



Mori Hills REIT Investment Corporation

Semiannual Report

**26th Fiscal Period
(February 1, 2019 - July 31, 2019)**

To Our Unitholders

All of us at Mori Hills REIT Investment Corporation (“MHR”) wish to extend our deep appreciation to our unitholders for your continuous support of MHR. I am pleased to report on MHR’s performance for the twenty-sixth fiscal period which ended July 31, 2019.

In the twenty-sixth fiscal period, the Japanese economy saw a temporary standstill in corporate earnings due to a slowdown in exports caused by the impact of the US-China trade conflict. However the economy remained solid due to capital investment and support from increased consumer spending impacted by the change in the Japanese era name.

Within this economic environment, the rent level continued to be on an upward trend in the rental office building market as the supply-demand balance remained tight due to the vacancy rate in central Tokyo continuing to be low, and the leasing up of tenants into new buildings progressing steadily. In the luxury rental housing market, occupancy rates and rent levels remained solid driven by the ongoing stable demand for quality housing in central Tokyo amid limited new supply. In the real estate trading market, transaction prices continued to be high backed by the strong investment appetite from investors at home and abroad in addition to the favorable fund-raising environment, and transaction amounts also remained at a high level.

In the twenty-sixth fiscal period, MHR strove to maintain and enhance tenant satisfaction through measures such as efficient and systematic operational management and maintenance and repair of properties in its portfolio by better understanding tenant needs. Moreover, MHR maintained and enhanced occupancy rates and rents by proactively launching leasing activities targeting new and existing tenants while foreseeing trends in rental market conditions.

MHR’s real estate portfolio, as of the end of the twenty-sixth fiscal period, was comprised of 11 properties under management with a total leasable area of 174,699.12m². MHR has already invested 390,690 million yen (based on the acquisition price) into this portfolio. The occupancy rate at the end of the twenty-sixth fiscal period was 99.4%. The asset management activities described above resulted in MHR recording in the twenty-sixth fiscal period 9,561 million yen in operating revenue, 5,971 million yen in operating income, 5,346 million yen in ordinary income, 5,344 million yen in net income and 2,850 yen in dividend per unit in the twenty-sixth period.

MHR declared dividends per unit of 2,860 yen for the twenty-seventh fiscal period ending January 31, 2020.

In addition, MHR will continue to seek to maximize unitholder value through further improvements in profitability and stability by progressively achieving steady internal growth with a close watch on rental market trends while actively pursuing external growth utilizing Mori Building Groups’ property pipeline.

I would like to ask for your continued support.



Hideyuki Isobe
Executive Director, Mori Hills REIT Investment Corporation
President and CEO, Mori Building Investment Management Co., Ltd.



Financial Highlights

Dividend per unit: 26th period

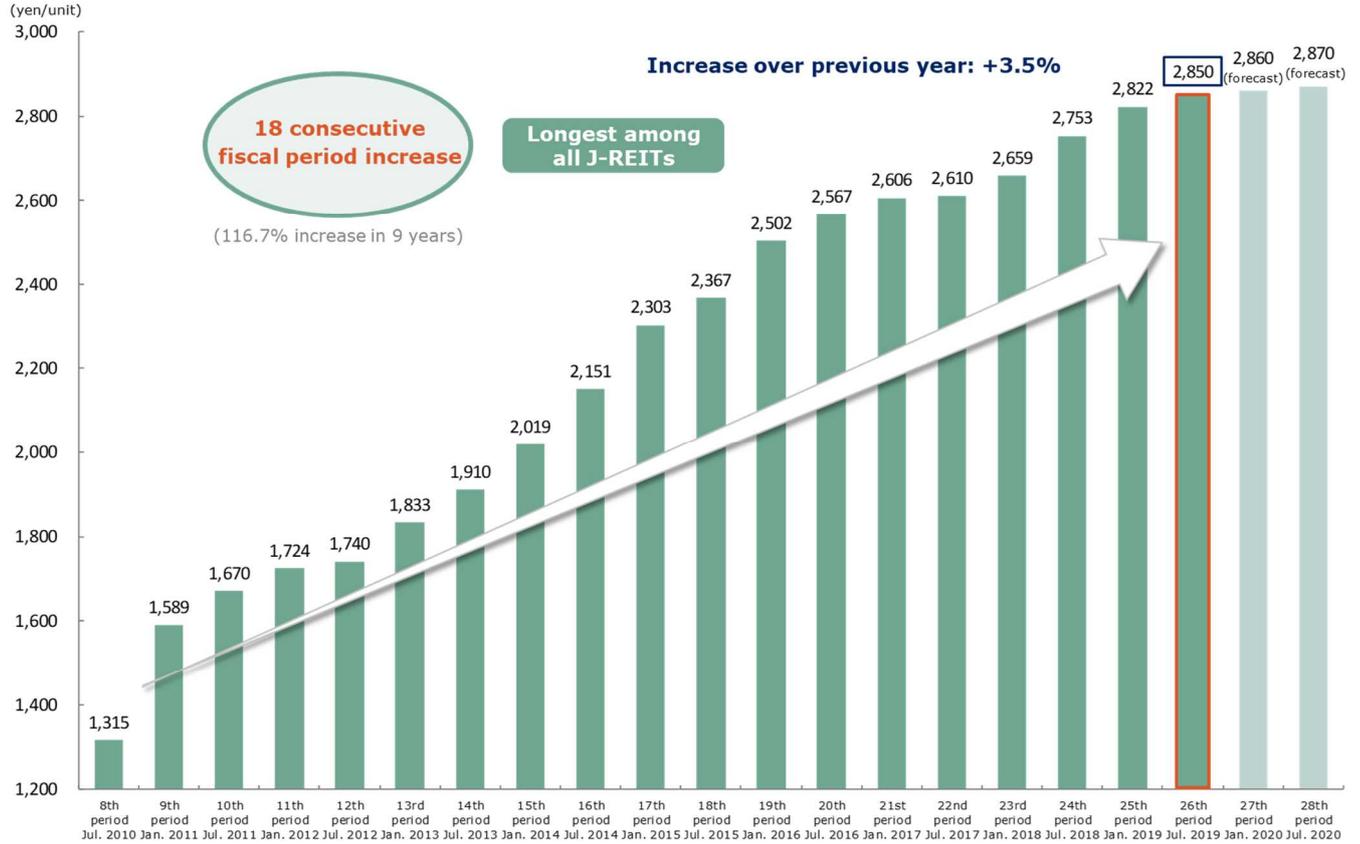
2,850 yen

Dividend per unit: 27th period forecast*

2,860 yen

*The forecasted figures for the 27th and the 28th fiscal period are projections from historical figures based on certain assumptions. Accordingly, the figures may differ from actual results. Furthermore, the forecast shall not be construed as a guarantee of dividend amount.

Change in dividend per unit



※ Implemented a 5-for-1 investment unit split effective on February 1, 2014. Actual dividends per unit were divided by 5 for the periods before the split of investment units in the graph.

Results of the 26th period and forecast of the 27th period

	Actual	Forecast	Difference
	26th period February 1, 2019 - July 31, 2019 (181 days)	27th period August 1, 2019 - January 31, 2020 (184 days)	27th - 26th period (Forecast - Actual)
Operating revenue	9,561 million yen	9,616 million yen	+ 54 million yen
Operating income	5,971 million yen	5,986 million yen	+14 million yen
Ordinary income	5,346 million yen	5,365 million yen	+18 million yen
Net income	5,344 million yen	5,364 million yen	+19 million yen
Dividend/unit	2,850 yen / unit	2,860 yen / unit	+ 10 yen / unit
Total units outstanding	1,874,960 units	1,874,960 units	
Acquisition price (weighted average based on the number of operating days during the period)	390,690 million yen	390,690 million yen	

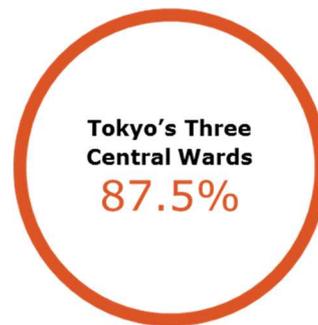
(Note) Unless otherwise stated in this document, all amounts are rounded down below the unit and all fractions and areas are rounded up below the decimal point.

Overview of Portfolio

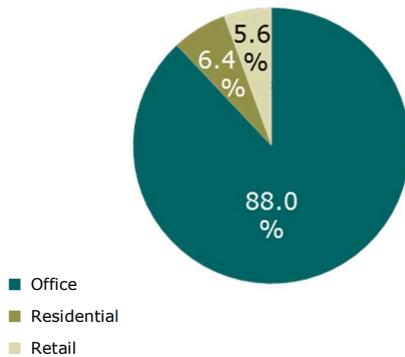
MHR has developed an urban portfolio mainly in Central Tokyo through its “investment in the city” concept, taking advantage of market opportunities and our competitive strengths to enhance profitability as well as portfolio value.

Portfolio breakdown

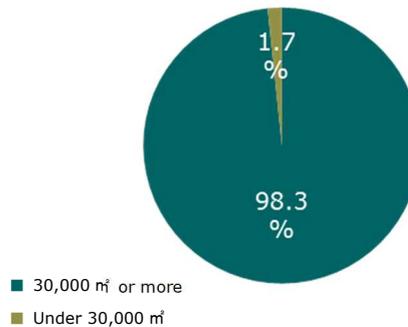
Area



Type



Size



(Note 1) The ratios represent proportion of acquisition price to total acquisition price.

(Note 2) Chart showing “Size” does not include Laforet Harajuku (Land).

(Note 3) For calculation of breakdown by type, acquisition price for Akasaka Tameike Tower and Atago Green Hills are divided into offices and residences.

Portfolio list



O-0 Premium

Roppongi Hills Mori Tower



O-1 Premium

ARK Mori Building



O-4 Premium

Koraku Mori Building



O-6 Premium

Akasaka Tameike Tower



O-7 Premium

Atago Green Hills



O-8 Premium

ARK Hills South Tower



O-9 Premium

Toranomon Hills Mori Tower



O-10 Premium

Holland Hills Mori Tower



R-3 Premium

Roppongi First Plaza

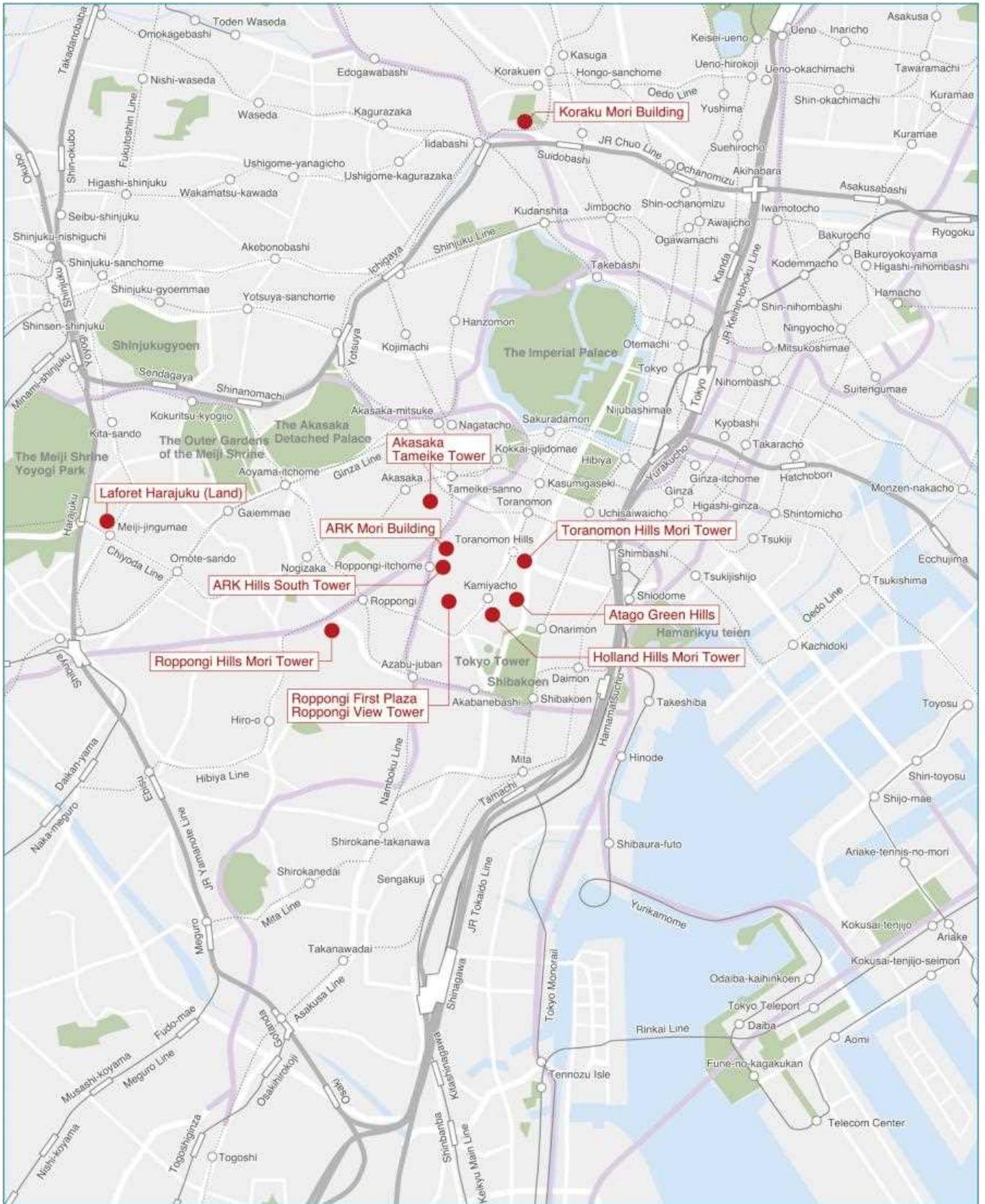


S-1 Premium

Laforet Harajuku (Land)

R-4

Roppongi View Tower



Earthquake-resistance capacity
Best portfolio PML among J-REITs

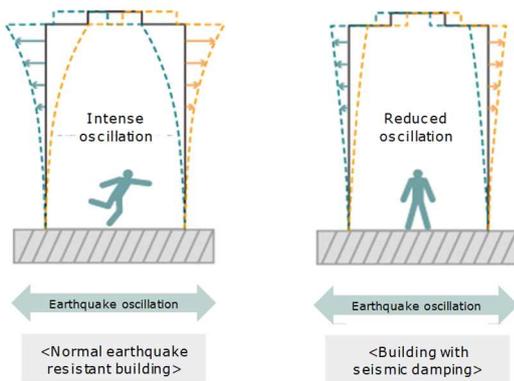
**Lowest portfolio
PML of all listed
J-REITs**

0.93%

※PML refers to the probable maximum loss ratio expected to result from an earthquake. A smaller percentage indicates superiority in earthquake-resistance.

