

5. Appendix



5-1 Financial highlights

Indices	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019	Calculation formula
Net income	5,292 mn yen	5,344 mn yen	
Depreciation and amortization	1,075 mn yen	1,058 mn yen	
CAPEX	237 mn yen	635 mn yen	
Total assets	394,539 mn yen	392,256 mn yen	
Total net assets	195,578 mn yen	195,336 mn yen	
Total net assets/unit (BPS)	104,310 yen	104,181 yen	Total net assets/Total units outstanding
Unit price (as of end of each period)	144,500 yen	160,300 yen	
Total units outstanding	1,874,960 units	1,874,960 units	
Total dividends	5,291 mn yen	5,343 mn yen	
Dividends/unit	2,822 yen	2,850 yen	
Dividend yield	3.9%	3.6%	Dividends per unit (annualized)/Unit price as of end of period
FFO	6,367 mn yen	6,402 mn yen	Net income + Depreciation and amortization - Gain or loss on sales of real estate properties
FFO/unit	3,396 yen	3,414 yen	FFO/Total units outstanding
Annualized	6,736 yen	6,886 yen	Based on a period of 365 days
FFO multiple	21.5x	23.3x	Unit price as of end of period/FFO per unit (annualized)
PER	25.8x	27.9x	Unit price as of end of period/Net income per unit (average during the periods, annualized)
PBR	1.4x	1.5x	Unit price as of end of period/Net assets per unit
ROA	1.4%	1.4%	Ordinary income/Average of total assets during the period
Annualized	2.8%	2.7%	Based on a period of 365 days
ROE	2.8%	2.7%	Net income/Average of total net assets during the period
Annualized	5.6%	5.5%	Based on a period of 365 days
NAV	252,276 mn yen	258,176 mn yen	Total net assets + Total appraisal value - Total book value - Total liabilities
NAV/unit	134,550 yen	137,697 yen	
NAV multiple	1.1x	1.2x	Unit price as of end of period/NAV per unit
Interest-bearing debt	182,222 mn yen	179,222 mn yen	
LTV (book value basis)	46.2%	45.7%	Interest-bearing debt/Total assets
LTV (appraisal value basis)	40.4%	39.4%	Interest-bearing debt/(Total assets + Total appraisal value - Total book value)
Operating days	184 days	181 days	

5-2 Balance sheet

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Assets		
Current assets	12,879,664	11,021,912
Cash and deposits	5,431,643	3,923,970
Cash and deposits in trust	6,374,508	6,295,543
Other	1,073,511	802,398
Noncurrent assets	381,541,783	381,133,241
Property, plant and equipment	349,880,238	349,458,688
Intangible assets	30,652,121	30,651,335
Investments and other assets	1,009,423	1,023,217
Deferred assets	118,511	101,365
Total assets	394,539,959	392,256,519

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Liabilities		
Current liabilities	32,756,858	30,265,364
Current portion of investment corporation bonds	3,000,000	5,000,000
Current portion of long-term loans payable	27,900,000	22,922,000
Other	1,856,858	2,343,364
Noncurrent liabilities	166,204,431	166,654,327
Investment corporation bonds	22,000,000	17,000,000
Long-term loans payable	129,322,000	134,300,000
Lease and guarantee deposited in trust	14,391,619	14,570,283
Other	490,812	784,044
Total liabilities	198,961,290	196,919,691
Net assets		
Unitholders' equity	196,067,964	196,121,658
Unitholders' capital, net	190,460,106	(Note) 190,285,734
Total surplus	5,607,858	5,835,924
Voluntary retained earnings	291,944	291,944
Unappropriated retained earnings	5,315,914	5,543,979
Valuation and translation adjustments	△ 489,295	△ 784,831
Deferred gains or losses on hedges	△ 489,295	△ 784,831
Total net assets	195,578,668	195,336,827
Total liabilities and net assets	394,539,959	392,256,519

