



Mori Hills REIT Investment Corporation

Semiannual Report

21st Fiscal Period

(August 1, 2016 - January 31, 2017)

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-first fiscal period which ended January 31, 2017.

In the twenty-first fiscal period, the Japanese economy continued to moderately recover, despite some weakness seen in personal consumption, backed by steady corporate earnings along with favorable employment and income environments resulting from a pickup in exports amid the discontinuance of overseas economic slowdown in addition to the movements towards a weaker yen and higher stock prices following the outcome of the U.S. presidential election.

Within this economic environment, the rental office building market continued its ongoing improvement in supply-demand balance despite several large-scale new buildings being completed in central Tokyo. This improvement was largely due to the ongoing demand for expansion and relocation driven by the strong employment situation. In the luxury rental housing market, occupancy rates and rent levels remained solid, backed by steady demand for quality housing in central Tokyo even though the volume of new supply increased. In the real estate trading market, the number of transactions and transaction amounts show a decreasing trend due to factors such as a certain degree of disparity between the prices sought by sellers and buyers. However, transaction yields remained at a low level and transaction prices at a high level with an ongoing favorable fund procurement environment and strong investment appetite from investors at home and abroad.

In the twenty-first 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-first fiscal period, was comprised of 10 properties under management with a total leasable area of 153,650.70m². MHR has already invested 339,856 million yen (based on the acquisition price) into this portfolio. The occupancy rate at the end of the twenty-first fiscal period was 97.8%.

The asset management activities described above resulted in MHR recording in the twenty-first fiscal period 8,248 million yen in operating revenue, 5,207 million yen in operating income, 4,566 million yen in ordinary income and 4,562 million yen in net income and 2,606 yen in dividend per unit in the twenty-first fiscal period.

Also, MHR plans to acquire a portion of Toranomon Hills Mori Tower (acquisition price: 5,070 million yen) and a portion of Holland Hills Mori Tower (acquisition price: 9,330 million yen) on August 1, 2017. MHR plans to transfer Moto-Azabu Hills (transfer price: 2,030 million yen) on July 31, 2017.

These acquisitions and transfer are expected to enhance the portfolio size and increase dividends. As a result, dividend per unit of 2,610 yen is forecasted for the twenty-second fiscal period ending July 31, 2017.

In addition, MHR will continue to seek to maximize unitholders value through pursuit of further improvements in profitability and stability while retaining the portfolio image of having Premium Properties in central Tokyo as its core, by progressively achieving steady internal growth with a close watch on rental market trends while actively pursuing external growth by 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: the 21st period

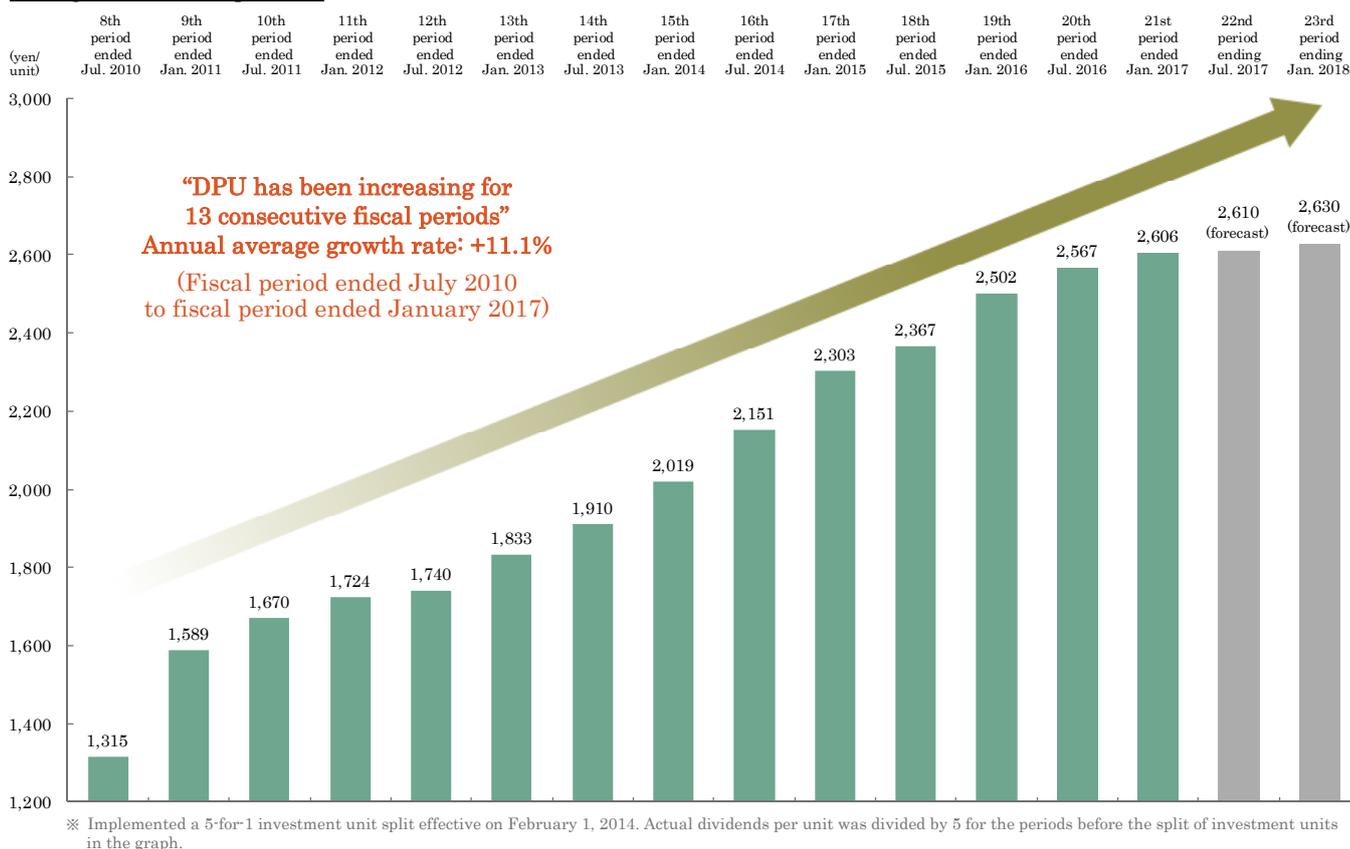
2,606 yen

Dividend per unit: the 22nd period forecast*

2,610 yen

*The forecasted figures for the 22nd and the 23rd fiscal period are the current figure calculated based on certain assumptions. Accordingly, the figure may differ from actual results. Furthermore, the forecast shall not be construed as a guarantee of dividend amount.

Change in dividend per unit



Results of the 21st period and Forecast of the 22nd period

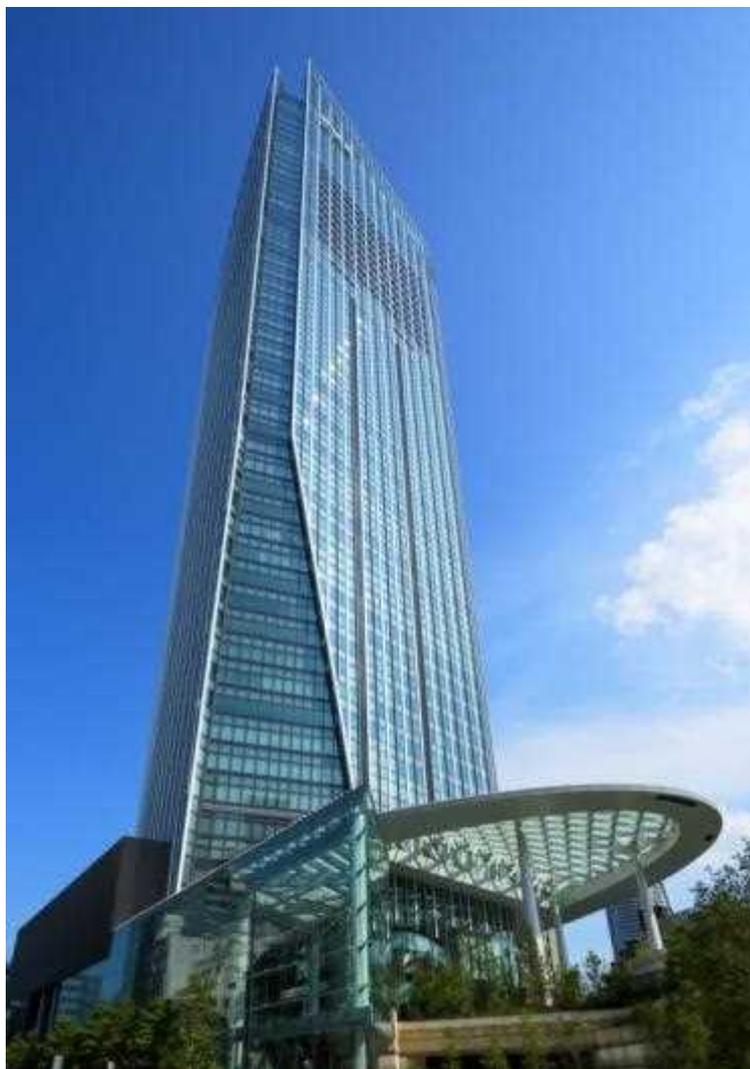
	Actual	Forecast	Difference
	21st period August 1, 2016 - January 31, 2017 (184 days)	22nd period February 1, 2017 - July 31, 2017 (181 days)	22nd - 21st period (Forecast) - (Actual)
Operating revenue	8,248 million yen	8,491 million yen	+242 million yen
Operating income	5,207 million yen	5,305 million yen	+97 million yen
Ordinary income	4,566 million yen	4,666 million yen	+99 million yen
Net income	4,562 million yen	4,664 million yen	+102 million yen
Dividend/unit	2,606 yen/unit	2,610 yen/unit	+4 yen/unit
Total units outstanding	1,750,640 units	1,750,640 units	
Acquisition price	339,856 million yen	339,847 million yen	

(Note) Unless otherwise stated in this document, all amounts of less than a unit are omitted and all fractions are rounded up to one digit below the decimal point.

Overview of the Property Acquisitions

MHR plans new acquisition at Toranomom Hills Mori Tower on August 1, 2017.

Toranomon Hills Mori Tower (Approx. 1.7% of the office area, approx. 1.0% of the total) Premium



Anticipated acquisition price

5,070 mn yen

Appraisal value

5,440 mn yen

Projected NOI yield

3.4 %

[Property overview]

Property Number	O-9
Location (Residential indication)	23-1, Toranomom 1-chome, Minato-ku Tokyo
Construction date	May 2014
Total number of floors	52 floors above ground, 5 floors below ground
Gross floor area	241,581.95 m ²

[Income and Expenditure Projections] (thousand yen)

Projected property income (1)	217,162
Projected property expenses (2)	44,368
Projected NOI ((3): (1)-(2))	172,794
Projected NOI yield ((3)/ anticipated acquisition price)	3.4%

(Note) The figures above are annual income and expenditure after excluding factors specific to the fiscal year of acquisition and take into account property taxes, and are not forecasted figures for the next fiscal period.