Property name		Type	PML	Earthquake-resistant feature
Roppongi Hills Mori Tower		Office	0.59%	Seismic damping
ARK Mori Building			0.78%	Seismic damping
Koraku Mori Building			0.73%	Seismic damping
ARK Hills South Tower			1.56%	Seismic damping
Toranomori Hills Mori Tower			0.50%	Seismic damping
Holland Hills Mori Tower			0.85%	Seismic damping
Akasaka Tameike Tower		Office (Partly residential)	1.79%	Seismic damping
Atago Green Hills	MORI Tower		2.35%	Seismic damping
	Forest Tower		2.34%	Seismic damping
	Plaza		5.94%	—
Roppongi First Plaza		Residential	2.20%	—
Roppongi View Tower			2.20%	—

Seismic damping

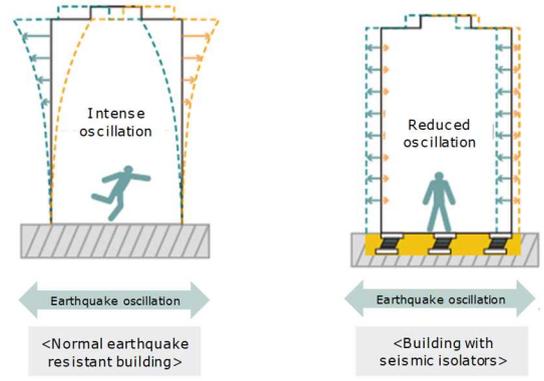


Seismic damping reduces earthquake magnitude of oscillation by approx. 20%



Viscous seismic damping wall

Seismic isolators



Seismic isolators reduce the magnitude of oscillation to approx. 1/2 or 1/3 especially in case of large earthquakes



Seismic isolators



HILLS REIT

Environmental performance

Highest ratio of green building (GB) certified properties among all J-REITs



CASBEE for Existing Buildings: Rank S



Roppongi Hills Mori Tower



ARK Mori Building



Atago Green Hills (MORI Tower)



Toranomom Hills Mori Tower



Holland Hills Mori Tower

CASBEE for Existing Buildings: Rank A



Akasaka Tameike Tower



Koraku Mori Building

DBJ Green Building Certification: Four stars



ARK Hills South Tower

※ Based on acquisition price excluding Laforet Harajuku (Land)

GRESB Green Star Designation

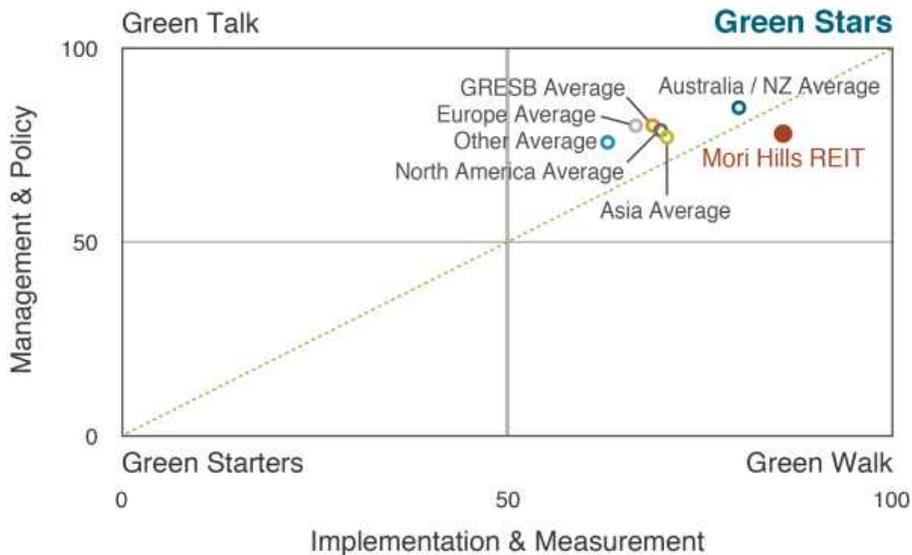


G R E S B
 ★ ★ ★ ★ ★ 2019

GRESB is a benchmark that measures the sustainability performance of real estate companies and real estate management institutions based on an annual questionnaire survey conducted by the GRESB B.V., composed primarily of European pension fund groups.

In the 2019 GRESB Assessment, MHR was designed as Green Star for the eighth consecutive year. In addition, MHR received 4 Stars in the GRESB Rating. (Note)

GRESB Four-Quadrant Model Scores by Region



(Source) Prepared by the Asset Manager based on the disclosed data by GRESB.

(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" indicating the highest rank).

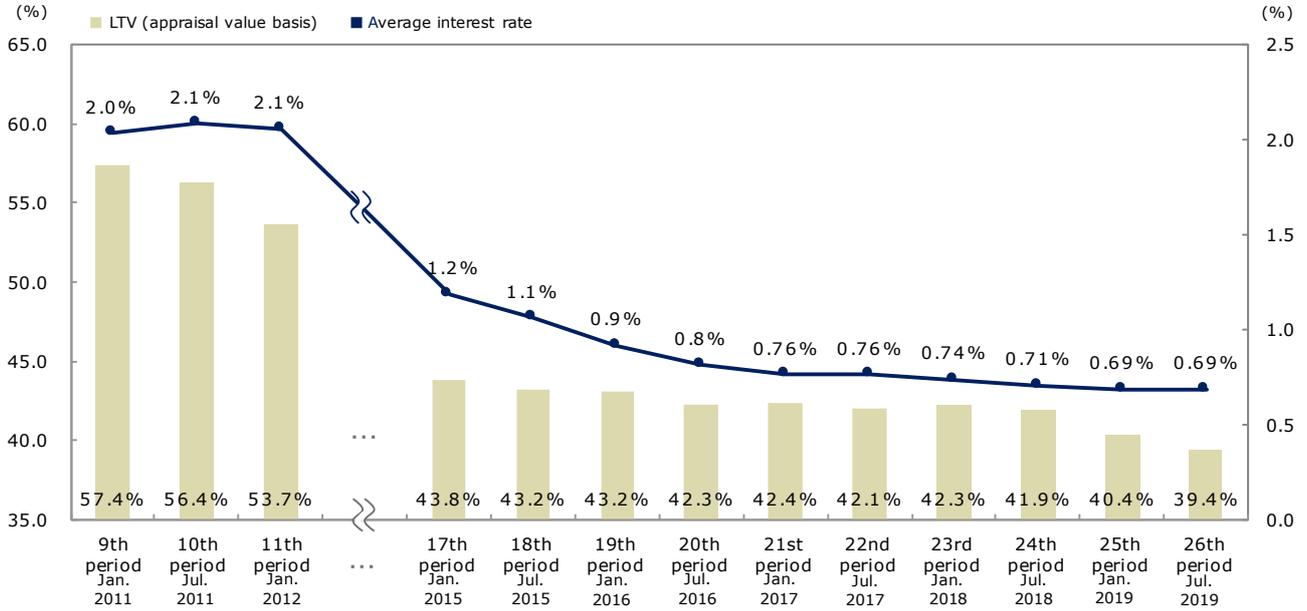


Financial Status

MHR's cost of debt has decreased along with the improvement in LTV ratio (appraisal value basis).

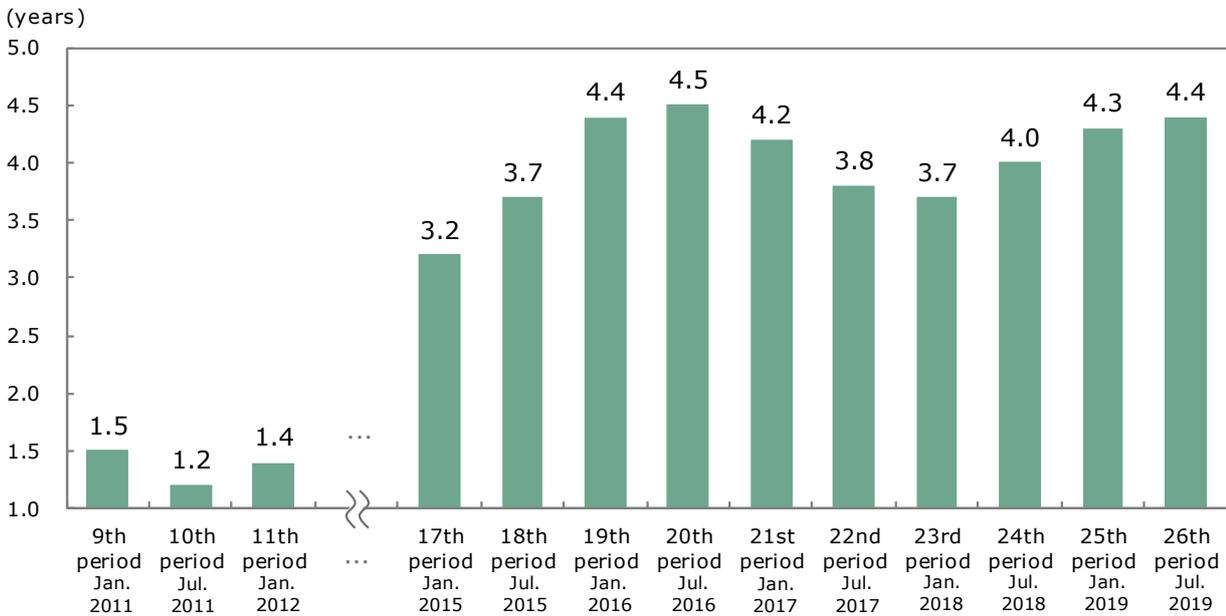
We will continue to maintain a debt duration level that allows us to further strengthen our healthy financial base.

Trend in LTV (appraisal value basis) and average interest rate (including borrowing expenses)



(Note) Average interest rate is calculated as [(interest expenses + interest expenses on investment corporation bonds + borrowing expenses + amortization of investment corporation bond issuance costs) × 365 ÷ operating days during each period ÷ average interest-bearing debt balance during each period].

Extension in remaining duration of debt





Overview of debt financing

	End of the 25th period Jan. 31, 2019	End of the 26th period Jul. 31, 2019
Debt Balance	182,222 mn yen	179,222 mn yen
LTV (book value basis) ^(Note 1)	46.2%	45.7%
LTV (appraisal value basis) ^(Note 2)	40.4%	39.4%
Avg. remaining duration	4.3 years	4.4 years

(Note 1) LTV (book value basis) is calculated as [Interest bearing debt / Total assets].