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

5-3 Income statement

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019	
Operating revenue	9,423,895	9,561,876	
Rent revenues	9,170,318	9,323,944	Office 7,830,373 Residential 774,821 Retail 83,593 Land 629,400 Other rent revenue 5,756
Other operating revenues	253,577	237,931	
Operating expenses	3,477,948	3,589,931	
Expenses related to properties	3,131,002	3,225,332	
Asset management fee	245,488	260,906	
Directors' compensation	4,200	4,200	
Asset custody fee	9,058	9,863	
Administrative service fees	19,166	19,861	
Other operating expenses	69,031	69,767	
Operating income	5,945,947	5,971,944	
Non-operating income	1,204	1,985	
Interest income	51	58	
Gain on forfeiture of unclaimed dividends	1,128	979	
Other	24	947	
Non-operating expenses	653,502	627,646	
Interest expenses	363,550	375,336	
Interest expenses on investment corporation bonds	73,965	68,555	
Amortization of investment corporation bonds issuance cost	11,613	10,193	
Borrowing expenses	174,101	164,678	
Amortization of investment unit issuance cost	28,363	6,952	
Other	1,907	1,930	
Ordinary income	5,293,648	5,346,284	
Income before income taxes	5,293,648	5,346,284	
Net income	5,292,242	5,344,831	
Unappropriated retained earnings	5,315,914	5,543,979	

Office	7,830,373
Residential	774,821
Retail	83,593
Land	629,400
Other rent revenue	5,756
Parking revenue	59,861
Utilities and other revenue	175,152
Cancellation penalty	2,917
Property management fees	1,082,549
Property taxes	659,480
Utilities	142,229
Maintenance and repairs	117,152
Insurance premium	17,180
Custodian fees	5,950
Depreciation	1,057,798
Rent expenses	126,872
Other lease business expenses	16,118

5-4 Statement of cash flows/Retained earnings

Statement of cash flows

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Net cash provided by (used in) operating activities	6,167,720	7,147,955
Income before income taxes	5,293,648	5,346,284
Depreciation and amortization	1,075,178	1,058,120
Amortization of investment corporation bonds issuance cost	11,613	10,193
Amortization of investment unit issuance cost	28,363	6,952
Interest income	△ 51	△ 58
Gain on forfeiture of unclaimed dividends	△ 1,128	△ 979
Interest expenses	437,515	443,892
Decrease (increase) in accounts receivable	△ 195,865	279,706
Increase (decrease) in accounts payable	△ 114,701	421,879
Increase (decrease) in accrued expenses	21,705	15,761
Increase (decrease) in advances received	115,157	△ 4,105
Decrease (increase) in prepaid expenses	△ 64,913	△ 20,520
Other, net	△ 333	41,479
Subtotal	6,606,189	7,598,606
Interest income received	51	58
Interest expenses paid	△ 437,495	△ 449,279
Income taxes paid	△ 1,024	△ 1,430

Net cash provided by (used in) investing activities	△ 29,578,166	△ 445,080
Purchase of property, plant and equipment in trust	△ 30,891,345	△ 620,364
Repayments of lease and guarantee deposited in trust	△ 24,574	△ 66,699
Proceeds from lease and guarantee deposited in trust	1,337,753	241,984

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Net cash provided by (used in) financing activities	25,467,966	△ 8,289,514
Proceeds from long-term loans payable	24,600,000	12,000,000
Repayments of long-term loans payable	△ 10,500,000	△ 12,000,000
Redemption of investment corporation bonds	—	△ 3,000,000
Proceeds from issuance of investment units	16,186,522	—
Dividends paid	△ 4,818,556	△ 5,289,514
Net increase (decrease) in cash and cash equivalents	2,057,520	△ 1,586,638
Cash and cash equivalents at beginning of the period	9,748,631	11,806,152
Cash and cash equivalents at the end of the period	11,806,152	10,219,514

Retained earnings

(yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
I Unappropriated retained earnings	5,315,914,348	5,543,979,968
II Addition of dividends in excess of earnings	174,371,280	294,368,720
Allowance for temporary difference adjustments	174,371,280	294,368,720
III Amount of Dividends	5,291,137,120	5,343,636,000
Amount of dividends per unit	2,822	2,850
Dividends of earnings	5,116,765,840	5,049,267,280
Dividends of earnings per unit	2,729	2,693
Allowance for temporary difference adjustments	(Note) 174,371,280	(Note) 294,368,720
Dividends in excess of earnings per unit	93	157
(allowance for temporary difference adjustments)		
IV Retained earnings carried forward	199,148,508	494,712,688

