

Top REIT, Inc.

16th Business Report  
(Semi-Annual Report 16th)

November 1, 2013 – April 30, 2014

## Letter from the Executive Officer of the Investment Corporation and the President of the Asset Management Company

Dear Investors,

Thank you for your continued loyal patronage to Top REIT, Inc. (Top REIT).

The Japanese economy is on a gradual recovery trend as can be observed in the significant recovery in performance of some companies backed by an increase in public investment, expansion in domestic demand and full-fledged recovery of the U.S. economy. Although personal consumption and housing investment are impacted by the consumption tax hike, consumer sentiment continues to be strong with expectations for an improvement in the employment and income environments. In such an economic environment, the business sentiment of companies is on a recovery trend and capital investment by companies is gradually becoming more active.

As for the stock market, although it saw significant on-balance buying by overseas investors last year as foreign capital continuously flowed into Japanese stocks from the anticipation of an economic recovery, it currently has temporarily turned to on-balance selling due to the consumption tax hike and uncertainty over the growth strategy, which is the third arrow of Abenomics.

On the other hand, the J-REIT market has maintained underlying strength backed by the investment appetite from individual investors via NISA as its high returns were reaffirmed in addition to the improvement in the vacancy rates of office buildings and increase in land prices. Against the backdrop of this favorable environment for fund procurement, many J-REITs also conducted public offerings during the fiscal period.

Top REIT also implemented a capital increase through public offering of new investment units in November 2013 for the first time since listing. In line with the capital increase, Top REIT newly acquired two office buildings and one retail property totaling 12.3 billion yen, which increased the asset size to 197.8 billion yen. Top REIT will continue its efforts toward reaching an asset size of 210.0 billion yen that it has targeted since listing (an asset size that keeps the investment ratio of NEC Head Office Building, the flagship property, at 20% or less of the entire portfolio).

Furthermore, Top REIT focused on management of existing assets and realized attracting successor tenants at early stages into office buildings and residential properties from which tenants had moved-out. Under these circumstances, the financial results of Top REIT in the sixteenth fiscal period (fiscal period ended April 30, 2014) were operating revenue of 5,637 million yen (period-on-period increase of 9.4%), ordinary income of 1,913 million yen (period-on-period increase of 21.0%), net income of 1,913 million yen (period-on-period increase of 21.2%) and dividend per unit of 10,864 yen (period-on-period increase of 6.6%), the dividend which surpassed the forecast announced in December 2013 by 414 yen.

In the current real estate transaction market, the investment appetite from domestic and overseas investors is strong and real estate prices are on a sharp rising trend. In the real estate leasing market, a rise in rents for office buildings, etc. is expected due to the recovery in corporate performance. The environment surrounding J-REITs is becoming increasingly stable due to significant changes including improved credibility from the market due to it becoming subject to insider trading regulations and investment in J-REITs being initiated by the Government Pension Investment Fund, Japan (GPIF), one of the world's largest pension funds, through the adopting of a new index. Top REIT will continue to conduct management with the aim of maximizing investment value for its unitholders through collaboration with the asset manager and the sponsor. We want to thank you, our unitholders, for your continued support and understanding.

**Junichi Sahara**

Executive Officer  
Top REIT, Inc.



**Nobuhito Endo**

President and Representative Director  
Top REIT Asset Management Co., Ltd.

## Financial Highlights

CATEGORY	16TH FISCAL PERIOD PERFORMANCE	17TH FISCAL PERIOD FORECAST (ANNOUNCED ON June 16, 2014)	18TH FISCAL PERIOD FORECAST (ANNOUNCED ON June 16, 2014)
PERIOD OF ASSETMANAGEMENT	181days	184days	181days
OPERATING REVENUE	¥5,637million	¥5,758million	¥5,454million
OPERATING INCOME	¥2,528million	¥2,483million	¥2,253million
ORDINARY INCOME	¥1,913million	¥1,866million	¥1,637million
NET INCOME	¥1,913million	¥1,865million	¥1,636million
DIVIDEND PER UNIT	¥10,864	¥10,600	¥9,300
NUMBER OF INVESTMENT UNITS	176,000 units	176,000 units	176,000 units
PORTFOLIO SIZE	22 properties	22 properties	22 properties

### Preconditions for 17h Fiscal Period and 18th Fiscal Period Forecasts

#### (1) Portfolio Assets

The forecast is based on 22 properties Top REIT owns as of June 16, 2014.

#### (2) Number of Investment Units Outstanding

It is assumed that the number of investment units outstanding is 176,000 units, the number as of June 16, 2014.

#### (3) Operating Revenue

For real estate rent revenue related to existing properties, Top REIT takes into consideration execution of new lease agreements and cancellation of lease agreements that have been finalized and scheduled, along with current real estate leasing market conditions, as well as factors that may cause fluctuations in such aspects as risks associated with rent revision due to fluctuations in rent of tenants reaching their rent revision period or contract renewal period.

#### (4) Interest-Bearing Liabilities

It is assumed that the total amount of interest-bearing liabilities is ¥100,430 million, which is the amount as of June 16, 2014.

The ¥4,000 million loan payable due for repayment on June 30, 2014 will be fully refinanced and a loan agreement has already been concluded.

For the seventeenth fiscal period, it is assumed that the ¥67 million in long-term loans payable will be repaid on June 30, 2014 as agreed upon.

For the eighteenth fiscal period, it is assumed that the ¥67 million in long-term loans payable will be repaid on December 30, 2014 as agreed upon.

#### (5) Dividend per Unit

With regard to the internal reserves of ¥78 million, Top REIT will not reverse the amount of internal reserves for the seventeenth and eighteenth fiscal period.

# I. ASSET MANAGEMENT REPORT

## 【1】 Overview of Asset Management Operation

### 1. Operating Results and Financial Position

Fiscal period		12th	13th	14th	15th	16th
As of/for six months ended		April 30, 2012	October 31, 2012	April 30, 2013	October 31, 2013	April 30, 2014.
<b>(1) Operating results</b>						
Operating revenue	mil yen	5,693	5,636	5,844	5,154	5,637
(Of which, rental revenue)	mil yen	5,437	5,636	5,844	5,154	5,637
Operating expenses	mil yen	2,921	2,939	3,397	2,981	3,108
(Of which, expenses related to rental business)	mil yen	2,383	2,384	2,848	2,438	2,622
Operating income	mil yen	2,772	2,697	2,447	2,172	2,528
Ordinary income	mil yen	2,029	2,002	1,823	1,580	1,913
Net income	mil yen	1,999	2,001	1,822	1,579	1,913
<b>(2) Assets, etc. (end of period)</b>						
Total assets (Period-on-period variation)	mil yen %	188,407 1.6	188,440 0.0	187,003 (0.8)	186,169 (0.4)	200,802 7.9
Interest-bearing liabilities	mil yen	96,970	96,902	96,065	95,997	100,430
Net assets (Period-on-period variation)	mil yen %	84,259 0.0	84,304 0.1	84,127 (0.2)	83,871 (0.3)	93,081 11.0
Unitholders' capital	mil yen	82,260	82,260	82,260	82,260	91,143
<b>(3) Cash distributions</b>						
Total cash distributions	mil yen	1,949	2,001	1,822	1,579	1,912
Dividend payout ratio (Note2)	%	97.5	100.0	100.0	100.0	99.9
<b>(4) Per unit information</b>						
Number of units Outstanding	units	155,000	155,000	155,000	155,000	176,000
Net assets per unit (Note 3)	yen	543,610	543,900	542,758	541,105	528,873
Dividend per unit	yen	12,577	12,912	11,759	10,191	10,864
(Earnings distribution per unit)	yen	12,577	12,912	11,759	10,191	10,864
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
<b>(5) Financial indices</b>						
Ratio of ordinary income to total assets (Note 4)	%	1.1<2.2>	1.1<2.1>	1.0<2.0>	0.8<1.7>	1.0<2.0>
Ratio of net income to unitholders' equity (Note 4)	%	2.4<4.8>	2.4<4.7>	2.2<4.4>	1.9<3.7>	2.2<4.4>
Ratio of unitholders' equity to total assets (Period-on-period variation)	%	44.7 (0.7)	44.7 0.0	45.0 0.3	45.1 0.1	46.4 1.3
LTV	%	51.5	51.4	51.4	51.6	50.0
Rental NOI (Note 5)	mil yen	4,126	4,368	4,117	3,831	4,207
<b>(6) Other referential information</b>						
Number of properties at end of period	cases	18	18	19	19	22
Number of tenants at end of period (Note 6)	cases	40	42	39	40	49
Total rentable area at end of period	m <sup>2</sup>	300,294.23	300,294.23	301,825.87	301,825.87	331,677.14
Occupancy rate at end of period (Note 7)	%	98.5	99.2	94.5	96.7	98.1
Depreciation and amortization at end of period	mil yen	1,072	1,116	1,121	1,115	1,193
Capital expenditure at end of period	mil yen	442	108	443	176	511

Note 1: Operating revenue, etc. do not include consumption taxes, etc.

Note 2: Since fund procurement through public offering was conducted during the period and the number of investment units has changed accordingly, Dividend Payout Ratio for the 16th FP is calculated as below

Dividend Payout Ratio= Total Amount of Dividends (excluding dividend in excess of earnings) / Net Income × 100

- Note 3: Net assets per unit for the 15th fiscal period and before have been rounded to the nearest yen and net assets per unit for the 16th fiscal period has been rounded down to the nearest yen.
- Note 4: The indices above are calculated using the following formulas. In addition, annualized figures derived from the management period are indicated in brackets<>.
- Ratio of ordinary income to total assets =  $\text{Ordinary income} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$
- Ratio of net income to unitholders' equity =  $\text{Net income} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
- Note 5: Rental NOI (Net Operating Income) = Rental revenue - Expenses related to rental business + Depreciation and amortization.
- Note 6: Number of tenants at end of period indicates total number of tenants of each property as of the end of period. In the case a master lease agreement is concluded, it is counted as 1 tenant. In the case 1 tenant rents multiple units, it is counted as 1 tenant if the units are in the same property and as multiple tenants if the units are in multiple properties.
- Note 7: Occupancy rate at end of period =  $\text{Total leased floor areas at end of period} / \text{Total leasable floor areas at end of period}$
- When a pass-through type master lease agreement has been concluded, the area subleased to the end tenants have been used as the leased floor area.
- Note 8: Unless otherwise mentioned in the report, fractions of figures not indicated are rounded off for monetary amounts and rounded for ratios.

## 2. Overview of Asset Management Operation for the Sixteenth Fiscal Period

### A. Brief Background of Top REIT

Top REIT, Inc. (Top REIT) was founded on November 2, 2005 based on the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended) with Top REIT Asset Management Co., Ltd. (Asset Manager) as the incorporator, and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (TSE) (Securities Code: 8982) on March 1, 2006 with the number of investment units issued and outstanding totaling 145,500 units. As of the end of the sixteenth fiscal period (April 30, 2014), the total number of investment units issued and outstanding stands at 176,000 units due to Top REIT issuing additional investment units through public offering (21,000 units; including a third-party allotment during the sixteenth fiscal period).

Top REIT works to conduct management with the aim of maximizing the investment value for its unitholders by securing stable revenues over the medium to long term and achieving steady growth of its portfolio. To do so, Top REIT focuses on the two strategies of “skilled management of a diversified portfolio” and “optimal application of the sponsors’ strengths.” As of the end of the sixteenth fiscal period, its portfolio consists of 22 properties with a total acquisition value of ¥197,855 million.

### B. Investment Environment and Management Performance

#### <Investment Environment>

##### (a) Economy in General

The Japanese economy has continued on a mild recovery affected by the government’s dynamic public spending package and continuous monetary easing by the Bank of Japan. Capital investment by companies is beginning to become active with improved corporate earnings and an increase in government investments. Personal consumption and housing investment have maintained underlying strength with expectations for an improvement in the employment and income environments despite the impact from the consumption tax hike in April this year. Some companies are showing significant recovery in performance due to the depreciating yen and high stock prices. Although caution remains, the business sentiment of companies continues to recover. Going forward, the economy is expected to sustainably improve due to the economic ripple effect from infrastructure construction in line with the hosting of the 2020 Olympic Games in Tokyo among other factors.

##### (b) Real Estate Leasing Market

###### [Office Buildings]

A recovery in corporate performance has generated tenant movement for leasing more floor area within the same property and relocating for expanded spaces. In addition, the supply-demand balance has been improving due to factors such as relocations to blue-chip office buildings seeking business continuity plans (BCP) and energy saving measures, thus the vacancy rate of office buildings in central Tokyo shows a downward trend. As for rent levels, some regions or properties are seeing rises in new asking rents and the decrease in rents has been easing recently.

###### [Retail Properties]

In line with the recovery in business sentiment and wage increases centering on major companies, consumer sentiment continues to improve and personal consumption is going strong. Even the decrease due to the temporary backlash from the consumption tax hike in April 2014 was relatively small and the recovery in personal consumption is expected to continue going forward. However, with the anticipated decrease in population on the macro level and the ongoing expansion of the E-commerce market size due to factors such as the increased internet penetration rate on the micro level, the demand for retail properties, which are physical stores, will become more selective regardless of business type in the face of competition with online businesses.

###### [Residential Properties]

The residential properties leasing market is experiencing an increase in the number of single-person households and small households in the Tokyo metropolitan area and other core cities due to population inflow from other regions. Therefore, the residential properties leasing market has been retaining a

stable occupancy rate. As for the rent levels, rents are stable and generally flat for properties with actual consumer demand, while the unit rent for high-rent properties is also bottoming out. As such, supply-demand conditions of the residential property leasing market are believed to be favorable.

(c) Real Estate Transaction Market

Against the backdrop of a favorable environment for fund procurement, the real estate transaction market has become active propelled by the huge appetite for property acquisitions from private funds such as private placement investment corporations in addition to J-REITs, and also by the appetite for real estate investments by overseas investors who anticipate Japanese economic recovery. The favorable equity financing environment and debt financing environment are expected to continue for the time being, thus it is thought that the real estate transaction market will remain strong. Since market prices appear to be somewhat overheated for all property types while investments in regional properties are also expanding, further selection of properties is believed to be essential.

(d) Financial Market

Long-term interest rates are expected to remain at a low level for some time as the financial environment in Japan is under a situation whereby the monetary easing policies of the Bank of Japan such as the massive purchase of government bonds, increased amount for the Asset Purchase Program and extension of the remaining period to maturity of government bonds eligible for purchase are being implemented on an ongoing basis.

Although the stock market requires ongoing attention due to uncertain factors such as the impact of another phase of the consumption tax hike, a reduction in corporate taxes and other policies, as well as overseas economic trends, interest rate trends and exchange rate trends, it is believed to be strong while a recovery in companies' performance is expected to become gradually clear from now on.