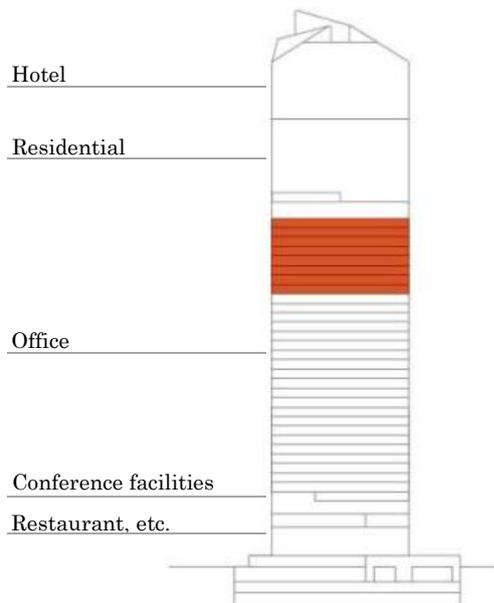
1. Super high rise tower - Tokyo's new landmark

- Quake-resistance structure with 52 floors and 247 meters above ground.
- High-specification offices with a broad floor plate of approx. 1,000 tsubo, international-standard conference facilities, Japan's first Andaz hotel "the Andaz Tokyo", retail facilities and residences.

2. Located in the center of the Toranomon area where further development is expected

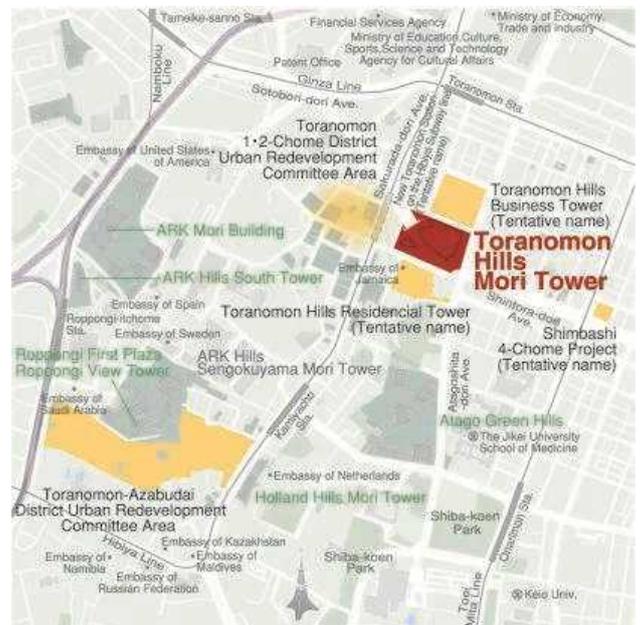
- Six stations and 11 routes are nearby. With the expected completion of "New Toranomon Station (tentative name)" on the Tokyo Metro Hibiya subway line, further improvements in convenience will be realized.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

[Acquisition portion (Portion of the red area)]

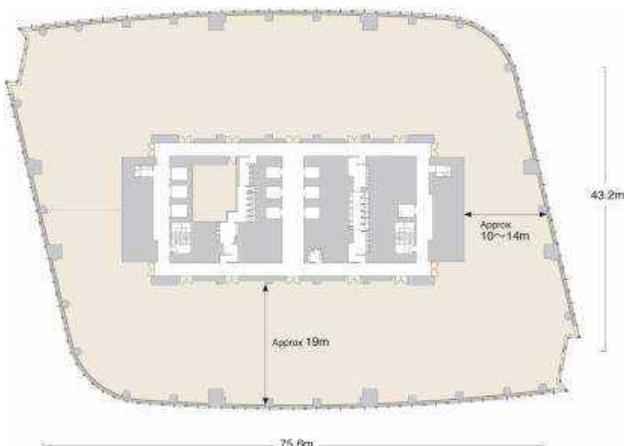


Acquisition portion is 7% quasi-co-ownership interest in trust beneficial interests in the co-ownership (87.95%) of compartmentalized ownership for the 28th to the 35th floors.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

PML (the probable maximum loss ratio)

0.50%

(Note) The value as indicated on the earthquake risk PML assessment report dated February 21, 2017 by Sompo Risk Management & Health Care Inc. is shown.

Luxury-grade office environments and ample facilities

- Office spaces occupy the 30 stories of the building that run from the 6th to the 35th floors. Standard floors have offices for lease at an average size of approx. 1,000 tsubo, providing flexible workspaces with a ceiling height of 2.8 meters.
- The building has three types of high seismic capacities and boasts an emergency power generator – a measure that ensures business services can resume under any conditions.
- CASBEE has awarded the building the highest rank “S”.

Biodiversity-conscious open spaces

In the approximately 6,000 m² of open space surrounding the building, there is the “Oval Plaza” garden that serves as an oasis in the city with the comfortable sound of a stream, and the “Step Garden” with greenery that provides an enjoyable seasonal atmosphere. Together these two gardens form a rich urban space where people can gather.



Extensive rooftop garden “Oval Plaza”



Step-like terrace “Step Garden”

Andaz Tokyo

Hyatt’s boutique lifestyle hotel is tailored to the individual. Andaz means “Personal Style” in Hindi, helping guests to know their surroundings more intimately and leave feeling like a local.



Main Dining on the 51st floor “Andaz Tavern”



47th to 50th floor guest rooms offer panoramic Tokyo views

Toranomon Hills Residence

Toranomon Hills Residence has a comfortable living space with a generous amount of space that is highly uncommon in the center of Tokyo, as well as outstanding views. Residents can fully enjoy the charm of Tokyo with hotel service in cooperation with "Andaz Tokyo" whose staff provide the highest level of hospitality.



Entrance exclusively for residents



Rooms have views of all the sights of Tokyo

Toranomon Hills Forum

The Toranomon Hills Forum conference center includes three open-plan halls and meeting rooms and can be combined to host a variety of international conferences and symposia. The three halls can accommodate up to 2,000 people.



“Main Hall” with 7.2 meter ceiling height



“Hall A” provides brightness and a sense of openness

MHR plans new acquisition at Holland Hills Mori Tower on August 1, 2017.

Holland Hills Mori Tower (Approx. 44.0% of the office area, approx. 27.6% of the total) Premium



Anticipated acquisition price

9,330 mn yen

Appraisal value

10,430 mn yen

Projected NOI yield

4.3 %

[Property overview]

Property Number	O-10
Location (Residential indication)	11-2, Toranomom 5-chome, Minato-ku Tokyo
Construction date	January 2005
Total number of floors	24 floors above ground, 2 floors below ground
Gross floor area	35,076.12 m ²

[Income and Expenditure Projections] (thousand yen)

Projected property income (1)	599,292
Projected property expenses (2)	197,960
Projected NOI ((3): (1)-(2))	401,331
Projected NOI yield ((3)/ anticipated acquisition price)	4.3%

(Note) The figures above are annual income and expenditure after excluding factors specific to the fiscal year of acquisition and take into account property taxes, and are not forecasted figures for the next fiscal period.

1. High rise tower integrating the greenery of the Embassy of the Netherlands

- Tower complex consists of office, residences and retail and provides excellent quake-resistance.
- Office area is located on the upper floors (14th to 24th floors) and offers a business space with excellent views and a sense of openness.
- Landmarks representing Tokyo such as Tokyo Tower and Roppongi Hills can be viewed from the roof garden 100 meters above the ground.

2. Located in the Toranomon area where further development is expected

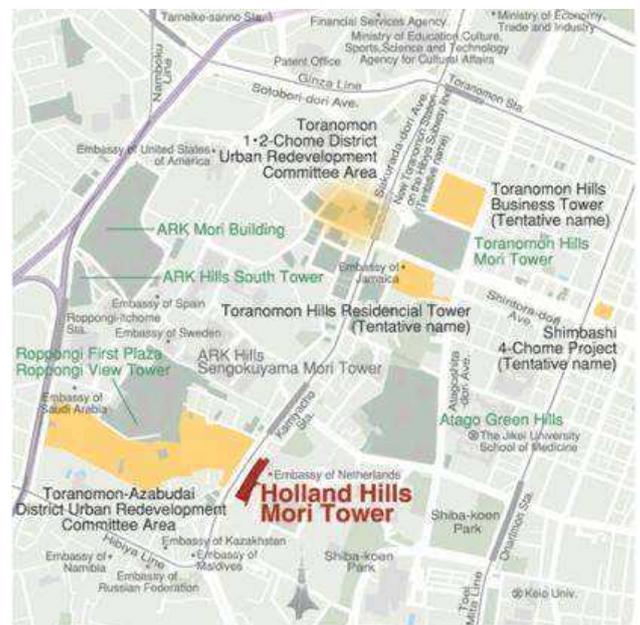
- An excellent location within a 1-minute walk from Tokyo Metro Hibiya Line Kamiyacho Station.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

[Acquisition portion (Portion of the red area)]

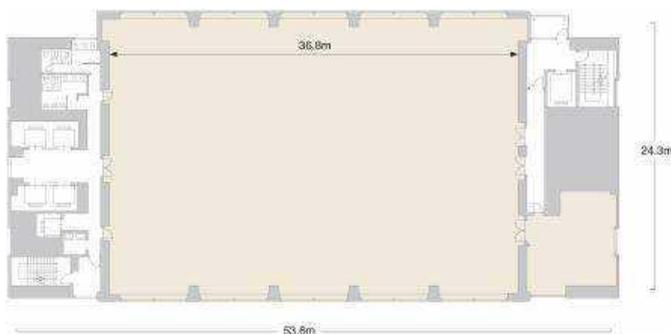


Acquisition portion is 57% quasi-co-ownership interest in trust beneficial interests in compartmentalized ownership for the 3rd and 4th floors; part of 5th floor, 14-18th floors and 22-24th floors.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

PML (the probable maximum loss ratio)

0.85%

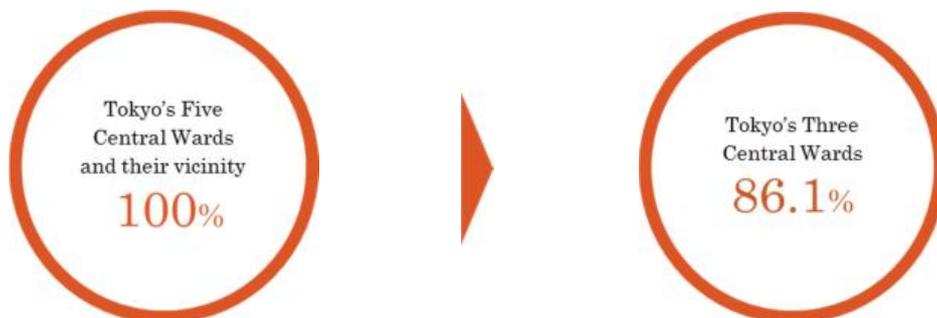
(Note) The value as indicated on the earthquake risk PML assessment report dated February 21, 2017 by Sompo Risk Management & Health Care Inc. is shown.

Portfolio Premium Properties in Central Tokyo

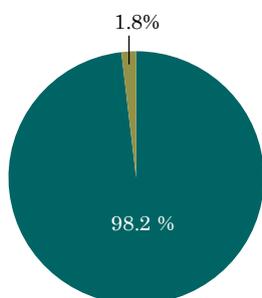
MHR has developed an urban portfolio mainly in Central Tokyo through its “investment in the city” concept, taking advantage of market opportunities and our competitive strengths to enhance profitability as well as portfolio value.