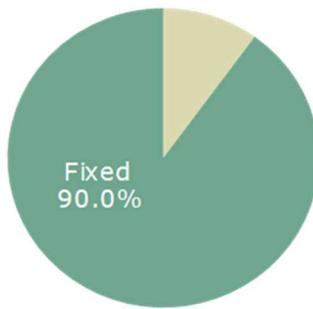
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

Long-term debt ratio / Fixed rate ratio

[Long and short-term debt ratio]



[Fixed rate ratio]



Rating

Japan Credit Rating (JCR)

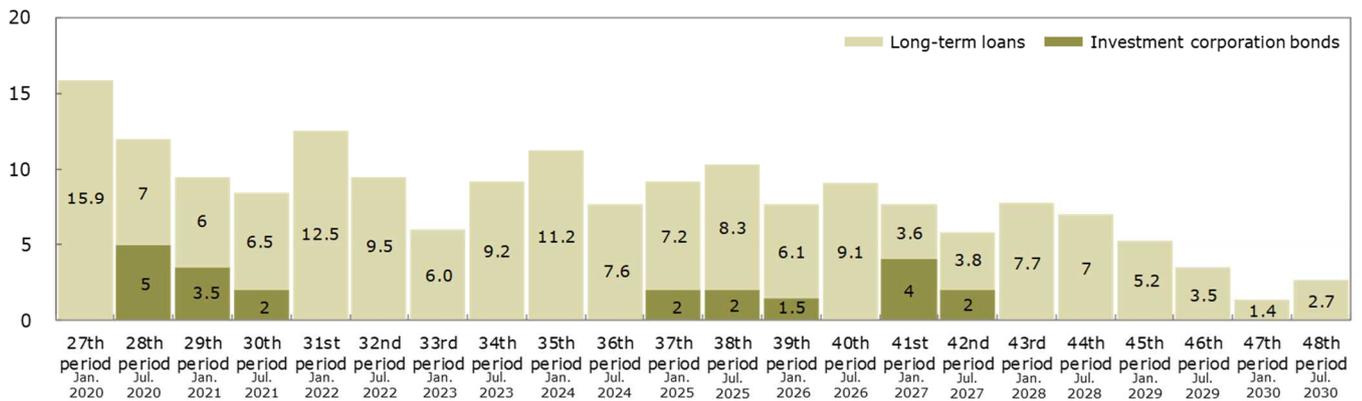
Long-term issuer rating

AA

(Stable)

Overview of maturity (as of July 31, 2019)

(billion yen)



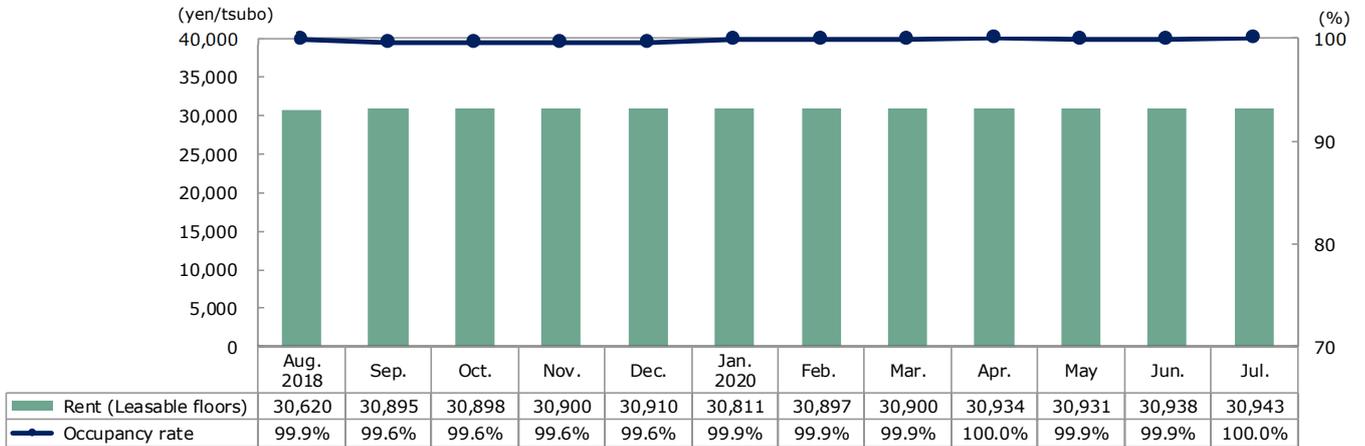


Portfolio Management

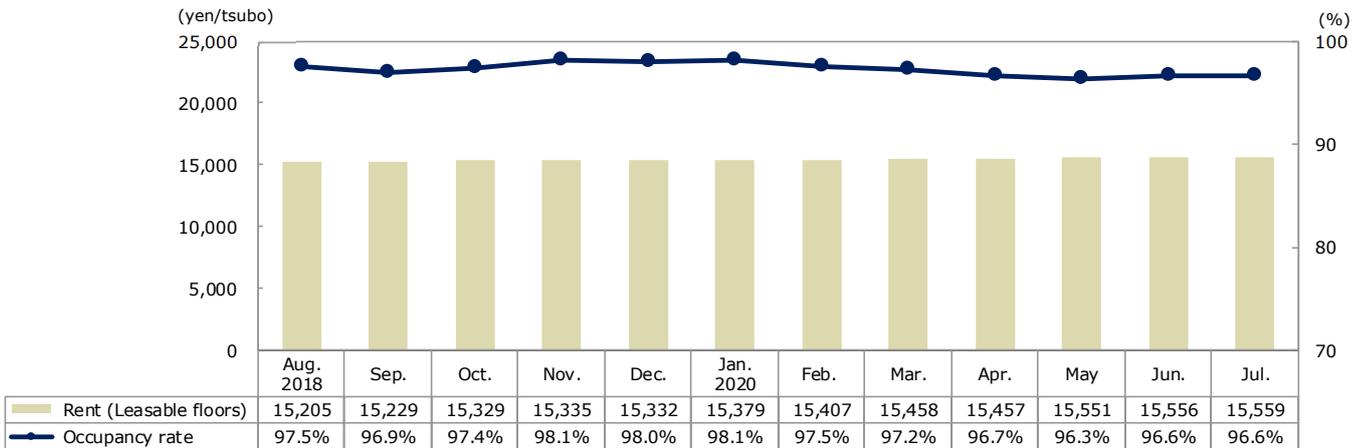
MHR maintained and enhanced occupancy rates and rents by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy.

Rent and occupancy rate

[Office]

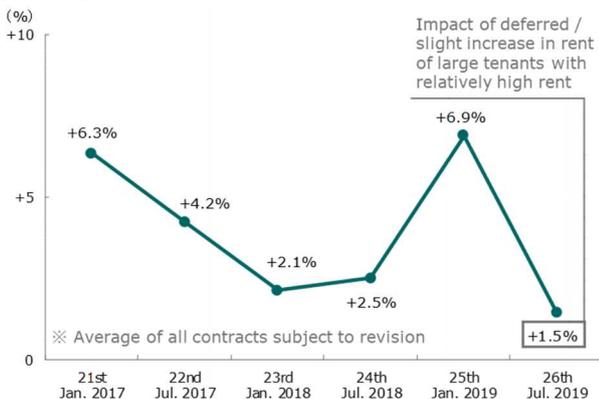


[Residential]

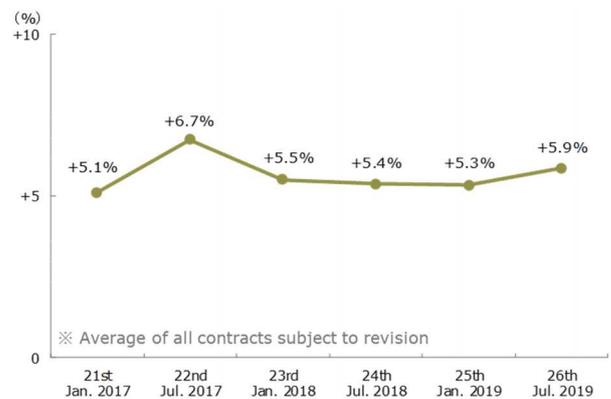


Result of tenants' rent revision

[Office]



[Residential]



(Note 1) Figures indicate the results of rent revisions of properties at which pass-through master lease agreements are applied.

(Note 2) Figures are calculated based on asset acquisitions and monthly rents which reflect move outs of end tenants confirmed as of July 31, 2019.

Corporate Governance

MHR entrusts the asset management of its assets to Mori Building Investment Management Co., Ltd., the asset manager.

The asset manager manages MHR's assets based on the asset management agreement concluded with MHR.

Governance structure taking unitholders' value into consideration

Our asset manager is Mori Building Investment Management Co., Ltd. (the Asset Manager). In accordance with our articles of incorporation and as the asset manager that has been granted discretion by us to manage our assets, the Asset Manager has formulated management guidelines and has stipulated basic policies concerning investment management, such as an investment policy, operation and management policy, financial policy, disclosure policy and rules governing transactions with related parties.

The Asset Manager's Compliance Department conducts inspections on legal compliance and confirms consistency with internal rules. The Asset Manager confirms whether there are any conflict of interest transactions with related parties. In this way, the Asset Manager is striving to ensure comprehensive internal control, while also striving to enhance its risk management structure as well as its effectiveness.

Furthermore, the Asset Manager has a set of internal rules (self-imposed regulations) which stipulate rules such as its Related Parties Transaction Guidelines. These Guidelines stipulate matters concerning transactions, etc. with related parties. Through the Asset Manager's compliance with these Guidelines, we have established a structure which ensures that the aforementioned transactions are managed appropriately and that the Asset Manager sufficiently executes the duty of care of a good manager and duty of loyalty to MHR.

Process to counter transactions involving conflicts of interest



(Note) The Director (Part-time) is unable to participate in the resolution of the Board of Directors since this individual will be considered a board member of a related party when acquiring asset from a related party.



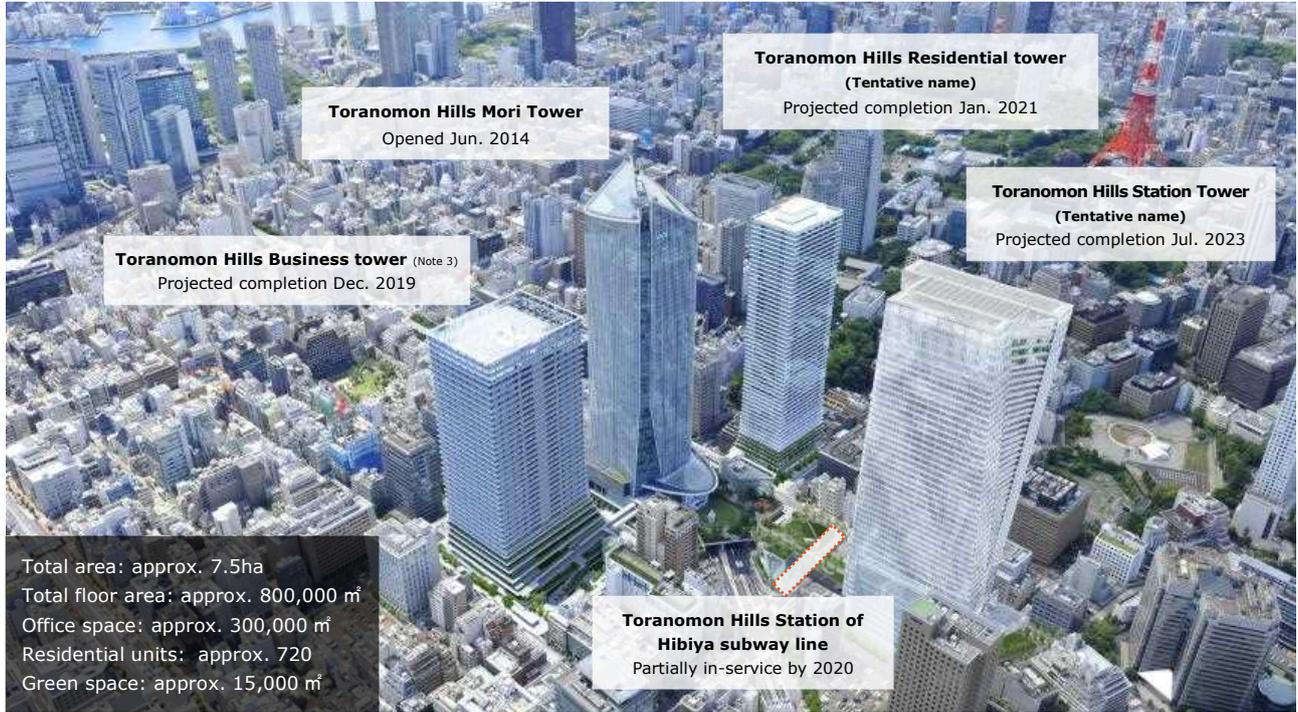
Mori Building’s Extensive Property Pipeline

Mori Building’s total assets is 2.0 trillion yen and number of properties under management is 96 buildings.