<Asset Management Performance >

(a) Acquisition and Disposition of Assets

Top REIT began the sixteenth fiscal period with 19 properties (total acquisition value: ¥185,555 million). With an aim to acquire highly-competitive and highly-profitable properties, Top REIT considered possible acquisition of properties through not only the "optimal application of the sponsors' strengths" but also by utilizing established information channels to collect and carefully select from property sale information, with excellent office buildings located in central Tokyo at the core, as well as other asset classes, by drawing on the characteristics of being a diversified REIT.

As a result, Top REIT acquired a total of three properties (total acquisition value: ¥12,300 million) as of November 28, 2013 during the sixteenth fiscal period. The three properties are Shinjuku EAST Building and Ginza Oji Building, two office buildings located in central Tokyo, and Kojima×Bic Camera Kashiwa Store, a retail property located in Kashiwa-shi, Chiba. With these acquisitions, the number of properties owned by Top REIT expanded to 22 properties (total acquisition value: ¥197,855 million) as of the end of the sixteenth fiscal period.

Furthermore, with the main objective to partly fund the acquisition of these three properties, Top REIT conducted fund procurement of ¥8,883 million through issuance of new investment units and ¥4,500 million through borrowings from financial institutions during the sixteenth fiscal period.

(b) Management and Maintenance of Portfolio Assets

The basic asset management strategy of Top REIT is sustaining and increasing revenue over the medium to long term by maintaining and improving tenant satisfaction (the "Tenants First" policy) and keeping operational management costs at an appropriate level. Top REIT strived to improve tenant satisfaction and maintain and improve high occupancy rates while sustaining trusted relationships with tenants and discerning tenant needs via property management companies. During the sixteenth fiscal period, Top REIT continued to focus on tenant solicitation activities for successor tenants of Harumi Island Triton Square Office Tower Y. As a result, the occupancy rate reached 87.5% at the end of the sixteenth fiscal period (April 30, 2014), and is expected to further improve to 93.6% in July 2014, thus likely settling the successor tenant issue. However, since a tenant who is leasing the entire building of Kanda Nishiki-cho 3-chome Building has notified its intention to terminate the leasing agreement as of January 2015, solicitation for successor tenants is underway.

Regarding maintenance, Top REIT followed up on ensuring that it had an appropriate grasp of the operational management conditions and steady implementation of asset management plans for each property. Based on asset management plans, Top REIT also carried out renewal construction and repair work that contributed to enhancing the competitiveness of properties, maintaining and improving the functionality of properties, and construction that contributed to improving tenant satisfaction. It also took steps to keep relevant costs at an appropriate level and conducted efficient management of resources.

### C. Procurement of Funds

Top REIT procures funds under a financial policy based on stable financial management. Top REIT resolved on the issuance of 20,000 new investment units through public offering and 1,000 new investment units through third-party allotment. With these issuances of new investment units, Top REIT procured funds of ¥8,460 million on November 25, 2013 and ¥423 million on December 13, 2013 respectively. In addition, a short-term loan of ¥4,500 million was made on November 28, 2013, and, together with funds procured through the issuance of new investment units, was used for the acquisition of the specified assets as of the same day.

Furthermore, Top REIT conducted new borrowings of a long-term loan of ¥4,500 million (repayment date: March 29, 2019) on March 31, 2014 and the short-term loan of ¥4,500 million which partly funded the specified assets was repaid ahead of schedule as of the same day while fixing interest rates for the entire amount of the concerned long-term loan through an interest-rate swap transaction. In addition, ¥67.5 million in long-term loans payable was repaid on December 30, 2013 as agreed upon using cash on hand.

As a result, at the end of the sixteenth fiscal period, the total amount of interest-bearing liabilities stands at 100,430 million (¥91,930 million in long-term loans (including the current portion) and ¥8,500 million in investment corporation bonds), and the ratio of interest-bearing liabilities to total assets is 50.0%. Moreover, the ratio of long-term interest-bearing liabilities (including the current portion) is 100%, while interest-bearing liabilities with fixed interest rates account for 46.5%.

The credit rating of Top REIT as of April 30, 2014 was as follows:

Credit Rating Agency	Rating [Outlook]
Rating and Investment Information, Inc. (R&I)	Issuer rating: A+ [Stable] Unsecured investment corporation bond rating (No. 1 Unsecured Investment Corporation Bonds): A+

(Note) Top REIT requested Moody's Japan, K.K. ("Moody's") withdrawal of issuer rating and senior unsecured long-term debt rating and withdrawal was made April 10, 2014.

Moreover, Top REIT conducted shelf registration for investment corporation bonds, as indicated below, in order to secure flexible procurement of long-term funds.

#### [Overview of Shelf Registration]

Object of Shelf Registration	Amount to be Issued	Scheduled Period of Issue
Investment corporation bonds (excluding short-term corporation bonds)	¥100,000 million	From May 20, 2014 to May 19, 2016

### D. Business Results and Dividends

As a result of the asset management and operations described above, Top REIT recorded asset management performance during the sixteenth fiscal period of ¥5,637 million in operating revenue, ¥2,528 million in operating income and ¥1,913 million in ordinary income after deducting expenses concerning borrowings, etc., and net income was ¥1,913 million.

As for dividends, with the aim of having an amount equivalent to profit dividends deducted as expenses based on the application of the special provision on taxation of investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation [Act No. 26 of 1957, as amended; hereinafter, the "Special Taxation Measures Act"]), Top REIT decided that the maximum value arrived at when the number of units issued and outstanding (176,000 units) is multiplied by an integer, within the limit of the balance of unappropriated retained earnings of the sixteenth fiscal period and after deducting the amount



of deferred tax liabilities being corrected due to the change in tax rate which would be transferred to the reserve for reduction entry, would be paid out. Consequently, Top REIT declared a dividend per investment unit of ¥10,864.

### 3. Balance of Paid-in Capital

The outline of changes in paid-in capital of Top REIT during the past five years is as follows:

Issue date	Remarks	Total number of units issued and outstanding (units)		Total paid-in capital (million yen)		Note
		Increase	Balance	Increase	Balance	
November 25, 2013	Public offering	20,000	175,000	8,460	90,720	Note 1
December 13, 2013	Third party allotment	1,000	176,000	423	91,143	Note 2

Note 1: New investment units were issued at a price of ¥438,750 per unit (issue value of ¥423,000 per unit) through a public offering in order to raise funds for the acquisition of specified assets.

Note 2: New investment units were issued at a value of ¥423,000 per unit through a third party allocation to raise funds for the acquisition of specified assets, etc.

[Market Price of Investment Units]

The market price of the investment units on Tokyo Stock Exchange REIT Market during respective fiscal periods is as follows:

Fiscal period As of the end of fiscal period	12th April, 2012	13th October, 2012	14th April, 2013	15th October, 2013	16th April, 2014
Highest price	484,000yen	459,000yen	576,000yen	519,000yen	494,000yen
Lowest price	333,000yen	358,500yen	351,000yen	411,000yen	437,500yen

### 4. Cash Distribution

The dividend per unit for the current period was 10,864 yen. Top REIT expects to distribute almost all the balance of unappropriated retained earnings of the sixteenth fiscal period after deducting the amount of deferred tax liabilities being corrected due to the change in tax rate along with the tax system revision in fiscal 2014 which would be transferred to the reserve for reduction entry to be eligible for special tax treatments (Article 67-15 of the Act on Special Measures Concerning Taxation) that allows Top REIT to deduct an amount equivalent to distributions of retained earnings as expenses from taxable income.

Fiscal period As the end of fiscal period	Units	12th April, 2012	13th October, 2012	14th April, 2013	15th October, 2013	16th April, 2014
Unappropriated retained earnings	thousand yen	1,999,419	2,001,377	1,822,649	1,579,617	1,913,997
Internal reserves	thousand yen	49,984	17	4	12	1,933
Total dividends	thousand yen	1,949,435	2,001,360	1,822,645	1,579,605	1,912,064
<Dividend per unit>	<yen>	<12,577>	<12,912>	<11,759>	<10,191>	<10,864>
Of which, dividend of accumulated earnings	thousand yen	1,949,435	2,001,360	1,822,645	1,579,605	1,912,064
<Per unit>	<yen>	<12,577>	<12,912>	<11,759>	<10,191>	<10,864>
Of which, repayment of paid-in capital	thousand yen	—	—	—	—	—
<Per unit>	<yen>	<—>	<—>	<—>	<—>	<—>

## 5. Management Policy and Future Issues

### (a) Management Strategy for Existing Properties

Top REIT will continue to follow its basic asset management strategy that centers on sustaining and increasing revenue over the medium to long term by maintaining and improving tenant satisfaction (the “Tenants First” policy) and keeping operational management costs at an appropriate level. Under this strategy, Top REIT will focus on sustaining relationships of trust with tenants, leasing vacant spaces and such, as well as striving to maintain stable occupancy rates over the medium to long term.

Furthermore, Top REIT will also work to ensure an appropriate perception of the operational management conditions for each property while steadily implementing such measures as to sustain and improve revenues and keep operational management costs at an appropriate level. In addition, Top REIT will carry out systematic repair work and such to enhance the competitiveness of properties and to maintain and improve the functionality of properties, in an aim to secure stable revenues over the medium to long term.

### (b) Investment Strategy for New Properties

Top REIT aims to maintain and increase its dividends over the medium to long term by realizing external growth through acquisition of new properties. Top REIT will continue to not only further utilize pipeline support functions from sponsor companies, but also utilize various established information channels to collect information on new properties based on detailed analysis of market environment of each asset classes, while placing emphasis on primarily competitive office buildings. By doing so, Top REIT aims to expand the portfolio size while improving its quality.

Furthermore, Top REIT makes it a management policy to keep the ratio of the investment amount per property at less than 20% of the entire portfolio as a target over the medium to long term. For reference, the acquisition value of the NEC Head Office Building accounts for 21.2% of the total acquisition value of Top REIT’s properties as of the end of the sixteenth fiscal period. Going forward, Top REIT will work to reduce the risk of concentration on specific properties by steadily advancing further external growth.

### (c) Financial Strategy

Top REIT will continue to implement diversified and flexible fund procurement operations in preparation for acquisition of new properties and refinancing of existing loans, etc. While securing mobility and flexibility in fund procurement, Top REIT will work to reduce the risk involved in fund procurement by extending borrowing periods and spreading out the repayment dates. At the same time, Top REIT will manage the risk of interest rate fluctuations by taking into account the balance of borrowings at floating and fixed interest rates, as it discerns the interest rate trends. Moreover, financial soundness will be maintained by keeping the leverage at an appropriate level.

### (d) Compliance and Risk Management, etc.

In addition to the supervision of the Executive Officer by Supervisory Directors at the Board of Directors’ meetings and other occasions, Top REIT will continue its direction and supervision on the Asset Manager that it can conduct management operations with full care given to market risks, including rent decreases, and credit risks as well as with a focus on the protection of unitholders’ interests in conducting transactions with interested parties and on other compliance issues.

## 6. Significant Subsequent Events

There are none applicable.

[Reference Information]

### New borrowings

Top REIT entered into a loan agreement as described below on March 27, 2014 for the repayment of long-term loan of ¥4,000 million (Lender: Sumitomo Mitsui Trust Bank, Limited., Development Bank of Japan Inc., The Dai-ichi Life Insurance Company, Limited) due for repayment on June 30, 2014. Funds from Term Loan No. 23-(1) were allocated for the early repayment of a short-term loan of ¥4,500 million on March 31, 2014.

#### Long-term loan (Term Loan No. 23-(1))

Lender	Sumitomo Mitsui Trust Bank, Limited. Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation The Bank of Fukuoka, Ltd. Aozora Bank, Ltd.
Amount of loan	JPY 4,500 million
Interest rate	0.81625%(Interest rate to be actually paid up to March 29, 2019 fixed by an interest-rate swap transaction)
Execution date	March 31, 2014
Borrowing method	Borrowing based on the loan agreement concluded on March 27, 2014
Principal repayment date	March 29, 2019
Principal repayment method	Bullet repayment on the principal repayment date
Collateral, etc.	Unsecured and unguaranteed

#### Long-term loan (Term Loan No. 23-(2))

Lender	Sumitomo Mitsui Trust Bank, Limited. Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation The Dai-ichi Life Insurance Company, Limited. The Bank of Fukuoka, Ltd. Aozora Bank, Ltd.
Amount of loan	JPY 4,000 million
Interest rate	0.89635%
Execution date	June 30, 2014
Borrowing method	Borrowing based on the loan agreement concluded on March 27, 2014
Principal repayment date	March 29, 2019
Principal repayment method	Bullet repayment on the principal repayment date
Collateral, etc.	Unsecured and unguaranteed

## [2] Outline of Top REIT

### 1. Status of Unitholders' Capital

Fiscal period As of the end of fiscal period	12th April,2012	13th October,2012	14th April,2013	15th October,2013	16th April,2014
Number of issuable investment units (units)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Number of units issued and outstanding(units)	155,000	155,000	155,000	155,000	176,000
Unitholders' capital (million yen)	82,260	82,260	82,260	82,260	91,143
Number of unitholders	6,912	7,823	7,872	7,590	9,163

### 2. Matters Concerning the Investment Units

Major unitholders as of April 30, 2014 were as follows:

Name	Number of units held (units)	Share of total (%) (Note)
Japan Trustee Service Bank (trust account)	48,101	27.33
The Master Trust Bank of Japan (trust account)	13,521	7.68
Trust and Custody Services Bank (securities investment trust account)	10,583	6.01
Nomura Trust and Banking (investment trust account)	6,950	3.95
THE FUJI FIRE AND MARINE INSURANCE COMPANY,LIMITED	3,465	1.97
Sumitomo Mitsui Trust Bank, Limited.	3,176	1.80
NIPPON STEEL KOWA REAL ESTATE CO.,LTD.	3,162	1.80
Oji Real Estate Co., Ltd.	3,162	1.80
MetLife Alico Life Insurance K.K GA Company JPY	2,075	1.18
The Asahi Fire & Marine Insurance Co., Ltd.	2,010	1.14
NOMURA BANK (LUXEMBOURG) S.A.	1,800	1.02
The Iyo Bank, Ltd.	1,500	0.85
STATE STREET BANK-WEST PENSION FUND CLIENTS-EXEMPT	1,424	0.81
The Gibraltar Life insurance Co., Ltd (general accounts J-REIT account)	1,393	0.79
The Minami Nippon Bank, Ltd.	1,270	0.72
Total	103,592	58.86

Note: The share of total is calculated by rounding to the second decimal place.

