

5. Appendix



5-1 Financial highlights

Indices	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020	Calculation formula
Net income	5,344 mn yen	5,406 mn yen	
Depreciation and amortization	1,058 mn yen	1,034 mn yen	
CAPEX	635 mn yen	149 mn yen	
Total assets	392,256 mn yen	392,217 mn yen	
Total net assets	195,336 mn yen	195,459 mn yen	
Total net assets/unit (BPS)	104,181 yen	104,247 yen	Total net assets/Total units outstanding
Unit price (as of end of each period)	160,300 yen	181,700 yen	
Total units outstanding	1,874,960 units	1,874,960 units	
Total dividends	5,343 mn yen	5,405 mn yen	
Dividends/unit	2,850 yen	2,883 yen	
Dividend yield	3.6%	3.1%	Dividends per unit (annualized)/Unit price as of end of period
FFO	6,402 mn yen	6,440 mn yen	Net income + Depreciation and amortization - Gain or loss on sales of real estate properties
FFO/unit	3,414 yen	3,435 yen	FFO/Total units outstanding
Annualized	6,886 yen	6,814 yen	Based on a period of 365 days
FFO multiple	23.3x	26.7x	Unit price as of end of period/FFO per unit (annualized)
PER	27.9x	31.8x	Unit price as of end of period/Net income per unit (average during the periods, annualized)
PBR	1.5x	1.7x	Unit price as of end of period/Net assets per unit
ROA	1.4%	1.4%	Ordinary income/Average of total assets during the period
Annualized	2.7%	2.7%	Based on a period of 365 days
ROE	2.7%	2.8%	Net income/Average of total net assets during the period
Annualized	5.5%	5.5%	Based on a period of 365 days
NAV	258,176 mn yen	272,963 mn yen	Total net assets + Total appraisal value - Total book value - Total liabilities
NAV/unit	137,697 yen	145,583 yen	
NAV multiple	1.2x	1.2x	Unit price as of end of period/NAV per unit
Interest-bearing debt	179,222 mn yen	179,222 mn yen	
LTV (book value basis)	45.7%	45.7%	Interest-bearing debt/Total assets
LTV (appraisal value basis)	39.4%	38.2%	Interest-bearing debt/(Total assets + Total appraisal value - Total book value)
Operating days	181 days	184 days	

5-2 Balance sheet

(thousand yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020
Assets		
Current assets	11,021,912	11,875,571
Cash and deposits	3,923,970	5,646,194
Cash and deposits in trust	6,295,543	5,461,338
Other	802,398	768,037
Noncurrent assets	381,133,241	380,257,896
Property, plant and equipment	349,458,688	348,575,213
Intangible assets	30,651,335	30,650,962
Investments and other assets	1,023,217	1,031,720
Deferred assets	101,365	84,503
Total assets	392,256,519	392,217,971

(thousand yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020
Liabilities		
Current liabilities	30,265,364	23,586,464
Current portion of investment corporation bonds	5,000,000	8,500,000
Current portion of long-term loans payable	22,922,000	13,022,000
Other	2,343,364	2,064,464
Noncurrent liabilities	166,654,327	173,171,584
Investment corporation bonds	17,000,000	13,500,000
Long-term loans payable	134,300,000	144,200,000
Lease and guarantee deposited in trust	14,570,283	14,727,643
Other	784,044	743,940
Total liabilities	196,919,691	196,758,048
Net assets		
Unitholders' equity	196,121,658	196,184,506
Unitholders' capital, net	(Note) 190,285,734	(Note) 189,991,366
Total surplus	5,835,924	6,193,140
Voluntary retained earnings	291,944	291,944
Unappropriated retained earnings	5,543,979	5,901,196
Valuation and translation adjustments	△ 784,831	△ 724,583
Deferred gains or losses on hedges	△ 784,831	△ 724,583
Total net assets	195,336,827	195,459,922
Total liabilities and net assets	392,256,519	392,217,971

(Note) Figure after deducting allowance for temporary difference adjustments.

5-3 Income statement

(thousand yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020		
Operating revenue	9,561,876	9,631,462		
Rent revenues	9,323,944	9,377,544	Office	7,852,808
Other operating revenues	237,931	253,917	Residential	780,882
Operating expenses	3,589,931	3,605,057	Retail	82,874
Expenses related to properties	3,225,332	3,224,074	Land	655,000
Asset management fee	260,906	266,704	Other rent revenue	5,979
Directors' compensation	4,200	4,200		
Asset custody fee	9,863	9,806		
Administrative service fees	19,861	18,799		
Other operating expenses	69,767	81,473		
Operating income	5,971,944	6,026,404		
Non-operating income	1,985	1,079		
Interest income	58	44	Parking revenue	57,844
Gain on forfeiture of unclaimed dividends	979	1,035	Utilities and other revenue	194,906
Other	947	—	Cancellation penalty	1,166
Non-operating expenses	627,646	619,654		
Interest expenses	375,336	377,420	Property management fees	1,104,176
Interest expenses on investment corporation bonds	68,555	67,755	Property taxes	705,466
Amortization of investment corporation bonds issuance cost	10,193	9,909	Utilities	152,625
Borrowing expenses	164,678	155,732	Maintenance and repairs	60,700
Amortization of investment unit issuance cost	6,952	6,952	Insurance premium	17,503
Other	1,930	1,885	Custodian fees	6,703
Ordinary income	5,346,284	5,407,830	Depreciation	1,034,455
Income before income taxes	5,346,284	5,407,830	Rent expenses	127,661
Net income	5,344,831	5,406,483	Other lease business expenses	14,781
Unappropriated retained earnings	5,543,979	5,901,196		