Portfolio breakdown (Total assets after new acquisitions: 352.5 bn yen)

Area

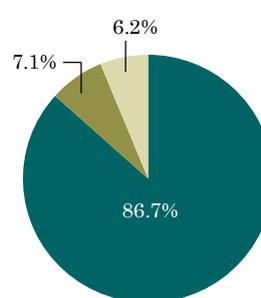


Size



■ 30,000m² or more
■ Under 30,000m²

Type



■ Office
■ Residential
■ Retail

(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 (Total assets after new acquisitions)



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

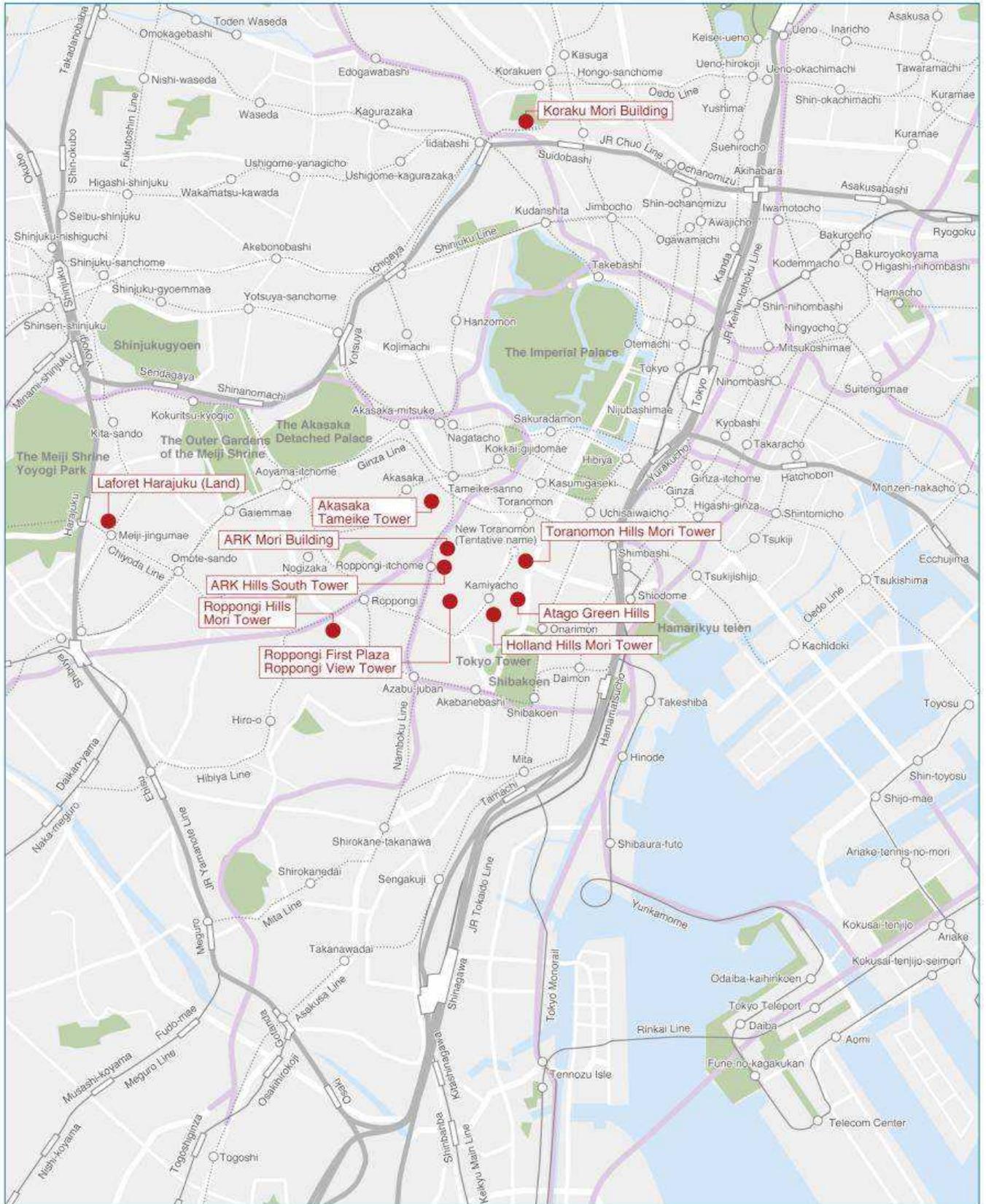


S-1 Premium

Laforet Harajuku (Land)

R-4

Roppongi View Tower



Earthquake-resistant Capability

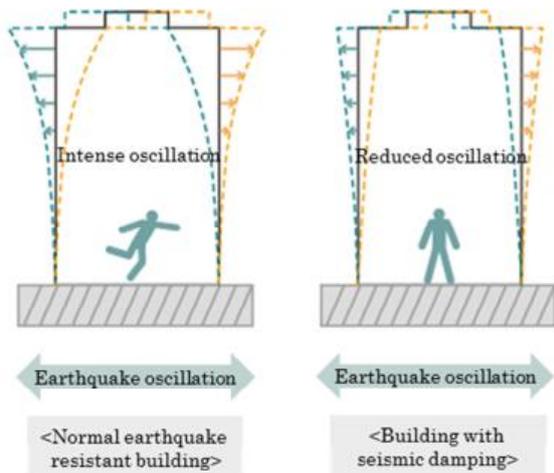
Earthquake-resistant features (Total assets after new acquisitions)



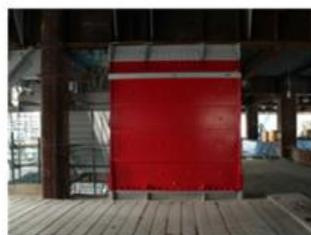
※PML refers to the probable maximum loss ratio expected to result from an earthquake. A smaller percentage indicates superiority in earthquake-resistance.

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
Toranomon 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

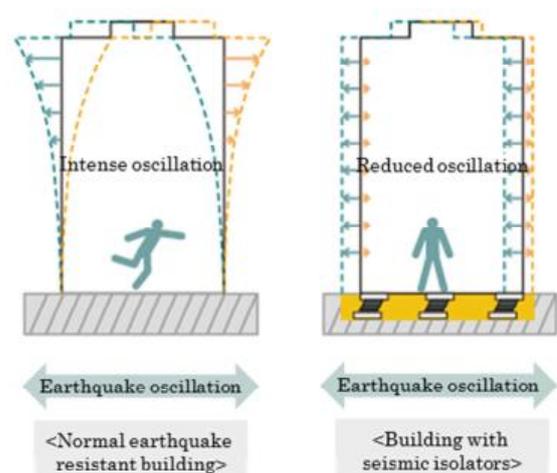


Seismic damping reduces earthquake magnitude of oscillation by approx. 20%



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

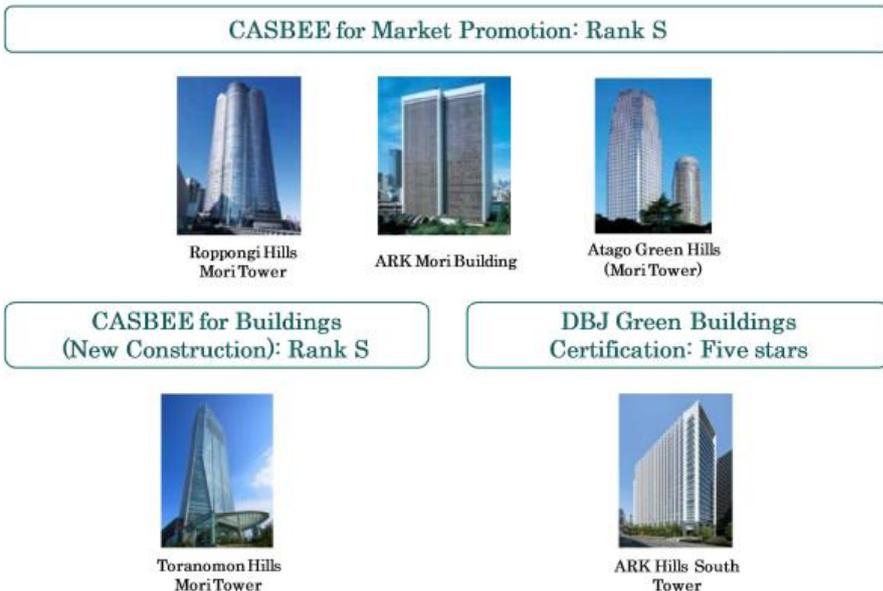


Seismic isolators

Environmental performance

Certified Green Buildings (Total assets after new acquisitions)

Highest ratings in green building certifications
70.1%



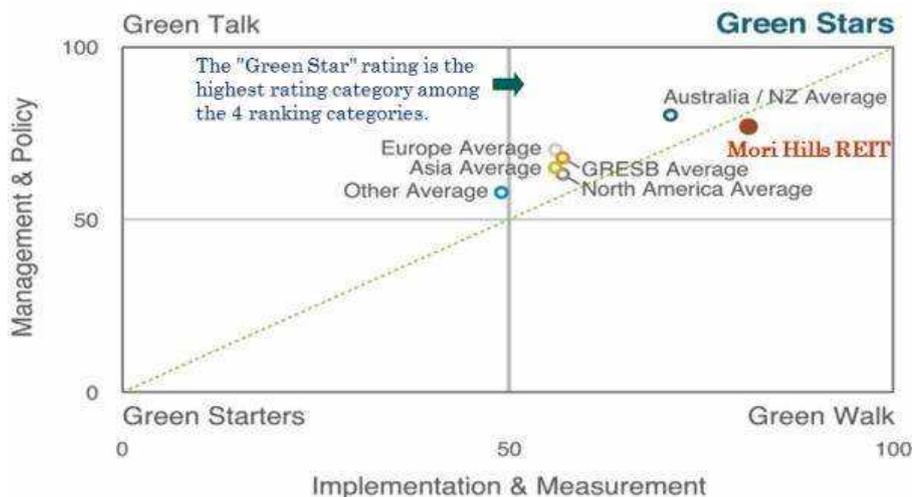
Acquired GRESB Green Star Rating



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 foundation, composed primarily of European pension fund groups.

In the 2016 GRESB Survey, MHR received a Green Star rating for the fifth consecutive year, and earned a score that ranks it No. 1 out of the participants investing mainly in offices in Japan. In addition, MHR received 5 Stars in the GRESB Rating (Note).

GRESB Four-Quadrant Model Scores by Region



(Source) Prepared by the Asset Manager based on the "2016 GRESB Report" of the Global Real Estate Sustainability Benchmark (GRESB).