### 3. Officer and Auditor

A: Name of directors and auditor as of April 30, 2014 were as follows:

Post	Name	Major additional post	Total amount of fee paid during the current period (thousand yen)
Executive Officer	Junichi Sahara (Note1)	Adviser, Sumitomo Mitsui Trust Guarantee Co., Ltd.	2,700
Supervisory Director	Yasuyuki Kuribayashi (Note1)	Partner Attorney, City-Yuwa Partners (Note2)	1,800
Supervisory Director	Kunio Tsuneyama (Note1)	Managing Partner, Tsuneyama Certified Public Accountants Office Managing Partner, Tsuneyama Sogo Accountants Office Non Executive Director in Kuroda Electric Co., Ltd. (Note2)	1,800
Accounting Auditor	KPMG AZSA LLC	—	12,500 (Note4)

Note1: There are no investment units of Top REIT held by the Executive Officer or Supervisory Directors in their own name or others' names.

Note2: Although Executive Officer and Supervisory Directors may have additional posts in entities other than those listed above, there is no conflict of interest between those companies including those listed above and Top REIT.

Note3: There was no resignation or dismissal of the Officer, Director and Auditor during the current period.

Note4: Fee paid to Accounting Auditor includes fee of 2,500 thousand yen concerning preparation of comfort letter associated with issuance of new investment units.

B: Policy on determination of dismissal and denial of reappointment of accounting auditor

The Board of Directors shall decide after taking various factors into consideration.

#### 4. Asset Manager, Asset Custodian and Administrative Agents

Asset manager, etc. as of April 30, 2014 were as follows:

Business	Company name
Asset manager	Top REIT Asset Management Co., Ltd.
Assets custodian	Sumitomo Mitsui Trust Bank, Limited.
Administrative agent (running of the organization, accounting matters, etc.)	Sumitomo Mitsui Trust Bank, Limited.
Administrative agent (unitholders' register, special accounts)	Sumitomo Mitsui Trust Bank, Limited.
Administrative agent (investment corporation bonds)	Sumitomo Mitsui Trust Bank, Limited.

### [3] Status of Investment Assets

#### 1. Composition of Assets

Type of assets	Asset class	Area	15th As of October 31, 2013		16th As of April 30, 2014		
			Total amount owned (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)	Total amount owned (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)	
Real estate	Office building	Central Tokyo	5,844	3.1	5,830	2.9	
		Subtotal	5,844	3.1	5,830	2.9	
Real estate in trust	Office building	Central Tokyo	125,809	67.6	133,429	66.4	
		Tokyo Metropolitan Area	1,624	0.9	1,635	0.8	
		Subtotal	127,434	68.5	135,064	67.3	
	Retail property	Tokyo Metropolitan Area	22,934	12.3	27,445	13.7	
		Other Major Cities	1,226	0.7	1,219	0.6	
		Subtotal	24,160	13.0	28,664	14.3	
	Residential	Central Tokyo	2,403	1.3	2,376	1.2	
		Tokyo Metropolitan Area	17,520	9.4	17,386	8.7	
		Subtotal	19,923	10.7	19,763	9.8	
	Other	Central Tokyo	2,700	1.5	2,692	1.3	
		Subtotal	2,700	1.5	2,692	1.3	
	Subtotal of real estate and real estate in trust			180,064	96.7	192,014	95.6
	Cash, deposits and other assets			6,104	3.3	8,787	4.4
	Total assets (Note 3)			186,169	100.0	200,802	100.0
<180,064>				<96.7>	<192,014>	<95.6>	

Note 1: Total amount owned is based on the amounts appropriated on the Balance Sheet at the end of each period. (Real estate and real estate in trust represent the book values after deducting depreciation). Total Amount figures were rounded down to the nearest million yen.

Note 2: As a percentage of total assets show the ratio of respective assets to total assets and is rounded to first decimal place.

Note 3: Figures in brackets <> of total assets represent the portions of actually owned properties in the object assets.

#### < Geographical Classification >

Area	Region	Supplementary note
Central Tokyo	Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku, Shinjuku-ku and Shinagawa-ku	—
Tokyo Metropolitan Area	Tokyo (excluding Central Tokyo), Kanagawa, Saitama and Chiba Prefectures	—
Kansai	Regional economic zone centering on Osaka	Osaka, Kyoto, Hyogo, Shiga, Nara and Wakayama Prefectures
Chukyo	Regional economic zone centering on Nagoya	Aichi, Gifu and Mie Prefectures
Major cities Across the country	Cities designated by government ordinance and other major cities (excluding cities belonging to the above classifications)	—

## 2. Major Properties Owned

The major properties (top ten properties by book value) that Top REIT owns as of April 30, 2014 were as follows:

Property name		Book value (million yen)	Leasable floor space (Note 1) (m <sup>2</sup> )	Leased floor space (Note 2) (m <sup>2</sup> )	Occupancy rate (Note 3) (%)	Portion of rental revenue (%)	Primary use
NEC Head Office Building	Trust beneficiary interest	42,769	72,238.03	72,238.03	100.0	25.1	Office
Harumi Island Triton Square Office Tower Y	Trust beneficiary interest	30,155	23,170.40	20,276.97	87.5	13.6	Office
Harumi Island Triton Square Office Tower Z	Trust beneficiary interest	19,348	10,914.20	10,914.20	100.0		Office
Kanda Nishiki-cho 3-chome Building	Trust beneficiary interest	12,655	8,025.65	8,025.65	100.0		Office
Sagamihara Shopping Center	Trust beneficiary interest	11,231	61,763.28	61,763.28	100.0	5.9	Retail property
Fukasawa House Towers H&I	Trust beneficiary interest	10,058	11,357.44	10,547.40	92.9	4.1	Residential
Akasaka Oji Building	Trust beneficiary interest	9,755	7,301.15	7,301.15	100.0	4.7	Office
Ito-Yokado Higashi-Narashino Store	Trust beneficiary interest	7,755	51,098.42	51,098.42	100.0	4.2	Retail property
Shinjuku EAST Building	Trust beneficiary interest	5,832	7,523.04	7,479.09	99.4	3.5	Office
Shiba-Koen Building	Real estate	5,830	3,060.43	1,908.99	62.4	1.3	Office
Total		155,393	256,452.04	251,553.18	98.1	76.0	

Note 1: Leasable floor space is total leasable space for each asset as of the end of the sixteenth fiscal period. Furthermore, in the case of co-ownership (including quasi-co-ownership), the stated figure is given by multiplying the leasable floor space of the whole building by the ratio of co-ownership, and rounded to the second decimal place.

Note 2: Leased floor space is floor space based on lease agreements effective as of the end of the sixteenth fiscal period. Furthermore, in the case of co-ownership (including quasi-co-ownership), the stated figure is given by multiplying the leased floor space of the whole building by the ratio of co-ownership, and rounded to the second decimal place. In the case of contracting the master-lease agreements as pass-through type, the floor space subleased to end-tenants is calculated as the leased area.

Note 3: Occupancy rate is the figure given by dividing leased floor space as of the end of the sixteenth fiscal period by leasable floor space, and rounded to the first decimal place.

Note 4: Portion of rental revenue is rounded to first decimal place. Portion of rental revenue for Harumi Island Triton Square Office Tower Z and Kanda Nishiki-cho 3-chome Building is not disclosed due to being unable to obtain the consent of the tenants.

### 3. Details of Portfolio Properties

#### ① Details of Properties

A. The details of properties owned by Top REIT as of April 30, 2014 were as follows

Asset class	Area	Property name	Address	Type of title	Appraisal value at end of 16th period (million yen) (Note)	Book value at end of 16th period (million yen)
Office building	Central Tokyo	NEC Head Office Building	5-7-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest	51,900	42,769
		Harumi Island Triton Square Office Tower Y	1-8-11 Harumi, Chuo-ku, Tokyo	Trust beneficiary interest	27,200	30,155
		Akasaka Oji Building	8-1-22 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest	8,850	9,755
		Kanda Park Plaza	2-2-2 Kajicho, Chiyoda-ku, Tokyo	Trust beneficiary interest	5,000	5,058
		Shiba-Koen Building	3-5-5 Shiba, Minato-ku, Tokyo	Real estate	3,410	5,830
		Harumi Island Triton Square Office Tower Z	1-8-12 Harumi, Chuo-ku, Tokyo	Trust beneficiary interest	12,300	19,348
		Kanda Nishiki-cho 3-chome Building	3-11-1 Kanda Nishiki-cho, Chiyoda-ku, Tokyo	Trust beneficiary interest	10,500	12,655
		Shinkawa Chuo Building	1-17-24, Shinkawa, Chuo-ku, Tokyo	Trust beneficiary interest	5,990	5,773
		Shinjuku EAST Building	10-5, Tomihisa-cho, Shinjuku-ku, Tokyo	Trust beneficiary interest	6,250	5,832
		Ginza Oji Building	4-9-8, Ginza, Chuo-ku, Tokyo	Trust beneficiary interest	2,050	2,080
	Tokyo Metropolitan Area	Faret East Building	2-34-7 Akebonocho, Tachikawa-shi, Tokyo	Trust beneficiary interest	2,530	1,635
Subtotal (11 Properties)					135,980	140,895
Retail property	Tokyo Metropolitan Area	Sagamihara Shopping Center	3-13-33 Kobuchi, Minami-ku, Sagami-hara-shi, Kanagawa	Trust beneficiary interest	8,480	11,231
		Ito-Yokado Higashi-Narashino Store	7-3-1 Higashi Narashino, Narashino-shi, Chiba	Trust beneficiary interest	5,400	7,755
		Musashiurawa Shopping Square	7-3-1 Bessho, Minami-ku, Saitama-shi, Saitama	Trust beneficiary interest	3,870	3,816
		Kojima × Bic Camera Kashiwa Store	Building A: 1-10, Oyamadai, Kashiwa-shi, Chiba Building B: 1-29, Oyamadai, Kashiwa-shi, Chiba	Trust beneficiary interest	4,730	4,641
	Other Major Cities	MEL Building	2-7-28 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest	1,280	1,219
Subtotal (5 Properties)					23,760	28,664
Residential	Central Tokyo	Top Residence Nihonbashi Kayabacho	3-4-1 Nihonbashi Kayabacho, Chuo-ku, Tokyo	Trust beneficiary interest	2,640	2,376
	Tokyo Metropolitan Area	Fukasawa House Towers H&I	2-1-2 Fukasawa, Setagaya-ku, Tokyo	Trust beneficiary interest	7,230	10,058
		Ecology Toyosu Procentury	4-8-8 Toyosu, Koto-ku, Tokyo	Trust beneficiary interest	5,100	4,897
		Impress Musashi-Koganei	4-14-18 Nakamachi, Koganei-shi, Tokyo	Trust beneficiary interest	1,280	1,237
		Top Residence Yoga	1-14-12 Tamagawadai, Setagaya-ku, Tokyo	Trust beneficiary interest	1,200	1,193
Subtotal (5 Properties)					17,450	19,763
Other	Central Tokyo	OAK PLAZA	2-10-6 Kanda Awajicho, Chiyoda-ku, Tokyo	Trust beneficiary interest	2,610	2,692
Subtotal (1 Property)					2,610	2,692
Total (22 Properties)					179,800	192,014

Note: For "Appraisal value at end of period," Top REIT indicates the assessed value based on the appraisal by real estate appraisers following the asset evaluation method and standards stipulated in Top REIT's Articles of Incorporation and rules of The Investment Trusts Association, Japan (based on real estate appraisal reports prepared by Tanizawa Sogo Appraisal Co, Ltd; Japan Real Estate Institute and Daiwa Real Estate Appraisal Co, Ltd) as of April 30, 2014 as the points of evaluation.



B. Operating results for each fiscal period of each property owned were as follows:

Asset class	Area	Name of property	15th Fiscal Period From May 1, 2013 to October 31, 2013				16th Fiscal Period From November 1, 2013 to April 30, 2014			
			Number of tenants (end of period) (case) (Note1)	Occupancy rate (end of period) (%)	Rent revenue - real estate (for period) (million yen) (Note 2)	Ratio of rental revenue to total rental revenues (%)	Number of tenants (end of period) (case) (Note1)	Occupancy rate (end of period) (%)	Rent revenue - real estate (for period) (million yen) (Note 2)	Ratio of rental revenue to total rental revenues (%)
Office building	Central Tokyo	NEC Head Office Building	1	100.0	1,370	26.6	1	100.0	1,416	25.1
		Harumi Island Triton Square Office Tower Y	5	68.9	659	12.8	7	87.5	769	13.6
		Akasaka Oji Building	6	100.0	268	5.2	6	100.0	266	4.7
		Kanda Park Plaza	9	94.2	177	3.4	9	90.2	151	2.7
		Shiba-Koen Building	2	62.4	78	1.5	2	62.4	70	1.3
		Harumi Island Triton Square Office Tower Z	1	100.0	/	/	1	100.0	/	/
		Kanda Nishiki-cho 3-chome Building	1	100.0	/	/	1	100.0	/	/
		Shinkawa Chuo Building	1	100.0	201	3.9	1	100.0	212	3.8
		Shinjuku EAST Building	-	-	-	-	4	99.4	197	3.5
	Ginza Oji Building	-	-	-	-	2	83.8	82	1.5	
	Tokyo Metropolitan Area	Faret East Building	1	100.0	144	2.8	1	100.0	150	2.7
Subtotal (11 properties)			27	93.9	3,693	71.7	35	96.8	4,080	72.4
Retail property	Tokyo Metropolitan Area	Sagamihara Shopping Center	2	100.0	374	7.3	2	100.0	332	5.9
		Ito-Yokado Higashi-Narashino Store	1	100.0	236	4.6	1	100.0	236	4.2
		Musashiurawa Shopping Square	3	100.0	129	2.5	3	100.0	129	2.3
		Kojima × Bic Camera Kashiwa Store	-	-	-	-	1	100.0	/	/
	Other Major Cities	MEL Building	1	100.0	58	1.1	1	100.0	58	1.0
Subtotal (5 properties)			7	100.0	798	15.5	8	100.0	891	15.8
Residential	Central Tokyo	Top Residence Nihonbashi Kayabacho	1	96.3	89	1.7	1	96.2	89	1.6
	Tokyo Metropolitan Area	Fukasawa House Towers H&I	1	91.7	234	4.5	1	92.9	231	4.1
		Ecology Toyosu Procentury	1	97.1	162	3.1	1	96.2	168	3.0
		Impress Musashi-Koganei	1	97.0	43	0.8	1	94.9	44	0.8
		Top Residence Yoga	1	92.6	37	0.7	1	95.5	37	0.7
Subtotal (5 properties)			5	94.3	567	11.0	5	94.6	571	10.1
Other	Central Tokyo	OAK PLAZA	1	100.0	94	1.8	1	100.0	94	1.7
	Subtotal (1 property)			1	100.0	94	1.8	1	100.0	94
Total (22 properties)			40	96.7	5,154	100.0	49	98.1	5,637	100.0

Note1: Number of tenants indicates total number of tenants of each property as of the end of period. In the case a master lease agreement is concluded, it is counted as 1 tenant. In the case 1 tenant rents multiple units, it is counted as 1 tenant if the units are in the same property and as multiple tenants if the units are in multiple properties.