5-4 Statement of cash flows/Retained earnings

Statement of cash flows

(thousand yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020
Net cash provided by (used in) operating activities	7,147,955	6,240,351
Income before income taxes	5,346,284	5,407,830
Depreciation and amortization	1,058,120	1,034,455
Amortization of investment corporation bonds issuance cost	10,193	9,909
Amortization of investment unit issuance cost	6,952	6,952
Interest income	△ 58	△ 44
Gain on forfeiture of unclaimed dividends	△ 979	△ 1,035
Interest expenses	443,892	445,175
Decrease (increase) in accounts receivable	279,706	40,505
Increase (decrease) in accounts payable	421,879	△ 237,457
Increase (decrease) in accrued expenses	15,761	12,285
Increase (decrease) in advances received	△ 4,105	1,697
Decrease (increase) in prepaid expenses	△ 20,520	7,564
Other, net	41,479	△ 40,881
Subtotal	7,598,606	6,686,957
Interest income received	58	44
Interest expenses paid	△ 449,279	△ 445,198
Income taxes paid	△ 1,430	△ 1,452

Net cash provided by (used in) investing activities	△ 445,080	△ 10,461
Purchase of property, plant and equipment in trust	△ 620,364	△ 205,905
Repayments of lease and guarantee deposited in trust	△ 66,699	△ 26,233
Proceeds from lease and guarantee deposited in trust	241,984	221,677

(thousand yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020
Net cash provided by (used in) financing activities	△ 8,289,514	△ 5,341,870
Proceeds from long-term loans payable	12,000,000	15,900,000
Repayments of long-term loans payable	△ 12,000,000	△ 15,900,000
Redemption of investment corporation bonds	△ 3,000,000	—
Dividends paid	△ 5,289,514	△ 5,341,870
Net increase (decrease) in cash and cash equivalents	△ 1,586,638	888,019
Cash and cash equivalents at beginning of the period	11,806,152	10,219,514
Cash and cash equivalents at the end of the period	10,219,514	11,107,533

Retained earnings

(yen)

	26th period Period ended Jul. 31, 2019	27th period Period ended Jan. 31, 2020
I Unappropriated retained earnings	5,543,979,968	5,901,196,611
II Addition of dividends in excess of earnings	294,368,720	—
Allowance for temporary difference adjustments	294,368,720	—
III Capitalization	—	60,247,403
Reversal of allowance for temporary difference adjustments	—	60,247,403
IV Amount of Dividends	5,343,636,000	5,405,509,680
Amount of dividends per unit	2,850	2,883
Dividends of earnings	5,049,267,280	5,405,509,680
Dividends of earnings per unit	2,693	2,883
Allowance for temporary difference adjustments	^(Note) 294,368,720	—
Dividends in excess of earnings per unit (allowance for temporary difference adjustments)	157	—
V Retained earnings carried forward	494,712,688	435,439,528

(Note) Due to consideration of the impact of the items of deduction from net assets (deferred gains or losses on hedges).

5-5 Status of income and expenditures (1)

(thousand yen)

Property number	O-0			O-1			O-4			O-6		
Property name	Roppongi Hills Mori Tower			ARK Mori Building			Koraku Mori Building			Akasaka Tameike Tower		
Acquisition price	115,380,000			62,480,000			27,200,000			43,930,000		
Period	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference
Operation days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days
Occupancy rate	100%	100%	0.0PT	100%	100%	0.0PT	99.4%	99.4%	0.0PT	98.0%	96.7%	△ 1.3PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	100%	100%	0.0PT	99.6%	99.4%	△ 0.2PT	98.6%	97.6%	△ 1.0PT
Number of tenants	1	1	0	1	1	0	22	22	0	141	138	△ 3
Rent revenues	2,943,450	2,943,450	—	1,351,486	1,351,486	—	652,669	654,930	2,261	782,237	783,923	1,685
Other operating revenues	—	—	—	—	—	—	90,364	97,217	6,852	83,093	86,447	3,354
Total property operating revenue	2,943,450	2,943,450	—	1,351,486	1,351,486	—	743,033	752,147	9,113	865,330	870,370	5,040
Property management	412,351	436,029	23,677	167,795	165,834	△ 1,961	68,904	61,679	△ 7,224	160,883	166,546	5,662
Property taxes (Note 1)	240,650	247,825	7,174	80,724	83,506	2,781	32,902	30,716	△ 2,186	42,330	42,282	△ 47
Utilities	—	—	—	—	—	—	69,855	74,146	4,291	29,679	30,929	1,250
Maintenance and repairs	—	—	—	—	—	—	5,221	9,819	4,597	89,917	34,461	△ 55,456
Insurance premium	4,083	4,094	11	1,889	1,933	44	1,675	1,679	4	2,084	2,091	7
Depreciation (1)	352,789	326,258	△ 26,531	64,946	65,771	825	96,017	96,318	301	140,814	141,676	862
Other expenses (Note 2)	377	558	181	2,794	3,322	527	83,954	83,951	△ 3	10,605	10,853	247
Total property operating expenses	1,010,253	1,014,766	4,513	318,150	320,368	2,217	358,532	358,312	△ 219	476,315	428,841	△ 47,473
Property operating income (2)	1,933,197	1,928,684	△ 4,513	1,033,336	1,031,118	△ 2,217	384,501	393,835	9,333	389,015	441,529	52,513
NOI (3) ((1)+(2))	2,285,986	2,254,942	△ 31,044	1,098,282	1,096,890	△ 1,392	480,519	490,153	9,634	529,829	583,205	53,376
Annualized NOI	4,609,863	4,473,119	△ 136,743	2,214,768	2,175,896	△ 38,872	969,003	972,315	3,312	1,068,440	1,156,902	88,461
Annualized NOI/ Acquisition price	4.0%	3.9%	△ 0.1PT	3.5%	3.5%	△ 0.1PT	3.6%	3.6%	0.0PT	2.4%	2.6%	0.2PT
CAPEX (4)	173,176	—	△ 173,176	47,086	36,271	△ 10,815	43,668	13,642	△ 30,026	109,503	22,512	△ 86,990
NCF (3)-(4)	2,112,810	2,254,942	142,131	1,051,195	1,060,619	9,423	436,850	476,511	39,661	420,326	560,693	140,366