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

5-5 Status of income and expenditures (1)

(thousand yen)

Property number	O-0			O-1			O-4			O-6		
Property name	Roppongi Hills Mori Tower			ARK Mori Building			Koraku Mori Building			Akasaka Tameike Tower		
Acquisition price	115,380,000			62,480,000			27,200,000			43,930,000		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	100%	100%	0.0PT	100%	100%	0.0PT	100%	99.4%	△ 0.6PT	99.0%	98.0%	△ 1.0PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	100%	100%	0.0PT	100%	99.6%	△ 0.4PT	96.8%	98.6%	1.8PT
Number of tenants	1	1	0	1	1	0	23	22	△ 1	143	141	△ 2
Rent revenues	2,943,450	2,943,450	—	1,351,486	1,351,486	—	648,400	652,669	4,268	755,277	782,237	26,959
Other operating revenues	—	—	—	—	—	—	100,445	90,364	△ 10,080	85,649	83,093	△ 2,556
Total property operating revenue	2,943,450	2,943,450	—	1,351,486	1,351,486	—	748,846	743,033	△ 5,812	840,927	865,330	24,402
Property management	412,351	412,351	—	167,795	167,795	—	61,268	68,904	7,635	166,741	160,883	△ 5,858
Property taxes (Note 1)	233,476	240,650	7,174	77,942	80,724	2,782	30,636	32,902	2,266	42,378	42,330	△ 47
Utilities	—	—	—	—	—	—	79,822	69,855	△ 9,967	32,722	29,679	△ 3,042
Maintenance and repairs	—	—	—	355	—	△ 355	5,895	5,221	△ 674	41,485	89,917	48,431
Insurance premium	4,179	4,083	△ 95	1,873	1,889	15	1,714	1,675	△ 39	2,134	2,084	△ 49
Depreciation (1)	392,638	352,789	△ 39,849	63,758	64,946	1,187	93,452	96,017	2,565	139,189	140,814	1,624
Other expenses (Note 2)	376	377	0	2,793	2,794	0	83,094	83,954	860	11,082	10,605	△ 476
Total property operating expenses	1,043,022	1,010,253	△ 32,769	314,519	318,150	3,631	355,884	358,532	2,647	435,734	476,315	40,581
Property operating income (2)	1,900,427	1,933,197	32,769	1,036,967	1,033,336	△ 3,631	392,961	384,501	△ 8,460	405,193	389,015	△ 16,178
NOI (3) ((1)+(2))	2,293,066	2,285,986	△ 7,079	1,100,726	1,098,282	△ 2,443	486,414	480,519	△ 5,894	544,382	529,829	△ 14,553
Annualized NOI	4,548,745	4,609,863	61,117	2,183,505	2,214,768	31,262	964,897	969,003	4,105	1,079,889	1,068,440	△ 11,449
Annualized NOI/ Acquisition price	3.9%	4.0%	0.1PT	3.5%	3.5%	0.1PT	3.5%	3.6%	0.0PT	2.5%	2.4%	△ 0.0PT
CAPEX (4)	—	173,176	173,176	57,027	47,086	△ 9,940	45,077	43,668	△ 1,408	39,884	109,503	69,618
NCF (3)-(4)	2,293,066	2,112,810	△ 180,255	1,043,698	1,051,195	7,497	441,336	436,850	△ 4,486	504,498	420,326	△ 84,171

(Note 1) For property tax, city planning tax and depreciable assets tax, MHR charges the amount of property taxes assessed and determined applicable to the fiscal period to expenses related to properties. Registered owners of properties in Japan as of January 1 are responsible for paying property taxes for the calendar year based on assessments by local governments. Therefore, registered owners who sold properties to MHR were liable for property taxes for the calendar year, including the period from the date of the acquisition by MHR until the end of the year. MHR reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate.

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

(Note 3) Property acquired during the relevant period. "Annualized NOI/ Acquisition price" was calculated by taking into consideration the changes in acquisition price during the relevant period.

"Annualized NOI" denotes the value which is based on the acquisition price as of the end of the relevant period.