Note 2: Rent revenue for Harumi Island Triton Square Office Tower Z, Kanda Nishiki-cho 3-chome Building and Kojima × Bic Camera Kashiwa Store is not disclosed due to being unable to obtain the consent of the tenants.

Note 3: Ratio of rental revenue to total rental revenues is rounded to first decimal place. Ratio of rental revenue to total rental revenues for Harumi Island Triton Square Office Tower Z, Kanda Nishiki-cho 3-chome Building and Kojima × Bic Camera Kashiwa Store is not disclosed due to being unable to obtain the consent of the tenants.

## ② Details of Investment Securities

There are none applicable.

## 4. Contracted Amount and Market Price of Specified Transactions

The contracted amount and market price of the specified transactions of Top REIT as of April 30, 2014 were as follows:

(Million yen)

Segment	Type of transaction	Contract amount (Note 1) (Note 2)		Market price (Note 1) (Note 3)
			Longer than a year	
Transaction other than market transaction	Interest-rate swap (receiving floating-rate, Paying fixed-rate)	31,700	29,700	(181)
	Total	31,700	29,700	(181)

Note1: The above figures are rounded down to the nearest million yen.

Note2: Contract amounts of interest-rate swap transactions represent figures based on the estimated principal.

Note3: Market price is evaluated at the price calculated by the counterparty of the concerned transaction contract based on the prevailing market rate.

## 5. Status of Other Assets

All real estate and trust beneficiary interests in real estate are listed in the table under the “3-① Details of Portfolio Properties.” There were no significant specified assets that are main investment targets of Top REIT other than those listed above as of April 30, 2014.

## 6. Status of Assets by Country and Region

There are none applicable.

## 【4】 Capital Expenditures for Properties Owned

### 1. Schedule of Capital Expenditures

The table below lists the estimated amounts of significant capital expenditures for repair and maintenance work of properties held by Top REIT, planned as of April 30, 2014. The estimated construction costs shown in the table below include those charged to expenses in accounting.

Name of property	Location	Purpose	Scheduled term for construction or maintenance	Estimated construction cost (million yen)		
				Total	Payment for the period	Total of advance payment
NEC Head Office Building	Minato-ku, Tokyo	Renewal of fire shutter equipment	May 2014 to September 2014	41	—	—

### 2. Capital Expenditures Made During the Period

The following table is an overview of construction work conducted during the sixteenth fiscal period that fall under the category of capital expenditures for properties held. Capital expenditures during the sixteenth fiscal period amounted to ¥511 million and combined with ¥99 million in repairs and maintenance costs that fall under expenses for the sixteenth fiscal period, a total of ¥610 million of construction work was implemented.

Name of property	Location	Purpose	Scheduled term for construction or maintenance	Capital expenditures (million yen)
NEC Head Office Building	Minato-ku, Tokyo	Renewal of gondola	May 2013 to March 2014	74
		Renewal of lighting System	May 2013 to January 2014	17
		Renewal of automatic fire alarm system	May 2013 to March 2014	46
		Renewal of plumbing equipment	May 2013 to March 2014	20
		Renewal of equipment for reuse of waste water	May 2013 to March 2014	28
		Renewal of air Condition facility	May 2013 to November 2013	22
		Renewal of air conditioning duct	May 2013 to March 2014	15
		Renewal of monitoring device	May 2013 to March 2014	46
		Renewal of moving roof	May 2013 to March 2014	34
Akasaka Oji Building	Minato-ku, Tokyo	Renewal of waterproof equipment	November 2013 to January 2014	14
Faret East Building	Tachikawa-shi, Tokyo	Renewal of external wall and ceiling	July 2013 to December 2013	27
Shinwaka Chuo Building	Chuo-ku, Tokyo	Renewal of Emergency broadcasting equipment	February 2014 to April 2014	12
Sagamihara Shopping Center	Sagamihara-shi, Kanagawa	Renewal of air Condition facility	November 2013 to March 2014	20
Others		Renewal of function	November 2013 to April 2014	131
Total				511

### 3. Funds Reserved for the Long-term Repair and Maintenance Plan

(Million yen)

Fiscal period	12th	13th	14th	15th	16th
	From November 1, 2011 to April 30, 2012	From May 1, 2012 to October 31, 2012	From November 1, 2012 to April 30, 2013	From May 1, 2013 to October 31, 2013	From November 1, 2013 to April 30, 2014
Balance of reserved funds at beginning of current period	443	347	410	375	414
Amount reserved during the current period	197	197	197	197	197
Amount used from reserved funds during the current period	292	133	232	158	225
Balance carried forward to the next period	347	410	375	414	385

## 【5】 Condition of Expenses and Liabilities

### 1. Details of Expenses Related to Management

(Million yen)

Fiscal Period	15th	16th
Item	From May 1, 2013 to October 31, 2013	From November 1, 2013 to April 30, 2014
(a) Asset management fees (Note)	406	354
(b) Asset custodian fees and administrative service fees	73	75
(c) Directors' compensation	6	6
(d) Audit fees	10	10
(e) Other expenses	46	38
Total	542	485

Note: In addition to the amounts described above, asset management fees consisted of ¥45 million in 16th fiscal period in association with the acquisition of new properties recorded as book value of the respective properties.

## 2. Status of Borrowings

Status of borrowings from respective financial institutions as of April 30, 2014 is as follows.

	Lender		Date borrowed	Balance at the beginning of the current period (million yen)	Balance at the end of the current period (million yen)	Average interest rate (%) (Note 1)	Repayment date	Repayment method	Use of proceeds	Remarks
Short Term Loans Payable	Term Loan No. 22	Sumitomo Mitsui Trust Bank	November 28, 2013	-	(Note2)	0.50	April 30, 2014	Bullet repayment on repayment date	(Note3)	Unsecured and unguaranteed
	Subtotal			-	-					
Current Portion of Long-Term Loans Payable	Term Loan No. 5	Sumitomo Mitsui Trust Bank	June 29, 2007	2,000	2,000	2.27 (Note4)	June 30, 2014	Bullet repayment on repayment date	(Note5)	Unsecured and unguaranteed
		Development Bank of Japan		1,000	1,000	2.40				
		The Dai-ichi Life Insurance		1,000	1,000	2.40				
	Term Loan No. 11	Development Bank of Japan	January 13, 2010	135	135	2.42	November 30, 2016	(Note 6)	(Note3)	Unsecured and unguaranteed
Subtotal			4,135	4,135						
Long Term Loans Payable	Term Loan No.11	Development Bank of Japan	January 13, 2010	2,092	2,025	2.42	November 30, 2016	(Note 6)	(Note3)	Unsecured and unguaranteed
	Term Loan No. 14	Sumitomo Mitsui Trust Bank	March 3, 2011	6,012	6,012	1.39 (Note4)	February 29, 2016	Bullet repayment on repayment date	(Note7)	Unsecured and unguaranteed
		Mizuho Bank		3,841	3,841					
		Sumitomo Mitsui Banking Corporation		3,006	3,006					
		The Bank of Tokyo-Mitsubishi UFJ. Mitsubishi UFJ Trust and Banking Corporation		835	835					
	Term Loan No. 15	Sumitomo Mitsui Trust Bank	March 31, 2011	1,700	1,700	0.72	February 29, 2016	Bullet repayment on repayment date	(Note5)	Unsecured and unguaranteed
		The Bank of Fukuoka		3,000	3,000					
		The Hiroshima Bank The Yamaguchi Bank		1,000 1,000	1,000 1,000					
Term Loan No. 16	Sumitomo Mitsui Trust Bank.	November 30, 2011	6,687	6,687	0.53	November 30, 2016	Bullet repayment on repayment date	(Note7)	Unsecured and unguaranteed	
	Mizuho Bank.		4,440	4,440						
	Sumitomo Mitsui Banking Corporation		3,474	3,474						
	The Bank of Tokyo-Mitsubishi UFJ Mitsubishi UFJ Trust and Banking Corporation		3,474 965	3,474 965						
Term Loan No. 17	Sumitomo Mitsui Trust Bank	March 30, 2012	1,008	1,008	0.63	October 31, 2016	Bullet repayment on repayment date	(Note3)	Unsecured and unguaranteed	
	Mizuho Bank		644	644						
	Sumitomo Mitsui Banking Corporation		504	504						
	The Bank of Tokyo-Mitsubishi UFJ. Mitsubishi UFJ Trust and Banking Corporation		504 340	504 340						
Term Loan No. 18	Sumitomo Mitsui Trust Bank.	June 29, 2012	5,660	5,660	0.71 (Note8)	June 30, 2017	Bullet repayment on repayment date	(Note7)	Unsecured and unguaranteed	
	Mizuho Bank.		4,255	4,255						
	Sumitomo Mitsui Banking Corporation		3,330	3,330						
	The Bank of Tokyo-Mitsubishi UFJ Mitsubishi UFJ Trust and Banking Corporation		3,330 925	3,330 925						

Long Term Loans Payable	Term Loan No.19-①	Sumitomo Mitsui Trust Bank		3,000	3,000	0.63	September 30, 2015	Bullet repayment on repayment date	(Note7)	Unsecured and unguaranteed
		Sumitomo Mitsui Banking Corporation	November 30, 2012	1,500	1,500					
		The Bank of Tokyo-Mitsubishi UFJ		1,500	1,500					
		Resona Bank		1,000	1,000					
	Term Loan No. 20	Sumitomo Mitsui Trust Bank	March 27, 2013	1,428	1,428	0.75	March 27, 2018	Bullet repayment on repayment date	(Note9)	Unsecured and unguaranteed
		Mizuho Bank		1,264	1,264					
		Sumitomo Mitsui Banking Corporation		989	989					
		The Bank of Tokyo-Mitsubishi UFJ		989	989	1.08	September 30, 2015			
		Development Bank of Japan		2,355	2,355					
	Mizuho Bank	1,800	1,800	0.63	September 30, 2015					
Term Loan No. 21	Sumitomo Mitsui Trust Bank	April 30, 2013	730	730	0.75	April 30, 2018	Bullet repayment on repayment date	(Note3)	Unsecured and unguaranteed	
	Resona Bank		500	500						
Term Loan No.23-①	Sumitomo Mitsui Trust Bank	March 31, 2014	-	1,400	0.82 (Note4)	March 29, 2019	Bullet repayment on repayment date	(Note5)	Unsecured and unguaranteed	
	Sumitomo Mitsui Banking Corporation		-	1,400						
	Mizuho Bank		-	1,000						
	Aozora Bank		-	500						
	The Bank of Fukuoka.		-	200						
Subtotal			83,362	87,795						
Total			87,497	91,930						

Note1: The average interest rate is the interest rate of borrowings for the respective loan contracts (weighted by the balance during the period) and rounded to the second decimal place.

Note2: Early repayment was made on March 31, 2014.

Note3: The use of borrowings is for acquisition of trust beneficiary interest in real estate.

Note4: The borrowings are hedged by interest rate swap transactions and the average interest rates show the weighted-average interest rates adjusting the effect of interest rate swap transactions.

Note5: The use of borrowings is for repayment of short-term loans payable.

Note6: Repayment of ¥67.5 million will be made at the end of June and December each year starting on June 30, 2010, with the remaining payment of ¥1,822.5 million to be repaid on November 30, 2016, the final repayment date.

Note7: The use of borrowings is for repayment of long-term loans payable.

Note8: A portion of borrowing amounting to ¥8,500 million is hedged by interest rate swap transaction and the average interest rate shows the weighted-average interest rate adjusting the effect of interest rate swap transaction.

Note9: The use of borrowings is for repayment of short-term and long-term loans payable.

### 3. Status of Investment Corporation Bonds

Investment corporation bonds issued and outstanding as of April 30, 2014 are as follows.

Name of Bonds	Issue Date	Balance as of the beginning of the 16th fiscal period (million yen)	Balance as of the end of the 16th fiscal period (million yen)	Interest Rate (%)	Maturity Date	Redemption method	Use of proceeds	Remark
No.1 Unsecured Investment Corporation Bonds (Note)	June 4, 2010	8,500	8,500	1.00	June 4, 2015	Bullet payment	Repayment of borrowing	Unsecured and unguaranteed
Total		8,500	8,500					

Note: This bond is equipped with special pari passu conditions among the specified investment corporation bonds.

### 4. Status of Short-Term Investment Corporation Bonds

There are none applicable.

## [6] Status of Acquisitions and Dispositions During the Period

### 1. Acquisitions and Dispositions of Real Estate, etc. and Asset Backed Securities

Type of Assets	Name of Property	Acquisition		Disposition			
		Acquisition Date	Acquisition Price (million yen) (Note)	Disposition Date	Disposition Price (million yen)	Book Value (million yen)	Capital Gain and Loss (million yen)
Trust Beneficiary Interest in Real Estate	Shinjuku EAST Building	November 28, 2013	5,800	—	—	—	—
Trust Beneficiary Interest in Real Estate	Ginza Oji Building	November 28, 2013	2,000	—	—	—	—
Trust Beneficiary Interest in Real Estate	Kojima × Bic Camera Kashiwa Store	November 28, 2013	4,500	—	—	—	—

Note: Acquisition Price is the amount (acquisition price indicated in the sales agreement) excluding expenses (such as real estate transaction brokerage fees, real estate tax, etc.) required for transaction of the relevant property.

### 2. Acquisitions and Dispositions of Others Assets

Other major assets besides real estate and asset backed securities stated above consist mostly of bank deposits or bank deposits within assets held in trust.

### 3. Research on Prices of Specified Assets

Transactions during the current period that require research on prices of specified assets stipulated by Article 201 of the Act on Investment Trusts and Investment Corporations are as follows.

#### ① Real estate, etc.

Acquisition or Disposition	Name of Properties	Transaction Date	Acquisition Price (million yen) (Note1)	Appraisal Price (million yen) (Note2)	Appraisal Institution	Appraised Date
Acquisition	Shinjuku EAST Building	November 28, 2013	5,800	6,110	Japan Real Estate Institute	September 30, 2013
Acquisition	Ginza Oji Building	November 28, 2013	2,000	2,000	Daiwa Real Estate Appraisal Co, LTD	September 30, 2013
Acquisition	Kojima × Bic Camera Kashiwa Store	November 28, 2013	4,500	4,740	Japan Real Estate Institute	September 30, 2013

Note 1: Acquisition Price is the amount (acquisition price indicated in the sales agreement) excluding expenses (such as real estate transaction brokerage fees, real estate tax, etc.) required for transaction of the relevant property.