(Note 1) For property tax, city planning tax and depreciable assets tax, MHR 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 MHR were liable for property taxes for the calendar year, including the period from the date of the acquisition by MHR until the end of the year. MHR reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate.

(Note 2) "Other expenses" denotes the sum of custodian fees, rent expenses, and other lease business expenses (residential property management costs, and other property-related miscellaneous expenses) in aggregate.

5-6 Status of income and expenditures (2)

(thousand yen)

Property number	O-7			O-8			O-9			O-10		
Property name	Atago Green Hills			ARK Hills South Tower			Toranomori Hills Mori Tower			Holland Hills Mori Tower		
Acquisition price	42,090,000			19,150,000			36,210,000			16,330,000		
Period	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference
Operation days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days
Occupancy rate	100%	100%	0.0PT	99.9%	100%	0.1PT	100%	100%	0.0PT	100%	100%	0.0PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	99.1%	100%	0.9PT	100%	100%	0.0PT	100%	99.7%	△ 0.3PT
Number of tenants	1	1	0	43	43	0	1	1	0	24	23	△ 1
Rent revenues	1,012,320	1,012,320	—	480,659	487,104	6,445	775,581	775,581	—	516,131	529,958	13,826
Other operating revenues	—	—	—	31,746	33,849	2,103	—	—	—	30,451	36,013	5,562
Total property operating revenue	1,012,320	1,012,320	—	512,405	520,953	8,548	775,581	775,581	—	546,583	565,972	19,389
Property management	2,664	2,664	—	48,709	49,820	1,111	90,374	89,286	△ 1,088	102,029	104,494	2,464
Property taxes (Note 1)	68,806	68,953	146	34,563	34,798	235	33,818	59,600	25,782	27,732	35,569	7,836
Utilities	—	—	—	32,097	35,934	3,836	—	—	—	8,113	9,203	1,089
Maintenance and repairs	—	—	—	3,799	4,419	620	—	—	—	6,925	7,090	165
Insurance premium	3,533	3,667	134	1,026	1,030	3	1,267	1,319	52	1,047	1,110	63
Depreciation (1)	181,625	181,821	196	44,225	44,219	△ 6	101,038	101,038	—	47,308	47,356	47
Other expenses (Note 2)	43,477	44,274	796	2,941	1,494	△ 1,447	71	71	△ 0	209	209	△ 0
Total property operating expenses	300,106	301,380	1,274	167,362	171,717	4,355	226,569	251,315	24,746	193,366	205,034	11,667
Property operating income (2)	712,213	710,939	△ 1,274	345,042	349,236	4,193	549,012	524,265	△ 24,746	353,216	360,938	7,721
NOI (3) ((1)+(2))	893,839	892,761	△ 1,077	389,268	393,456	4,187	650,050	625,303	△ 24,746	400,524	408,294	7,769
Annualized NOI	1,802,493	1,770,967	△ 31,526	784,989	780,497	△ 4,492	1,310,875	1,240,412	△ 70,462	807,687	809,931	2,243
Annualized NOI/ Acquisition price	4.3%	4.2%	△ 0.1PT	4.1%	4.1%	△ 0.0PT	3.6%	3.4%	△ 0.2PT	4.9%	5.0%	0.0PT
CAPEX (4)	186,454	31,468	△ 154,986	2,167	3,106	939	—	—	—	19,751	5,124	△ 14,627
NCF (3)-(4)	707,385	861,293	153,908	387,101	390,349	3,248	650,050	625,303	△ 24,746	380,772	403,169	22,396

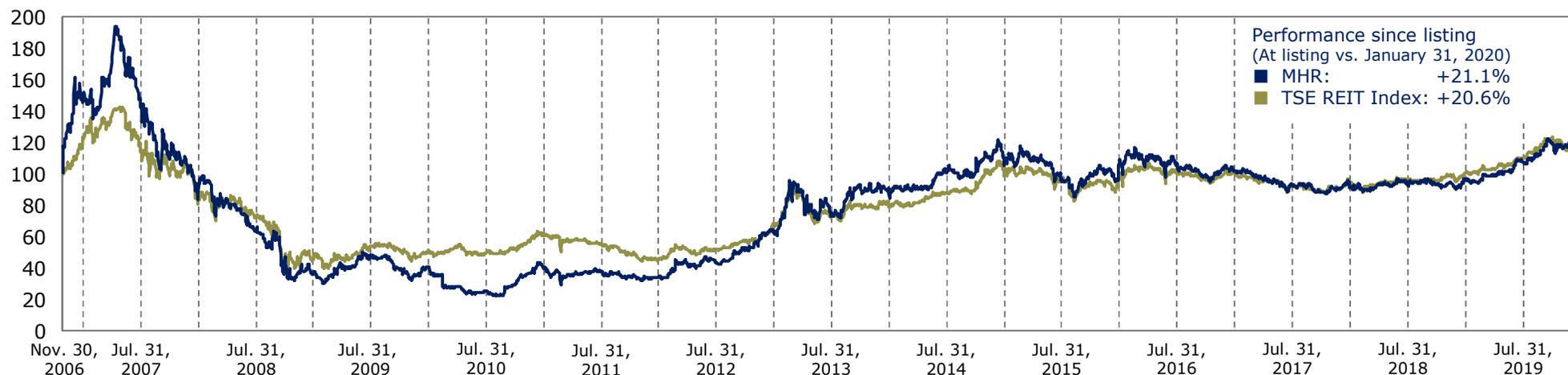
5-7 Status of income and expenditures (3)