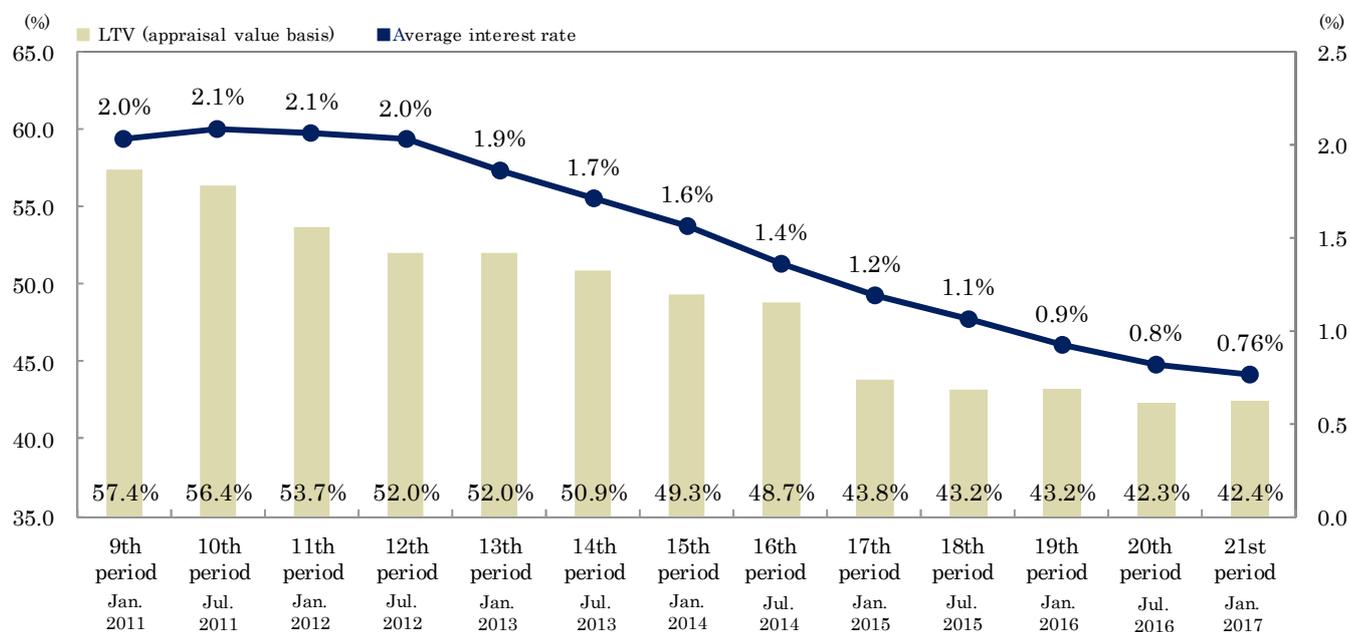
(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" as the highest rank).

Financial Status

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

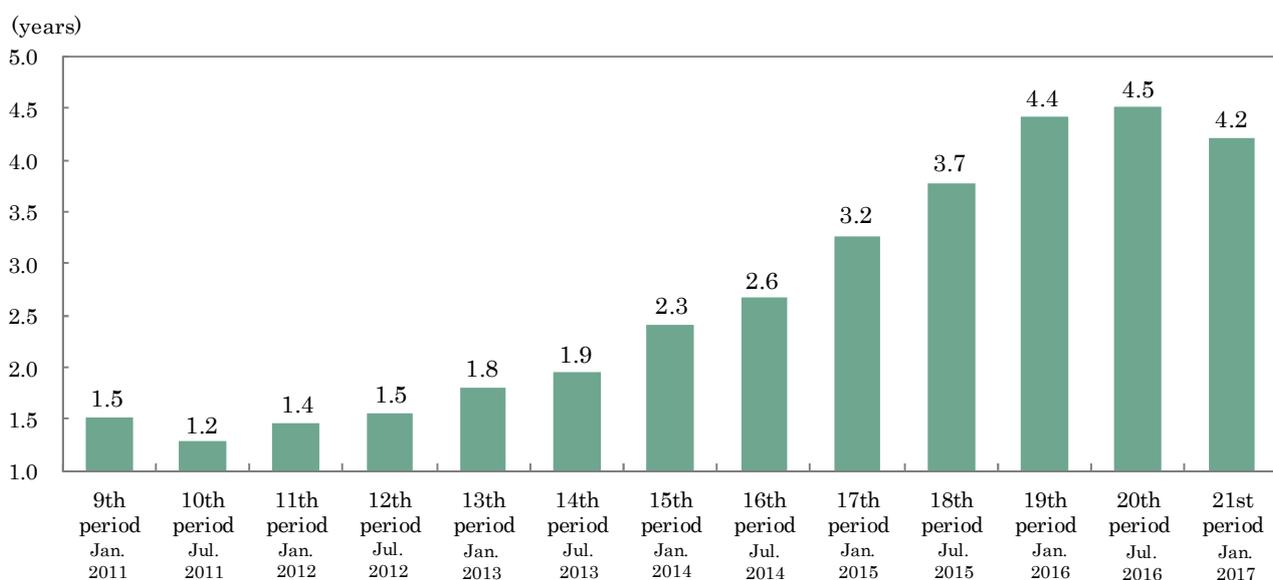
We will continue to maintain a debt duration level that allows us to further strengthen our healthy financial base.

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



(Note) Average interest rate is calculated as $[(\text{interest expenses} + \text{interest expenses on investment corporation bonds} + \text{borrowing expenses} + \text{amortization of investment corporation bond issuance costs}) \times 365 \div \text{operating days during each period} \div \text{average interest-bearing debt balance during each period}]$.

Extension in remaining duration of debt



Overview of debt financing

	End of the 20th period Jul. 31, 2016	End of the 21st period Jan. 31, 2017
Debt Balance	154,000 mn yen	156,000 mn yen
LTV (book value basis) ^(Note 1)	44.5%	44.7%
LTV (appraisal value basis) ^(Note 2)	42.3%	42.4%
Avg. remaining duration	4.5 years	4.2 years

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

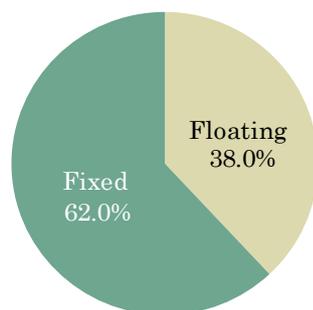
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

Long and short-term debt ratio / fixed rate ratio

[Long and short-term debt ratio]



[Fixed rate ratio]



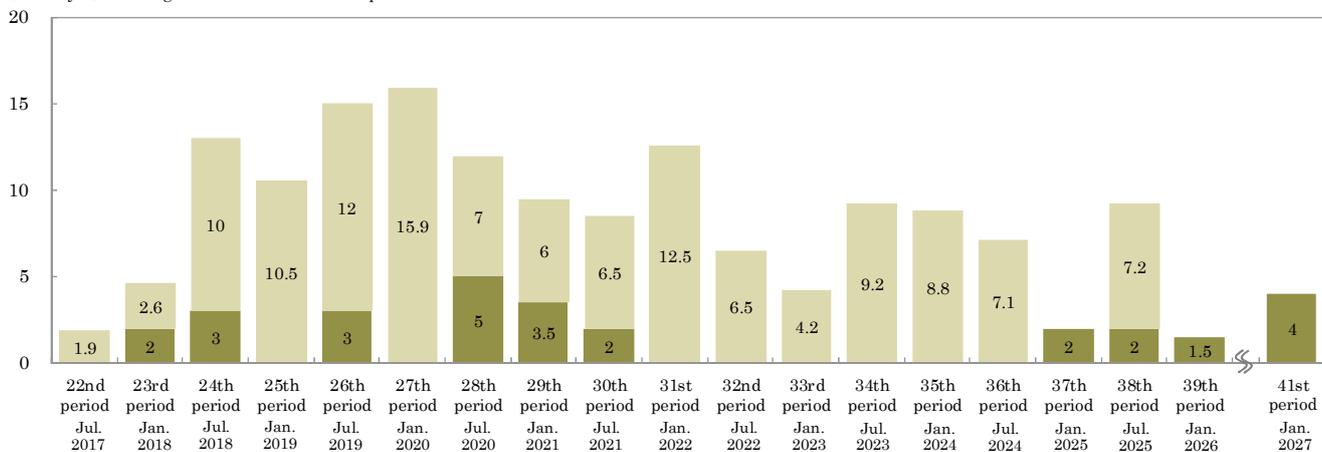
Rating

Japan Credit Rating (JCR)

Long-term issuer rating:
AA- (Positive)

Overview of maturity (as of March 17, 2017)

(billion yen) ■ Long-term ■ Investment corporation bonds

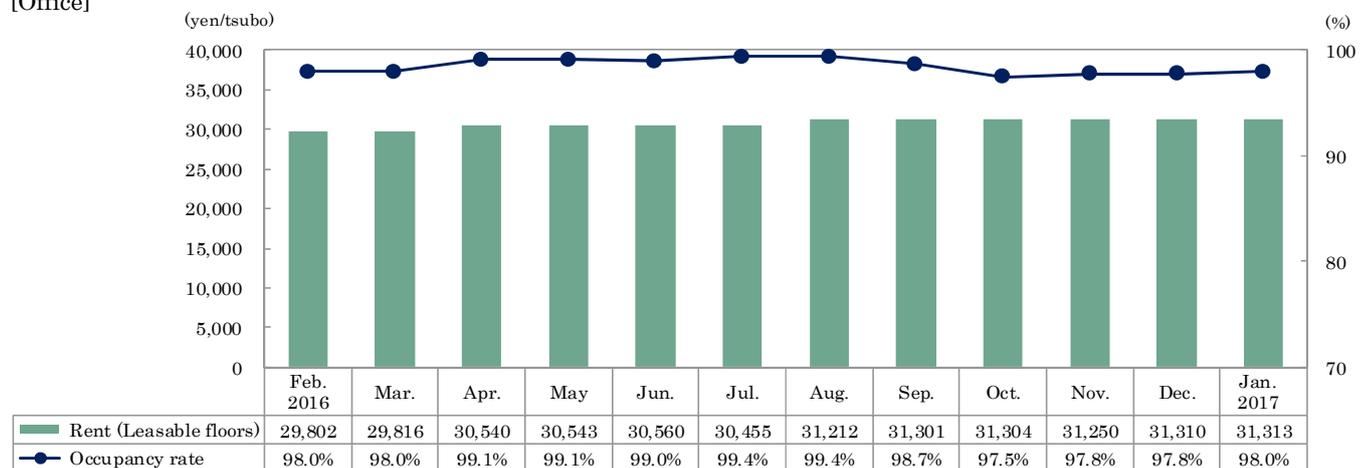


Portfolio Management

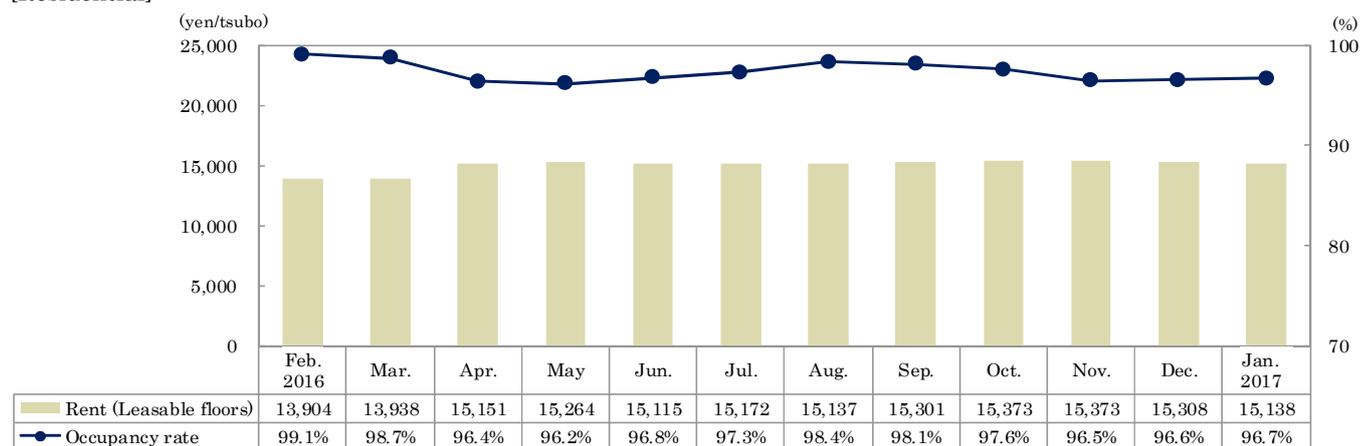
MHR maintained and enhanced occupancy rates by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy.