5-6 Status of income and expenditures (2)

(thousand yen)

Property number	O-7			O-8			O-9			O-10		
Property name	Atago Green Hills			ARK Hills South Tower			Toranomori Hills Mori Tower			Holland Hills Mori Tower		
Acquisition price	42,090,000			19,150,000			36,210,000 (before acquisition 10,140,000)			16,330,000 (before acquisition 11,760,000)		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	100%	100%	0.0PT	98.3%	99.9%	1.6PT	100%	100%	0.0PT	100%	100%	0.0PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	98.3%	99.1%	0.8PT	100%	100%	0.0PT	100%	100%	0.0PT
Number of tenants	1	1	0	42	43	1	1	1	0	24	24	0
Rent revenues	1,012,320	1,012,320	—	472,458	480,659	8,200	676,307	775,581	99,274	495,055	516,131	21,076
Other operating revenues	—	—	—	35,814	31,746	△ 4,068	—	—	—	31,666	30,451	△ 1,215
Total property operating revenue	1,012,320	1,012,320	—	508,273	512,405	4,132	676,307	775,581	99,274	526,722	546,583	19,860
Property management	2,664	2,664	—	47,195	48,709	1,513	78,806	90,374	11,567	96,600	102,029	5,429
Property taxes (Note 1)	68,655	68,806	150	32,951	34,563	1,611	8,030	33,818	25,787	19,895	27,732	7,837
Utilities	—	—	—	36,692	32,097	△ 4,595	—	—	—	8,441	8,113	△ 327
Maintenance and repairs	—	—	—	3,001	3,799	797	—	—	—	1,617	6,925	5,308
Insurance premium	3,426	3,533	106	1,048	1,026	△ 22	1,104	1,267	162	946	1,047	101
Depreciation (1)	178,221	181,625	3,403	44,212	44,225	13	89,420	101,038	11,617	44,640	47,308	2,667
Other expenses (Note 2)	44,867	43,477	△ 1,389	978	2,941	1,963	63	71	7	202	209	7
Total property operating expenses	297,835	300,106	2,270	166,080	167,362	1,281	177,425	226,569	49,143	172,344	193,366	21,022
Property operating income (2)	714,484	712,213	△ 2,270	342,192	345,042	2,850	498,881	549,012	50,131	354,378	353,216	△ 1,161
NOI (3) ((1)+(2))	892,706	893,839	1,132	386,405	389,268	2,863	588,302	650,050	61,748	399,019	400,524	1,505
Annualized NOI	1,770,858	1,802,493	31,635	766,510	784,989	18,478	1,340,044	1,310,875	△ 29,169	833,359	807,687	△ 25,671
Annualized NOI/Acquisition price	4.2%	4.3%	0.1PT	4.0%	4.1%	0.1PT	3.7%	3.6%	△ 0.1PT	5.1%	4.9%	△ 0.2PT
CAPEX (4)	33,649	186,454	152,804	—	2,167	2,167	—	—	—	13,371	19,751	6,380
NCF (3)-(4)	859,056	707,385	△ 151,671	386,405	387,101	695	588,302	650,050	61,748	385,647	380,772	△ 4,874

5-7 Status of income and expenditures (3)

(thousand yen)