(thousand yen)

Property number	R-3			R-4			S-1			Portfolio total		
Property name	Roppongi First Plaza			Roppongi View Tower			Laforet Harajuku (Land)					
Acquisition price	2,100,000			4,000,000			21,820,000			390,690,000		
Period	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference	26th Jul. 2019	27th Jan. 2020	Difference
Operation days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days	181 days	184 days	3 days
Occupancy rate	87.4%	82.0%	△ 5.4PT	95.1%	98.1%	3.0PT	100%	100%	0.0PT	99.4%	99.2%	△ 0.2PT
Avg. Occupancy rate (during period)	87.8%	87.0%	△ 0.8PT	93.9%	95.0%	1.1PT	100%	100%	0.0PT	99.4%	99.3%	△ 0.1PT
Number of tenants	37	35	△ 2	87	90	3	1	1	0	359	356	△ 3
Rent revenues	78,796	79,639	842	101,211	104,148	2,937	629,400	655,000	25,600	9,323,944	9,377,544	53,599
Other operating revenues	—	—	—	2,276	390	△ 1,886	—	—	—	237,931	253,917	15,985
Total property operating revenue	78,796	79,639	842	103,487	104,538	1,051	629,400	655,000	25,600	9,561,876	9,631,462	69,585
Property management	13,165	13,080	△ 85	15,671	14,741	△ 930	—	—	—	1,082,549	1,104,176	21,627
Property taxes (Note 1)	7,718	7,941	222	11,739	12,046	306	78,492	82,226	3,733	659,480	705,466	45,986
Utilities	1,326	1,360	33	1,156	1,050	△ 105	—	—	—	142,229	152,625	10,396
Maintenance and repairs	10,020	3,690	△ 6,330	1,268	1,218	△ 50	—	—	—	117,152	60,700	△ 56,452
Insurance premium	230	230	0	343	344	0	—	—	—	17,180	17,503	322
Depreciation (1)	12,017	12,164	147	17,015	17,829	814	—	—	—	1,057,798	1,034,455	△ 23,343
Other expenses (Note 2)	3,822	3,821	△ 1	686	590	△ 95	—	—	—	148,941	149,146	204
Total property operating expenses	48,302	42,289	△ 6,012	47,881	47,821	△ 59	78,492	82,226	3,733	3,225,332	3,224,074	△ 1,257
Property operating income (2)	30,494	37,349	6,855	55,606	56,717	1,110	550,907	572,774	21,866	6,336,544	6,407,387	70,843
NOI (3) ((1)+(2))	42,512	49,514	7,002	72,621	74,546	1,925	550,907	572,774	21,866	7,394,342	7,441,842	47,500
Annualized NOI	85,728	98,222	12,493	146,447	147,878	1,431	1,110,946	1,136,209	25,263	14,911,243	14,762,351	△ 148,891
Annualized NOI/ Acquisition price	4.1%	4.7%	0.6PT	3.7%	3.7%	0.0PT	5.1%	5.2%	0.1PT	3.8%	3.8%	△ 0.0PT
CAPEX (4)	5,840	7,410	1,570	48,039	29,783	△ 18,256	—	—	—	635,687	149,319	△ 486,368
NCF (3)-(4)	36,671	42,103	5,431	24,582	44,763	20,181	550,907	572,774	21,866	6,758,654	7,292,523	533,868

5-8 Unit price performance since IPO

Relative price performance (Since IPO - January 31, 2020)



(Source) Prepared by the Asset Manager based on Refinitiv.
(Note) Rebased to 100 as per IPO price

Unit price per period-end (Closing price)

Accounting period	Unit price
1st (January 2007)	1,100,000 yen
2nd (July 2007)	1,080,000 yen
3rd (January 2008)	716,000 yen
4th (July 2008)	465,000 yen
5th (January 2009)	265,000 yen
6th (July 2009)	352,000 yen
7th (January 2010)	264,900 yen
8th (July 2010)	177,300 yen
9th (January 2011)	281,000 yen
10th (July 2011)	258,100 yen

Accounting period	Unit price
11th (January 2012)	252,200 yen
12th (July 2012)	330,500 yen
13th (January 2013)	485,000 yen
14th (July 2013)	548,000 yen
15th (January 2014)	135,900 yen
16th (July 2014)	151,100 yen
17th (January 2015)	166,600 yen
18th (July 2015)	145,300 yen
19th (January 2016)	152,100 yen
20th (July 2016)	160,500 yen

Accounting period	Unit price
21st (January 2017)	153,500 yen
22nd (July 2017)	138,900 yen
23rd (January 2018)	137,100 yen
24th (July 2018)	138,100 yen
25th (January 2019)	144,500 yen
26th (July 2019)	160,300 yen
27th (January 2020)	181,700 yen

(Reference)

IPO Price (November 30, 2006) (Split adjusted)	750,000 yen (150,000 yen)
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High (May 8, 2007: in trade) (Split adjusted)	1,460,000 yen (292,000 yen)
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Low (August 12, 2010: in trade) (Split adjusted)	168,200 yen (33,640 yen)
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(Note) Implemented a 5-for-1 investment unit split on February 1, 2014 (effective date).