Rent and occupancy rate

[Office]



[Residential]

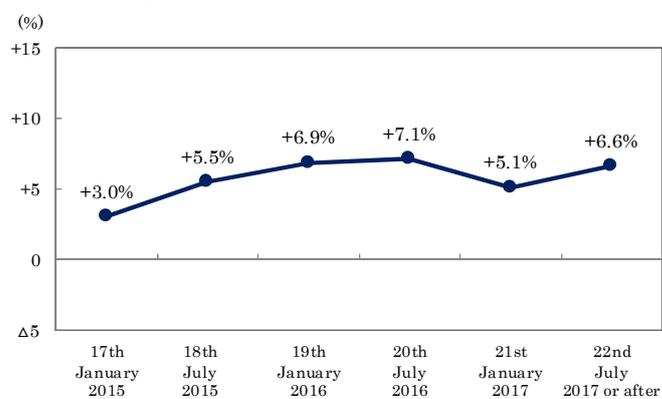


Result of tenants' rent revision

[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 monthly rents which reflect move outs confirmed as of January 31, 2017.

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.

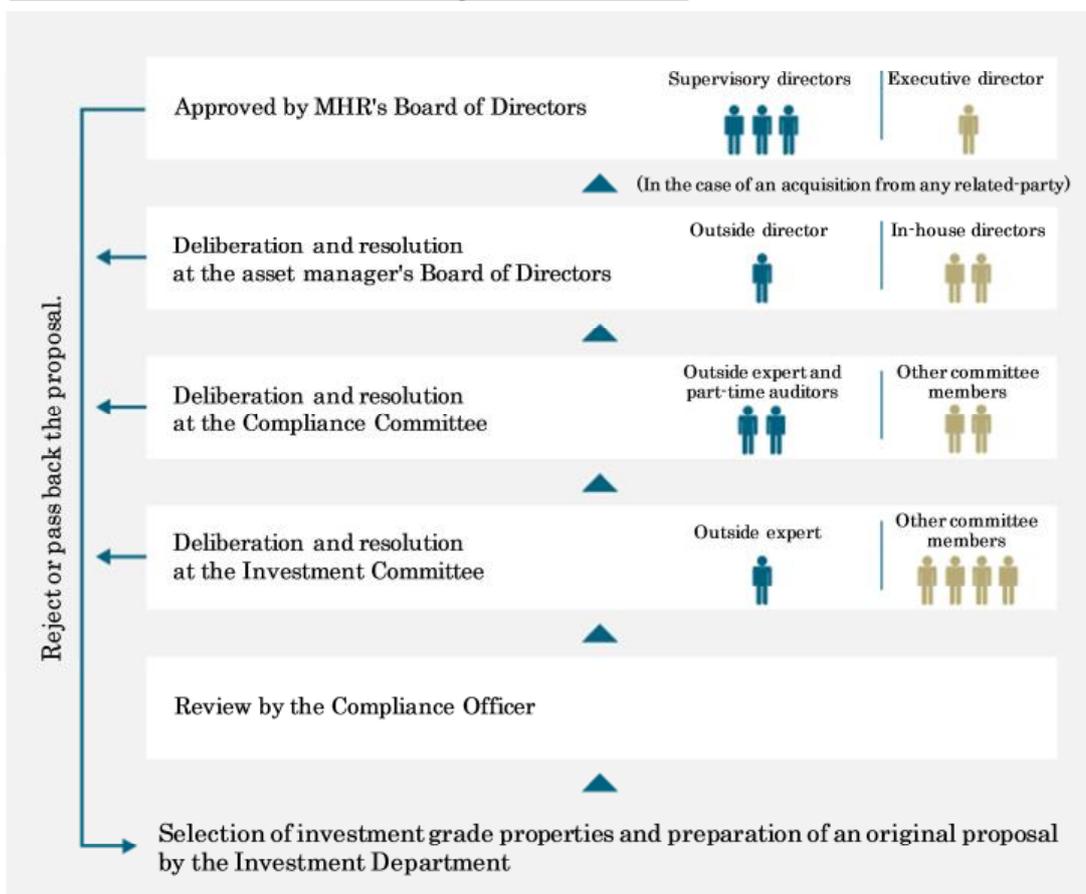
Governance structure taking unitholders' value into consideration

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 term of office for three supervisory directors will expire at the time of the end of MHR's seventh general meeting of unitholders scheduled as of April 21, 2017. Consequently, proposals regarding the appointment of two supervisory directors will be submitted.

Mori Building's Extensive Property Pipeline

MHR has the “preferential negotiation rights” on sales of Mori Building Co., Ltd. properties ^(Note 1), which serves as the driving force for external growth.

Mori Building's Total Assets and Property Management

- Total assets of **1.8 trillion yen** as of the end of March 2016
- **108 buildings** for lease as of April 2016

Mori Building's development projects (Including future development) ^(Note 2)

[Properties owned by Mori Building Group]

<p>1 Roppongi Hills (Partly owned by MHR)</p>  <p>< Office/Residential/Retail, etc.></p>	<p>2 Toranomon Hills (To be partly owned by MHR)</p>  <p>< Office/Residential/Hotel, etc.></p>	<p>3 ARK Hills (Partly owned by MHR)</p>  <p>< Office/Residential/Retail, etc.></p>	<p>4 Atago Green Hills (Partly owned by MHR)</p>  <p>< Office/Residential/Retail></p>
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[Recent redevelopment projects (Toranomon Hills area)] ^(Note 2)

<p>A Toranomon Hills Business Tower (Tentative name)</p>  <table border="1"> <tr><td>a)</td><td>Approx. 10,100m²</td></tr> <tr><td>b)</td><td>Approx. 173,000m²</td></tr> <tr><td>c)</td><td>Office/Retail/Business support facility/ Parking</td></tr> <tr><td>d)</td><td>Toranomon 1-chome District Urban Redevelopment Association ^(Note 3)</td></tr> <tr><td>e)</td><td>December 2019 (Anticipated)</td></tr> </table>	a)	Approx. 10,100m ²	b)	Approx. 173,000m ²	c)	Office/Retail/Business support facility/ Parking	d)	Toranomon 1-chome District Urban Redevelopment Association ^(Note 3)	e)	December 2019 (Anticipated)	<p>B Toranomon Hills Residential Tower (Tentative name)</p>  <table border="1"> <tr><td>a)</td><td>Approx. 6,530m²</td></tr> <tr><td>b)</td><td>Approx. 121,000m²</td></tr> <tr><td>c)</td><td>Residential/Retail/Parenting support facility/ SPA and others</td></tr> <tr><td>d)</td><td>Mori Building Co., Ltd.</td></tr> <tr><td>e)</td><td>April 2020 (Anticipated)</td></tr> </table>	a)	Approx. 6,530m ²	b)	Approx. 121,000m ²	c)	Residential/Retail/Parenting support facility/ SPA and others	d)	Mori Building Co., Ltd.	e)	April 2020 (Anticipated)
a)	Approx. 10,100m ²																				
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d)	Mori Building Co., Ltd.																				
e)	April 2020 (Anticipated)																				

a) Land area b) Total floor area c) Uses d) Operator e) Completion date

(Source) Prepared by the Asset Manager based on Mori Building's “Mori Building Handy Map Mori Building Map/Home Route Support Map 2017.”

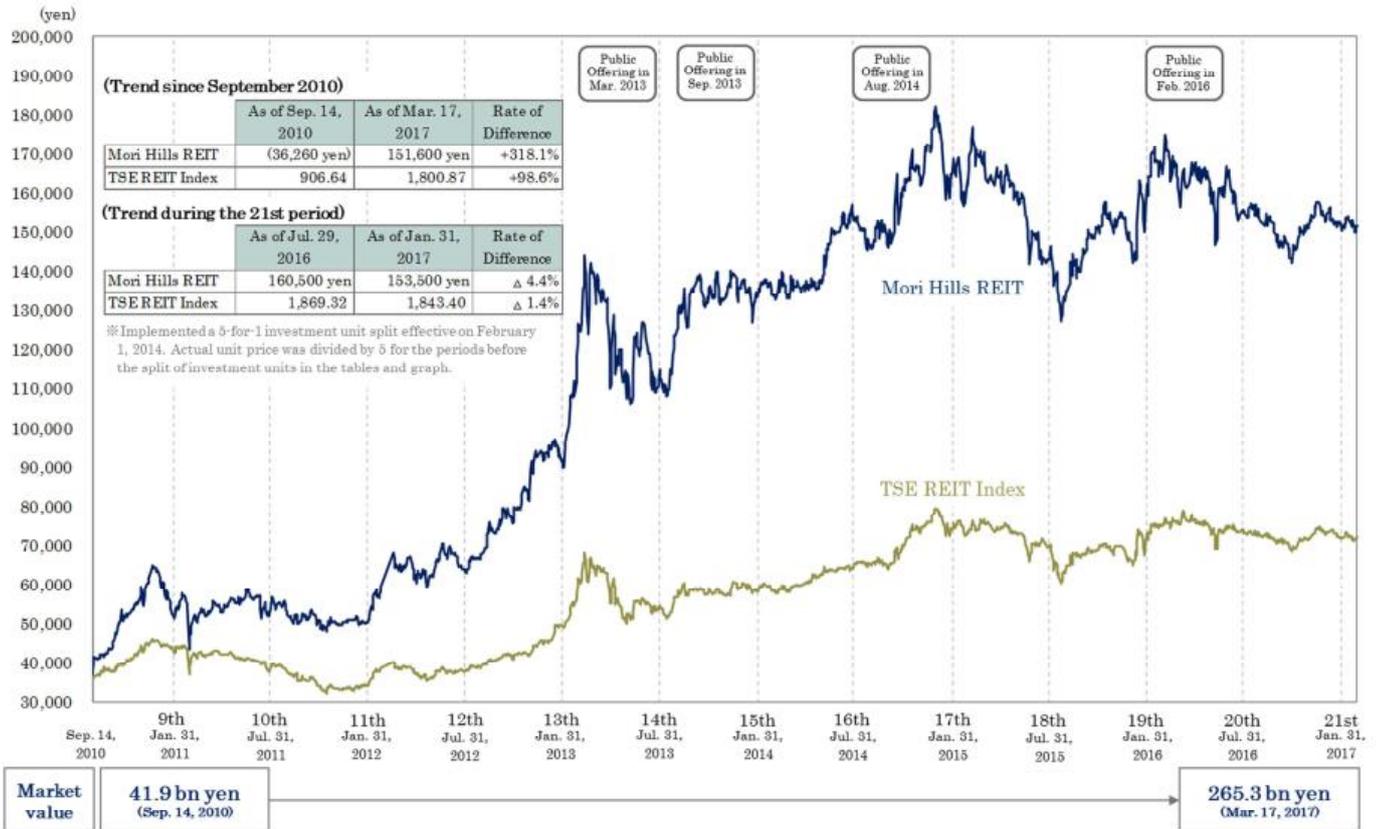
(Note 1) Some exceptions included.