Note 2: The real estate appraisal is conducted by applying "Real Estate Appraisal Standard Section 3: appraisals concerning prices of real estate subject to securitization."

#### ② Others

One interest rate swap deal was subjected to the research during the current period and research of the said deal was entrusted to KPMG AZUSA LLC. We have received the related research report from KPMG AZUSA LLC. In the research, KPMG AZUSA LLC is supposed to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap deal.

#### 4. Transaction with Interested Parties, etc.

##### ① Status of Transaction

Category	Amount of Purchase Price, etc.	
	Purchase Price, etc.(In millions of yen)	Sale Price, etc.(In millions of yen)
Total Amount	12,300 <100.0%>	—
	Amount of purchases from related parties and major shareholders 6,500 <52.8%>	Amount of sales to related parties and major shareholders —
Breakdown of transactions with related parties		
Neptune Investment YK	4,500 <36.6%>	—
Oji Holdings Corporation	2,000 <16.3%>	—
Total	6,500 <52.8%>	—

##### ② Amounts of Fees Paid, etc.

Fees paid to interested parties, etc. during the 16th fiscal period are as follows.

Item	Total amount of fees paid (A) (thousand yen)	Transactions with interested parties, etc. and major unitholders		Ratio against total amount B/A (%)
		Paid to	Amount of payment (B) (thousand yen)	
Property management fees	452,977	Oji Real Estate Co., Ltd.	33,141	7.3
		Sumitomo Mitsui Trust Bank, Limited.	1,250	0.3
Brokerage fee	245,000	Sumitomo Mitsui Trust Bank, Limited.	185,000	75.5
		Oji Real Estate Co., Ltd.	60,000	24.5
Trust compensation	19,767	Sumitomo Mitsui Trust Bank, Limited.	17,267	87.4
Asset custodian fees	8,898	Sumitomo Mitsui Trust Bank, Limited.	8,898	100.0
Administrative service fees	66,861	Sumitomo Mitsui Trust Bank, Limited.	66,861	100.0
Other fees paid	11,348	Sumitomo Mitsui Trust Bank, Limited.	1,024	9.0
		Oji Real Estate Co., Ltd.	9	0.1
Borrowing related expenses	150,072	Sumitomo Mitsui Trust Bank, Limited.	64,928	43.3
Investment unit issuance related expenses	6,678	Sumitomo Mitsui Trust Bank, Limited.	100	1.5
Investment corporation bond related expenses	5,574	Sumitomo Mitsui Trust Bank, Limited.	623	11.2
Other non-operating expenses	4,352	Sumitomo Mitsui Trust Bank, Limited.	342	7.9
Other expenses related to rent business	5,419	Oji Real Estate Co., Ltd.	488	9.0

Note 1: Interested parties, etc. means interested parties, etc. of the asset manager which concluded asset management entrustment contract with Top REIT as prescribed in Article 123 of the Enforcement Order of the Investment Trust and Investment Corporations Law. However, the table above also includes transactions with interested parties as provided in the internal rules of the asset manager (including special purpose companies, etc. to which interested parties, etc. have been entrusted with asset management). Please note that the parties to which payments were made during the current period were Oji Real Estate Co., Ltd., Oji Holdings Corporation, Neptune Investment YK. and Sumitomo Mitsui Trust Bank, Limited.

Note 2: Purchase Price is the amount (acquisition price indicated in the sales agreement) excluding expenses (such as real estate transaction brokerage fees, real estate tax, etc.) required for transaction of the relevant property.

Note 3: Ratio against total amount is the ratio (%) against respective total amount rounded to the first decimal place.

Note 4: In addition to the fees paid described above, the amounts paid for repair and maintenance work placed with interested parties, etc. during the 16th fiscal period are Oji Real Estate Co., Ltd. of ¥57,506 thousand. Furthermore, the concerned payments include construction management fees.

#### 5. Status of Transactions with the Asset Manager Regarding Additional Work Conducted

Top REIT Asset Management Co., Ltd., the asset management company of Top REIT, does not concurrently conduct any type 1 financial instruments business, type 2 financial instruments business,



building lots and buildings transaction business, or real estate specified joint enterprise business, and has no such transactions with Top REIT.

## **【7】 Overview of Accounting**

### **1. Assets, Liabilities, Principal and Profit / Loss**

Please refer to accompanying “II.Balance Sheets”, “III.Statements of Income”, “IV.Statements of Changes in Net assets(Unitholders’ Equity)”, “V.Notes to Financial Statements” and “VI.Statements of Cash Dividend Distributions”.

### **2. Change in Depreciation Method**

There are none applicable.

### **3. Change in Valuation Methods of Real Estate, etc.**

There are none applicable.

### **4. Status of Investment Trust Beneficiary Certificates of Top REIT, etc.**

There are none applicable.

## **【8】 Others**

### **1. Notice**

#### **Board of Directors**

Major issues related to the execution and modification of major contracts approved by the board of directors of Top REIT during the six months ended April 30, 2014 is summarized below.

Approval date	Approved agenda	Description
November 7, 2013	Conclusion of new investment units underwriting agreement	With issuance of new investment units, an underwriting agreement for the new investment units was concluded with underwriters, entrusting them with general administrative duties concerning the offering of investment units.

Note: Underwriters are Daiwa Securities, Co. Ltd., Nomura Securities Co., Ltd., Mizuho Securities Co., Ltd., SMBC Nikko Securities Inc., Okasan Securities Co., Ltd. and SMBC Friend Securities Co., Ltd.

### **2. Others**

Unless otherwise stated, fractions less than the specified unit are rounded down to the nearest specified unit for monetary amounts and rounded to the nearest specified unit for percentage figures.

## II. Balance Sheets

	(Unit: thousand yen)	
	Fifteenth Fiscal Period (Reference) (as of October 31, 2013)	Sixteenth Fiscal Period (as of April 30, 2014)
Assets		
Current assets		
Cash and deposits	903,314	3,049,986
Cash and deposits in trust	3,939,421	4,273,472
Operating accounts receivable	103,255	193,414
Prepaid expenses	329,136	353,139
Deferred tax assets	17	16
Consumption taxes receivable	—	137,402
Other	6,586	1,830
Total current assets	5,281,731	8,009,261
Noncurrent assets		
Property, plant and equipment		
Buildings	1,150,996	1,153,573
Accumulated depreciation	(210,309)	(225,614)
Buildings, net	940,687	927,958
Structures	5,559	5,559
Accumulated depreciation	(3,280)	(3,388)
Structures, net	2,278	2,170
Machinery and equipment	20,309	20,309
Accumulated depreciation	(11,393)	(11,988)
Machinery and equipment, net	8,915	8,320
Tools, furniture and fixtures	5,717	5,717
Accumulated depreciation	(1,724)	(2,137)
Tools, furniture and fixtures, net	3,992	3,579
Land	4,888,525	4,888,525
Buildings in trust	62,810,594	66,712,538
Accumulated depreciation	(14,921,677)	(16,038,443)
Buildings in trust, net	47,888,916	50,674,094
Structures in trust	697,890	801,903
Accumulated depreciation	(298,860)	(317,387)
Structures in trust, net	399,030	484,516
Machinery and equipment in trust	256,518	307,426
Accumulated depreciation	(131,514)	(156,723)
Machinery and equipment in trust, net	125,003	150,702
Tools, furniture and fixtures in trust	260,147	273,432
Accumulated depreciation	(141,218)	(156,700)
Tools, furniture and fixtures in trust, net	118,928	116,731
Land in trust	125,686,918	134,748,836
Total property, plant and equipment	180,063,196	192,005,437
Intangible assets		
Leasehold right in trust	—	7,348
Other intangible assets in trust	1,356	2,198
Other	85	63
Total intangible assets	1,441	9,610
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	562,703	492,375
Other	231,780	229,164
Total investments and other assets	804,484	731,540
Total noncurrent assets	180,869,122	192,746,588
Deferred assets		
Investment corporation bond issuance costs	18,372	12,861
Investment unit issuance expenses	—	33,393
Total deferred assets	18,372	46,254
Total assets	186,169,227	200,802,104

	(Unit: thousand yen)	
	Fifteenth Fiscal Period (Reference) (as of October 31, 2013)	Sixteenth Fiscal Period (as of April, 2014)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating accounts payable	136,532	296,523
Current portion of long-term loans payable	4,135,000	4,135,000
Accounts payable – other	239,584	252,726
Accrued expenses	131,320	131,332
Income taxes payable	859	853
Accrued consumption taxes	61,670	–
Advances received	705,842	795,670
Other	2,821	9,937
Total current liabilities	5,413,630	5,622,044
<b>Noncurrent liabilities</b>		
Investment corporation bond	8,500,000	8,500,000
Long-term loans payable	83,362,500	87,795,000
Tenant leasehold and security deposits	101,016	101,016
Tenant leasehold and security deposits in trust	4,873,415	5,649,955
Deferred tax liabilities	19,293	13,799
Long-term advances received	122	79
Derivatives liabilities	27,949	38,429
Total noncurrent liabilities	96,884,297	102,098,279
Total liabilities	102,297,927	107,720,324
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	82,260,100	91,143,100
<b>Surplus</b>		
<b>Voluntary retained earnings</b>		
Reserve for reduction entry	49,958	49,958
Total Voluntary retained earnings	49,958	49,958
Unappropriated retained earnings (undisposed loss)	1,579,617	1,913,997
Total surplus	1,629,576	1,963,956
Total unitholders' equity	83,889,676	93,107,056
<b>Valuation and translation adjustments</b>		
Deferred gains or losses on hedges	(18,376)	(25,275)
Total valuation and translation adjustments	(18,376)	(25,275)
Total net assets	83,871,299	93,081,780
Total liabilities and net assets	186,169,227	200,802,104

### III. Statements of Income

(Unit: thousand yen)

	Fifteenth Fiscal Period (Reference) (From May 1, 2013 to October 31, 2013)	Sixteenth Fiscal Period (From November 1, 2013 to April 30, 2014)
Operating revenue		
Rent revenue – real estate	5,125,553	5,590,221
Other lease business revenue	28,748	47,135
Total operating revenue	5,154,302	5,637,356
Operating expenses		
Expenses related to rent business	2,438,852	2,622,805
Asset management fee	406,366	354,776
Asset custody fee	8,385	8,898
Administrative service fees	64,806	66,861
Directors' compensations	6,300	6,300
Audit fee	10,000	10,000
Other operating expenses	46,940	38,929
Total operating expenses	2,981,651	3,108,571
Operating income	2,172,650	2,528,785
Non-operating income		
Interest income	641	675
Reversal of dividends payable	825	1,023
Insurance income	10,304	191
Other	71	—
Total non-operating income	11,842	1,891
Non-operating expenses		
Interest expenses	406,843	408,933
Interest expense on investment corporation bonds	42,965	42,034
Amortization of investment corporation bond issuance costs	5,511	5,511
Borrowing related expenses	143,961	150,072
Amortization of investment unit issuance expenses	—	6,678
Other	4,639	4,415
Total non-operating expenses	603,922	617,646
Ordinary income	1,580,570	1,913,029
Income before income taxes	1,580,570	1,913,029
Income taxes – current	958	957
Income taxes – deferred	(0)	(1,913)
Total income taxes	957	(955)
Net income	1,579,612	1,913,985
Retained earnings brought forward	4	12
Unappropriated retained earnings (undisposed loss)	1,579,617	1,913,997

#### IV. Statements of Changes in Net Assets (Unitholders' Equity)

For the period from May 1, 2013 to October 31, 2013 (15th fiscal period)

(Unit: thousand yen)

	Unitholders' equity					
	Unitholders' capital	Surplus				Total unitholders' equity
		Voluntary retained earnings		Unappropriated retained earnings (undisposed loss)	Total surplus	
		Reserve for reduction entry	Total Voluntary retained earnings			
Balance at the beginning of the period	82,260,100	49,958	49,958	1,822,649	1,872,608	84,132,708
Changes of items during the period						
Dividends from surplus				(1,822,645)	(1,822,645)	(1,822,645)
Net income				1,579,612	1,579,612	1,579,612
Net changes of items other than unitholders' equity (net)						
Total changes of items during the period	—	—	—	(243,032)	(243,032)	(243,032)
Balance at the end of current period	82,260,100	49,958	49,958	1,579,617	1,629,576	83,889,676

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of the period	(5,177)	(5,177)	84,127,531
Changes of items during the period			
Dividends from surplus			(1,822,645)
Net income			1,579,612
Net changes of items other than unitholders' equity (net)	(13,199)	(13,199)	(13,199)
Total changes of items during the period	(13,199)	(13,199)	(256,231)
Balance at the end of current period	(18,376)	(18,376)	83,871,299

For the period from November 1, 2013 to April 30, 2014 (16th fiscal period)

(Unit: thousand yen)

	Unitholders' equity					
	Unitholders' capital	Surplus				Total unitholders' equity
		Reserve for reduction entry	Total Voluntary retained earnings	Unappropriated retained earnings (undisposed loss)	Total surplus	
Balance at the beginning of the period	82,260,100	49,958	49,958	1,579,617	1,629,576	83,889,676
Changes of items during the period						
Issuance of new investment units	8,883,000					8,883,000
Dividends from surplus				(1,579,605)	(1,579,605)	(1,579,605)
Net income				1,913,985	1,913,985	1,913,985
Net changes of items other than unitholders' equity (net)						
Total changes of items during the period	8,883,000	—	—	334,380	334,380	9,217,380
Balance at the end of current period	91,143,100	49,958	49,958	1,913,997	1,963,956	93,107,056

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of the period	(18,376)	(18,376)	83,871,299
Changes of items during the period			
Issuance of new investment units			8,883,000
Dividends from surplus			(1,579,605)
Net income			1,913,985
Net changes of items other than unitholders' equity (net)	(6,899)	(6,899)	(6,899)
Total changes of items during the period	(6,899)	(6,899)	9,210,480
Balance at the end of current period	(25,275)	(25,275)	93,081,780

## V. Notes to Financial Statements

### Note 1. Premise of the Going Concern

Fifteenth Fiscal Period (Reference) For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014
There are none applicable.	There are none applicable.