Investments focusing on Premium Properties for development of urban-type portfolio

Investments focusing on Premium Properties

Among properties that are located in Tokyo's five central wards and in surrounding areas, our investments mainly focus on "Premium Properties" that are able to maintain their competitiveness going forward based on their quality, size and specification.

Focus on Premium Properties
<p>Premium properties</p> <p>50% or more</p> <p>〈Office buildings〉 〈Residential properties〉 〈Retail facilities〉</p>

Premium Properties

Type	Location	Scale
Office buildings	Tokyo's five central wards and their vicinity	Gross floor area of 10,000㎡ or more per building Standard leasable floor area of 1,000㎡ or more
Residential properties	Tokyo's five central wards and their vicinity (Primarily in the "three-A" area)	Gross floor area of 2,000㎡ or more per building
Retail facilities	〈Department stores, downtown shopping centers, large specialty stores & retail complexes, etc.〉	
	Flourishing areas of Tokyo's five central wards and their vicinity	Gross floor area of 10,000㎡ or more per building
	〈Street front luxury brand shops, etc.〉	
	Exclusive, well-known retail destinations such as Ginza area, Aoyama area, and Omotesando area	Gross floor area of 1,000㎡ or more per building

(Note 1) Tokyo's five central wards: Minato, Chiyoda, Chuo, Shinjuku and Shibuya ward

(Note 2) Three-A area: Akasaka and Roppongi area, Aoyama and Harajuku area and Azabu and Hiroo area

(Note 3) Ratios are based on the acquisition prices.

(Note 4) Tokyo Metropolitan Area: Tokyo Metropolis, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture

Office building focus
<p>Office building</p> <p>50% or more</p>

Tokyo' five central wards focus
<p>Tokyo's five central wards and their vicinity</p> <p>50% or more</p> <p>(Tokyo Metropolitan Area: 80% or more)</p>

Earthquake-resistance focus
<p>Investment focused on properties' earthquake resistance, the safety of the area, disaster countermeasures, etc.</p>

5-10 Sustainability initiatives

Approach and System of Sustainability

Mori Hills REIT Investment Corporation (MHR) and Mori Building Investment Management Co., Ltd. (MIM) aim to contribute to the creation and development of cities by providing investment opportunities in high-quality urban assets to investors, as stated in the Basic Policy of MHR and Company Mission of MIM.

MHR and MIM aim to contribute to the realization of a sustainable society and maximization of unitholder value in the medium to long term by emphasizing ESG (Environment, Social and Governance) and investing in high-quality urban assets while striving to improve various environmental and social performance levels.

Sustainability Promotion System

Operations connected to sustainability will be promoted primarily by the Sustainability Committee to be established by MIM. The Chairperson of the Committee shall be the President & CEO while all directors and some administration staff shall comprise the committee members. Various initiatives will be implemented based on the Sustainability Promotion Program which is established every fiscal year.

In principle, the Committee shall meet four times a year and shall formulate policies and the Sustainability Promotion Program, monitor progress of programs, deliberate various suggestions from departments, etc. in light of social conditions and the operating status of MHR. The President & CEO approves the policies and promotion programs, constantly monitors the thorough promotion of sustainability, and establishes and maintains a sustainability promotion structure as a responsible party in promoting sustainability.

Moreover, sustainability-related efforts shall be reported on periodically to the Board of Directors of both MHR and MIM. Each Board oversees the status of initiatives for important issues related to ESG and the status of compliance and risk management.

Initiatives Throughout the Entire Supply Chain

Promotion of sustainability operations, whether environmental or social, requires initiatives that involve the whole supply chain. We believe that joint initiatives with various stakeholders of aligned values are necessary.

By actively stimulating interactive communication with stakeholders such as tenants, local residents, property management companies and our sponsor Mori Building that provides the property pipeline, and aligning our values, we aim to contribute to the realization of a sustainable society.

<Green Building Certification and External Assessment>

○ Green Building Certified Properties

Property Name	Type of Assessment	Rating
Roppongi Hills Mori Tower	CASBEE for Existing Buildings	Rank S
ARK Mori Building		Rank S
Koraku Mori Building		Rank A
Akasaka Tameike Tower		Rank A
Atago Green Hills MORI Tower		Rank S
ARK Hills South Tower	DBJ Green Building Certification	4 stars
Toranomon Hills Mori Tower	CASBEE for Existing Buildings	Rank S
Holland Hills Mori Tower		Rank S

(Certificates Coverage Ratio)

	Certified Properties	Portfolio Data	Ratio
In acquisition price	343.7 bn yen	368.8 bn yen	93.2%
In leasable floor area	143,592m ²	172,136m ²	83.4%
In number of properties	8 properties	10 properties	80.0%

※ Excluding Laforet Harajuku (Land)

○ GRESB Real Estate Rating



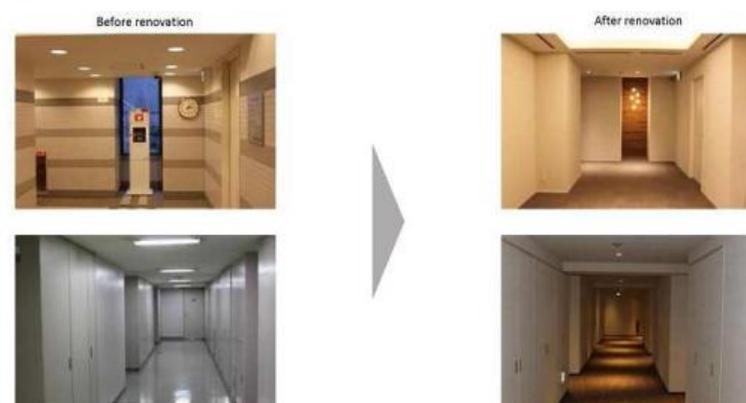
In the 2019 GRESB Survey, MHR received a **"Green Star"** rating for the eighth consecutive year, and received **"4 Stars"** in the GRESB Rating.