(Note 1)

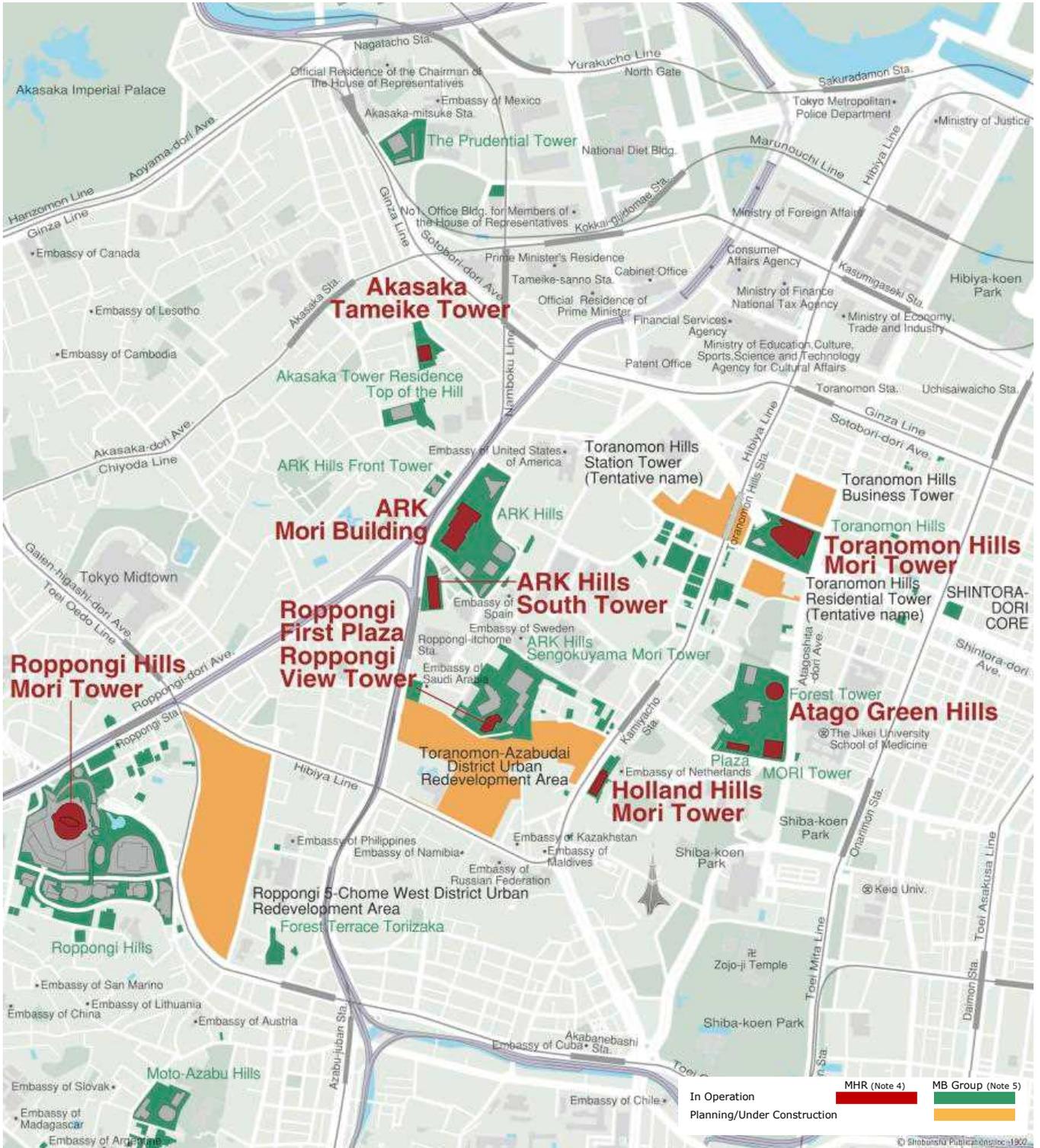
MHR has the “preferential negotiation rights” (Note2) on sales of Mori Building Co., Ltd. properties, which serves as the driving force for external growth.

Recent redevelopment projects in Toranomon Hills area



Toranomon-Azabudai Project (Projected completion March 2023)





(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map/ Mori Building Map/Home Route Support Map 2019."

(Note 1) "Total asset" is as of the end of March 2019 and number of properties under management is as of April 1, 2019.

(Note 2) There are some exceptions.

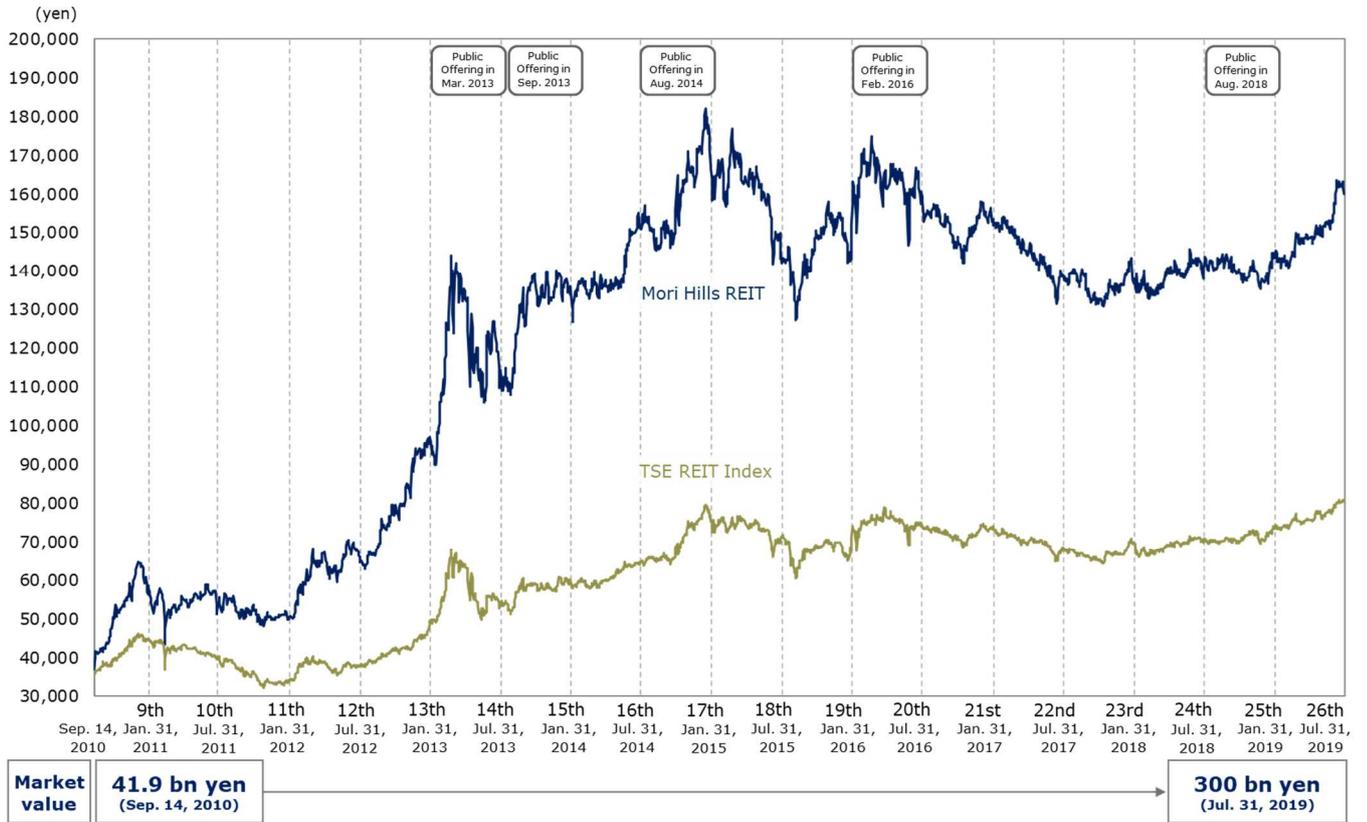
(Note 3) Mori Building participates as a member of the project.

(Note 4) Some of the properties have been partially acquired and held by MHR.

(Note 5) Properties are developed, owned, managed and planned for development by Mori Building Group as of April 1, 2019 and there are no properties anticipated to be acquired by MHR.



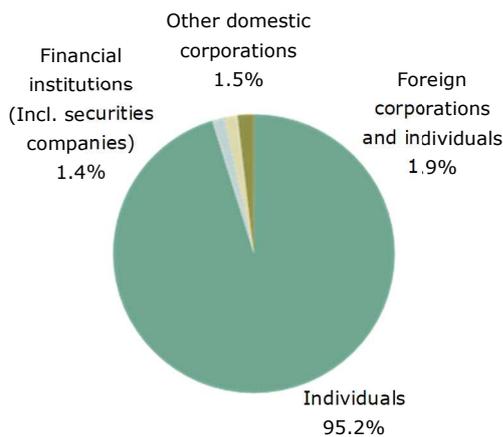
Unit Price Performance



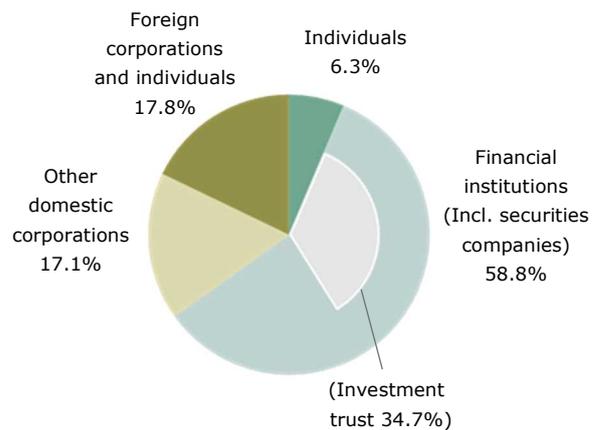
(Note) TSE REIT Index is adjusted as of the 8th period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

Unitholders Breakdown (as of July 31, 2019)

<Number of unitholders>



<Number of investment units>



Risk Factors

An investment in our units involves significant risks. The principal risks with respect to investment in Mori Hills REIT Investment Corporation are as follows.

Property and Business Risks

- Any adverse conditions in the Japanese economy could adversely affect our properties.
- We may not be able to acquire properties to execute our growth and investment strategy in a manner that is accretive to earnings and the amount of dividends per unit.
- The high concentration in our portfolio of premium properties in central Tokyo could have a material adverse effect on our business.
- Increases in prevailing market interest rates may increase our interest expense and may result in a decline in the market price of our units.
- Our reliance on Mori Building Co., Ltd. and other Mori Building Group companies could have a material adverse effect on our business.
- Competition for tenants may adversely affect our ability to retain our current tenants, find new tenants and achieve favorable rental rates.
- We may suffer large losses if any of our properties incur damage from a natural or man-made disaster or acts of violence.
- We may incur unexpected expenses, expenditure or other losses for repair or maintenance of our properties.
- We may be strictly liable for any unforeseen loss, damage or injury suffered by a third party at our properties.
- Because most of our operating expenses are largely fixed, we may suffer adverse consequences if our rental revenues decline.
- Illiquidity in the real estate market may limit our ability to grow or adjust our portfolio.
- Defects relating to our properties may adversely affect our financial condition and results of operations.
- We rely on expert reports for appraisals and PML percentages, and these reports are subject to significant uncertainties.
- We rely on industry and market data that are subject to significant uncertainties.
- The environmental assessments of our properties made prior to our ownership may not have uncovered all environmental liabilities, and Japanese laws subject property owners to strict environmental liabilities.
- To the extent we purchase or commit to purchase properties still in the development stage, we will be exposed to increased risks and uncertainties.
- We may lose rental revenues in the event of lease terminations, decreased lease renewals, defaults, nonpayment by tenants on rental obligations or requests or demands for reduction in rents or if tenants experience financial difficulties or insolvency.
- Any of our current or future properties, may violate earthquake resistance or other building codes, and any such buildings may collapse in even minor earthquakes or may be required to be strengthened or demolished by us at significant expense.

- Master lease agreements expose us to the risk of becoming an unsecured creditor of Mori Building Co., Ltd. as our master lessee in the event of its insolvency.
- Decreases in tenant lease and guarantee deposits would increase our funding costs.
- Any inability to obtain financing for future acquisitions, or any restrictions on our activities under our financing arrangements, could adversely affect us.
- A high LTV ratio may increase our exposure to changes in interest rates and adversely affect us.
- We may suffer impairment losses relating to our properties and may also suffer adverse tax effects upon recognizing impairments.
- A downgrading of our credit rating may affect payments of principal of or interest on our bonds.
- The past performance of our sponsor, Mori Building Co., Ltd., is not an indicator or guarantee of our future results.
- Our financial statements are prepared in accordance with Japanese GAAP, which differs in certain material respects from IFRS, U.S. GAAP and generally accepted accounting principles and financial reporting standards in other jurisdictions.

Management and Governance Risks

- Our success depends on the performances of service providers to which we are required to assign various key functions.
- There are potential conflicts of interest between us and certain Mori Building Group companies, including the Asset Manager.
- We depend on the efforts of key personnel of the Asset Manager.
- Unitholders have limited control over our investment policies.
- J-REITs and their asset managers are subject to tight supervision by the regulatory authorities.
- If unitholders do not exercise their voting rights, we may count their votes in favor of proposals at a general meeting of unitholders.

Taxation Risks

- Our failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify us from certain taxation benefits and significantly reduce our distributions to our unitholders.
- If the Japanese tax authorities disagree with the interpretations we used for prior periods, we may be forced to pay additional taxes for those periods.
- We may not be able to benefit from reductions in certain real estate transfer taxes enjoyed by qualified J-REITs.
- Changes in Japanese tax laws may significantly increase our tax burden.
- We expect to be treated as a “passive foreign investment company” for U.S. federal income tax purposes.
- Unitholders may be subject to U.S. Foreign Account Tax Compliance Act (FATCA) withholding tax after 2018.

Legal and Regulatory Risks

- Our ownership rights in some of our properties may be declared invalid or limited.
- We may lose our rights in a property we own if the purchase of the property is recharacterized as a secured

financing.

- Our leasehold or subleasehold rights may be terminated or may not be asserted against a third party in some cases, or our leases with our tenants could be modified.
- Properties for which third parties hold leasehold rights in the land and own the buildings may subject us to various risks.
- Many of our properties are in the form of compartmentalized ownership interests (*kubun shoyū-ken*) and our rights relating to such properties may be affected by the intentions of other owners.
- Many of our properties are in the form of property co-ownership (*kyōyū*) or trust beneficiary interest coownership (*junkyōyū*) and our rights relating to such properties may be affected by the intentions of other owners.
- Some of our properties are subject to preferential purchase rights, rights of first refusal or other similar rights held by lessees, tenants or other third parties.
- Tax increases or adverse changes in applicable laws may affect our potential liabilities relating to our properties and operations.
- Our costs of complying with regulations applicable to our properties could adversely affect our results of operations.
- We own a substantial portion of our properties through trust beneficiary interests and may suffer losses as a trust beneficiary.
- The AIFMD may negatively affect our ability to market our units in the EEA and increase our compliance costs associated with marketing of our units in the EEA.
- Our units may be deemed to constitute “plan assets” for ERISA purposes, which may lead to the rescission of certain transactions, tax or fiduciary liability and our being held in violation of ERISA requirements.