Property number	R-3			R-4			S-1			Portfolio total		
Property name	Roppongi First Plaza			Roppongi View Tower			Laforet Harajuku (Land)					
Acquisition price	2,100,000			4,000,000			21,820,000			390,690,000 (before acquisition 360,050,000)		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	92.9%	87.4%	△ 5.5PT	96.8%	95.1%	△ 1.7PT	100%	100%	0.0PT	99.6%	99.4%	△ 0.2PT
Avg. Occupancy rate (during period)	96.7%	87.8%	△ 8.9PT	94.9%	93.9%	△ 1.0PT	100%	100%	0.0PT	99.4%	99.4%	0.0PT
Number of tenants	39	37	△ 2	89	87	△ 2	1	1	0	365	359	△ 6
Rent revenues	85,648	78,796	△ 6,851	100,512	101,211	698	629,400	629,400	—	9,170,318	9,323,944	153,626
Other operating revenues	—	—	—	—	2,276	2,276	—	—	—	253,577	237,931	△ 15,645
Total property operating revenue	85,648	78,796	△ 6,851	100,512	103,487	2,975	629,400	629,400	—	9,423,895	9,561,876	137,981
Property management	14,892	13,165	△ 1,726	13,643	15,671	2,028	—	—	—	1,061,959	1,082,549	20,589
Property taxes (Note 1)	7,496	7,718	222	11,432	11,739	306	74,752	78,492	3,740	607,648	659,480	51,832
Utilities	1,302	1,326	24	1,098	1,156	57	—	—	—	160,080	142,229	△ 17,850
Maintenance and repairs	8,021	10,020	1,999	1,253	1,268	15	—	—	—	61,629	117,152	55,523
Insurance premium	235	230	△ 5	352	343	△ 8	—	—	—	17,014	17,180	165
Depreciation (1)	12,395	12,017	△ 378	16,859	17,015	155	—	—	—	1,074,791	1,057,798	△ 16,992
Other expenses (Note 2)	3,835	3,822	△ 12	585	686	100	—	—	—	147,879	148,941	1,061
Total property operating expenses	48,178	48,302	124	45,225	47,881	2,656	74,752	78,492	3,740	3,131,002	3,225,332	94,329
Property operating income (2)	37,470	30,494	△ 6,975	55,287	55,606	318	554,648	550,907	△ 3,740	6,292,892	6,336,544	43,651
NOI (3) ((1)+(2))	49,865	42,512	△ 7,353	72,147	72,621	474	554,648	550,907	△ 3,740	7,367,683	7,394,342	26,658
Annualized NOI	98,918	85,728	△ 13,189	143,118	146,447	3,328	1,100,252	1,110,946	10,693	14,823,744	14,911,243	87,498
Annualized NOI/Acquisition price	4.7%	4.1%	△ 0.6PT	3.6%	3.7%	0.1PT	5.0%	5.1%	0.1PT	3.8%	3.8%	0.0PT
CAPEX (4)	4,627	5,840	1,212	43,895	48,039	4,143	—	—	—	237,533	635,687	398,154
NCF (3)-(4)	45,238	36,671	△ 8,566	28,251	24,582	△ 3,669	554,648	550,907	△ 3,740	7,130,150	6,758,654	△ 371,495

5-8 Unit price performance since IPO

Relative price performance (Since IPO - July 31, 2019)



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

Unit price per period-end (closing price)

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

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

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

(Reference)

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

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

Investments focusing on Premium Properties

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

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

Premium Properties

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

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

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

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

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

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

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

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

5-10 Sustainability initiatives

Approach and System of Sustainability

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

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

Sustainability Promotion System

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

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

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

Initiatives Throughout the Entire Supply Chain

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

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

<Green Building Certification and External Assessment>

○ Green Building Certified Properties

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

(Certificates Coverage Ratio)

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

※ Excluding Laforet Harajuku (Land)

○ GRESB Real Estate Rating



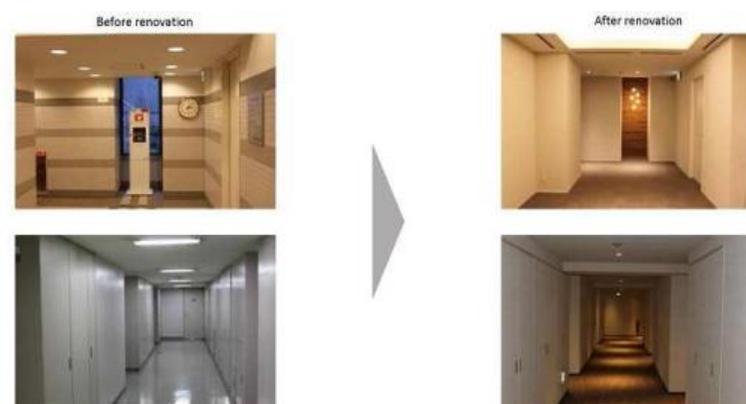
In the 2019 GRESB Survey, MHR received a **"Green Star"** rating for the eighth consecutive year, and **"received 4 Stars"** in the GRESB Rating.