<Reduction of Environmental Loads>

○ Promotion of Energy-conservation

MHR promotes energy-conservation through initiatives such as replacement of LED lighting in common areas and repair work of air-conditioning. MHR also makes active efforts to reduce environmental loads through proper separation and disposal of waste.

(Roppongi View Tower: Renovation of common area with LED lighting)



○ Collaborating with Tenants

MHR holds an **"environmental countermeasure council"** once or twice a year depending on the office building. The council generates a report on the efforts to improve sustainability and raises awareness for power saving methods.

MHR also promotes environmental initiatives by communicating with tenants. MHR provides **"WEB cloud services"** as a tool to make tenants' energy usage visible, and offers helpful measures for tenants' energy conservation.

In addition to these efforts, MHR is further deepening relationships with tenants by introducing **"green leases"** which serve to align financial incentives and secure commitments from both parties. MHR is gradually expanding this approach since the introduction of the first green lease in ARK Hills South Tower.

<Initiatives with Employees>

○ Talent Development

To cultivate human resources with flexible thinking and high ethical standards together with a high degree of expertise, mainly in real estate and finance, MHR introduces essential knowledge and skills through on-the-job-training (OJT) and conventional training to improve staff effectiveness, to clarify company issues and to constantly improve management methods. MHR conducts a semi-annual staff assessment program - "Personnel Assessment and Feedback" as a core component of our talent development strategy. MHR also subsidizes the expense for acquiring licenses and qualifications by public and private organizations necessary for work to improve employees' skills as professionals in the real estate fund business.

(Qualifications held by employees as of the end of February 2020)

- ARES Certified Master: 8
- Real Estate Appraiser: 2
- Real Estate Transaction Agent: 8
- Certified Building Administrator: 2
- Certified Public Accountant: 3
- Chartered Member of Securities Analysts Association of Japan: 1

○ Employee Stock Ownership Plan (ESOP)

MHR established the "**ESOP**" by aligning interests of MHR's investors and MIM's employees aiming to improve unitholders' value over the medium to long term, and to improve welfare benefits for MIM's employees.

○ Promoting Women's Participation

MHR is aiming for a workplace environment where each employee can fully demonstrate their individuality and abilities and MHR is working on creating a pleasant working environment for women. A child-care leave system and flexible working hours are provided and MHR promotes active use of a short-time work system and paid holidays.

<Initiatives with Tenants and Local Communities>

○ Tenant Satisfaction Surveys

MHR conducts "**tenant satisfaction surveys**" once every two years in office buildings and once a year in most residential properties.

The survey content starts with general matters such as location and image to matters related to facilities and other hard aspects as well as soft aspects such as management systems. The thoughts of the tenants are used as a reference in our property management.

○ Local Communities

MHR aim to foster a rich environment for the local community through various communication activities. In MHR's properties such as Roppongi Hills and ARK Hills, events and activities are held like the "**Hills Marche**" and "**Hills Machi-Iku Project**" in which local people can participate.



<Initiatives with Investors>

○ All Japanese Listed Companies' Website Ranking

Nikko Investor Relations Co., Ltd. announces a valuation of websites of all listed companies by investigating the degree of information disclosure based on objective evaluation items from its unique perspective. MHR's website has received "**Total Ranking: The Best Site**" for the fifth consecutive years.



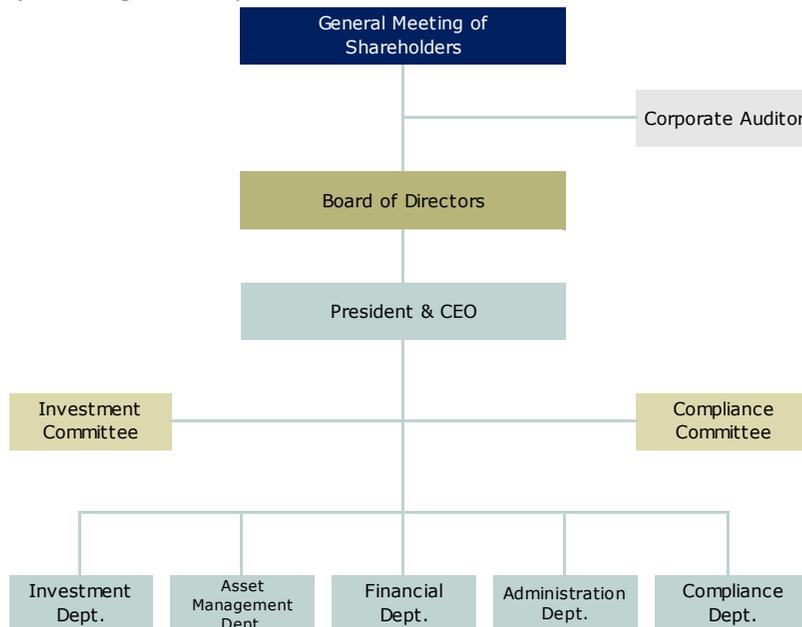
5-13 Sustainability initiatives: Governance

<Corporate Governance>

MHR shall have at least one executive director and at least two supervisory directors (or, at least one more than the number of the executive directors), and the board of directors shall be comprised of the executive directors and supervisory directors. In addition to a general meeting of all unitholders, MHR's governance structure consists of one executive director, two supervisory directors, the board of directors and an accounting auditor, and entrusts its operation to the asset management company.