Disclaimer

This report has been prepared by Mori Hills REIT Investment Corporation (“MHR”) for informational purposes only and should not be construed as an offer of any transactions or the solicitation of an offer of any transactions. Please inquire with the various securities companies concerning the purchase of MHR investment units. This report’s content includes forward-looking statements about business performance; however, no guarantees are implied concerning future business performance.

Although the data and opinions contained in this report are derived from what we believe are reliable and accurate sources, we do not guarantee their accuracy or completeness. The contents contained herein may change or cease to exist without prior notice. Regardless of the purpose, any reproduction and/or use of this document in any shape or form without the prior written consent from MHR is prohibited.

This report contains charts, data, etc. that were prepared by Mori Building Investment Management Co., Ltd. (hereafter, the “asset manager”) based on charts, data, indicators, etc. released by third parties. Furthermore, this report includes statements based on analyses, judgments, and other observations concerning such matters by the asset manager as of the date of preparation.



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Independent Auditor's Report

The Board of Directors
Mori Hills REIT Investment Corporation

We have audited the accompanying financial statements of Mori Hills REIT Investment Corporation, which comprise the balance sheet as of July 31, 2019, and the statements of income and retained earnings, changes in net assets, cash distributions, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mori Hills REIT Investment Corporation as of July 31, 2019, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

October 30, 2019
Tokyo, Japan

FINANCIAL STATEMENTS

BALANCE SHEET

(Unit: thousands of yen)

	As of	
	July 31, 2019	January 31, 2019
Assets		
Current assets		
Cash and deposits	3,923,970	5,431,643
Cash and deposits in trust	6,295,543	6,374,508
Operating accounts receivable	370,512	415,926
Prepaid expenses	431,886	426,673
Consumption taxes receivable	—	230,911
Total current assets	11,021,912	12,879,664
Noncurrent assets		
Property, plant and equipment		
Land	22,074,160	22,074,160
Buildings in trust	81,918,977	81,354,644
Accumulated depreciation	(16,124,966)	(15,113,944)
Buildings in trust, net	65,794,010	66,240,699
Structures in trust	921,547	912,216
Accumulated depreciation	(308,260)	(297,612)
Structures in trust, net	613,287	614,603
Machinery and equipment in trust	910,898	859,689
Accumulated depreciation	(263,302)	(241,072)
Machinery and equipment in trust, net	647,596	618,616
Tools, furniture and fixtures in trust	237,085	226,353
Accumulated depreciation	(144,267)	(130,858)
Tools, furniture and fixtures in trust, net	92,818	95,495
Land in trust	260,234,866	260,234,866
Construction in progress in trust	1,949	1,796
Total property, plant and equipment	349,458,688	349,880,238
Intangible assets		
Leasehold rights in trust	30,650,962	30,650,962
Other intangible assets in trust	372	835
Other	—	322
Total intangible assets	30,651,335	30,652,121
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	1,013,172	997,864
Deferred tax assets	44	43
Derivatives	—	1,516
Total investments and other assets	1,023,217	1,009,423
Total noncurrent assets	381,133,241	381,541,783
Deferred assets		
Investment corporation bonds issuance cost	73,556	83,750
Investment unit issuance cost	27,808	34,760
Total deferred assets	101,365	118,511
Total assets	392,256,519	394,539,959

(Unit: thousands of yen)

	As of	
	July 31, 2019	January 31, 2019
Liabilities		
Current liabilities		
Operating accounts payable	216,835	266,227
Current portion of investment corporation bonds	5,000,000	3,000,000
Current portion of long-term loans payable	22,922,000	27,900,000
Accounts payable – other	14,250	10,970
Accrued expenses	333,025	322,650
Income taxes payable	1,445	1,421
Accrued consumption taxes	484,072	–
Advances received	1,222,824	1,226,929
Deposits received	70,122	28,659
Derivatives liabilities	787	–
Total current liabilities	30,265,364	32,756,858
Noncurrent liabilities		
Investment corporation bonds	17,000,000	22,000,000
Long-term loans payable	134,300,000	129,322,000
Lease and guarantee deposits in trust	14,570,283	14,391,619
Derivatives liabilities	784,044	490,812
Total noncurrent liabilities	166,654,327	166,204,431
Total liabilities	196,919,691	198,961,290
Net assets		
Unitholders' equity		
Unitholders' capital	190,460,106	190,460,106
Deduction from unitholders' capital		
Allowance for temporary difference adjustments (Note10)	(174,371)	–
Total deduction from unitholders' capital	(174,371)	–
Unitholders' capital, net	190,285,734	190,460,106
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	291,944	291,944
Total voluntary retained earnings	291,944	291,944
Unappropriated retained earnings	5,543,979	5,315,914
Total surplus	5,835,924	5,607,858
Total unitholders' equity	196,121,658	196,067,964
Valuation and translation adjustments		
Deferred gains or losses on hedges	(784,831)	(489,295)
Total valuation and translation adjustments	(784,831)	(489,295)
Total net assets (Note10)	195,336,827	195,578,668
Total liabilities and net assets	392,256,519	394,539,959

STATEMENT OF INCOME AND RETAINED EARNINGS

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2019	January 31, 2019
Operating revenue		
Rent revenues (Note14)	9,323,944	9,170,318
Other operating revenues (Note14)	237,931	253,577
Total operating revenue	9,561,876	9,423,895
Operating expenses		
Expenses related to properties (Note14)	3,225,332	3,131,002
Asset management fee	260,906	245,488
Directors' compensation	4,200	4,200
Asset custody fee	9,863	9,058
Administrative service fees	19,861	19,166
Other operating expenses (Note14)	69,767	69,031
Total operating expenses	3,589,931	3,477,948
Operating income	5,971,944	5,945,947
Non-operating income		
Interest income	58	51
Gain on forfeiture of unclaimed dividends	979	1,128
Interest on refund	947	24
Total non-operating income	1,985	1,204
Non-operating expenses		
Interest expenses	375,336	363,550
Interest expenses on investment corporation bonds	68,555	73,965
Amortization of investment corporation bonds issuance cost	10,193	11,613
Borrowing expenses	164,678	174,101
Amortization of investment unit issuance cost	6,952	28,363
Other	1,930	1,907
Total non-operating expenses	627,646	653,502
Ordinary income	5,346,284	5,293,648
Income before income taxes	5,346,284	5,293,648
Income taxes-current	1,454	1,429
Income taxes-deferred	(1)	(22)
Total income taxes	1,453	1,406
Net income	5,344,831	5,292,242
Retained earnings brought forward	199,148	23,671
Unappropriated retained earnings (undisposed loss)	5,543,979	5,315,914

STATEMENT OF CHANGES IN NET ASSETS

For the six months ended July 31, 2019

(Unit: thousands of yen)

	Unitholders' equity					
	Unitholders' capital			Surplus		
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net	Voluntary retained earnings	
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital		Reserve for reduction entry	Total voluntary retained earnings
Balance at February 1, 2019	190,460,106	—	—	190,460,106	291,944	291,944
Change during the period						
Dividends from surplus						
Dividends in excess of earnings from allowance for temporary difference adjustments		(174,371)	(174,371)	(174,371)		
Net income						
Net changes of items other than unitholders' equity						
Total changes of items during the period	—	(174,371)	(174,371)	(174,371)	—	—
Balance at July 31, 2019	190,460,106	(174,371)	(174,371)	190,285,734	291,944	291,944

	Unitholders' equity			Valuation and translation adjustments		
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
	Unappropriated retained earnings	Total surplus				
Balance at February 1, 2019	5,315,914	5,607,858	196,067,964	(489,295)	(489,295)	195,578,668
Change during the period						
Dividends from surplus	(5,116,765)	(5,116,765)	(5,116,765)			(5,116,765)
Dividends in excess of earnings from allowance for temporary difference adjustments			(174,371)			(174,371)
Net income	5,344,831	5,344,831	5,344,831			5,344,831
Net changes of items other than unitholders' equity				(295,535)	(295,535)	(295,535)
Total changes of items during the period	228,065	228,065	53,694	(295,535)	(295,535)	(241,841)
Balance at July 31, 2019	5,543,979	5,835,924	196,121,658	(784,831)	(784,831)	195,336,827

For the six months ended January 31, 2019

(Unit: thousands of yen)

	Surplus					Total unitholders' equity
	Unitholders' capital	Voluntary retained earnings		Unappropriated retained earnings	Total surplus	
		Reserve for reduction entry	Total voluntary retained earnings			
Balance at August 1, 2018	174,231,870	291,944	291,944	4,843,183	5,135,127	179,366,998
Change during the period						
Issuance of new investment units	16,228,235					16,228,235
Dividends from surplus				(4,819,511)	(4,819,511)	(4,819,511)
Net income				5,292,242	5,292,242	5,292,242
Net changes of items other than unitholders' equity						
Total changes of items during the period	16,228,235	—	—	472,730	472,730	16,700,966
Balance at January 31, 2019	190,460,106	291,944	291,944	5,315,914	5,607,858	196,067,964

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at August 1, 2018	(15)	(15)	179,366,982
Change during the period			
Issuance of new investment units			16,228,235
Dividends from surplus			(4,819,511)
Net income			5,292,242
Net changes of items other than unitholders' equity	(489,280)	(489,280)	(489,280)
Total changes of items during the period	(489,280)	(489,280)	16,211,686
Balance at January 31, 2019	(489,295)	(489,295)	195,578,668

**STATEMENT OF CASH DISTRIBUTIONS**

(Unit: yen)

	For the six months ended July 31, 2019	For the six months ended January 31, 2019
I. Unappropriated retained earnings	5,543,979,968	5,315,914,348
II. Addition of dividends in excess of earnings	294,368,720	174,371,280
Allowance for temporary difference adjustments	294,368,720	174,371,280
III. Amount of dividends	5,343,636,000	5,291,137,120
Amount of dividends per unit	2,850	2,822
Dividends of earnings	5,049,267,280	5,116,765,840
Dividends of earnings per unit	2,693	2,729
Allowance for temporary difference adjustments	294,368,720	174,371,280
Dividends in excess of earnings per unit (allowance for temporary difference adjustments)	157	93
IV. Retained earnings carried forward	494,712,688	199,148,508



<p>Method of calculating the amount of dividends</p>	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act. Based on such policy, the Company decided to pay out dividends of earnings (5,049,267,280 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) out of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>In addition, pursuant to the terms of the distribution policy set forth in Article 37 (2) of the Company's Articles of Incorporation, the Company decided to pay out dividends attributable to allowance for temporary difference adjustments (294,368,720 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) in due consideration of the impact of the items of deduction from net assets (as defined in Article 2, Paragraph 2, Item 30 (b) of the Ordinance on Accountings of Investment Corporations) on dividends.</p> <p>As a result, the Company declared dividends per unit of 2,850 yen.</p>	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act. Based on such policy, the Company decided to pay out dividends of earnings (5,116,765,840 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) out of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>In addition, pursuant to the terms of the distribution policy set forth in Article 37 (2) of the Company's Articles of Incorporation, the Company decided to pay out dividends attributable to allowance for temporary difference adjustments (174,371,280 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) in due consideration of the impact of the items of deduction from net assets (as defined in Article 2, Paragraph 2, Item 30 (b) of the Ordinance on Accountings of Investment Corporations) on dividends.</p> <p>As a result, the Company declared dividends per unit of 2,822 yen.</p>
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STATEMENT OF CASH FLOWS

(Unit: thousands of yen)

For the six months ended

	July 31, 2019	January 31, 2019
Net cash provided by (used in) operating activities		
Income before income taxes	5,346,284	5,293,648
Depreciation and amortization	1,058,120	1,075,178
Amortization of investment corporation bonds issuance cost	10,193	11,613
Amortization of investment unit issuance cost	6,952	28,363
Interest income	(58)	(51)
Gain on forfeiture of unclaimed dividends	(979)	(1,128)
Interest expenses	443,892	437,515
Decrease (increase) in operating accounts receivable	48,795	35,033
Decrease (increase) in consumption taxes receivable	230,911	(230,898)
Increase (decrease) in operating accounts payable	(64,833)	49,378
Increase (decrease) in accounts payable – other	2,636	(1,125)
Increase (decrease) in accrued expenses	15,761	21,705
Increase (decrease) in accrued consumption taxes	484,076	(162,954)
Increase (decrease) in advances received	(4,105)	115,157
Increase (decrease) in deposits received	41,463	(497)
Decrease (increase) in prepaid expenses	(5,212)	8,002
Decrease (increase) in long-term prepaid expenses	(15,308)	(72,916)
Other, net	15	163
Subtotal	7,598,606	6,606,189
Interest income received	58	51
Interest expenses paid	(449,279)	(437,495)
Income taxes paid	(1,430)	(1,024)
Net cash provided by (used in) operating activities	7,147,955	6,167,720
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(620,364)	(30,891,345)
Repayments of lease and guarantee deposits in trust	(66,699)	(24,574)
Proceeds from lease and guarantee deposits in trust	241,984	1,337,753
Net cash provided by (used in) investing activities	(445,080)	(29,578,166)
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	12,000,000	24,600,000
Repayments of long-term loans payable	(12,000,000)	(10,500,000)
Redemption of investment corporation bonds	(3,000,000)	–
Proceeds from issuance of investment units	–	16,186,522
Cash dividends paid	(5,289,514)	(4,818,556)
Net cash provided by (used in) financing activities	(8,289,514)	25,467,966
Net increase (decrease) in cash and cash equivalents	(1,586,638)	2,057,520
Cash and cash equivalents at beginning of the period	11,806,152	9,748,631
Cash and cash equivalents at end of the period (Note18)	10,219,514	11,806,152

NOTES TO FINANCIAL STATEMENTS

For the six months ended July 31, 2019 and January 31, 2019

1. ORGANIZATION

Mori Hills REIT Investment Corporation (“the Company”) was incorporated by Mori Building Investment Management Co., Ltd. (the Company’s Asset Manager) on February 2, 2006 with 100 million yen in capital (200 units), and registration was approved based on Article 187 of the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”) on March 6, 2006 (Registration No. 51 filed with the Director-General of the Kanto Local Finance Bureau). Subsequently, the Company was listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange on November 30, 2006 (Securities Code: 3234).

