

(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   | 116,080,000     | 91,330,000         | (1,001,597)<br>(Note 3) |
| Special treatment of interest-rate swaps |                         | Interest-rate swaps: Received/floating and paid/fixed | Long-term debt   | 83,753,900      | 61,661,100         | (974,332)<br>(Note 4)   |
| <b>Total</b>                             |                         |   |                  | 199,833,900     | 152,991,100        | (1,975,930)             |

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, (¥4,117 thousand) is booked as "accrued expenses" on the Balance Sheet.

Note 4: Out of the fair value, (¥974,332 thousand) is not marked to market on the Balance Sheet, since adopting special treatment for interest-rate swaps.

#### Derivative transactions as of August 31, 2019

(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   | 101,180,000     | 78,130,000         | (909,813)<br>(Note 3)   |
| Special treatment of interest-rate swaps |                         | Interest-rate swaps: Received/floating and paid/fixed | Long-term debt   | 74,732,500      | 51,639,700         | (1,019,257)<br>(Note 4) |
| <b>Total</b>                             |                         |   |                  | 175,912,500     | 129,769,700        | (1,929,071)             |

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, (¥4,001 thousand) is booked as "accrued expenses" on the Balance Sheet.

Note 4: Out of the fair value, (¥1,019,257 thousand) is not marked to market on the Balance Sheet, since adopting special treatment for interest-rate swaps.

### 23. CASH DISTRIBUTIONS

|   | Yen  |  |
|---|--|--|
|   | For the period<br>from September 1, 2018<br>to February 28, 2019 | For the period<br>from March 1, 2019<br>to August 31, 2019 |
| 1. Retained earnings at end of period                                 | 12,334,340,732   | 12,688,967,476   |
| 2. Distributions in excess of retained earnings                       | 2,182,509,000  | 2,901,177,400  |
| Of which, allowance for temporary difference adjustment               | 1,560,169,800  | 1,555,176,600  |
| Of which, other distributions in excess of net income                 | 622,339,200  | 1,346,000,800  |
| 3. Incorporation into unitholders' capital                            | —  | 91,667,763   |
| Of which, reversal of allowance for temporary difference adjustments  | —  | 91,667,763   |
| 4. Distributions  | 13,518,590,400   | 14,592,285,700   |
| [Distributions (per unit)]  | (3,128)  | (3,209)  |
| Of which, distributions of earnings                                   | 11,336,081,400   | 11,691,108,300   |
| [Of which, distributions of earnings (per unit)]                      | (2,623)  | (2,571)  |
| Of which, allowance for temporary difference adjustments              | 1,560,169,800  | 1,555,176,600  |
| [Of which, allowance for temporary difference adjustments (per unit)] | (361)  | (342)  |
| Of which, other distributions in excess of net income                 | 622,339,200  | 1,346,000,800  |
| [Of which, other distributions in excess of net income (per unit)]    | (144)  | (296)  |
| 5. Retained earnings carried forward                                  | 998,259,332  | 906,191,413  |

#### 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 under review, NMF decided to implement a total of ¥14,592,285,700 in distributions (¥3,209 per investment unit). This figure was arrived at by excluding the portion for which per-unit distribution comprising the types of dividends laid out below would be less than ¥1 from ¥14,595,412,415, the amount calculated based on ¥11,690,708,144 in net income after taxes plus ¥2,622,242,820 in amortization of goodwill, subtracting ¥6,213,058 in gain on sales of real estate, and adding ¥288,674,509 in temporary decrease in operating revenues due to the moving out of a large tenant.

Total distributions comprise distribution of earnings and distribution in excess of net income. Distribution of earnings as stipulated in Article 136, Paragraph 1 of the Investment Trust Act came to ¥11,691,108,300 (¥2,571 per investment unit). Distribution in excess of net income comprises a distribution of ¥1,555,176,600 (¥342 per investment unit) as allowance for temporary difference adjustment and ¥1,346,000,800 (¥296 per investment unit) in other distribution in excess of net income.

## NOTES TO FINANCIAL STATEMENTS

### 24. INFORMATION ON ALLOWANCE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

#### For the period from September 1, 2018 to February 28, 2019

##### 1. Reason for provision, related assets and amounts

|                                    |  | Thousands of Yen  |
|------------------------------------|--|---|
| Related assets, etc.               | Reason for provision   | Provision of allowance for temporary difference adjustments |
| Goodwill                           | Amortization of goodwill   | 2,622,242   |
| Long-term deposits                 | Shortfall of reserve for repairs                                       | 8,015   |
| Deferred gains or losses on hedges | Loss on interest-rate swaps recognized at the end of the fiscal period | 225,710   |
| Increase-subtotal                  |  | 2,855,968   |
| Buildings, facilities, etc.        | Depreciation deficiency equivalent                                     | (657,016)   |
| Unearned revenue                   | Write-down of loss on interest rate swap due to merger                 | (124,655)   |
| Land                               | Cost of sales of land  | (494,720)   |
| Others                             | —  | (19,406)  |
| Decrease-subtotal                  |  | (1,295,799)   |
| <b>Total</b>                       |  | <b>1,560,169</b>  |

##### 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 | —<br>(Note 1)   |
| <b>Total</b>          |   | <b>—</b>  |

Note 1: The amount of reversal during the current fiscal period (¥12,910 thousand) is included in "Depreciation deficiency equivalent" on "1. Reasons for provision, related assets and amounts."

##### 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, 2019 to August 31, 2019

##### 1. Reason for provision, related assets and amounts

|                             |  | Thousands of Yen  |
|-----------------------------|--|---|
| Related assets, etc.        | Reason for provision                                   | Provision of allowance for temporary difference adjustments |
| Goodwill                    | Amortization of goodwill                               | 2,622,242   |
| Long-term deposits          | Shortfall of reserve for repairs                       | 4,753   |
| Increase-subtotal           |  | 2,626,996   |
| Buildings, facilities, etc. | Depreciation deficiency equivalent                     | (953,085)   |
| Unearned revenue            | Write-down of loss on interest rate swap due to merger | (102,629)   |
| Land                        | Cost of sales of land                                  | (781)   |
| Others                      | —  | (15,323)  |
| Decrease-subtotal           |  | (1,071,819)   |
| <b>Total</b>                |  | <b>1,555,176</b>  |

##### 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 | —<br>(Note 1)   |
| Deferred gains or losses on hedges | Changes in fair value of derivatives  | (91,667)  |
| <b>Total</b>                       |   | <b>(91,667)</b>   |

Note 1: The amount of reversal during the current fiscal period (¥5,663 thousand) is included in "Depreciation deficiency equivalent" on "1. Reasons for provision, related assets and amounts."

##### 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.

### 25. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.

## 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 August 31, 2019, and the statements of income and retained earnings, changes in net assets, and cash flows from March 1, 2019 to August 31, 2019 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 August 31, 2019, and its financial performance and cash flows from March 1, 2019 to August 31, 2019 in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

November 25, 2019  
Tokyo, Japan