MIM is required to perform its business operations in good faith and with due care of a prudent manager for MHR in line with the purpose of the investment management business, and accordingly performs sincere asset investment and management pertaining to real estate properties based on an appropriate compliance structure and internal control structure in order for MHR to gain high trust from the securities market and investors.

(MIM's organization)

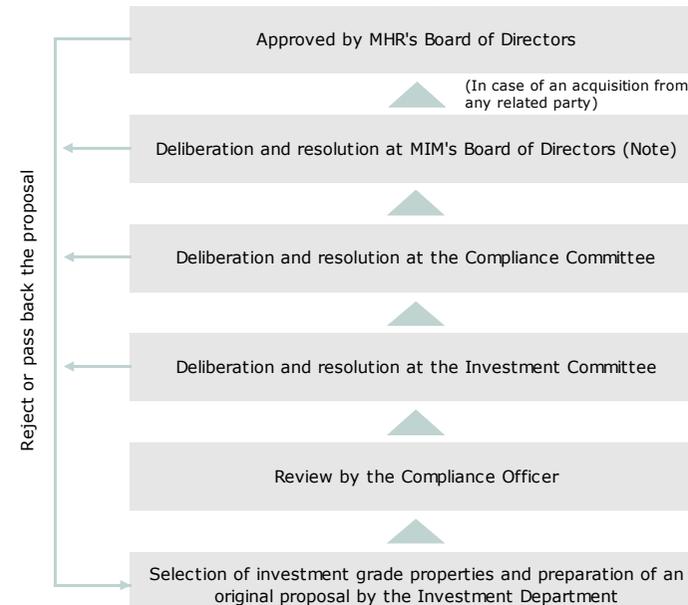


<Compliance>

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

Furthermore, MIM 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 MIM's compliance with these Guidelines, MIM has established a structure which ensures that the aforementioned transactions are managed appropriately and that MIM sufficiently executes the duty of care of a good manager and duty of loyalty to MHR.

(Process to counter transactions involving conflicts of interest)

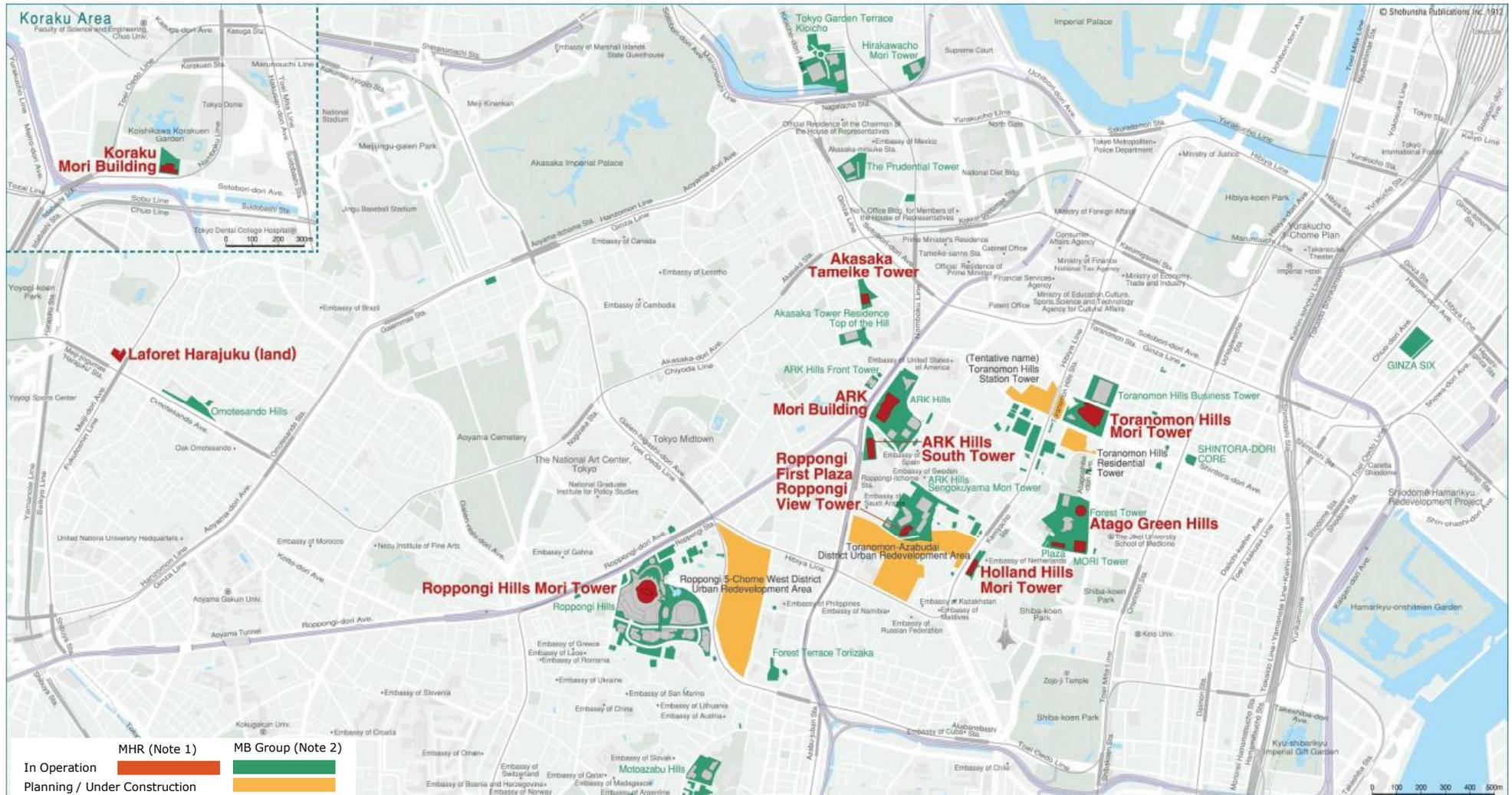


(Note) Director who are classified as a related party officer is not able to participate in the resolution when acquiring asset from a related party.

