



Mori Hills REIT Investment Corporation

Semiannual Report

**14th Fiscal Period
(February 1, 2013 – July 31, 2013)**

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 fourteenth fiscal period which ended July 31, 2013.

In the fourteenth fiscal period, the Japanese economy experienced continued depreciation of the yen and increasing equity prices driven largely by measures taken by the new Abe administration. As a result, the domestic economy showed signs of a self-sustaining recovery as corporate earnings improved, particularly those in the manufacturing sector, while private consumption was strong due to the improvement in consumer sentiment.

Within this economic environment, the rental office building market is starting to see signs of improvement centering on large blue-chip properties as the supply of large-scale office buildings in central Tokyo was significantly below the historical average and demand for floor space increased with the rebound in economic sentiment. In the luxury rental housing market, occupancy rates and rents have remained at stable levels as supply was low and overseas business tenants are increasing employee housing allowances in line with the depreciation of the yen. As for the real estate trading market, property acquisition, listings of new J-REITs and public offerings of existing J-REITs continued to grow steadily, partially due to the favorable fund procurement environment, and the total amount of property acquisitions by J-REITs reached a record level in the first half.

In the fourteenth fiscal period, MHR strove to enhance tenant satisfaction through such measures as meticulous operational management and systematic maintenance and repair of properties in its portfolio. Moreover, MHR maintained and enhanced occupancy rates by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy while taking into account the quality of tenants.

MHR’s real estate portfolio as of the end of the fourteenth fiscal period was comprised of 9 properties under management with a total leasable floor area of 112,337.42 m². MHR has invested 230,816 million yen (based on acquisition price) into this portfolio. The occupancy rate at the end of the fourteenth fiscal period was 99.5%.

The asset management activities described above resulted in MHR recording 5,052 million yen in operating revenue, 3,430 million yen in operating income, 2,433 million yen in ordinary income, 2,432 million yen in net income and 9,552 yen in dividend per unit in the fourteenth fiscal period.

Also, in September 2013, MHR issued new investment units through a public offering and additionally acquired Roppongi Hills Mori Tower (acquisition price: 21,900 million yen) on October 1, 2013 with part of the procured funds, etc. The property’s NOI yield level is above the average NOI yield of MHR’s existing portfolio and a positive contribution to the increase in asset size and dividend per unit is expected. Dividend per unit of 10,000 yen is forecasted for the fifteenth fiscal period ending January 31, 2014.

MHR will seek to maximize investor value through continuously conducting dividend-oriented management, by placing further enhancement of the portfolio NOI cap rate through external growth and by further strengthening its financial standing - primarily by reducing borrowing costs and extending the average duration of loans payable.