<Reduction of Environmental Loads>

○ Promotion of Energy-conservation

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

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



○ Collaborating with Tenants

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

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

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

<Initiatives with Employees>

○ Talent Development

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

(Qualifications held by employees as of the end of August 2019)

- ARES Certified Master: 7
- Real Estate Appraiser: 3
- Real Estate Transaction Agent: 9
- Certified Building Administrator: 4
- Certified Public Accountant: 3
- Chartered Member of Securities Analysts Association of Japan: 1
- Certified Internal Auditor: 1

○ Employee Stock Ownership Plan (ESOP)

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

○ Promoting Women's Participation

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

<Initiatives with Tenants and Local Communities>

○ Tenant Satisfaction Surveys

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

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

○ Local Communities

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



<Initiatives with Investors>

○ All Japanese Listed Companies' Website Ranking

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



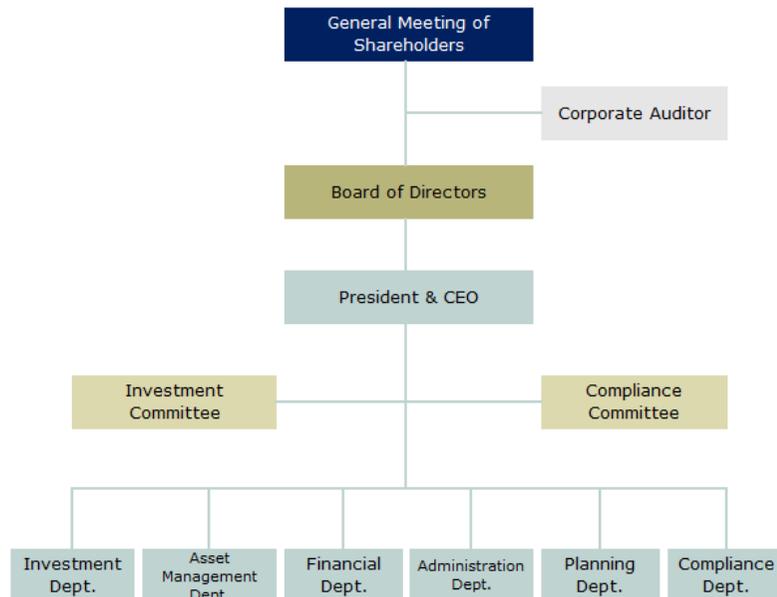
5-11 Sustainability initiatives: Governance

<Corporate Governance>

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

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

(MIM's organization)

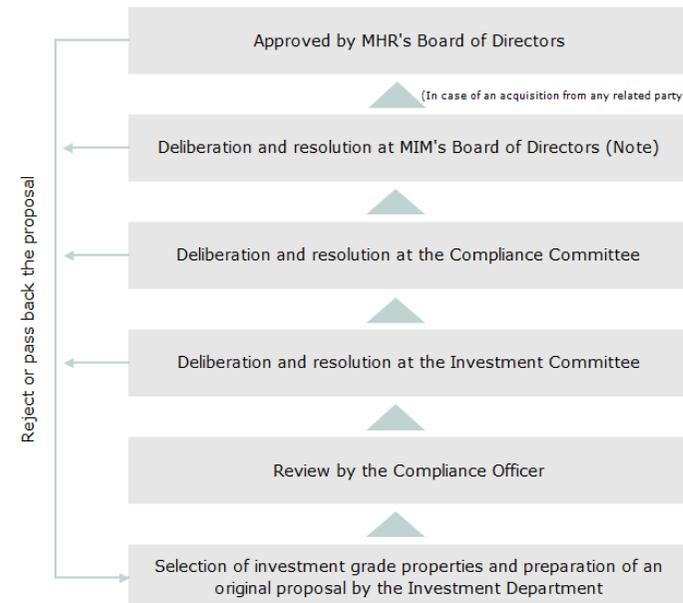


<Compliance>

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

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

(Process to counter transactions involving conflicts of interest)