5-14 Portfolio map (As of January 31, 2020)



HILLS REIT



(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map Mori Building Map/Home Route Support Map 2020."

(Note 1) Some of the properties have been partially acquired and held by MHR.

(Note 2) Properties are developed, owned, managed and planned for development by Mori Building Group, and there are no properties currently anticipated to be acquired by MHR.

5-15 Portfolio overview (As of January 31, 2020)

Type	Office building						Office building (Partly residential)			Residential		Retail		
Property name	Roppongi Hills Mori Tower	ARK Mori Building	Koraku Mori Building	ARK Hills South Tower	Toranomon Hills Mori Tower	Holland Hills Mori Tower	Akasaka Tameike Tower	Atago Green Hills			Roppongi First Plaza	Roppongi View Tower	Laforet Harajuku Land)	
	O-0	O-1	O-4	O-8	O-9	O-10	O-6	MORI Tower	Forest Tower	Plaza	R-3	R-4	S-1	
Photo														
Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium			Premium	-	Premium	
Location	Roppongi, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Koraku, Bunkyo-ku, Tokyo	Roppongi, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Atago, Minato-ku, Tokyo		Toranomon, Minato-ku, Tokyo	Roppongi, Minato-ku, Tokyo		Jingumae, Shibuya-ku, Tokyo	
Completion	Apr. 2003	Mar. 1986 <small>Large-scale renovation in 2005</small>	Mar. 2000	Jul. 2013	May. 2014	Jan. 2005	Sep. 2000	Jul. 2001	Oct. 2001	Jul. 2001	Oct. 1993		-	
Building age	16 years 9 months	33 years 10 months	19 years 10 months	6 years 6 months	5 years 8 months	15 years 0 month	19 years 4 months	18 years 6 months	18 years 3 months	18 years 6 months	26 years 3 months		-	
Total number of floors	54 above ground, 6 below	37 above ground, 4 below	19 above ground, 6 below	20 above ground, 4 below	52 above ground, 5 below	24 above ground, 2 below	25 above ground, 2 below	42 above ground, 2 below	43 above ground, 4 below	2 above ground, 1 below	20 above ground, 1 below		-	
Gross floor area	approx. 442,150m ²	approx. 177,486m ²	approx. 46,154m ²	approx. 53,043m ²	approx. 241,581m ²	approx. 35,076m ²	approx. 46,971m ²	approx. 85,266m ²	approx. 60,815m ²	approx. 2,083m ²	approx. 22,906m ²		-	
Ownership (Note 1)	Land	Co-ownership (approx. 17.7%)	Co-ownership (approx. 10.9%)	Leased	Co-ownership (approx. 25%)	Co-ownership (approx. 12.7%)	Co-ownership (approx. 62.9%)	Co-ownership (approx. 56.4%)	Co-ownership (approx. 28.8%)			Co-ownership (approx. 47%)	Co-ownership (approx. 46%)	Ownership
	Building	Compartmentalized ownership (approx. 13.6%)	Compartmentalized ownership (approx. 17.9%)	Compartmentalized ownership (approx. 57.9%)	Co-ownership (approx. 25%)	Co-ownership (approx. 6.9%)	Compartmentalized ownership (approx. 48.5%)	Compartmentalized ownership (approx. 65.5%)	Co-ownership (approx. 32.9%)			Compartmentalized ownership (approx. 46.4%)	Compartmentalized ownership (approx. 44.7%)	-
PML (Note 2)	0.59%	0.78%	0.73%	1.56%	0.50%	0.85%	1.79%	2.35%	2.34%	5.94%	2.20%	2.20%	-	
Earthquake-resistant feature (Note 3)	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	-	-	-					
Acquisition price (mn yen)	115,380	62,480	27,200	19,150	36,210	16,330	43,930	42,090			2,100	4,000	21,820	
Occupancy rate (Note 4)	100%	100%	99.4%	100%	100%	100%	96.7%	100%			82.0%	98.1%	100%	

Average building age
18.9 years (Note 5)

Portfolio PML
0.93% (Note 2)

Total acquisition price
390,690 mn yen

5-15 Portfolio overview (Note)

- (Note 1) "Type of ownership" denotes the type of rights held by MHR or the Trustee. "Ownership" stands for ownership, "Co-ownership" stands for the ownership of beneficiary interests, "Compartmentalized ownership" denotes ownership and the rights for exclusive use in or over parts of a building, and "Leased land" denotes Leasehold land. The land site of Atago Green Hills includes joint ownership in quasi-undivided interests of leasehold land and easement.
- (Note 2) This indicates the figure described in the "Report on evaluation of seismic PML for portfolio" dated June 4, 2018 by Somp Risk Management & Health Care Inc.
- (Note 3) ARK Mori Building adopts "slitwall" as an earthquake-resistant feature.
- (Note 4) "Occupancy rate" indicates the figures as of January 31, 2020.
- (Note 5) For calculation of the "Average building age" of Atago Green Hills, we have assumed that construction of the building was completed on July 30, 2001.