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: 14th period

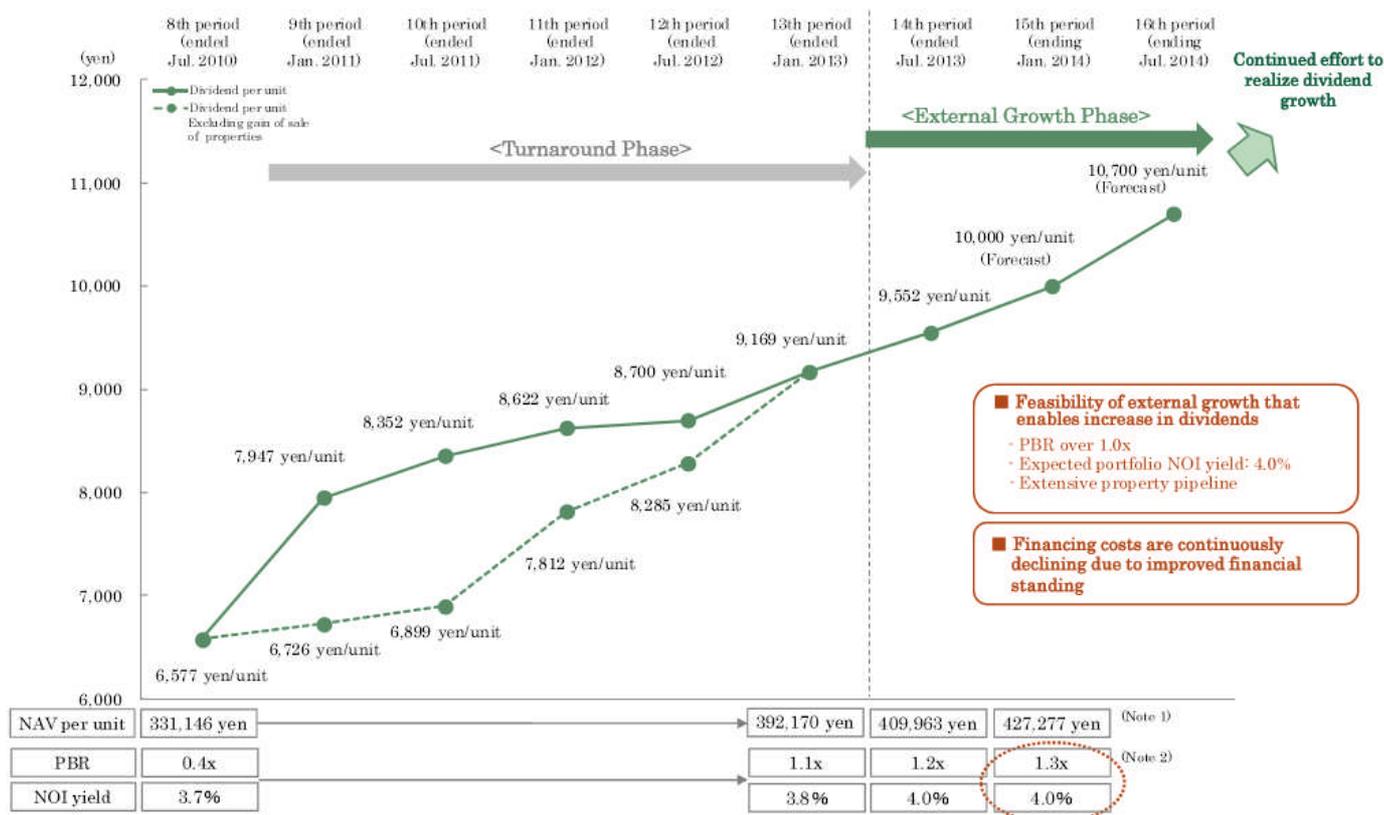
9,552 yen

Dividend per unit: 15th period forecast*

10,000 yen

*The forecasted figures above are the current figures calculated based on certain assumptions. Accordingly, the figures may differ from actual results. Furthermore, these forecasts shall not be construed as a guarantee of dividend amounts.

Change in dividend per unit



(Note 1) The impact of repayment of 1 billion yen in borrowings, proceeds from the issuance of new investment units, the asset acquisition dated October 1, 2013 and new borrowings of 10.5 billion yen is taken into consideration to calculate the figure for the end of the 14th period. The assumed number of investment units is 276,985 units.

(Note 2) PBR is calculated based on "Unit price as of September 13, 2013 ÷ Net assets per unit (sum of the net assets of 14th period, the total amount of proceeds through the primary offering and the third-party allotment of the public offering divided by 276,985 investment units outstanding)."

Results of 14th period and Forecast of 15th period

(million yen)

	Actual	Forecast	Difference
	14th period (February 1, 2013 - July 31, 2013)	15th period (August 1, 2013 - January 31, 2014)	15th - 14th period
Operating Days	181 days	184 days	
Operating revenue	5,052	5,617	+564
Operating income	3,430	3,800	+369
Ordinary income	2,433	2,770	+337
Net income	2,432	2,769	+337
Dividend/unit (yen)	9,552	10,000	+448
Total units outstanding (units)	254,620	276,985	
Total acquisition price	231,816	252,716	

New 2013 Management Policy

MHR announced the New Management Policy on February 15, 2013, and has begun transitioning to an “External Growth Phase.”