The Company’s real estate portfolio as of July 31, 2019 was comprised of 11 properties under management with a total leasable floor area of 174,699.12m². The Company has already invested 390,690 million yen (based on acquisition price) into this portfolio. The occupancy rate as of July 31, 2019 was 99.4%.

2. BASIS OF PRESENTATION

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Financial Instruments and Exchange Act of Japan and the Investment Trust Act and related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements are basically a translation of the financial statements of the Company, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of the Company filed with the Kanto Local Finance Bureau of the Ministry of Finance. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. The amounts have been rounded down to the nearest thousand yen in the accompanying financial statements. The Company does not prepare consolidated financial statements, as the Company has no subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Property, plant and equipment (including assets in trust) and depreciation

Depreciation of property, plant and equipment of the Company is calculated principally by the straight-line method based on the following estimated useful lives determined by the Company. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

Buildings	3~68 years
Structures	3~68 years
Machinery and equipment	8~33 years
Tools, furniture and fixtures	3~15 years

(2) Intangible assets (including assets in trust)

Intangible assets are amortized by the straight-line method based on the estimated useful lives.

(3) Long-term prepaid expenses

Long-term prepaid expenses are amortized by the straight-line method based on the estimated useful lives.

(4) Investment corporation bonds issuance cost

Investment corporation bonds issuance cost is amortized using the straight-line method over the term of the bonds.

(5) Investment unit issuance cost

Investment unit issuance cost is amortized using the straight-line method over three years.

(6) Revenue recognition

Revenues from leasing of investment properties are recognized as rent revenues over the lease period.

(7) Accounting for property taxes

For property tax, city planning tax and depreciable assets tax, the Company charges the amount of property taxes assessed and determined applicable to the fiscal period to expenses related to properties.

Registered owners of properties in Japan as of January 1 are responsible for paying property taxes for the calendar year based on assessments by local governments. Therefore, registered owners who sold properties to the Company were liable for property taxes for the calendar year, including the period from the date of the acquisition by the Company until the end of the year. The Company reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate. The amount equivalent to property taxes included in the cost of acquisition of real estate was none as of July 31, 2019 and 31,319 thousand yen as of January 31, 2019, respectively.

(8) Hedge accounting approach

(a) Hedge accounting approach

Deferred hedge accounting is applied for interest rate swap transactions. However, special treatment is applied for interest rate swaps when the requirements for special treatment are fulfilled.

(b) Hedging instruments and hedged items

Hedging instruments: Interest rate swap transactions

Hedged items: Borrowing interest rates

(c) Hedging policy

The Company conducts derivative transactions to hedge risks as stipulated in the Company's Articles of Incorporation in accordance with the Company's risk management policy.

(d) Method for assessing the effectiveness of hedging

The Company evaluates by comparing the cumulative change in market rates of hedged items and hedging instruments or cash flow and based on the amount of change in both during the period from the start of hedging to when the effectiveness is being determined.

However, the assessment of hedge effectiveness is omitted, as it is assumed that important terms of the hedging instruments and hedged items are identical so that interest rate or cash flow fluctuations will be fully offset at the inception of the hedge and continuously thereafter. Moreover, assessment of the effectiveness is omitted for interest rate swaps when the requirements for special treatment are fulfilled.

(9) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of cash on hand and deposits in trust; deposits and deposits in trust that can be withdrawn at any time; and short-term investments with a maturity of three months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of price fluctuation.

(10) Accounting for trust beneficial interest in real estate

For trust beneficial interest in real estate owned by the Company, all accounts of assets and liabilities within the assets in trust as well as all accounts of revenue generated and expenses incurred from the assets in trust are recognized in the relevant accounts of the balance sheet and statement of income and retained earnings.

The following material items of the assets in trust recognized in the relevant accounts are separately listed on the balance sheet.

(a) Cash and deposits in trust

(b) Buildings in trust; structures in trust; machinery and equipment in trust; tools, furniture and fixtures in trust; land in trust; construction in progress in trust; leasehold rights in trust; and other intangible assets in trust

(c) Lease and guarantee deposits in trust

(11) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Non-deductible consumption taxes related to the acquisition of assets are treated as the cost of applicable assets.

4. ACCOUNTING STANDARDS NOT YET APPLIED

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 in IASB and Topic 606 in FASB) in May 2014. Given the situation where IFRS 15 will be applied from fiscal years beginning on or after January 1, 2018 and that Topic 606 will be applied from fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance.

The basic policy of the ASBJ when it developed the accounting standards for revenue recognition was to specify the accounting standards, incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining compatibility with IFRS 15. The basic policy also stipulates that if there is an item to which consideration should be given, such as practices that have been conducted thus far in Japan, alternative treatments will be added to the extent to which comparability is not impaired.

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The level of the impact on the financial statements of applying the “Accounting Standard for Revenue Recognition” and its guidance is currently under evaluation.

- “Accounting Standard for Fair Value Measurement” (Accounting Standards Board of Japan (ASBJ) Statement No. 30 issued on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31 issued on July 4, 2019)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have established detailed guidance regarding fair value measurement (IFRS 13 “Fair Value Measurement” in IFRS and Topic 820 “Fair Value Measurement” in FASB). The ASBJ repeatedly considered the guidance regarding fair value of financial instruments and disclosure in order to improve the comparability with such international accounting standards, and issued the Accounting Standard for Fair Value Measurement and the Implementation Guidance on Accounting Standard for Fair Value Measurement.

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The level of the impact on the financial statements of applying the “Accounting Standard for Fair Value Measurement” and its guidance is currently under evaluation.



5. ADDITIONAL INFORMATION

Notes on Provision and Reversal of Allowance for Temporary Difference Adjustments

For the six months ended July 31, 2019

(1) Reason for provision, and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Allowance for temporary difference adjustments
Deferred gains or losses on hedges	Incurrence of loss on valuation of interest swaps	294,368

(2) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.

For the six months ended January 31, 2019

(1) Reason for provision, and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Allowance for temporary difference adjustments
Deferred gains or losses on hedges	Incurrence of loss on valuation of interest swaps	174,371

(2) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.



6. PROPERTY AND EQUIPMENT

For the six months ended July 31, 2019

(Unit: thousands of yen)

Type of asset	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Accumulated depreciation/Amortization		Net balance at end of the period	Remarks	
					Accumulated depreciation	Amortization			
Property, plant and equipment	Land	22,074,160	—	—	22,074,160	—	—	22,074,160	—
	Buildings in trust	81,354,644	564,333	—	81,918,977	16,124,966	1,011,049	65,794,010	—
	Structures in trust	912,216	9,331	—	921,547	308,260	10,647	613,287	—
	Machinery and equipment in trust	859,689	51,208	—	910,898	263,302	22,229	647,596	—
	Tools, furniture and fixtures in trust	226,353	10,732	—	237,085	144,267	13,408	92,818	—
	Land in trust	260,234,866	—	—	260,234,866	—	—	260,234,866	—
	Construction in progress in trust	1,796	198	46	1,949	—	—	1,949	—
Subtotal	365,663,726	635,804	46	366,299,485	16,840,796	1,057,334	349,458,688		
Intangible assets	Leasehold rights in trust	30,650,962	—	—	30,650,962	—	—	30,650,962	—
	Other intangible assets in trust	11,952	—	—	11,952	11,580	463	372	—
	Subtotal	30,662,915	—	—	30,662,915	11,580	463	30,651,335	
Total	396,326,642	635,804	46	396,962,401	16,852,376	1,057,798	380,110,024		

7. SHORT-TERM LOANS PAYABLE

For the six months ended July 31, 2019

Not applicable.

8. INVESTMENT CORPORATION BONDS

For the six months ended July 31, 2019

(Unit: thousands of yen)

Bond	Issue date	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Interest rate	Redemption maturity date	Use of funds	Collateral
Ninth Series Unsecured Investment Corporation Bonds	May 24, 2013	2,000,000	—	—	2,000,000	1.2600%	May 22, 2020	(Note 1)	none
Tenth Series Unsecured Investment Corporation Bonds	Feb. 24, 2014	3,000,000	—	3,000,000	—	0.4140%	Feb. 22, 2019		
Eleventh Series Unsecured Investment Corporation Bonds	Feb. 24, 2014	2,000,000	—	—	2,000,000	0.6880%	Feb. 24, 2021		
Twelfth Series Unsecured Investment Corporation Bonds	Nov. 27, 2014	2,000,000	—	—	2,000,000	0.8650%	Nov. 27, 2024		
Thirteenth Series Unsecured Investment Corporation Bonds	May 26, 2015	3,000,000	—	—	3,000,000	0.3220%	May 26, 2020		
Fourteenth Series Unsecured Investment Corporation Bonds	May 26, 2015	2,000,000	—	—	2,000,000	0.8200%	May 26, 2025		
Fifteenth Series Unsecured Investment Corporation Bonds	Nov. 26, 2015	3,500,000	—	—	3,500,000	0.3800%	Nov. 26, 2020		
Sixteenth Series Unsecured Investment Corporation Bonds	Nov. 26, 2015	1,500,000	—	—	1,500,000	0.8860%	Nov. 26, 2025		
Seventeenth Series Unsecured Investment Corporation Bonds	Aug. 30, 2016	2,000,000	—	—	2,000,000	0.3400%	Aug. 28, 2026		
Eighteenth Series Unsecured Investment Corporation Bonds	Jan. 31, 2017	2,000,000	—	—	2,000,000	0.4900%	Jan. 29, 2027		
Nineteenth Series Unsecured Investment Corporation Bonds	Jun. 30, 2017	2,000,000	—	—	2,000,000	0.5000%	Jun. 30, 2027		
Total		25,000,000	—	3,000,000	22,000,000				

(Note 1) The funds are used for the acquisition cost of trust beneficial interests, the repayment of loans payable and redemption of investment corporation bonds.

(Note 2) The redemption schedule of investment corporation bonds for each of the five years after the balance sheet date is as follows.

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Investment corporation bonds	5,000,000	5,500,000	—	—	—



9. LONG-TERM LOANS PAYABLE

For the six months ended July 31, 2019

(1) Current portion of long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd.	250,000	—	250,000	—	0.3613%	May 31, 2019	(Note 2)	Unsecured/ Unguaranteed
	250,000	—	250,000	—	0.3613%	May 31, 2019		
	1,702,000	—	1,702,000	—	0.3113%	May 31, 2019		
	1,702,000	—	1,702,000	—	0.3113%	May 31, 2019		
	1,100,000	—	—	1,100,000	0.4434%	Nov. 29, 2019		
	1,100,000	—	—	1,100,000	0.4434%	Nov. 29, 2019		
	—	574,000	—	574,000	0.4000%	May 29, 2020		
	—	574,000	—	574,000	0.4000%	May 29, 2020		
	—	834,000	—	834,000	0.3760%	May 29, 2020		
	—	834,000	—	834,000	0.3760%	May 29, 2020		
Resona Bank, Ltd.	2,500,000	—	—	2,500,000	0.3123%	Aug. 30, 2019		
	—	830,000	—	830,000	0.3760%	May 29, 2020		
Sumitomo Mitsui Banking Corporation	250,000	—	250,000	—	0.3613%	May 31, 2019		
	894,000	—	894,000	—	0.3113%	May 31, 2019		
	1,600,000	—	—	1,600,000	0.4434%	Nov. 29, 2019		
	—	300,000	—	300,000	0.4000%	May 29, 2020		
	—	834,000	—	834,000	0.3760%	May 29, 2020		
Mizuho Bank, Ltd.	250,000	—	250,000	—	0.3613%	May 31, 2019		
	1,702,000	—	1,702,000	—	0.3113%	May 31, 2019		
	1,100,000	—	—	1,100,000	0.4434%	Nov. 29, 2019		
	—	574,000	—	574,000	0.4000%	May 29, 2020		
	—	834,000	—	834,000	0.3760%	May 29, 2020		
The Bank of Fukuoka, Ltd.	2,000,000	—	2,000,000	—	0.3113%	May 31, 2019		
	2,000,000	—	—	2,000,000	0.4434%	Nov. 29, 2019		
Development Bank of Japan Inc.	2,000,000	—	—	2,000,000	0.4434%	Nov. 29, 2019		
Aozora Bank, Ltd.	2,000,000	—	—	2,000,000	0.3123%	Aug. 30, 2019		
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	—	—	1,000,000	0.4434%	Nov. 29, 2019		
	—	834,000	—	834,000	0.3760%	May 29, 2020		
Shinsei Bank, Ltd.	900,000	—	—	900,000	0.4434%	Nov. 29, 2019		
The Norinchukin Bank	3,000,000	—	3,000,000	—	0.3113%	May 31, 2019		
	600,000	—	—	600,000	0.4434%	Nov. 29, 2019		
Total	27,900,000	7,022,000	12,000,000	22,922,000				