### Note 2. Significant Accounting Policies

Classification	Fifteenth Fiscal Period (Reference) For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014																
1. Method of Depreciation and Amortization of Property, etc.	<p>(1) Property, Plant and Equipment (including trust assets) Adopts the straight-line method. Further, the estimated useful lives of the major property, plant and equipment are as follows.</p> <table style="margin-left: 40px;"> <tr> <td>Building</td> <td style="text-align: right;">2~59 years</td> </tr> <tr> <td>Structures</td> <td style="text-align: right;">2~54 years</td> </tr> <tr> <td>Machinery and equipment</td> <td style="text-align: right;">3~15 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td style="text-align: right;">2~12 years</td> </tr> </table> <p>(2) Intangible Assets Adopts the straight-line method.</p> <p>(3) Long-Term Prepaid Expenses Adopts the straight-line method.</p>	Building	2~59 years	Structures	2~54 years	Machinery and equipment	3~15 years	Tools, furniture and fixtures	2~12 years	<p>(1) Property, Plant and Equipment (including trust assets) Adopts the straight-line method. Further, the estimated useful lives of the major property, plant and equipment are as follows.</p> <table style="margin-left: 40px;"> <tr> <td>Building</td> <td style="text-align: right;">2~59 years</td> </tr> <tr> <td>Structures</td> <td style="text-align: right;">2~54 years</td> </tr> <tr> <td>Machinery and equipment</td> <td style="text-align: right;">2~15 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td style="text-align: right;">2~12 years</td> </tr> </table> <p>(2) Intangible Assets Adopts the straight-line method.</p> <p>(3) Long-Term Prepaid Expenses Adopts the straight-line method.</p>	Building	2~59 years	Structures	2~54 years	Machinery and equipment	2~15 years	Tools, furniture and fixtures	2~12 years
Building	2~59 years																	
Structures	2~54 years																	
Machinery and equipment	3~15 years																	
Tools, furniture and fixtures	2~12 years																	
Building	2~59 years																	
Structures	2~54 years																	
Machinery and equipment	2~15 years																	
Tools, furniture and fixtures	2~12 years																	
2. Treatment Method of Differed Assets	<p>Investment Corporation Bonds Issuance Costs Amortized on the straight-line method over the maturity period of the bonds</p>	<p>(1) Investment Corporation Bonds Issuance Costs Amortized on the straight-line method over the maturity period of the bonds.</p> <p>(2) Investment Unit Issuance Expenses Amortized on the straight-line method over three years.</p>																
3. Standard for Posting of Income and Expenses	<p>Method of treatment concerning Taxes on Property and Equipment</p> <p>Top REIT adopts the method of treating property taxes, city planning taxes and depreciable asset taxes, etc. on owned real estate, etc, as expenses related to the rent business in the amount corresponding to the management period out of the assessed and determined taxation amount.</p> <p>In addition, as for the acquisition of real estate or beneficiary interests in trust in real estate, the adjustments equivalent to property tax for the acquired fiscal year paid to the transferor will be included in acquisition costs, and thus will not be recorded as expenses in the corresponding period. Furthermore, during the 15th fiscal period, there was no amount equivalent to the property taxes included as the acquisition costs of real estate.</p>	<p>Method of treatment concerning Taxes on Property and Equipment</p> <p>Top REIT adopts the method of treating property taxes, city planning taxes and depreciable asset taxes, etc. on owned real estate, etc, as expenses related to the rent business in the amount corresponding to the management period out of the assessed and determined taxation amount.</p> <p>In addition, as for the acquisition of real estate or beneficiary interests in trust in real estate, the adjustments equivalent to property tax for the acquired fiscal year paid to the transferor will be included in acquisition costs, and thus will not be recorded as expenses in the corresponding period. Furthermore, during the 16th fiscal period, the amount equivalent to the property taxes included in the acquisition costs of real estate totaled 9,946 thousand yen for Shinjuku EAST Building, Ginza Oji Building and Kojima × Bic Camera Kashiwa Store.</p>																

<p>4. Method of Hedge Accounting</p>	<p>(1) Method of Hedge Accounting on Deferred Hedge, etc. Deferred hedge accounting is adopted. However, special treatment is adopted for those that meet the requirements for special treatment of interest rate swaps.</p> <p>(2) Hedging Instruments and Hedged Items Hedging instruments: Interest rate swap transactions Hedged items: Borrowing interest rates</p> <p>(3) Hedging Policy Top REIT enters into derivative transactions to hedge against risks stipulated in the Articles of Incorporation in accordance with the financial policy.</p> <p>(4) Method for Assessing the Effectiveness of Hedging The effectiveness of hedging is assessed by comparing the cumulative change in hedged items and the cumulative change in hedging instruments and then examining the ratio of the amount of change in both.</p>	<p>(1) Method of Hedge Accounting on Deferred Hedge, etc. Deferred hedge accounting is adopted. However, special treatment is adopted for those that meet the requirements for special treatment of interest rate swaps.</p> <p>(2) Hedging Instruments and Hedged Items Hedging instruments: Interest rate swap transactions Hedged items: Borrowing interest rates</p> <p>(3) Hedging Policy Top REIT enters into derivative transactions to hedge against risks stipulated in the Articles of Incorporation in accordance with the financial policy.</p> <p>(4) Method for Assessing the Effectiveness of Hedging The effectiveness of hedging is assessed by comparing the cumulative change in hedged items and the cumulative change in hedging instruments and then examining the ratio of the amount of change in both.</p>
<p>5. Other Significant Items Fundamental to Preparing the Financial Statements</p>	<p>(1) Accounting Treatment Method on Trust Beneficiary Interest in Real Estate as Property in Trust</p> <p>For the trust beneficiary interest in owned real estate, all accounts of assets and liabilities held in trust as well as all income generated and expenses incurred from the trust are recorded in the concerned items accounts on the balance sheet and statements of income and retained earnings, respectively.</p> <p>Furthermore, the following significant accounts are separately stated in the balance sheet for properties in trust recorded in relevant accounts.</p> <ol style="list-style-type: none"> <li>1.Cash and Deposits in trust</li> <li>2.Building in trust, Structures in trust, machinery and equipment in trust, Tools, furniture and fixtures in trust, other properties in trust, land in trust, other intangible assets in trust</li> <li>3.Land leasehold right in trust</li> <li>4.Lease and guarantee deposits in trust</li> <li>5.Tenant leasehold and security deposits in trust</li> </ol> <p>(2) Accounting Treatment Method of Consumption Taxes</p> <p>National and local consumption taxes are accounted with the consumption taxes excluded. Furthermore, consumption taxes related to acquisition of properties, which has not been deducted, is included in the acquisition costs of the respective properties.</p>	<p>(1) Accounting Treatment Method on Trust Beneficiary Interest in Real Estate as Property in Trust</p> <p>For the trust beneficiary interest in owned real estate, all accounts of assets and liabilities held in trust as well as all income generated and expenses incurred from the trust are recorded in the concerned items accounts on the balance sheet and statements of income and retained earnings, respectively.</p> <p>Furthermore, the following significant accounts are separately stated in the balance sheet for properties in trust recorded in relevant accounts.</p> <ol style="list-style-type: none"> <li>1.Cash and Deposits in trust</li> <li>2.Building in trust, Structures in trust, machinery and equipment in trust, Tools, furniture and fixtures in trust, other properties in trust, land in trust, other intangible assets in trust</li> <li>3.Land leasehold right in trust</li> <li>4.Lease and guarantee deposits in trust</li> <li>5.Tenant leasehold and security deposits in trust</li> </ol> <p>(2) Accounting Treatment Method of Consumption Taxes</p> <p>National and local consumption taxes are accounted with the consumption taxes excluded. Furthermore, consumption taxes related to acquisition of properties, which has not been deducted, is included in the acquisition costs of the respective properties.</p>



### Note 3. Balance Sheet

Fifteenth Fiscal Period (Reference) As of October 31, 2013	Sixteenth Fiscal Period As of April 30, 2014																																
<p>1. Asset Pledged as Collateral and Secured Liabilities</p> <p>Assets pledged as collateral are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(Thousand yen)</td> </tr> <tr> <td>Building in trust</td> <td style="text-align: right;">2,293,491</td> </tr> <tr> <td>Structures in trust</td> <td style="text-align: right;">75,750</td> </tr> <tr> <td>Land in trust</td> <td style="text-align: right;">8,892,092</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>11,261,334</u></td> </tr> </table> <p>Secured liabilities are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(Thousand yen)</td> </tr> <tr> <td>Tenant leasehold and security deposits in trust</td> <td style="text-align: right;">326,648</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>326,648</u></td> </tr> </table> <p>2. Minimum Total Net Asset Designated in Article 67-4 in the Investment Trust and Investment Corporations Law</p> <p style="text-align: right;">50,000 thousand yen</p>		(Thousand yen)	Building in trust	2,293,491	Structures in trust	75,750	Land in trust	8,892,092	<u>Total</u>	<u>11,261,334</u>		(Thousand yen)	Tenant leasehold and security deposits in trust	326,648	<u>Total</u>	<u>326,648</u>	<p>1. Asset Pledged as Collateral and Secured Liabilities</p> <p>Assets pledged as collateral are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(Thousand yen)</td> </tr> <tr> <td>Building in trust</td> <td style="text-align: right;">2,266,146</td> </tr> <tr> <td>Structures in trust</td> <td style="text-align: right;">73,090</td> </tr> <tr> <td>Land in trust</td> <td style="text-align: right;">8,892,092</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>11,231,329</u></td> </tr> </table> <p>Secured liabilities are as follows.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">(Thousand yen)</td> </tr> <tr> <td>Tenant leasehold and security deposits in trust</td> <td style="text-align: right;">326,648</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>326,648</u></td> </tr> </table> <p>2. Minimum Total Net Asset Designated in Article 67-4 in the Investment Trust and Investment Corporations Law</p> <p style="text-align: right;">50,000 thousand yen</p>		(Thousand yen)	Building in trust	2,266,146	Structures in trust	73,090	Land in trust	8,892,092	<u>Total</u>	<u>11,231,329</u>		(Thousand yen)	Tenant leasehold and security deposits in trust	326,648	<u>Total</u>	<u>326,648</u>
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### Note 4. Statement of Income and Retained Earnings

	Fifteenth Fiscal Period (Reference) For the period From May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period From November 1, 2013 to April 30, 2014
		(Thousand yen)
A. Revenue related to rent business		
Rental and parking revenue	4,824,773	5,255,447
Other lease revenue	300,780	334,773
Other lease business revenue	23,107	43,291
Cancellation penalty received	5,640	3,843
Total revenue related to rent business	5,154,302	5,637,356
B. Expenses related to rent business		
Property management costs and fees	388,378	452,977
Utilities expenses	244,453	248,305
Property-related taxes and dues	581,017	580,275
Non-life insurance expenses	10,225	10,751
Repair expenses	75,513	99,545
Depreciation and amortization	1,115,879	1,193,406
Other	23,385	37,542
Total expenses related to rent business	2,438,852	2,622,805
C. Revenue and expenses of real estate rent business (A – B)	2,715,449	3,014,550

## Note 5. Unitholders' Equity

	Fifteenth Fiscal Period (Reference) For the period From May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period From November 1, 2013 to April 30, 2014
Number of issuable investment units	2,000,000 units	2,000,000 units
Number of investment units issued and outstanding	155,000 units	176,000 units

## Note 6. Tax Effect Accounting

### 1. Breakdown of deferred gains or losses by cause

(Deferred Tax Assets)

(Thousand yen)

	Fifteenth Fiscal Period (Reference) For the period From May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period From November 1, 2013 to April 30, 2014
Current assets		
Income taxes – current payable	17	16
Noncurrent assets		
Deferred gains or losses on hedges	9,534	13,114
Total deferred tax assets	9,551	13,130

(Deferred Tax Liabilities)

(Thousand yen)

	Fifteenth Fiscal Period (Reference) For the period From May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period From November 1, 2013 to April 30, 2014
Noncurrent liabilities		
Reserve for reduction entry	28,827	26,913
Total deferred tax liabilities	28,827	26,913
(Net deferred tax liabilities)	19,276	13,783

### 2. Breakdown by main items that caused differences between the effective statutory tax rate and the effective tax rate after applying tax effect accounting.

	Fifteenth Fiscal Period (Reference) For the period From May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period From November 1, 2013 to April 30, 2014
Effective statutory tax rate	36.59%	36.59%
(Adjustment)		
Deductible cash distributions	(36.57%)	(36.57%)
Other	0.04%	(0.07%)
Effective tax rate after applying tax effect accounting	0.06%	(0.05%)

3. Correction of amount of deferred tax assets and deferred tax liabilities due to the change in tax rate of corporate tax, etc.

With the Act on Partial Revision of the Income Tax Act, etc. (Act No. 10 of 2014) being promulgated on March 31, 2014, special reconstruction corporation tax will not be imposed from operating periods that start on April 1, 2014 or after. As a result, the effective statutory tax rate used to calculate the deferred tax assets and deferred tax liabilities for the 16th fiscal period have been changed from 36.59% for the 15th fiscal period to 34.16% concerning temporary differences expected to be reversed during the operating periods which start on May 1, 2014 and November 1, 2014. Furthermore, the impact from the changed tax rate is minimal.

#### **Note 7. Leases**

There are none applicable.

#### **Note 8. Financial Instruments**

Information on financial instruments for the periods ended October 31, 2013 and April 30, 2014 required pursuant to the revised accounting standards are as follows:

##### **1. Matters Concerning Status of Financial Instruments**

###### **(1) Policy for financial instruments**

Top REIT procures necessary funds through bank loans, issuance of investment corporation bonds and issuance of investment units, with the aim of contributing to steady growth of assets managed and stable earnings from a mid-and long-term view in accordance with the financial policy stated by the asset manager.

Although management of surplus funds by using financial instruments targeting securities, monetary claims, etc. in accordance with the investment limitations stipulated in the Articles of Incorporation, as a general rule, the surplus funds are managed by placing them in deposit.

Furthermore, derivative transactions shall be limited to those for the purpose of hedging interest rate fluctuation risk and other risks in accordance with the investment limitations.

###### **(2) Financial Instruments, Their Risks and Risk Management System**

Top REIT and Top REIT Asset Management, Co., Ltd. (TRAM), the asset management company of Top REIT, strive for advancing risk management through regular inspection of the adequacy and effectiveness of risk management systems. Top REIT and TRAM adopt the structure that inspects various risks regularly and reflects the results of inspection on the risk management plan and the management plans. In addition, Top REIT and TRAM inspect risks and reflect the results of inspection in the decision-making in a timely manner through various transactions.

Top REIT and TRAM strive for risk management based on the incorporation rules of the asset manager concerning individual financial instruments and their risks, and risk management system.

###### **① Credit risk concerning deposit and derivative transaction**

Deposits, especially time deposits of large amounts, are used for investment of Top REIT's surplus funds, these deposits are exposed to credit risk of bankruptcy of the depository financial institutions and others. Top REIT minimizes the risk through such measures as limiting them to short term deposits and setting the standard of credit rating for depository financial institutions and establishing rules for the ceiling amounts of deposit. Derivative transactions are exposed to credit risks of transaction parties, Top REIT limits credit risks by setting the standard of credit rating in transaction financial institutions and putting in place a structure to monitor deals, the amount of estimated values and credit status of transaction partners.

###### **② Market risk concerning loans**

Proceeds from loans and investment corporation bonds are used mainly to acquire real estate properties and refinance existing loans and bonds.