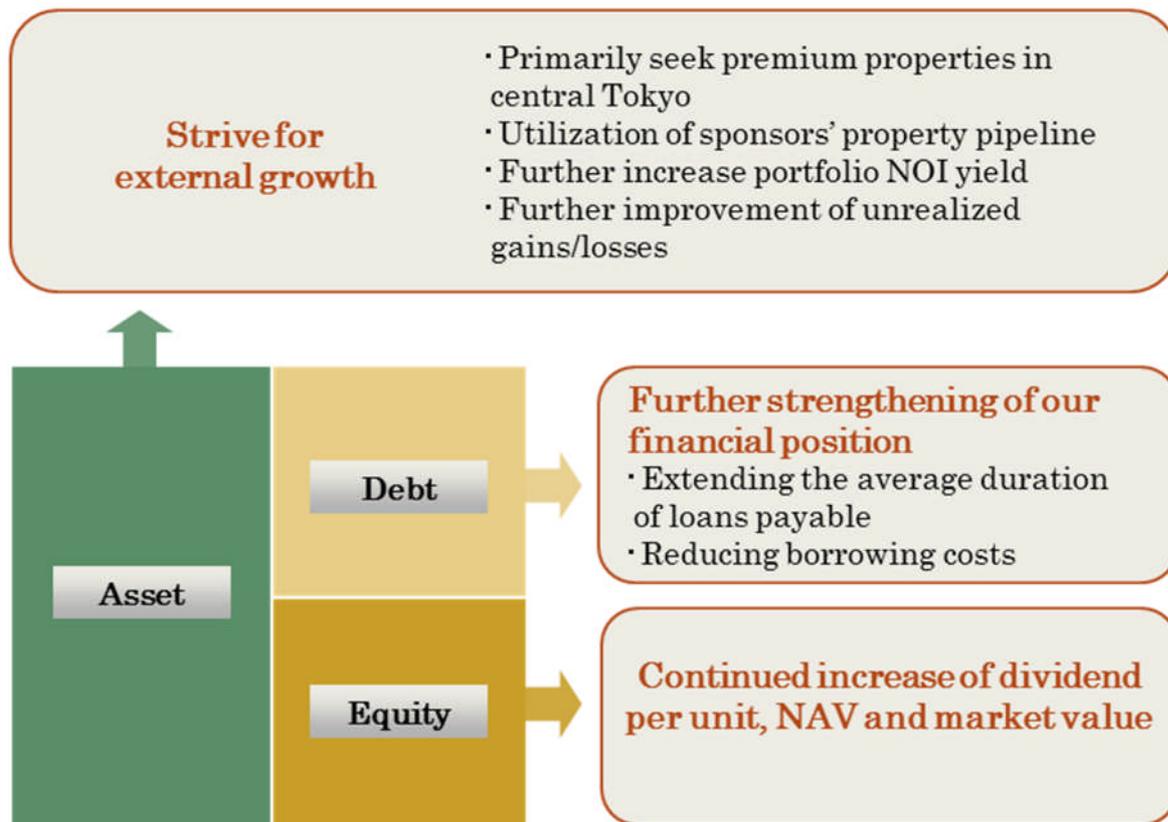
New 2013 Management Policy

Basic policy “Dividend-driven management”