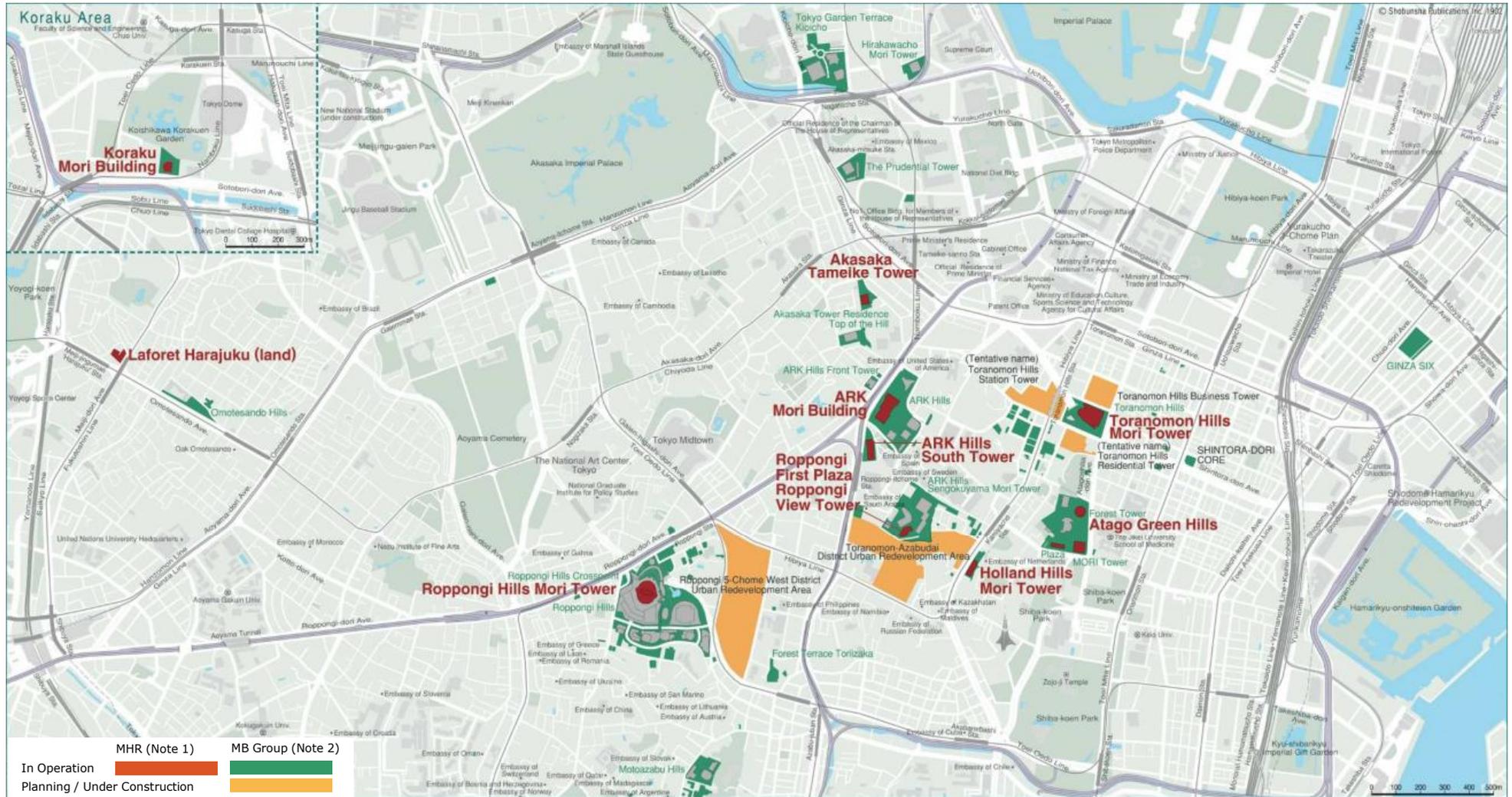


(Note) Director who are classified as a related party officer is not able to participate in the resolution when acquiring asset from a related party.