Loans, especially floating-rate borrowings, are exposed to market risks, Top REIT manages to hedge against interest-raising risk by fixed-rate interests entered into interest swap transactions and setting the target of fixed- rate interest ratios. In addition, when procuring new loans and refinancing, Top REIT inspects interest-raising risks and studies borrowing methods that minimize risks. For the hedging instruments and hedged items, hedging policy, method for assessing the effectiveness of hedging, etc. in hedge accounting, please refer to "4. Methods of Hedge Accounting" under "Note 2. Significant Accounting Policies" above.

###### **③ Liquidity risk concerning borrowings and tenant leasehold used in cash flow, etc**

Borrowings, investment corporation bonds and tenant leasehold are exposed to liquidity risk at the time of repayment of borrowing, redemption of investment corporation bonds and return of tenant leaseholds, but Top REIT manages these risks by preparing monthly fund management plans. In addition, Top REIT has established a management system for identifying liquidity risks regularly and at the time of various transactions by calculating the total amount of payments assumed, which is arrived at by taking the total amount of borrowings and tenant leaseholds, etc. that are to become due for repayment in the fiscal period and adding forecast dividends, and conducting a comparative inspection with liquidity on hand that factors in the liquidity of portfolio real estate properties and other assets under management.

(3) Supplemental Explanation About the 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 “2. Matters Concerning Estimated Fair Value, etc. of Financial Instruments” below do not represent the market risk involved in these derivative transactions.

**2. Matters Concerning Estimated Fair Value, etc. of Financial Instruments**

**For the period from May 1, 2013 to October 31, 2013 (15th fiscal period) (Reference)**

The following table includes the book value, fair value and valuation difference of financial instruments as of October 31, 2013. The financial instruments that are recognized to be extremely difficult to estimate the fair value are not included in the table. (Please refer to Note 2).

(Thousand yen)

	As of October 31, 2013		
	Book value	Fair value	Difference
(1) Cash and deposits	903,314	903,314	—
(2) Cash and deposits in trust	3,939,421	3,939,421	—
Total assets	4,842,736	4,842,736	—
(3) Current portion of long-term loans payable	4,135,000	4,177,692	42,692
(4) Investment corporation bond	8,500,000	8,557,545	57,545
(5) Long-term loans payable	83,362,500	83,630,591	268,091
(6) Tenant leasehold and security deposits in trust	781,889	781,889	—
Total liabilities	96,779,389	97,147,717	368,328
Derivative transactions (*1)			
Applied hedge accounting	(27,949)	(27,949)	—
Total derivative transactions	(27,949)	(27,949)	—

(\*1): The value of assets and liabilities arising from derivative transactions is shown in net value, with amount in parentheses representing the net liability position.

(Note1) Methods for calculating the fair value of financial instruments and matters related to derivative transactions

Assets

- (1) Cash and deposits, and  
(2) Cash and deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

Liabilities

- (3) Current portion of long-term loans payable, and  
(5) Long-term loans payable

For long-term loans payable with floating interest rates, the fair value would be almost equal to the book value because such loans reflect the market interest rate in a short-term period and thus are based on the concerned book value.

For fixed-rate long-term loans payable, the fair value is the present value calculated by discounting

he sum total amount of its principal and interest payment on a rate reasonably estimated to be applicable to similar long-term loans.

Furthermore, the fair value of long-term loans payable that qualifies for the special treatment of interest-rate swap (refer to Derivative Transactions below) is the present value calculated by the discounted sum total of its principal and interest payments net calculated from the interest-rate swap on a rate reasonably estimated to be applicable to similar fixed-rate long-term loans.

(4) Investment corporation bonds

The fair value of investment corporation bonds issued by Top REIT is referential figure disclosed by the financial data provider.

(6) Tenant leasehold and security deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

Derivative Transactions

Hedge accounting applied

The following are the contract values or values corresponding to the principal amounts as stipulated by contracts for derivative transactions as of date of settlement for each hedge accounting method applied.

(Thousand yen)

Hedge accounting method	Type of derivative transactions	Hedge item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
Principal treatment method	Interest rate swap Pay fixed / receive floating	Long-term loans payable	8,500,000	8,500,000	(27,949)	Calculated on value provided by counterparty financial institution
Special treatment of interest-rate swaps	Interest rate swap Pay fixed / receive floating	Long-term loans payable	18,700,000	16,700,000	(*2)	—

(\*2) Since the derivative transactions accounted by special treatment of interest-rate swaps are treated as one transaction together with long-term loans payable which is the hedged item, the fair value is included in the fair value of the said long-term loans payable (refer to Note 1(5)).

(Note 2) Financial instruments which are recognized to be extremely difficult to estimate the fair value of are as follows

(Thousand yen)

Item	Carrying value
Tenant leasehold and security deposits in trust (*3)	4,091,526
Total	4,091,526

(\*3) Tenant leasehold and security deposits in trust which excluded the above (6) are not subject to fair value disclosure because arriving at the fair value is extremely difficult due to the fact that the contract termination period, which is the repayment date, is difficult to reasonably estimate as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

(Note 3) Redemption Schedule amount for Monetary Claims after the end of the period

(Thousand yen)

	Due within one year
Cash and deposits	903,314
Cash and deposits in trust	3,939,421
Total	4,842,736

(Note 4) Repayment Schedule amount for Investment Corporation Bonds and Long-Term Loans Payable after the end of the period

(Thousand yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	—	8,500,000	—	—	—	—
Long-term loans payable	4,135,000	10,210,000	26,535,000	38,362,500	8,255,000	—
Total	4,135,000	18,710,000	26,535,000	38,362,500	8,255,000	—

**For the period from November 1, 2013 to April 30, 2014 (16th fiscal period)**

The following table includes the book value, fair value and valuation difference of financial instruments as of April 30, 2014. The financial instruments that are recognized to be extremely difficult to estimate the fair value are not included in the table. (Please refer to Note 2).

(Thousand yen)

	As of April 30, 2014		
	Book value	Fair value	Difference
(1) Cash and deposits	3,049,986	3,049,986	—
(2) Cash and deposits in trust	4,273,472	4,273,472	—
Total assets	7,323,458	7,323,458	—
(3) Current portion of long-term loans payable	4,135,000	4,171,218	36,218
(4) Investment corporation bond	8,500,000	8,555,165	55,165
(5) Long-term loans payable	87,795,000	88,004,624	209,624
(6) Tenant leasehold and security deposits in trust	1,118,943	1,118,943	—
Total liabilities	101,548,943	101,849,951	301,007
Derivative transactions (*1)			
Applied hedge accounting	(38,429)	(38,429)	—
Total derivative transactions	(38,429)	(38,429)	—

(\*1): The value of assets and liabilities arising from derivative transactions is shown in net value, with amount in parentheses representing the net liability position.

(Note1) Methods for calculating the fair value of financial instruments and matters related to derivative transactions

Assets

- (1) Cash and deposits, and
- (2) Cash and deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

Liabilities

- (3) Current portion of long-term loans payable, and
- (5) Long-term loans payable

For long-term loans payable with floating interest rates, the fair value would be almost equal to the book value because such loans reflect the market interest rate in a short-term period and thus are based on the concerned book value.

For fixed-rate long-term loans payable, the fair value is the present value calculated by discounting the sum total amount of its principal and interest payment on a rate reasonably estimated to be applicable to similar long-term loans.

Furthermore, the fair value of long-term loans payable that qualifies for the special treatment of interest-rate swap (refer to Derivative Transactions below) is the present value calculated by the discounted sum total of its principal and interest payments net calculated from the interest-rate swap on a rate reasonably estimated to be applicable to similar fixed-rate long-term loans.

(4) Investment corporation bonds

The fair value of investment corporation bonds issued by Top REIT is referential figure disclosed by the financial data provider.

(6) Tenant leasehold and security deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

Derivative Transactions

Hedge accounting applied

The following are the contract values or values corresponding to the principal amounts as stipulated by contracts for derivative transactions as of date of settlement for each hedge accounting method applied.

(Thousand yen)

Hedge accounting method	Type of derivative transactions	Hedge item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
Principal treatment method	Interest rate swap Pay fixed / receive floating	Long-term loans payable	8,500,000	8,500,000	(38,429)	Calculated on value provided by counterparty financial institution
Special treatment of interest-rate swaps	Interest rate swap Pay fixed / receive floating	Long-term loans payable	23,200,000	21,200,000	(*2)	—

(\*2) Since the derivative transactions accounted by special treatment of interest-rate swaps are treated as one transaction together with long-term loans payable which is the hedged item, the fair value is included in the fair value of the said long-term loans payable (refer to Note 1(5)).

(Note 2) Financial instruments which are recognized to be extremely difficult to estimate the fair value of are as follows

(Thousand yen)

Item	Carrying value
Tenant leasehold and security deposits in trust (*3)	4,531,011
Total	4,531,011

(\*3) Tenant leasehold and security deposits in trust which excluded the above (6) are not subject to fair value disclosure because arriving at the fair value is extremely difficult due to the fact that the contract termination period, which is the repayment date, is difficult to reasonably estimate as leases may be cancelled, renewed or re-signed even if a lease term is set in the lease contract, making a reasonable estimate of future cash flows difficult.

(Note 3) Redemption Schedule amount for Monetary Claims after the end of the period

(Thousand yen)

	Due within one year
Cash and deposits	3,049,986
Cash and deposits in trust	4,273,472
Total	7,323,458

(Note 4) Repayment Schedule amount for Investment Corporation Bonds and Long-Term Loans Payable after the end of the period

(Thousand yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Investment corporation bonds	—	8,500,000	—	—	—	—
Long-term loans payable	4,135,000	33,610,000	23,930,000	25,755,000	4,500,000	—
Total	4,135,000	42,110,000	23,930,000	25,755,000	4,500,000	—

## Note 9. Investment and Rental Properties

Top REIT owns in the portfolio certain office buildings (including land), etc. located in Tokyo and other areas which are for lease.

The following table is the amount posted on the balance sheet, amounts of increase (decrease) during the previous period and fair value of these investment and rental properties as of the settlement date.

### For the period from May 1, 2013 to October 31, 2013 (15th fiscal period) (Reference)

(Thousand yen)

Book value			Fair value at end of the period
Balance at the beginning of the period	Change during the period	Balance at the end of the period	
181,003,631	(939,077)	180,064,553	170,470,000

(Note 1) Summary of corresponding investment and rental properties are presented in “3-Status of Investment Assets.”

(Note 2) Book value represents the acquisition cost less accumulated depreciation and amortization.

(Note 3) Of the amounts of increase (decrease) during the current period for investment and rental properties, the amount of increase is primarily attributable to capital expenditures, and decrease is mainly due to the depreciation and amortization.

(Note 4) Fair value at the end of the period is the appraisal value as appraised by an outside real estate appraiser.

Furthermore, loss and profit concerning investment and rental properties for fiscal period ended October 31, 2013 is presented in “Note 4. Statement of Income and Retained Earnings.”

### For the period from November 1, 2013 to April 30, 2014 (16th fiscal period)

(Thousand yen)

Book value			Fair value at end of the period
Balance at the beginning of the period	Change during the period	Balance at the end of the period	
180,064,553	11,950,431	192,014,984	179,800,000

(Note 1) Summary of corresponding investment and rental properties are presented in “3-Status of Investment Assets.”

(Note 2) Book value represents the acquisition cost less accumulated depreciation and amortization.

(Note 3) Of the amounts of increase (decrease) during the current period for investment and rental properties, the amount of increase is primarily attributable acquisition of Shinjuku EAST Building(5,889,285 thousand yen), Ginza Oji Building (2,085,743 thousand yen), and Kojima × Bic Camera Kashiwa Store(4,657,682 thousand yen), and decrease is mainly due to the depreciation and amortization.

(Note 4) Fair value at the end of the period is the appraisal value as appraised by an outside real estate appraiser.

Furthermore, loss and profit concerning investment and rental properties for fiscal period ended April 30, 2014 is presented in “Note 4. Statement of Income and Retained Earnings.”



## Note 10. Transactions with Interested Parties

For the period from May 1, 2013 to October 31, 2013 (15th fiscal period) (Reference)

Attribution	Company name	Business description or occupation	Ratio of investment units held among total number of investment units (Note 1)	Type of transaction	Amount of transaction (thousand yen) (Note 2)	Item in balance sheets	Balance at period end (thousand yen) (Note 2)
Interested Party	Japan Trustee Services Bank Ltd.	Banking	29.24% (Note 3)	Rent revenue, etc (Note 4)	512,902	Operating accounts receivable	6,722
						Advances received	68,255
Interested Party and Assets custodian	Sumitomo Mitsui Trust Bank, Limited.	Banking	2.05%	Administrative service fee	64,806	Accounts payable-other	57,554
				Trust fee	15,125	Operating accounts payable	—
				Other fees paid	1,102		
				Property management expenses	1,250		
				Other operating expenses	848	Accounts payable-other	—
				Other non-operating expenses	342	Long-term prepaid expenses	780
						Prepaid expenses	720
				Borrowing related expenses	59,833	Long-term prepaid expenses	179,536
						Prepaid expenses	95,905
				Investment corporation bond related expenses	625	Accounts payable-other	54
Investment corporation bond issuance expenses	1,868						

(Note1) Ratio of investment units held is rounded down to the second decimal place.

(Note2) Consumption tax, etc. are excluded from the amounts of transactions. Consumption tax, etc. are included in the balances at end period, but excluded only for investment corporation bond issuance costs. Furthermore, transaction terms are determined based on prevailing market conditions.

(Note3) The described above ratio was held to trust accounts.

(Note4) The described above rent revenues, etc. include rents and common service revenue as well as related utilities revenue, additional facilities use revenue and parking revenue.

**For the period from November 1, 2013 to April 30, 2014 (16th fiscal period)**

Attribution	Company name	Business description or occupation	Ratio of investment units held among total number of investment units (Note 1)	Type of transaction	Amount of transaction (thousand yen) (Note 2)	Item in balance sheets	Balance at period end (thousand yen) (Note 2)
Interested Party	Japan Trustee Services Bank Ltd.	Banking	27.33% (Note3)	Rent revenue, etc (Note4)	532,353	Operating accounts receivable	6,239
						Advances received	70,205
Interested Party and Assets custodian	Sumitomo Mitsui Trust Bank, Limited.	Banking	1.80%	Administrative service fee	66,861	Accounts payable-other	61,068
				Brokerage fee	185,000	Operating accounts payable	-
				Trust fee	17,267		
				Other fees paid	1,024		
				Property management expenses	1,250		
				Other non-operating expenses	342	Long-term prepaid expenses	420
				Borrowing related expenses	64,928	Prepaid expenses	720
						Prepaid expenses	106,908
				Investment unit issuance related expenses	100	Investment unit issuance expenses	500
				Investment corporation bond related expenses	623	Accounts payable-other	55
Investment corporation bond issuance expenses	1,308						

(Note1) Ratio of investment units held is rounded down to the second decimal place.