(2) Long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd.	574,000	—	574,000	—	0.4000%	May 29, 2020	(Note 2)	Unsecured/ Unguaranteed
	574,000	—	574,000	—	0.4000%	May 29, 2020		
	834,000	—	834,000	—	0.3760%	May 29, 2020		
	834,000	—	834,000	—	0.3760%	May 29, 2020		
	1,200,000	—	—	1,200,000	0.6242%	Nov. 30, 2020		
	1,200,000	—	—	1,200,000	0.6242%	Nov. 30, 2020		
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.4980%	Nov. 30, 2022		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	1,500,000	—	—	1,500,000	0.3290%	Mar. 31, 2023		
	1,500,000	—	—	1,500,000	0.4100%	Mar. 29, 2024		
600,000	—	—	600,000	0.4100%	Mar. 29, 2024			
2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025			
4,700,000	—	—	4,700,000	0.4065%	Aug. 31, 2027			
5,000,000	—	—	5,000,000	0.4345%	Feb. 29, 2028			
—	3,904,000	—	3,904,000	0.2890%	Nov. 30, 2028			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Mizuho Bank, Ltd	574,000	—	574,000	—	0.4000%	May 29, 2020	(Note 2)	Unsecured/ Unguaranteed
	834,000	—	834,000	—	0.3760%	May 29, 2020		
	1,200,000	—	—	1,200,000	0.6242%	Nov. 30, 2020		
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	—	—	600,000	0.4100%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025		
	1,100,000	—	—	1,100,000	0.5775%	Jul. 31, 2029		
	2,700,000	—	—	2,700,000	0.6030%	Feb. 28, 2030		
	3,000,000	—	—	3,000,000	0.1850%	May 23, 2022		
	3,000,000	—	—	3,000,000	0.4260%	Aug. 30, 2024		
	1,400,000	—	—	1,400,000	0.4123%	Aug. 31, 2029		
	—	1,952,000	—	1,952,000	0.4140%	May 31, 2029		
Sumitomo Mitsui Banking Corporation	300,000	—	300,000	—	0.4000%	May 29, 2020	(Note 2)	Unsecured/ Unguaranteed
	834,000	—	834,000	—	0.3760%	May 29, 2020		
	1,440,000	—	—	1,440,000	0.6242%	Nov. 30, 2020		
	1,560,000	—	—	1,560,000	0.7535%	Nov. 30, 2021		
	1,099,000	—	—	1,099,000	0.5730%	May 31, 2021		
	1,098,000	—	—	1,098,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.4980%	Nov. 30, 2022		
	2,200,000	—	—	2,200,000	0.3290%	Mar. 31, 2023		
	800,000	—	—	800,000	0.4100%	Mar. 29, 2024		
	1,100,000	—	—	1,100,000	0.4673%	Jul. 31, 2025		
	2,650,000	—	—	2,650,000	0.5460%	Feb. 27, 2026		
	3,600,000	—	—	3,600,000	0.5640%	Aug. 31, 2026		
—	1,144,000	—	1,144,000	0.4090%	Nov. 30, 2027			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Sumitomo Mitsui Trust Bank, Ltd.	834,000	—	834,000	—	0.3760%	May 29, 2020	(Note 2)	Unsecured/ Unguaranteed
	960,000	—	—	960,000	0.6242%	Nov. 30, 2020		
	1,040,000	—	—	1,040,000	0.7535%	Nov. 30, 2021		
	1,294,000	—	—	1,294,000	0.5730%	May 31, 2021		
	1,295,000	—	—	1,295,000	0.7020%	May 31, 2022		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	—	—	600,000	0.4100%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025		
	1,000,000	—	—	1,000,000	0.5150%	Jul. 31, 2026		
	2,000,000	—	—	2,000,000	0.4770%	Jul. 31, 2028		
	2,600,000	—	—	2,600,000	0.5830%	Feb. 26, 2027		
	2,400,000	—	—	2,400,000	0.3315%	Aug. 31, 2023		
	1,400,000	—	—	1,400,000	0.6670%	Aug. 31, 2027		
The Norinchukin Bank	1,000,000	—	—	1,000,000	0.3290%	Mar. 31, 2023	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.3735%	Jul. 31, 2024		
	600,000	—	—	600,000	0.4893%	Nov. 29, 2024		
	1,300,000	—	—	1,300,000	0.4260%	Aug. 30, 2024		
	—	3,000,000	—	3,000,000	0.3140%	May 31, 2026		
The Bank of Fukuoka, Ltd.	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.5150%	Jul. 31, 2026		
	500,000	—	—	500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.3760%	Aug. 30, 2024		
	—	2,000,000	—	2,000,000	0.2140%	Mar. 31, 2026		
Development Bank of Japan Inc.	1,700,000	—	—	1,700,000	0.7963%	Mar. 27, 2023	(Note 2)	Unsecured/ Unguaranteed
	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024		
	750,000	—	—	750,000	0.6430%	Feb. 26, 2027		
	500,000	—	—	500,000	0.6670%	Aug. 31, 2027		
Shinsei Bank, Ltd	1,500,000	—	—	1,500,000	0.6155%	Nov. 30, 2023	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.3290%	Mar. 31, 2023		
	500,000	—	—	500,000	0.5400%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.5200%	Aug. 29, 2025		

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Mizuho Trust & Banking Co., Ltd.	500,000	—	—	500,000	0.3290%	Mar. 31, 2023	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.5775%	Jul. 31, 2029		
	1,500,000	—	—	1,500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.4700%	Aug. 29, 2025		
Resona Bank, Ltd.	830,000	—	830,000	—	0.3760%	May 29, 2020		
	800,000	—	—	800,000	0.3290%	Mar. 31, 2023		
	500,000	—	—	500,000	0.6130%	Jul. 30, 2027		
	500,000	—	—	500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.4805%	Aug. 31, 2028		
The Nishi-Nippon City Bank, Ltd.	1,000,000	—	—	1,000,000	0.4893%	Nov. 29, 2024		
	500,000	—	—	500,000	0.5400%	Aug. 29, 2025		
	800,000	—	—	800,000	0.2570%	Aug. 31, 2022		
Aozora Bank, Ltd.	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024		
The Hiroshima Bank, Ltd.	1,000,000	—	—	1,000,000	0.3290%	Mar. 31, 2023		
The Oita Bank, Ltd.	1,000,000	—	—	1,000,000	0.2300%	Nov. 30, 2022		
Shinkin Central Bank	1,000,000	—	—	1,000,000	0.1795%	Sep. 30, 2022		
Total	129,322,000	12,000,000	7,022,000	134,300,000				

(Note 1) “Average interest rate” indicates the interest rate on loans payable for the respective lending financial institutions rounded to four decimal places. In addition, concerning the loans payable for which an interest rate swap transaction has been entered into for the purpose of avoiding the risk of fluctuations in interest rates, the interest rate shown is the interest rate after taking into account the effect of the interest rate swap transaction.

(Note 2) The funds are used for the acquisition cost of trust beneficial interests, the refinancing of loans payable, redemption of investment corporation bonds and related expenses.

(Note 3) The repayment schedule of long-term loans payable (excluding the current portion of long-term loans payable) due within 5 years after the balance sheet date is as follows.

(Unit: thousands of yen)

	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Long-term loans payable	12,500,000	22,000,000	15,200,000	18,800,000



10. NET ASSETS

(1) Minimum net assets

The Company is required to maintain net assets of at least 50,000 thousand yen pursuant to the Investment Trust Act.

(2) Allowance for temporary difference adjustments

(a) Reason for provision or reversal and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Initial amount	Balance at beginning of the period	Allowance set aside during period	Reversal during period	Balance at the end of current period	Reason for reversal
Deferred gains or losses on hedges	Loss on valuation of interest swaps	174,371	—	174,371	—	174,371	—

(b) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.

11. INCOME TAXES

(1) Breakdown of significant components of deferred tax assets and deferred tax liabilities

(Unit: thousands of yen)

	As of	
	July 31, 2019	January 31, 2019
Deferred tax assets		
Accrued enterprise tax excluded from expenses	44	43
Deferred gains or losses on hedges	246,907	154,568
Subtotal deferred tax assets	246,952	154,611
Valuation allowance	(246,907)	(154,568)
Total deferred tax assets	44	43
Net deferred tax assets	44	43

(2) Reconciliation of significant differences between the statutory tax rate and the effective tax rate

	As of	
	July 31, 2019	January 31, 2019
Statutory tax rate	31.51%	31.51%
[Adjustments]		
Deductible cash distributions	(31.49%)	(31.50%)
Others	0.01%	0.01%
Effective tax rate	0.03%	0.03%

12. PER UNIT INFORMATION

	For the six months ended	
	July 31, 2019	January 31, 2019
Net assets per unit (yen)	104,181	104,310
Net income per unit (yen)	2,850	2,823
(Note 1) Net income per unit was calculated by dividing the net income by the daily weighted average number of investment units during the period.		
Diluted net income per unit has not been stated as there are no diluted investment units.		
(Note 2) The following is the basis for calculating net income per unit.		

	For the six months ended	
	July 31, 2019	January 31, 2019
Net income (thousands of yen)	5,344,831	5,292,242
Amounts not attributable to common unitholders (thousands of yen)	—	—
Net income attributable to common investment units (thousands of yen)	5,344,831	5,292,242
Average number of investment units during the period (units)	1,874,960	1,874,284

13. RELATED PARTY TRANSACTIONS

(1) Parent company and major corporate unitholders

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	67,000,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Leasing of properties (Note 2) (Note 5)	6,092,668	Operating accounts receivable	902
									Advances received	1,091,980
									Lease and guarantee deposits in trust	9,790,142
							Payment of property operation and management fees (Note 6)	251,629 (Note 3)	Prepaid expenses	2,963
									Operating accounts payable	44,777
							Payment of other operating expenses (Note 7)	1,277	—	—
Deposit of lease and guarantee (Note 4) (Note 8)	—	Lease and guarantee deposits in trust	53,886							

(Note 1) The amount does not include consumption taxes.

(Note 2) Roppongi Hills Mori Tower, ARK Mori Building, Atago Green Hills, Toranomori Hills Mori Tower, a portion of Koraku Mori Building, a portion of ARK Hills South Tower, a portion of Roppongi First Plaza and a portion of Roppongi View Tower

(Note 3) The amount includes fees (15,258 thousand yen) that are not charged to expenses but recognized as assets.

(Note 4) Roppongi View Tower



[Transaction terms and conditions and related policies]

- (Note 5) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.
- (Note 6) The Company decides on transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, in light of the market situation, the content of services provided, overall operational capacity and other factors.
- (Note 7) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.
- (Note 8) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

For the six months ended January 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	67,000,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Acquisition of Property (Note 2) (Note 6)	30,640,000	—	—
							Leasing of properties (Note 3) (Note 7)	6,007,201	Operating accounts receivable	794
									Advances received	1,092,609
									Lease and guarantee deposits in trust	9,792,658
							Payment of property operation and management fees (Note 8)	244,180 (Note 4)	Prepaid expenses	2,963
									Operating accounts payable	60,211
Deposit of lease and guarantee (Note 5) (Note 9)	—	Lease and guarantee deposits in trust	53,886							

(Note 1) The amount does not include consumption taxes.

(Note 2) A portion of Toranomon Hills Mori Tower and a portion of Holland Hills Mori Tower

(Note 3) Roppongi Hills Mori Tower, ARK Mori Building, Atago Green Hills, Toranomon Hills Mori Tower, a portion of Koraku Mori Building, a portion of ARK Hills South Tower, a portion of Roppongi First Plaza and a portion of Roppongi View Tower

(Note 4) The amount includes fees (8,127 thousand yen) that are not charged to expenses but recognized as assets.

(Note 5) Roppongi View Tower

[Transaction terms and conditions and related policies]

- (Note 6) Acquisition decisions are made in accordance with the provisions of the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations. Furthermore, acquisitions are not made at a value exceeding the appraisal value as determined by an independent third-party real estate appraiser (including corporations).
- (Note 7) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.
- (Note 8) The Company decides on transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, in light of the market situation, the content of services provided, overall operational capacity and other factors.
- (Note 9) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.



(2) Subsidiaries and affiliates

For the six months ended July 31, 2019

Not applicable.

For the six months ended January 31, 2019

Not applicable.

(3) Subsidiaries of parent company

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Subsidiary of other related company	Mori Building Investment Management Co., Ltd.	Minato-ku, Tokyo	200,000	Real estate, trust beneficiary right and other financial asset management operations	None	Outsourcing of asset management Concurrent post of directors	Payment of management fees (Note 2) (Note 3)	260,906	Accrued expenses	281,779

(Note 1) The amount does not include consumption taxes.