5-14 Portfolio map (As of July 31, 2019)



HILLS REIT



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

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

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

5-15 Portfolio overview (As of July 31, 2019)

Type	Office building						Office building (Partly residential)				Residential		Retail	
Property name	Roppongi Hills Mori Tower	ARK Mori Building	Koraku Mori Building	ARK Hills South Tower	Toranomon Hills Mori Tower	Holland Hills Mori Tower	Akasaka Tameike Tower	Atago Green Hills			Roppongi First Plaza	Roppongi View Tower	Laforet Harajuku (Land)	
	O-0	O-1	O-4	O-8	O-9	O-10	O-6	MORI Tower	Forest Tower	Plaza	R-3	R-4	S-1	
Photo														
Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium			Premium	-	Premium	
Location	Roppongi, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Koraku, Bunkyo-ku, Tokyo	Roppongi, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Atago, Minato-ku, Tokyo		Toranomon, Minato-ku, Tokyo	Roppongi, Minato-ku, Tokyo		Jingumae, Shibuya-ku, Tokyo	
Completion	Apr. 2003	Mar. 1986 (Large-scale renovation in 2005)	Mar. 2000	Jul. 2013	May. 2014	Jan. 2005	Sep. 2000	Jul. 2001	Oct. 2001	Jul. 2001	Oct. 1993		-	
Building age	16 years 3 months	33 years 4 months	19 years 4 months	6 years 0 month	5 years 2 months	14 years 6 months	18 years 10 months	18 years 0 month	17 years 9 months	18 years 0 month	25 years 9 months		-	
Total number of floors	54 above ground, 6 below	37 above ground, 4 below	19 above ground, 6 below	20 above ground, 4 below	52 above ground, 5 below	24 above ground, 2 below	25 above ground, 2 below	42 above ground, 2 below	43 above ground, 4 below	2 above ground, 1 below	20 above ground, 1 below		-	
Gross floor area	approx. 442,150m ²	approx. 177,486m ²	approx. 46,154m ²	approx. 53,043m ²	approx. 241,581m ²	approx. 35,076m ²	approx. 46,971m ²	approx. 85,266m ²	approx. 60,815m ²	approx. 2,083m ²	approx. 22,906m ²		-	
Ownership (Note 1)	Land	Co-ownership (approx. 17.7%)	Co-ownership (approx. 10.9%)	Leased	Co-ownership (approx. 25%)	Co-ownership (approx. 12.7%)	Co-ownership (approx. 62.9%)	Co-ownership (approx. 56.4%)	Co-ownership (approx. 28.8%)			Co-ownership (approx. 47%)	Co-ownership (approx. 46%)	Ownership
	Building	Compartmentalized ownership (approx. 13.6%)	Compartmentalized ownership (approx. 17.9%)	Compartmentalized ownership (approx. 57.9%)	Co-ownership (approx. 25%)	Co-ownership (approx. 6.9%)	Compartmentalized ownership (approx. 48.5%)	Compartmentalized ownership (approx. 65.5%)	Co-ownership (approx. 32.9%)			Compartmentalized ownership (approx. 46.4%)	Compartmentalized ownership (approx. 44.7%)	-
PML (Note 2)	0.59%	0.78%	0.73%	1.56%	0.50%	0.85%	1.79%	2.35%	2.34%	5.94%	2.20%	2.20%	-	
Earthquake-resistant feature (Note 3)	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	-	-	-	-				
Acquisition price (mn yen)	115,380	62,480	27,200	19,150	36,210	16,330	43,930	42,090			2,100	4,000	21,820	
Occupancy rate (Note 4)	100%	100%	99.4%	99.9%	100%	100%	98.0%	100%			87.4%	95.1%	100%	

Average building age
18.4 years (Note 5)

Portfolio PML
0.93% (Note 2)

Total acquisition price
390,690 mn yen

5-15 Portfolio overview (Note)

- (Note 1) "Type of ownership" denotes the type of rights held by MHR or the Trustee. "Ownership" stands for ownership, "Co-ownership" stands for the ownership of beneficiary interests, "Compartmentalized ownership" denotes ownership and the rights for exclusive use in or over parts of a building, and "Leased land" denotes Leasehold land. The land site of Atago Green Hills includes joint ownership in quasi-undivided interests of leasehold land and easement.
- (Note 2) This indicates the figure described in the "Report on evaluation of seismic PML for portfolio" dated June 4, 2018 by Sompoo Risk Management & Health Care Inc.
- (Note 3) ARK Mori Building adopts "slitwall" as an earthquake-resistant feature.
- (Note 4) "Occupancy rate" indicates the figures as of July 31, 2019.
- (Note 5) For calculation of the "Average building age" of Atago Green Hills, we have assumed that construction of the building was completed on July 30, 2001.