(Note 2) For the properties above, there are no properties currently anticipated to be acquired by MHR except for MHR's assets and assets to be acquired.

(Note 3) Mori Building Co., Ltd. is participating in the project as one of participating consortium members.



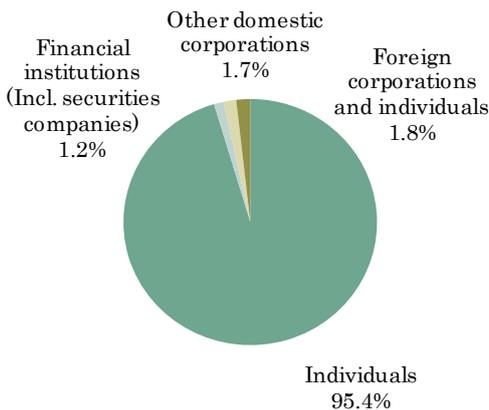
Unit Price Performance



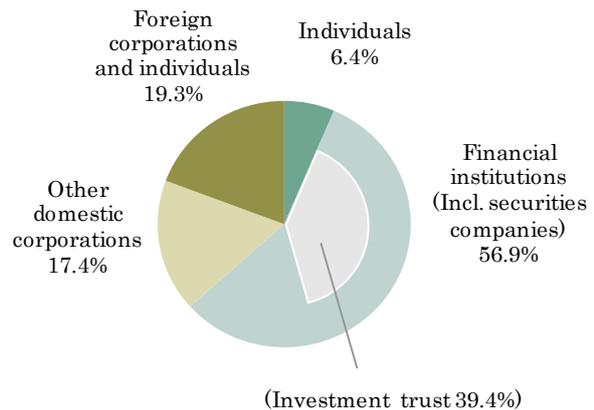
(Note 1) Unless otherwise stated in this document, all amounts of less than a unit are omitted and all fractions are rounded up to one digit below the decimal point.
 (Note 2) TSE REIT Index is adjusted to MHR's unit price on the announcement date of the management policy (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

Unitholders Breakdown (as of January 31, 2017)

<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.

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 January 31, 2017, 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 January 31, 2017, 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

April 26, 2017
Tokyo, Japan

FINANCIAL STATEMENTS

BALANCE SHEET

(Unit: thousands of yen)

	As of	
	January 31, 2017	July 31, 2016
Assets		
Current assets		
Cash and deposits	7,297,437	3,405,993
Cash and deposits in trust	7,759,698	7,467,924
Operating accounts receivable	63,245	64,875
Prepaid expenses	453,126	436,650
Deferred tax assets	192	-
Consumption taxes receivable	-	420,127
Other	18	-
Total current assets	<u>15,573,718</u>	<u>11,795,570</u>
Noncurrent assets		
Property, plant and equipment		
Land	22,074,160	22,074,160
Buildings in trust	69,231,112	68,791,196
Accumulated depreciation	<u>(11,285,486)</u>	<u>(10,339,184)</u>
Buildings in trust, net	<u>57,945,626</u>	<u>58,452,012</u>
Structures in trust	747,910	745,333
Accumulated depreciation	<u>(253,302)</u>	<u>(235,753)</u>
Structures in trust, net	<u>494,608</u>	<u>509,579</u>
Machinery and equipment in trust	774,029	773,273
Accumulated depreciation	<u>(170,466)</u>	<u>(153,538)</u>
Machinery and equipment in trust, net	<u>603,562</u>	<u>619,734</u>
Tools, furniture and fixtures in trust	188,293	170,730
Accumulated depreciation	<u>(84,762)</u>	<u>(72,700)</u>
Tools, furniture and fixtures in trust, net	<u>103,531</u>	<u>98,030</u>
Land in trust	220,457,581	220,457,581
Construction in progress in trust	<u>6,306</u>	<u>148,458</u>
Total property, plant and equipment	<u>301,685,377</u>	<u>302,359,556</u>
Intangible assets		
Leasehold rights in trust	30,650,962	30,650,962
Other intangible assets in trust	3,104	3,727
Other	1,870	2,257
Total intangible assets	<u>30,655,937</u>	<u>30,656,948</u>
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	942,222	1,103,527
Total investments and other assets	<u>952,222</u>	<u>1,113,527</u>
Total noncurrent assets	<u>333,293,538</u>	<u>334,130,032</u>
Deferred assets		
Investment corporation bonds issuance cost	120,233	101,338
Investment unit issuance cost	112,899	161,564
Total deferred assets	<u>233,133</u>	<u>262,902</u>
Total assets	<u>349,100,390</u>	<u>346,188,506</u>

(Unit: thousands of yen)

	As of	
	January 31, 2017	July 31, 2016
Liabilities		
Current liabilities		
Operating accounts payable	211,973	132,796
Current portion of investment corporation bonds	2,000,000	—
Current portion of long-term loans payable	4,578,000	3,978,000
Accounts payable – other	29,398	13,371
Accrued expenses	314,744	287,012
Income taxes payable	14,134	832
Accrued consumption taxes	403,057	—
Advances received	1,095,714	1,105,548
Deposits received	27,377	62,499
Deferred tax liabilities	—	9,973
Other	—	2,518
Total current liabilities	8,674,401	5,592,553
Noncurrent liabilities		
Investment corporation bonds	26,000,000	24,000,000
Long-term loans payable	123,422,000	126,022,000
Lease and guarantee deposits in trust	12,082,272	11,720,828
Total noncurrent liabilities	161,504,272	161,742,828
Total liabilities	170,178,674	167,335,381
Net assets		
Unitholders' equity		
Unitholders' capital	174,231,870	174,231,870
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	105,244	105,244
Total voluntary retained earnings	105,244	105,244
Unappropriated retained earnings	4,584,601	4,516,010
Total surplus	4,689,845	4,621,254
Total unitholders' equity	178,921,716	178,853,124
Total net assets (Note9)	178,921,716	178,853,124
Total liabilities and net assets	349,100,390	346,188,506

STATEMENT OF INCOME AND RETAINED EARNINGS

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2017	July 31, 2016
Operating revenue		
Rent revenues (Note13)	8,056,295	7,638,396
Other operating revenues (Note13)	192,460	122,201
Total operating revenue	8,248,756	7,760,598
Operating expenses		
Expenses related to properties (Note13)	2,696,520	2,295,784
Asset management fee	234,850	209,974
Directors' compensation	5,400	5,400
Asset custody fee	8,654	7,461
Administrative service fees	19,321	19,407
Other operating expenses (Note13)	76,294	62,335
Total operating expenses	3,041,041	2,600,364
Operating income	5,207,714	5,160,233
Non-operating income		
Interest income	86	1,118
Gain on forfeiture of unclaimed dividends	1,510	1,310
Insurance Income	—	229
Interest on refund	404	443
Total non-operating income	2,002	3,102
Non-operating expenses		
Interest expenses	326,571	331,612
Interest expenses on investment corporation bonds	85,983	83,115
Amortization of investment corporation bonds issuance cost	13,154	12,217
Borrowing expenses	166,987	170,999
Amortization of investment unit issuance cost	48,664	48,664
Other	1,888	1,865
Total non-operating expenses	643,250	648,475
Ordinary income	4,566,466	4,514,860
Income before income taxes	4,566,466	4,514,860
Income taxes-current	14,147	1,003
Income taxes-deferred	(10,165)	6,263
Total income taxes	3,982	7,266
Net income	4,562,484	4,507,593
Retained earnings brought forward		
Retained earnings (deficit) brought forward before retrospective application	22,117	424
The effects of retrospective application	—	7,991
Retained earnings (deficit) brought forward	22,117	8,416
Unappropriated retained earnings	4,584,601	4,516,010

STATEMENT OF CHANGES IN NET ASSETS

For the six months ended January 31, 2017

(Unit: thousands of yen)

	Unitholders' capital	Surplus		Total surplus	Total unitholders' equity	Total net assets
		Voluntary retained earnings	Unappropriated retained earnings			
Balance at August 1, 2016	174,231,870	105,244	4,516,010	4,621,254	178,853,124	178,853,124
Change during the period						
Issuance of new investment units						
Dividends from surplus			(4,493,892)	(4,493,892)	(4,493,892)	(4,493,892)
Net income			4,562,484	4,562,484	4,562,484	4,562,484
Total changes of items during the period	—	—	68,591	68,591	68,591	68,591
Balance at January 31, 2017	174,231,870	105,244	4,584,601	4,689,845	178,921,716	178,921,716

For the six months ended July 31, 2016

(Unit: thousands of yen)

	Unitholders' capital	Surplus		Total surplus	Total unitholders' equity	Total net assets
		Voluntary retained earnings	Unappropriated retained earnings			
Balance at February 1, 2016	150,418,135	105,244	3,928,664	4,033,909	154,452,044	154,452,044
Cumulative effects of retrospective application			7,991	7,991	7,991	7,991
Restated Balance	150,418,135	105,244	3,936,656	4,041,900	154,460,035	154,460,035
Change during the period						
Issuance of new investment units	23,813,735				23,813,735	23,813,735
Dividends from surplus			(3,928,240)	(3,928,240)	(3,928,240)	(3,928,240)
Net income			4,507,593	4,507,593	4,507,593	4,507,593
Total changes of items during the period	23,813,735	—	579,353	579,353	24,393,089	24,393,089
Balance at July 31, 2016	174,231,870	105,244	4,516,010	4,621,254	178,853,124	178,853,124

STATEMENT OF CASH DISTRIBUTIONS

(Unit: yen)

	For the six months ended January 31, 2017	For the six months ended July 31, 2016
I . Unappropriated retained earnings	4,584,601,465	4,516,010,087
II . Amount of dividends	4,562,167,840	4,493,892,880
Amount of dividends per unit	2,606	2,567
III . Retained earnings carried forward	22,433,625	22,117,207
Method of calculating the amount of dividends	<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. Based on such policy, the Company decided to pay out dividends of earnings (4,562,167,840 yen), which is the largest integral multiple of the total number of investment units issued and outstanding (1,750,640 units) out of the amount remaining after reserving cumulative effects of retrospective application of changes in accounting policies, not in excess of unappropriated retained earnings for the twenty-first fiscal period. In addition, the Company decided to pay out dividends of earnings in an amount not in excess of unappropriated retained earnings as stipulated in Article 37 (2) of the Company's Articles of Incorporation.</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. Based on such policy, the Company decided to pay out dividends of earnings (4,493,892,880 yen), which is the largest integral multiple of the total number of investment units issued and outstanding (1,750,640 units) out of the amount remaining after reserving cumulative effects of retrospective application of changes in accounting policies, not in excess of unappropriated retained earnings for the twentieth fiscal period. In addition, the Company decided to pay out dividends of earnings in an amount not in excess of unappropriated retained earnings as stipulated in Article 37 (2) of the Company's Articles of Incorporation.</p>

STATEMENT OF CASH FLOWS

(Unit: thousands of yen)