(Note 2) The amount of management fees is provided in the “Asset Management Contract” concluded between the Company and the Company’s Asset Manager.

[Transaction terms and conditions and related policies]

(Note 3) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

For the six months ended January 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Subsidiary of other related company	Mori Building Investment Management Co., Ltd.	Minato-ku, Tokyo	200,000	Real estate, trust beneficiary right and other financial asset management operations	None	Outsourcing of asset management Concurrent post of directors	Payment of management fees (Note 2) (Note 4)	276,128 (Note 3)	Accrued expenses	265,127

(Note 1) The amount does not include consumption taxes.

(Note 2) The amount of management fees is provided in the “Asset Management Contract” concluded between the Company and the Company’s Asset Manager.

(Note 3) The amount of management fees includes 30,640 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

(Note 4) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.



(4) Directors and major individual unitholders

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business or position	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Directors and their close relatives	Hideyuki Isobe	—	—	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	None	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	Payment of management fees to Mori Building Investment Management Co., Ltd. (Note 2) (Note 3)	260,906	Accrued expenses	281,779

(Note 1) The amount does not include consumption taxes.

(Note 2) The transaction was conducted with Hideyuki Isobe as third-party representative (Mori Building Investment Management Co., Ltd.) and the amount of management fees is provided in the “Asset Management Contract” concluded between the Company and the Company’s Asset Manager.

[Transaction terms and conditions and related policies]

(Note 3) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

For the six months ended January 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business or position	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Directors and their close relatives	Hideyuki Isobe	—	—	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	None	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	Payment of management fees to Mori Building Investment Management Co., Ltd. (Note 2) (Note 4)	276,128 (Note 3)	Accrued expenses	265,127

(Note 1) The amount does not include consumption taxes.

(Note 2) The transaction was conducted with Hideyuki Isobe as third-party representative (Mori Building Investment Management Co., Ltd.) and the amount of management fees is provided in the “Asset Management Contract” concluded between the Company and the Company’s Asset Manager.

(Note 3) The amount of management fees includes 30,640 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

(Note 4) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

14. BREAKDOWN OF PROPERTY-RELATED REVENUE AND EXPENSES

Breakdown of property operating income

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2019	January 31, 2019
A. Property operating revenue		
Rent revenues		
Rent and common area revenue	9,318,188	9,164,640
Other rent revenue	5,756	5,677
Other operating revenues		
Parking revenue	59,861	57,105
Utilities and other revenue	175,152	195,559
Cancellation penalty	2,917	862
Key money income	—	50
Total property operating revenue	9,561,876	9,423,895
B. Property operating expenses		
Expenses related to properties		
Property management fees	1,082,549	1,061,959
Property taxes	659,480	607,648
Utilities	142,229	160,080
Maintenance and repairs	117,152	61,629
Insurance premium	17,180	17,014
Custodian fees	5,950	5,933
Depreciation and amortization	1,057,798	1,074,791
Rent expenses	126,872	127,398
Other lease business expenses	16,118	14,547
Total property operating expenses	3,225,332	3,131,002
C. Property operating income [A – B]	6,336,544	6,292,892

Transactions with major unitholders

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2019	January 31, 2019
From operating transactions		
Rent revenues	6,090,222	6,004,594
Other operating revenues	2,446	2,607
Expenses related to properties	236,370	236,053
Other operating expenses	1,277	—

15. UNITHOLDERS' EQUITY

	For the six months ended	
	July 31, 2019	January 31, 2019
Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	1,874,960 units	1,874,960 units

16. FINANCIAL INSTRUMENTS

(1) Policy for financial instruments

(a) Policy for holding financial instruments

The Company makes use of various financial instruments in order to invest surplus funds efficiently. In addition, concerning fund procurement, the Company adopts a policy of undertaking such fund raising primarily through the issuance of investment units, the borrowing of funds and the issuance of investment corporation bonds. The Company limits derivative transactions to those that are entered into for the purpose of hedging the risk of future fluctuations in interest rates on loans payable, and does not engage in speculative transactions.

(b) Description of financial instruments and associated risks, and risk management structure

Deposits used for investing the Company's surplus funds are exposed to credit risks, for example, the failure of the financial institutions that are holding the deposits, but the Company limits the risks by diversifying financial institutions.

Investment corporation bonds and long-term loans payable are used for fund procurement associated with the acquisition of real estate related assets or repayment of loans payable. Of these, loans payable with variable interest rates are exposed to the risk of fluctuations in interest rates, but derivative transactions are utilized as hedging instruments.

Interest rate swaps are utilized with the Company seeking to, in effect, convert fluctuating interest rates on fund procurement into fixed interest rates. For information on the method of hedge accounting approach, hedging instruments and hedged items, hedging policy and method for assessing the effectiveness of hedging, please refer to "Summary of significant accounting policies: (8) Hedge accounting approach."

Concerning derivative transactions, risks are managed pursuant to the risk management policy set forth by the Company.

(c) Supplementary explanation on matters concerning fair value of financial instruments

The fair value of financial instruments, aside from values based on market price, include values based on reasonable calculations when no market price exists. Certain assumptions are used for the estimation of fair value. Accordingly, the results of such estimation may change if different assumptions are used. In addition, concerning the contract amount of derivative transactions in "Derivative transactions" below the amount itself does not represent the value of the market risks associated with the derivative transactions.

(2) Fair value of financial instruments

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2019.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	3,923,970	3,923,970	—
(b) Cash and deposits in trust	6,295,543	6,295,543	—
Total	10,219,514	10,219,514	—
(c) Current portion of investment corporation bonds	5,000,000	5,022,700	22,700
(d) Current portion of long-term loans payable	22,922,000	22,922,000	—
(e) Investment corporation bonds	17,000,000	17,210,380	210,380
(f) Long-term loans payable	134,300,000	134,574,414	274,414
Total	179,222,000	179,729,494	507,494
Derivative transactions (Note 1)	(784,831)	(784,831)	—

The following are the carrying amount, fair value and the difference between them of financial instruments as of January 31, 2019.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	5,431,643	5,431,643	—
(b) Cash and deposits in trust	6,374,508	6,374,508	—
Total	11,806,152	11,806,152	—
(c) Current portion of investment corporation bonds	3,000,000	3,000,300	300
(d) Current portion of long-term loans payable	27,900,000	27,900,000	—
(e) Investment corporation bonds	22,000,000	22,218,080	218,080
(f) Long-term loans payable	129,322,000	129,689,189	367,189
Total	182,222,000	182,807,569	585,569
Derivative transactions (Note 1)	(489,295)	(489,295)	—

(Note 1) Assets and liabilities from derivative transactions are indicated in net amounts and net liabilities are indicated in parentheses.

(Note 2) Method of calculating the fair value of financial instruments, and derivative transactions

Assets

(a) Cash and deposits; (b) 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

(c) Current portion of investment corporation bonds; (e) Investment corporation bonds

The fair value of these is based on market prices.

(d) Current portion of long-term loans payable; (f) Long-term loans payable

Of long-term loans payable, as those with variable interest rates reflect market interest rates within a short period of time, the fair value is thought to be approximately the same as the book value and is thus stated at that book value (However, long-term loans payable with variable interest rates that are subject to special treatment for interest rate swaps (please refer to “Derivative transactions” below) are based on a calculation method of discounting the sum total amount of principal and interest accounted for together with said interest rate swaps by the rate reasonably estimated as being applicable in the event of a similar transaction.). Meanwhile, those with fixed interest rates are based on a calculation method of discounting the sum total amount of principal and interest by the rate reasonably estimated as being applicable in the event of a similar transaction.

Derivative transactions

Please refer to “Derivative transactions” below.

(Note 3) Redemption of monetary claims scheduled to be due after the balance sheet date (as of July 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	3,923,970	—	—	—	—	—
Cash and deposits in trust	6,295,543	—	—	—	—	—
Total	10,219,514	—	—	—	—	—

Redemption of monetary claims scheduled to be due after the balance sheet date (as of January 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	5,431,643	—	—	—	—	—
Cash and deposits in trust	6,374,508	—	—	—	—	—
Total	11,806,152	—	—	—	—	—

(Note 4) Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of July 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	5,000,000	5,500,000	—	—	—	11,500,000
Long-term loans payable	22,922,000	12,500,000	22,000,000	15,200,000	18,800,000	65,800,000
Total	27,922,000	18,000,000	22,000,000	15,200,000	18,800,000	77,300,000

Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of January 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	3,000,000	8,500,000	2,000,000	—	—	11,500,000
Long-term loans payable	27,900,000	13,022,000	19,000,000	15,500,000	20,400,000	61,400,000
Total	30,900,000	21,522,000	21,000,000	15,500,000	20,400,000	72,900,000

17. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

As of July 31, 2019

Not applicable

As of January 31, 2019

Not applicable

(2) Transactions for which hedge accounting is applied

As of July 31, 2019

The following is the contract amount or amount equivalent to the principal provided in the contract as of the date of settlement of accounts based on the each method of hedge accounting.

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	89,122,000	70,700,000	(784,831)	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	43,500,000	43,500,000	*	—

*Derivative transactions that are subject to special treatment for interest rate swaps are accounted for together with long-term loans payable that are the hedged items and the fair value is included in the fair value of those long-term loans payable (please refer to Liabilities (d) and (f) of (Note 2) Method of calculating the fair value of financial instruments, and derivative transactions of “Financial instruments; (2) Fair value of financial instruments” above).

As of January 31, 2019

The following is the contract amount or amount equivalent to the principal provided in the contract as of the date of settlement of accounts based on the each method of hedge accounting.

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	89,122,000	77,722,000	(489,295)	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	43,500,000	43,500,000	*	—

*Derivative transactions that are subject to special treatment for interest rate swaps are accounted for together with long-term loans payable that are the hedged items and the fair value is included in the fair value of those long-term loans payable (please refer to Liabilities (d) and (f) of (Note 2) Method of calculating the fair value of financial instruments, and derivative transactions of “Financial instruments; (2) Fair value of financial instruments” above).

18. CASH AND CASH EQUIVALENTS

Relationship between cash and cash equivalents at end of the period in the statement of cash flows and cash and deposits stated in the balance sheet

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2019	January 31, 2019
Cash and deposits	3,923,970	5,431,643
Cash and deposits in trust	6,295,543	6,374,508
Cash and cash equivalents	10,219,514	11,806,152

19. LEASES

Operating lease transactions (as lessor)

Future minimum rent revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

	As of	
	July 31, 2019	January 31, 2019
Due within 1 year	4,295,643	4,327,326
Due after 1 year	12,741,853	13,371,253
Total	17,037,496	17,698,579

20. INVESTMENT AND RENTAL PROPERTIES

The Company owns real estate (primarily office buildings and residential and retail properties) available for lease in Tokyo. The following are the carrying amount, amount of increase (decrease) during the period and fair value at end of the period for these investment and rental properties.

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2019	January 31, 2019
Carrying amount		
Balance at beginning of the period	380,532,037	350,656,949
Amount of increase (decrease) during the period	(422,012)	29,875,087
Balance at end of the period	380,110,024	380,532,037
Fair value at end of the period	442,950,000	437,230,000

(Note 1) The carrying amount is the acquisition cost less accumulated depreciation.

(Note 2) Of the decrease during the period ended July 31, 2019, the decrease is primarily attributable to depreciation and amortization.

Of the increase (decrease) during the period ended January 31, 2019, the increase is primarily attributable to the acquisition of two properties (Toranomori Hills Mori Tower (approximately 5.0% of total exclusive floor area) (26,128,148 thousand yen)) and Holland Hills Mori Tower (approximately 13.6% of total exclusive floor area) (4,584,110 thousand yen)), the decrease is primarily attributable to depreciation and amortization.

(Note 3) The fair value at end of the period is the appraisal value by a real estate appraiser (according to the "Real Estate Appraisal Report" with the date of settlement of accounts as the appraisal date) pursuant to the method of and standards for asset valuation provided in the Company's Articles of Incorporation and the rules provided by The Investment Trusts Association, Japan.

Income and loss for investment and rental properties is presented in "Breakdown of property-related revenue and expenses"

21. SEGMENT AND RELATED INFORMATION

[Segment Information]

Disclosure is omitted because the Company operates as a single segment – Real estate leasing business.

[Related Information]

For the six months ended July 31, 2019

(1) Information about each product and service

Disclosure is omitted because operating revenue from external customers within a single product and service category accounts for over 90% of the operating revenue on the statement of income and retained earnings.

(2) Information about each geographical area

(a) Operating revenue

Disclosure is omitted because operating revenue from external customers in Japan accounts for over 90% of the operating revenue on the statement of income and retained earnings.

(b) Property, plant and equipment

Disclosure is omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information about each major tenant

(Unit: thousands of yen)

Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	6,092,668	Real estate leasing business

For the six months ended January 31, 2019

(1) Information about each product and service

Disclosure is omitted because operating revenue from external customers within a single product and service category accounts for over 90% of the operating revenue on the statement of income and retained earnings.

(2) Information about each geographical area

(a) Operating revenue

Disclosure is omitted because operating revenue from external customers in Japan accounts for over 90% of the operating revenue on the statement of income and retained earnings.

(b) Property, plant and equipment

Disclosure is omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information about each major tenant

(Unit: thousands of yen)

Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	6,007,201	Real estate leasing business

22. SUBSEQUENT EVENTS

Not applicable.