(Note2) Consumption tax, etc. are excluded from the amounts of transactions. Consumption tax, etc. are included in the balances at end period, but excluded only for investment corporation bond issuance costs. Furthermore, transaction terms are determined based on prevailing market conditions.

(Note3) The described above ratio was held to trust accounts. The ratio is rounded down to the second decimal place.

(Note4) The described above rent revenues, etc. include rents and common service revenue as well as related utilities revenue, additional facilities use revenue and parking revenue.

## Note 11. Per Unit Information

Fifteenth Fiscal Period (Reference) For the period from May 1, 2013 to October 31, 2013		Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014	
Net Assets per Unit	541,105yen	Net Assets per Unit	528,873yen
Net Income per Unit	10,191yen	Net Income per Unit	11,056yen
Diluted net income per unit has not been presented since there are no outstanding warrants or convertible bonds.		Diluted net income per unit has not been presented since there are no outstanding warrants or convertible bonds.	

(Note1) The per unit amounts are rounded down to the nearest yen.

(Note2) Net income per unit is calculated by dividing the net income by the weighted average number of investment units over the number of days in the period.

(Note3) Base of calculation of net income per unit is as follows:

	Fifteenth Fiscal Period (Reference) For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014
Net Income (thousand yen)	1,579,612	1,913,985
Amounts not attributable to ordinary unitholders (thousand yen)	—	—
Net income attributable to ordinary investment unit (thousand yen)	1,579,612	1,913,985
Weighted-average number of units during the period (unit)	155,000	173,116

## Note 12. Significant Subsequent Events

<p style="text-align: center;">Fifteenth Fiscal Period (Reference)</p> <p style="text-align: center;">For the period from May 1, 2013 to October 31, 2013</p>	<p style="text-align: center;">Sixteenth Fiscal Period</p> <p style="text-align: center;">For the period from November 1, 2013 to April 30, 2014</p>																						
<p>Issuance of new investment units</p> <p>Top REIT resolved on issuance of new investment units, as described below, at its board of directors meetings held on November 7 and November 18, 2013. Payment was completed on November 25, 2013 for issuance of new investment units through public offering, and on December 13, 2013 for third-party allotment, respectively.</p> <p>(Issuance of New Investment Units through Public Offering)</p> <table border="0"> <tr> <td>Number of investment units to be offered:</td> <td style="text-align: right;">20,000 units</td> </tr> <tr> <td>Issue price (offer price):</td> <td style="text-align: right;">438,750 yen per unit</td> </tr> <tr> <td>Total issue price (total offer price):</td> <td style="text-align: right;">8,775,000,000 yen</td> </tr> <tr> <td>Amount to be paid in (purchase price):</td> <td style="text-align: right;">423,000 yen per unit</td> </tr> <tr> <td>Total amount to be paid in (total purchase price):</td> <td style="text-align: right;">8,460,000,000 yen</td> </tr> <tr> <td>Payment date:</td> <td style="text-align: right;">November 25, 2013</td> </tr> </table> <p>(Third-Party Allotment)</p> <table border="0"> <tr> <td>Number of investment units to be offered:</td> <td style="text-align: right;">1,000 units</td> </tr> <tr> <td>Amount to be paid in (purchase price):</td> <td style="text-align: right;">423,000 yen per unit</td> </tr> <tr> <td>Total amount to be paid in (total purchase price) :</td> <td style="text-align: right;">423,000,000 yen</td> </tr> <tr> <td>Payment date:</td> <td style="text-align: right;">December 13, 2013</td> </tr> <tr> <td>Allottee:</td> <td style="text-align: right;">Daiwa Securities, Co. Ltd.</td> </tr> </table> <p>(Use of funds)</p> <p>Top REIT allocated the proceeds from the public offering to part of the funds for the acquisition of specified assets. The proceeds from the issuance of new investment units by way of third-party allotment will be allocated to funds for the future acquisition of specified assets or for the repayment of loans.</p>	Number of investment units to be offered:	20,000 units	Issue price (offer price):	438,750 yen per unit	Total issue price (total offer price):	8,775,000,000 yen	Amount to be paid in (purchase price):	423,000 yen per unit	Total amount to be paid in (total purchase price):	8,460,000,000 yen	Payment date:	November 25, 2013	Number of investment units to be offered:	1,000 units	Amount to be paid in (purchase price):	423,000 yen per unit	Total amount to be paid in (total purchase price) :	423,000,000 yen	Payment date:	December 13, 2013	Allottee:	Daiwa Securities, Co. Ltd.	<p>There are none applicable.</p>
Number of investment units to be offered:	20,000 units																						
Issue price (offer price):	438,750 yen per unit																						
Total issue price (total offer price):	8,775,000,000 yen																						
Amount to be paid in (purchase price):	423,000 yen per unit																						
Total amount to be paid in (total purchase price):	8,460,000,000 yen																						
Payment date:	November 25, 2013																						
Number of investment units to be offered:	1,000 units																						
Amount to be paid in (purchase price):	423,000 yen per unit																						
Total amount to be paid in (total purchase price) :	423,000,000 yen																						
Payment date:	December 13, 2013																						
Allottee:	Daiwa Securities, Co. Ltd.																						

## VI. Statements of Cash Dividend Distributions

Classification	Fifteenth Fiscal Period (Reference) For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014
	Amount (yen) (Note 1)	Amount (yen) (Note 2)
I. Unappropriated retained earnings	1,579,617,747	1,913,997,778
II. Total Amount of Dividends (Dividend per unit)	1,579,605,000 (10,191)	1,912,064,000 (10,864)
III. Voluntary retained earnings Reserve for reduction entry	—	1,914,510
IV. Retained earnings brought forward	12,747	19,268

Note1: In accordance with the “cash distribution policy” stipulated in Article 34 of the Articles of Incorporation, the amounts of dividends are limited to the amounts of income. The article also stipulates the policy that “Top REIT shall distribute amount in excess of the amount equivalent to 90% of its distributable profits as stipulated in Article 67-15 of the Special Taxation Measures Law.” Based on these policies, Top REIT decided on a total distribution of 1,579,605,000 yen as distribution of income for the period. This is the maximum value arrived at when the number of units issued and outstanding (155,000 units) is multiplied by an integer, within the limit of the balance of unappropriated retained earnings for the fiscal period. Furthermore, Top REIT does not make cash distributions in excess of the profit as stipulated in Article 34-2 of the Articles of Incorporation.

Note2: In accordance with the “cash distribution policy” stipulated in Article 34 of the Articles of Incorporation, the amounts of dividends are limited to the amounts of income. The article also stipulates the policy that “Top REIT shall distribute amount in excess of the amount equivalent to 90% of its distributable profits as stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation.” Based on these policies, Top REIT decided on a total distribution of 1,912,064,000 yen as distribution of income for the period. This is the maximum value arrived at when the number of units issued and outstanding (176,000 units) is multiplied by an integer, within the limit of the balance of unappropriated retained earnings of the sixteenth fiscal period and after deducting the amount of deferred tax liabilities being corrected due to the change in tax rate which would be transferred to the reserve for reduction entry. Furthermore, Top REIT does not make cash distributions in excess of the profit as stipulated in Article 34-2 of the Articles of Incorporation.

### Disclaimer:

The accompanying English financial information, comprising of balance sheets, statements of retained earnings, statements of changes in unitholders’ capital, notes to financial information and statements of cash dividends, have been translated from the Japanese financial statements of Top REIT prepared in accordance with the Act on Investment Trusts and Investment Corporations.

Under Article 130 of the Act on Investment Trusts and Investment Corporations, the Japanese financial statements for the fiscal period ended April 30, 2014 have been audited by KPMG AZSA LLC, in accordance with auditing standards generally accepted in Japan. However, this English translation of the Japanese language report of independent auditors is not attached herein because the accompanying English translation of balance sheets, statements of retained earnings, statements of changes in unitholders’ capital, notes to financial information and statements of cash dividends are unaudited.

## VII. Statements of Cash Flows (Reference Information)

(Unit: thousand yen)

	Fifteenth Fiscal Period (Reference) (From May 1, 2013 – to October 31, 2013)	Sixteenth Fiscal Period (From November 1, 2013 – to April 30, 2014)
Net cash provided by (used in) operating activities		
Income before income taxes	1,580,570	1,913,029
Depreciation and amortization	1,115,879	1,193,406
Amortization of trademark	21	21
Amortization of investment corporation bond issuance costs	5,511	5,511
Amortization of investment unit issuance expenses	—	6,678
Interest income and interest on securities	(641)	(675)
Interest expenses	449,809	450,967
Decrease (increase) in operating accounts receivable	(75,812)	(90,159)
Decrease (increase) of consumption taxes receivable	—	(137,402)
Decrease (increase) in prepaid expenses	(11,887)	(24,002)
Increase (decrease) in operating accounts payable	(9,835)	15,641
Increase (decrease) in accounts payable – other	(1,280)	13,142
Increase (decrease) in accrued consumption taxes	40,927	(61,670)
Increase (decrease) in advances received	(20,537)	89,828
Decrease (increase) in long-term prepaid expenses	143,973	70,327
Other, net	(31,711)	(17,394)
Subtotal	3,184,987	3,427,250
Interest income received	641	675
Interest expenses paid	(449,111)	(450,954)
Income taxes paid	(801)	(963)
Net cash provided by (used in) operating activities	2,735,714	2,976,008
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(549)	(2,951)
Purchase of property, plant and equipment in trust	(290,168)	(12,961,001)
Purchase of property, intangible assets in trust	—	(8,450)
Proceeds from tenant leasehold and security deposits in trust	95,109	1,098,156
Repayments of tenant leasehold and security deposits in trust	(508,214)	(321,616)
Net cash provided by (used in) investing activities	(703,823)	(12,195,863)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	—	4,500,000
Decrease in short-term loans payable	—	(4,500,000)
Proceeds from long-term loans payable	—	4,500,000
Repayment of long-term loans payable	(67,500)	(67,500)
Proceeds from issuance of investment units	—	8,883,000
Payments for investment unit issuance expenses	—	(35,317)
Dividends paid	(1,822,645)	(1,579,605)
Net cash provided by (used in) financing activities	(1,890,145)	11,700,577
Net increase (decrease) in cash and cash equivalents	141,745	2,480,722
Cash and cash equivalents at beginning of period	4,700,990	4,842,736
Cash and cash equivalents at end of period	4,842,736	7,323,458

### Note Concerning Significant Accounting Policy [Reference Information]

Classification	Fifteenth Fiscal Period For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014
Scope of funds in statements of cash flows	Funds (cash and cash equivalents) in statements of cash flows consist of cash on hand and cash in trust, deposits placed with banks and deposits in trust that can be withdrawn at any time, and short-term investments that are highly liquid and easily convertible to cash, have a low risk of price fluctuation and mature within three months from the date of purchase.	Funds (cash and cash equivalents) in statements of cash flows consist of cash on hand and cash in trust, deposits placed with banks and deposits in trust that can be withdrawn at any time, and short-term investments that are highly liquid and easily convertible to cash, have a low risk of price fluctuation and mature within three months from the date of purchase.

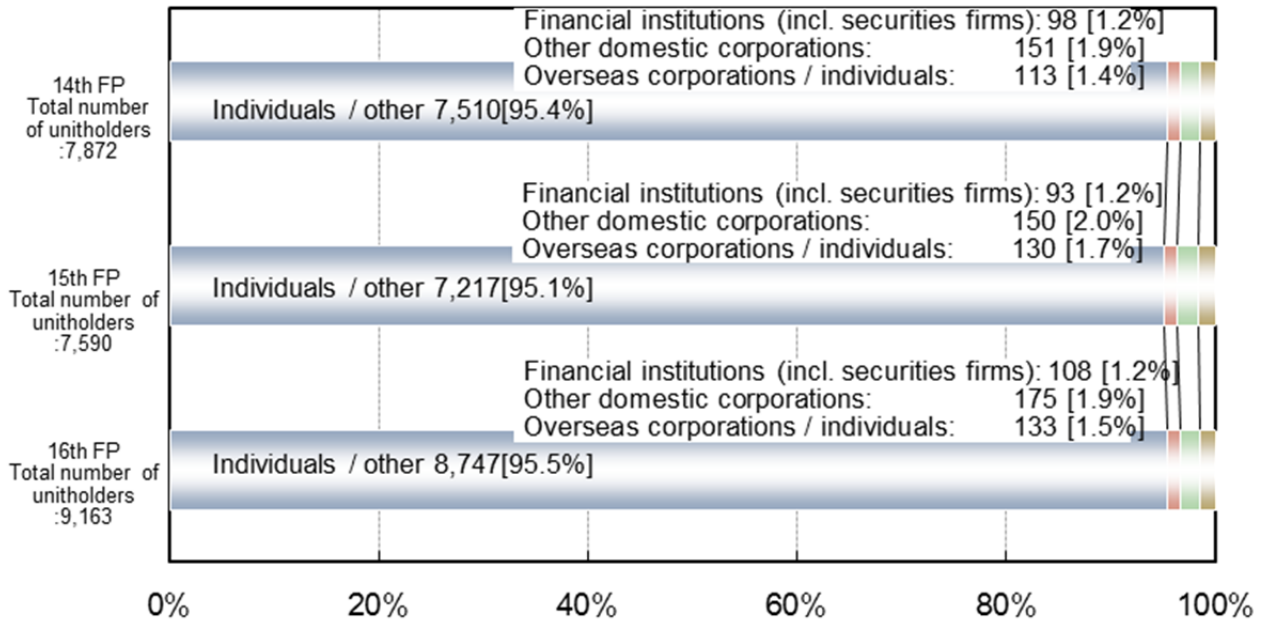
### Note Concerning Statements of Cash Flows [Reference Information]

Fifteenth Fiscal Period For the period from May 1, 2013 to October 31, 2013	Sixteenth Fiscal Period For the period from November 1, 2013 to April 30, 2014
*1. Reconciliation of cash and cash equivalents at end of period and amount of items presented in balance sheets	*1. Reconciliation of cash and cash equivalents at end of period and amount of items presented in balance sheets
(as of October 31, 2013) (Unit: thousand yen)	(as of April 30, 2014) (Unit: thousand yen)
Cash and deposits	Cash and deposits
903,314	3,049,986
Cash and deposits in trust	Cash and deposits in trust
<u>3,939,421</u>	<u>4,273,472</u>
Cash and cash equivalents	Cash and cash equivalents
<u>4,842,736</u>	<u>7,323,458</u>

### Stock and Unitholders Information



## No. of Unitholders



## No. of Units Held