For the six months ended

	January 31, 2017	July 31, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	4,566,466	4,514,860
Depreciation and amortization	995,006	966,879
Amortization of investment corporation bonds issuance cost	13,154	12,217
Amortization of investment unit issuance cost	48,664	48,664
Interest income	(86)	(1,118)
Gain on forfeiture of unclaimed dividends	(1,510)	(1,310)
Interest expenses	412,555	414,727
Decrease (increase) in operating accounts receivable	1,630	(36,584)
Decrease (increase) in consumption taxes receivable	431,471	(323,694)
Increase (decrease) in operating accounts payable	14,234	9,219
Increase (decrease) in accounts payable – other	12,981	(2,390)
Increase (decrease) in accrued expenses	28,403	2,385
Increase (decrease) in accrued consumption taxes	403,057	–
Increase (decrease) in advances received	(9,834)	127,934
Increase (decrease) in deposits received	(2,788)	6,393
Decrease (increase) in prepaid expenses	(16,476)	(81,308)
Decrease (increase) in long-term prepaid expenses	161,305	(180,313)
Other, net	(2,182)	1,808
Subtotal	<u>7,056,053</u>	<u>5,478,372</u>
Interest income received	86	1,118
Interest expenses paid	(413,226)	(414,056)
Income taxes paid	(845)	(797)
Net cash provided by (used in) operating activities	<u>6,642,067</u>	<u>5,064,636</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(266,574)	(46,711,614)
Repayments of lease and guarantee deposits in trust	(479,825)	(235,994)
Proceeds from lease and guarantee deposits in trust	808,936	2,259,814
Net cash provided by (used in) investing activities	<u>62,536</u>	<u>(44,687,794)</u>
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	–	22,800,000
Repayments of long-term loans payable	(2,000,000)	(1,500,000)
Proceeds from issuance of investment corporation bonds	3,971,823	–
Proceeds from issuance of investment units	–	23,685,265
Cash dividends paid	(4,493,210)	(3,927,446)
Net cash provided by (used in) financing activities	<u>(2,521,386)</u>	<u>41,057,818</u>
Net increase (decrease) in cash and cash equivalents	<u>4,183,217</u>	<u>1,434,660</u>
Cash and cash equivalents at beginning of the period	<u>10,873,917</u>	<u>9,439,257</u>
Cash and cash equivalents at end of the period (Note17)	<u>15,057,135</u>	<u>10,873,917</u>

NOTES TO FINANCIAL STATEMENTS

For the six months ended January 31, 2017 and July 31, 2016

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 January 31, 2017 was comprised of 10 properties under management with a total leasable floor area of 153,650.70m². The Company has already invested 339,856 million yen (based on acquisition price) into this portfolio. The occupancy rate as of January 31, 2017 was 97.8%.

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 January 31, 2017, and 136,197 thousand yen as of July 31, 2016, 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 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, 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. CHANGES IN ACCOUNTING POLICIES

Previously, in the case of revenue recognition involving free rent, etc. whereby a lease agreement is entered into stipulating a reduction in rent for a specified period of time, the corresponding reduced rent revenue was recognized for the specified period; however, starting from the fiscal period, the accounting method has been changed one that recognizes a constant amount of revenue throughout the entire lease period, including the specified period, given that the total rent amount is defined in the lease agreement.

This change was made based on the judgment that since the number of pass-through master lease agreements has increased from the fiscal period, thereby expanding the impact of free rent, etc. on rent revenues, recognizing a constant amount of revenue throughout the contractual periods better corresponds to the change in the business environment.

This change in accounting policy has been applied retrospectively, and the financial statements for the previous fiscal period reflect such retrospective application. As a result, rent revenues for the previous fiscal period increased by 19,774 thousand yen, compared with before the retrospective application, and operating income, ordinary income and income before income taxes increased by 19,774 thousand yen, respectively. In addition, as the cumulative effect of the change was reflected in net assets at the beginning of the previous fiscal period, the beginning balance of retained earnings for the previous fiscal period increased by 7,991 thousand yen.

Furthermore, for details about the impact on per unit information, please refer to “Per unit information”.



5. PROPERTY AND EQUIPMENT

For the six months ended January 31, 2017

(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	Accumulated amortization			
Property, plant and equipment	Land	22,074,160	—	—	22,074,160	—	—	22,074,160	
	Buildings in trust	68,791,196	439,915	—	69,231,112	11,285,486	946,301	57,945,626	
	Structures in trust	745,333	2,576	—	747,910	253,302	17,548	494,608	
	Machinery and equipment in trust	773,273	2,268	1,512	774,029	170,466	18,085	603,562	—
	Tools, furniture and fixtures in trust	170,730	17,562	—	188,293	84,762	12,061	103,531	
	Land in trust	220,457,581	—	—	220,457,581	—	—	220,457,581	
	Construction in progress in trust	148,458	53,516	195,668	6,306	—	—	6,306	
Subtotal	313,160,735	515,840	197,180	313,479,394	11,794,017	993,996	301,685,377		
Intangible assets	Leasehold rights in trust	30,650,962	—	—	30,650,962	—	—	30,650,962	—
	Other intangible assets in trust	11,975	—	—	11,975	8,871	623	3,104	
	Subtotal	30,662,938	—	—	30,662,938	8,871	623	30,654,067	
Total	343,823,673	515,840	197,180	344,142,333	11,802,888	994,619	332,339,444		

6. SHORT-TERM LOANS PAYABLE

For the six months ended January 31, 2017

Not applicable.

7. INVESTMENT CORPORATION BONDS

For the six months ended January 31, 2017

(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
Seventh Series Unsecured Investment Corporation Bonds	Nov. 28, 2012	2,000,000	—	—	2,000,000	0.9700%	Nov. 28, 2017	(Note 1)	none
Eighth Series Unsecured Investment Corporation Bonds	May 24, 2013	3,000,000	—	—	3,000,000	0.8500%	May 24, 2018		
Ninth Series Unsecured Investment Corporation Bonds	May 24, 2013	2,000,000	—	—	2,000,000	1.2600%	May 22, 2020		
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		
Total		24,000,000	4,000,000	—	28,000,000				

(Note 1) The funds are used for 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	2,000,000	3,000,000	3,000,000	8,500,000	2,000,000

8. LONG-TERM LOANS PAYABLE

For the six months ended January 31, 2017

(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
Aozora Bank, Ltd.	2,000,000	—	2,000,000	—	1.1850%	Aug. 31, 2016	(Note 2)	Unsecured/ Unguaranteed
Sumitomo Mitsui Trust Bank, Ltd.	1,978,000	—	—	1,978,000	0.7460%	May 31, 2017		
The Hiroshima Bank, Ltd.	—	1,000,000	—	1,000,000	0.2806%	Nov. 30, 2017		
The Oita Bank, Ltd.	—	1,000,000	—	1,000,000	0.2806%	Nov. 30, 2017		
The Norinchukin Bank, Ltd.	—	600,000	—	600,000	0.2806%	Nov. 30, 2017		
Total	3,978,000	2,600,000	2,000,000	4,578,000				

(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
Mizuho Bank, Ltd.	1,500,000	—	—	1,500,000	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	—	—	1,400,000	0.7760%	Sep. 28, 2018		
	250,000	—	—	250,000	0.3306%	May 31, 2019		
	1,100,000	—	—	1,100,000	0.3806%	Nov. 29, 2019		
	1,702,000	—	—	1,702,000	0.2806%	May 31, 2019		
	574,000	—	—	574,000	0.3306%	May 29, 2020		
	834,000	—	—	834,000	0.3306%	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	0.2806%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.2806%	Mar. 31, 2025		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500,000	—	—	1,500,000	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	—	—	1,400,000	0.7760%	Sep. 28, 2018		
	250,000	—	—	250,000	0.3306%	May 31, 2019		
	1,100,000	—	—	1,100,000	0.3806%	Nov. 29, 2019		
	1,702,000	—	—	1,702,000	0.2806%	May 31, 2019		
	574,000	—	—	574,000	0.3306%	May 29, 2020		
	834,000	—	—	834,000	0.3306%	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	0.4980%	Nov. 30, 2022		
	1,500,000	—	—	1,500,000	0.2306%	Mar. 31, 2023		
	1,500,000	—	—	1,500,000	0.2306%	Mar. 29, 2024		

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
Mitsubishi UFJ Trust and Banking Corporation	1,500,000	—	—	1,500,000	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	—	—	1,400,000	0.7760%	Sep. 28, 2018		
	250,000	—	—	250,000	0.3306%	May 31, 2019		
	1,100,000	—	—	1,100,000	0.3806%	Nov. 29, 2019		
	1,702,000	—	—	1,702,000	0.2806%	May 31, 2019		
	574,000	—	—	574,000	0.3306%	May 29, 2020		
	834,000	—	—	834,000	0.3306%	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	0.2806%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.2806%	Mar. 31, 2025		
Sumitomo Mitsui Banking Corporation	1,500,000	—	—	1,500,000	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	—	—	1,400,000	0.7760%	Sep. 28, 2018		
	250,000	—	—	250,000	0.3306%	May 31, 2019		
	1,600,000	—	—	1,600,000	0.3806%	Nov. 29, 2019		
	894,000	—	—	894,000	0.2806%	May 31, 2019		
	300,000	—	—	300,000	0.3306%	May 29, 2020		
	834,000	—	—	834,000	0.3306%	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	0.2306%	Mar. 31, 2023		
	800,000	—	—	800,000	0.2806%	Mar. 29, 2024		

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.	1,500,000	—	—	1,500,000	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	—	—	1,400,000	0.7760%	Sep. 28, 2018		
	1,000,000	—	—	1,000,000	0.3806%	Nov. 29, 2019		
	834,000	—	—	834,000	0.3306%	May 29, 2020		
	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	0.2806%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.2806%	Mar. 31, 2025		
Development Bank of Japan Inc.	750,000	—	—	750,000	0.8421%	Mar. 30, 2018		
	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	2,000,000	—	—	2,000,000	0.3806%	Nov. 29, 2019		
	1,700,000	—	—	1,700,000	0.7963%	Mar. 27, 2023		
	1,000,000	—	—	1,000,000	0.2806%	Mar. 29, 2024		
The Bank of Fukuoka, Ltd.	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	2,000,000	—	—	2,000,000	0.3806%	Nov. 29, 2019		
	2,000,000	—	—	2,000,000	0.2806%	May 31, 2019		
	1,000,000	—	—	1,000,000	0.2806%	Nov. 29, 2024		
The Norinchukin Bank	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	600,000	—	600,000	—	0.2806%	Nov. 30, 2017		
	600,000	—	—	600,000	0.3806%	Nov. 29, 2019		
	3,000,000	—	—	3,000,000	0.2806%	May 31, 2019		
	1,000,000	—	—	1,000,000	0.2306%	Mar. 31, 2023		
Resona Bank, Ltd.	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	830,000	—	—	830,000	0.3306%	May 29, 2020		
	2,500,000	—	—	2,500,000	0.2806%	Aug. 30, 2019		
	800,000	—	—	800,000	0.2306%	Mar. 31, 2023		
Aozora Bank, Ltd.	750,000	—	—	750,000	0.8421%	Mar. 30, 2018		
	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	2,000,000	—	—	2,000,000	0.2806%	Aug. 30, 2019		
	1,000,000	—	—	1,000,000	0.2806%	Mar. 29, 2024		

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
Shinsei Bank, Ltd.	500,000	—	—	500,000	0.7760%	Sep. 28, 2018	(Note 2)	Unsecured/ Unguaranteed
	900,000	—	—	900,000	0.3806%	Nov. 29, 2019		
	1,500,000	—	—	1,500,000	0.6155%	Nov. 30, 2023		
	500,000	—	—	500,000	0.2306%	Mar. 31, 2023		
Mizuho Trust & Banking Co., Ltd.	1,000,000	—	—	1,000,000	0.8421%	Mar. 30, 2018		
	500,000	—	—	500,000	0.7760%	Sep. 28, 2018		
	500,000	—	—	500,000	0.2306%	Mar. 31, 2023		
The Hiroshima Bank, Ltd.	1,000,000	—	1,000,000	—	0.2806%	Nov. 30, 2017		
	1,000,000	—	—	1,000,000	0.2306%	Mar. 31, 2023		
Shinkin Central Bank	1,000,000	—	—	1,000,000	0.1795%	Sep. 30, 2022		
The Oita Bank, Ltd	1,000,000	—	1,000,000	—	0.2806%	Nov. 30, 2017		
Total	126,022,000	—	2,600,000	123,422,000				

(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 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	20,500,000	27,900,000	13,022,000	19,000,000

9. NET ASSETS

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

10. INCOME TAXES

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

(Unit: thousands of yen)

	As of	
	January 31, 2017	July 31, 2016
Deferred tax assets		
Accrued enterprise tax excluded from expenses	192	19
Total deferred tax assets	192	19
Deferred tax liabilities		
Cumulative effects of retrospective application of changes in accounting policies	—	(9,992)
Total deferred tax liabilities	—	(9,992)
Net deferred tax assets (liabilities)	192	(9,973)

(Note) As described in “Changes in Accounting Policies,” accounting policies for rent revenues have been changed. The changes in accounting policies have been applied retrospectively and the figures for the previous fiscal period have been applied retrospectively.

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

	As of	
	January 31, 2017	July 31, 2016
Statutory tax rate	34.81%	32.31%
[Adjustments]		
Deductible cash distributions	(34.78%)	(32.16%)
Others	0.05%	0.01%
Effective tax rate	0.09%	0.16%

(Note) As described in “Changes in Accounting Policies,” accounting policies for rent revenues have been changed. The changes in accounting policies have been applied retrospectively and the figures for the previous fiscal period have been applied retrospectively.

11. PER UNIT INFORMATION

	For the six months ended	
	January 31, 2017	July 31, 2016
Net assets per unit (yen)	102,203	102,164
Net income per unit (yen)	2,606	2,576

(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) As described in “Notes to Changes in Accounting Policies,” accounting policies for rent revenues have been changed. The changes in accounting policies have been applied retrospectively and the figures for the previous fiscal period are per unit information after retrospective application. As a result, net assets per unit and net income per unit increased by 12 yen and 7 yen, respectively, compared with the figures before the retrospective application.

(Note 3) The following is the basis for calculating net income per unit.

	For the six months ended	
	January 31, 2017	July 31, 2016
Net income (thousands of yen)	4,562,484	4,507,593
Amounts not attributable to common unitholders (thousands of yen)	—	—
Net income attributable to common investment units (thousands of yen)	4,562,484	4,507,593
Average number of investment units during the period (units)	1,750,640	1,749,553

12. RELATED PARTY TRANSACTIONS

(1) Parent company and major corporate unitholders

For the six months ended January 31, 2017

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)	5,413,875	Operating accounts receivable	748
									Advances received	966,780
									Lease and guarantee deposits in trust	8,630,100
							Payment of property operation and management fees (Note 6)	231,714 (Note 3)	Prepaid expenses	12,055
									Operating accounts payable	70,410
Deposit of lease and guarantee (Note 4) (Note 7)	—	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, a portion of ARK Hills South Tower and a portion of Koraku Mori Building

(Note 3) The amount includes fees (28,506 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 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 July 31, 2016

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)	46,100,000	—	—
							Leasing of properties (Note 3) (Note 7)	5,540,523	Operating accounts receivable	794
									Advances received	966,780
									Lease and guarantee deposits in trust	9,214,026
							Payment of property operation and management fees (Note 8)	185,931 (Note 4)	Prepaid expenses	2,855
									Operating accounts payable	45,298
Payment of other operating expenses (Note 9)	676	—	—							
Deposit of lease and guarantee (Note 5) (Note 10)	—	Lease and guarantee deposits in trust	53,886							

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

(Note 2) A portion of Roppongi Hills Mori Tower

(Note 3) Roppongi Hills Mori Tower, ARK Mori Building, Akasaka Tameike Tower (a portion of Akasaka Tameike Tower after April 1, 2016), Atago Green Hills, a portion of ARK Hills South Tower and a portion of Koraku Mori Building

(Note 4) The amount includes fees (14,609 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 decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

(Note 10) 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 January 31, 2017

Not applicable.

For the six months ended July 31, 2016

Not applicable.

(3) Subsidiaries of parent company

For the six months ended January 31, 2017

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)	234,850	Accrued expenses	253,638

(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 July 31, 2016

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)	256,074 (Note 3)	Accrued expenses	226,772

(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 46,100 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 January 31, 2017

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)	234,850	Accrued expenses	253,638

(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 July 31, 2016

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)	256,074 (Note 3)	Accrued expenses	226,772

(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 46,100 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.

13. BREAKDOWN OF PROPERTY-RELATED REVENUE AND EXPENSES

Breakdown of property operating income

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2017	July 31, 2016
A. Property operating revenue		
Rent revenues		
Rent and common area revenue	8,052,209	7,633,434
Other rent revenue	4,085	4,962
Other operating revenues		
Parking revenue	43,263	22,914
Utilities and other revenue	148,206	98,421
Cancellation penalty	990	753
Key money income	—	112
Total property operating revenue	8,248,756	7,760,598
B. Property operating expenses		
Expenses related to properties		
Property management fees	908,803	593,227
Property taxes	470,104	460,878
Utilities	127,234	103,781
Maintenance and repairs	41,682	21,369
Insurance premium	15,115	14,607
Custodian fees	6,138	7,111
Depreciation and amortization	994,619	966,487
Rent expenses	112,718	112,406
Other lease business expenses	20,103	15,914
Total property operating expenses	2,696,520	2,295,784
C. Property operating income [A – B]	5,552,235	5,464,813

(Note) As described in “Changes in Accounting Policies”, accounting policies for rent revenues have been changed. The changes in accounting policies have been applied retrospectively and the figures for the previous fiscal period are figures after retrospective application.

Transactions with major unitholders

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2017	July 31, 2016
From operating transactions		
Rent revenues	5,411,869	5,538,522
Other operating revenues	2,006	2,000
Expenses related to properties	203,207	171,321
Other operating expenses	—	676

14. UNITHOLDERS' EQUITY

	For the six months ended	
	January 31, 2017	July 31, 2016
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	1,750,640 units	1,750,640 units

15. 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 January 31, 2017.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	7,297,437	7,297,437	—
(b) Cash and deposits in trust	7,759,698	7,759,698	—
Total	15,057,135	15,057,135	—
(c) Current portion of investment corporation bonds	2,000,000	2,015,000	15,000
(d) Current portion of long-term loans payable	4,578,000	4,581,173	3,173
(e) Investment corporation bonds	26,000,000	26,243,695	243,695
(f) Long-term loans payable	123,422,000	123,880,151	458,151
Total	156,000,000	156,720,019	720,019
Derivative transactions	—	—	—

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2016.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	3,405,993	3,405,993	—
(b) Cash and deposits in trust	7,467,924	7,467,924	—
Total	10,873,917	10,873,917	—
(c) Current portion of investment corporation bonds	—	—	—
(d) Current portion of long-term loans payable	3,978,000	3,978,107	107
(e) Investment corporation bonds	24,000,000	24,566,020	566,020
(f) Long-term loans payable	126,022,000	126,966,209	944,209
Total	154,000,000	155,510,337	1,510,337
Derivative transactions	—	—	—

(Note 1) 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.

(Note2) Redemption of monetary claims scheduled to be due after the balance sheet date (as of January 31, 2017)

(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	7,297,437	—	—	—	—	—
Cash and deposits in trust	7,759,698	—	—	—	—	—
Total	15,057,135	—	—	—	—	—

Redemption of monetary claims scheduled to be due after the balance sheet date (as of July 31, 2016)

(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	3,405,993	—	—	—	—	—
Cash and deposits in trust	7,467,924	—	—	—	—	—
Total	10,873,917	—	—	—	—	—

(Note 3) Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of January 31, 2017)

(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	2,000,000	3,000,000	3,000,000	8,500,000	2,000,000	9,500,000
Long-term loans payable	4,578,000	20,500,000	27,900,000	13,022,000	19,000,000	43,000,000
Total	6,578,000	23,500,000	30,900,000	21,522,000	21,000,000	52,500,000

Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of July 31, 2016)

(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	3,000,000	5,000,000	5,500,000	5,500,000
Long-term loans payable	3,978,000	12,600,000	22,500,000	22,922,000	12,500,000	55,500,000
Total	3,978,000	17,600,000	25,500,000	27,922,000	18,000,000	61,000,000

16. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

As of January 31, 2017

Not applicable

As of July 31, 2016

Not applicable

(2) Transactions for which hedge accounting is applied

As of January 31, 2017

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		
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	65,978,000	64,000,000	*	—

* 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 1) Method of calculating the fair value of financial instruments, and derivative transactions of “Financial instruments; (2) Fair value of financial instruments” above).

As of July 31, 2016

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		
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	67,978,000	64,000,000	*	—

* 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 1) Method of calculating the fair value of financial instruments, and derivative transactions of “Financial instruments; (2) Fair value of financial instruments” above).

17. 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	
	January 31, 2017	July 31, 2016
Cash and deposits	7,297,437	3,405,993
Cash and deposits in trust	7,759,698	7,467,924
Cash and cash equivalents	15,057,135	10,873,917

18. LEASES

Operating lease transactions (as lessor)

Future minimum rent revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

	As of	
	January 31, 2017	July 31, 2016
Due within 1 year	3,504,963	3,235,711
Due after 1 year	15,888,853	16,124,586
Total	19,393,817	19,360,298

19. 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	
	January 31, 2017	July 31, 2016
Carrying amount		
Balance at beginning of the period	333,014,247	287,406,374
Amount of increase (decrease) during the period	(674,802)	45,607,872
Balance at end of the period	332,339,444	333,014,247
Fair value at end of the period	350,910,000	351,190,000

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

(Note 2) Of the decrease during the period ended January 31, 2017, the decrease is primarily attributable to depreciation and amortization. Of the increase (decrease) during the period ended July 31, 2016, the increase is primarily attributable to the acquisition of one property (Roppongi Hills Mori Tower (25th floor) (11,263,175 thousand yen) and Roppongi Hills Mori Tower (26th, 27th and 29th floor) (35,075,085 thousand yen)), while 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”

20. 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 January 31, 2017

(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.	5,413,875	Real estate leasing business

For the six months ended July 31, 2016

(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.	5,540,523	Real estate leasing business

21. SUBSEQUENT EVENTS

Not applicable.