Policy ① Strive for external growth

Policy ② Further strengthening of our financial position

Policy ③ Continued increase of dividend per unit, NAV and market value

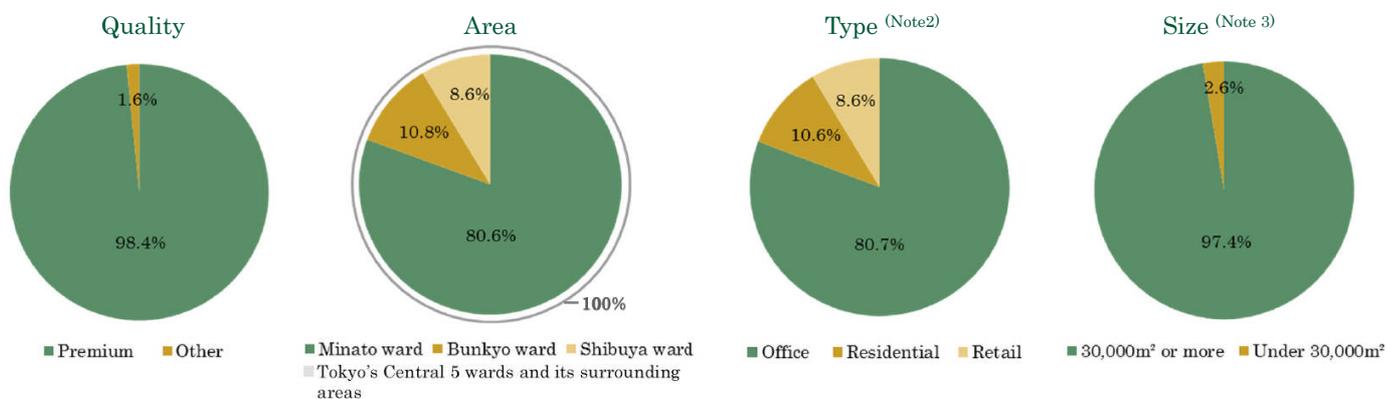


Portfolio List (as of October 1, 2013)

MHR primarily focuses on office buildings, with a percentage of the portfolio allocated to residential and retail assets (land). Total portfolio acquisition price is 252,716 million yen.

 <p>O-0 PREMIUM Roppongi Hills Mori Tower</p>	 <p>O-1 PREMIUM ARK Mori Building</p>	 <p>O-4 PREMIUM Koraku Mori Building</p>
 <p>O-6 PREMIUM Akasaka Tameike Tower</p>	 <p>O-7 PREMIUM Atago Green Hills</p>	 <p>R-1 PREMIUM Moto-Azabu Hills</p>
 <p>R-3 PREMIUM Roppongi First Plaza</p> <p>R-4 PREMIUM Roppongi View Tower</p>	 <p>S-1 PREMIUM Laforet Harajuku (land)</p>	

Portfolio Summary (as of October 1, 2013) (Note1)



(Note 1) Ratios are based on acquisition price.

(Note 2) Acquisition price for Akasaka Tameike Tower and Atago Green Hills are divided into offices and residences.

(Note 3) Chart showing "Size" does not include Laforet Harajuku (land).

Offering Highlights

MHR resumed the expansion of portfolio size with acquisitions of assets through public offering resulting in increased DPU.

	13th period (ended Jan. 2013)	Total PO amount paid in 10.9 billion yen	April 1, 2013 Acquired assets	14th period (ended Jul. 2013)	Total PO amount paid in 11.3 billion yen	October 1, 2013 Acquired asset	After acquisition of asset (Forecast of 15 th period)
Total assets (acquisition price basis)	210.8 billion yen	+	20.0 billion yen	230.8 billion yen	+	21.9 billion yen	252.7 billion yen
NOI yield (Note 1)	3.8%	+	4.9%	4.0%	+	4.0%	4.0%
Unrealized capital gain			+1.45 billion yen			+2.6 billion yen	
LTV (appraisal value basis) (Note 2)	52.0%			50.9%			49.7% (Note 4)
LTV (book value basis) (Note 3)	48.8%			48.5%			48.1% (Note 4)
NAV per unit	392,170 yen			409,963 yen			427,277 yen (Note 4)
Dividend per unit	9,169 yen/unit			9,552 yen/unit			10,000 yen/unit (Forecast of 15 th period) 10,700 yen/unit (Forecast of 16 th period)

(Note 1) Figures for the 13th, 14th periods and forecast of 15th period are average NOI yields of the entire portfolio.

(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)]

(Note 3) LTV (book value basis) is calculated as [Interest bearing debt/Total assets]

(Note 4) The impact of repayment of 1 billion yen in borrowings, proceeds from the issuance of new investment units, the asset acquisition dated October 1, 2013 and new borrowings of 10.5 billion yen have been taken into consideration to calculate the figure for the end of the 14th period. The assumed number of investment units is 276,985 units.

Property Acquisition (as of October 1, 2013)

MHR acquired additional portions of Roppongi Hills Mori Tower on October 1, 2013.

Roppongi Hills Mori Tower Premium

(2 floors: 23th & 24th)



[Details of the acquired asset]

Property No.	0-0
Location	6-10-1, Roppongi, Minato-ku, Tokyo
Completion	April 2003
Structure	54 floors above ground, 6 floors below
Gross floor area	442,150.70m ²

Acquired portion	Type of specified asset	Sectional ownership
	Leasable floor area	8,609.47m ²
	Acquisition price	21,900 million yen
	Appraisal value	24,500 million yen (as of Jun. 1, 2013)

[Income & expense projections]

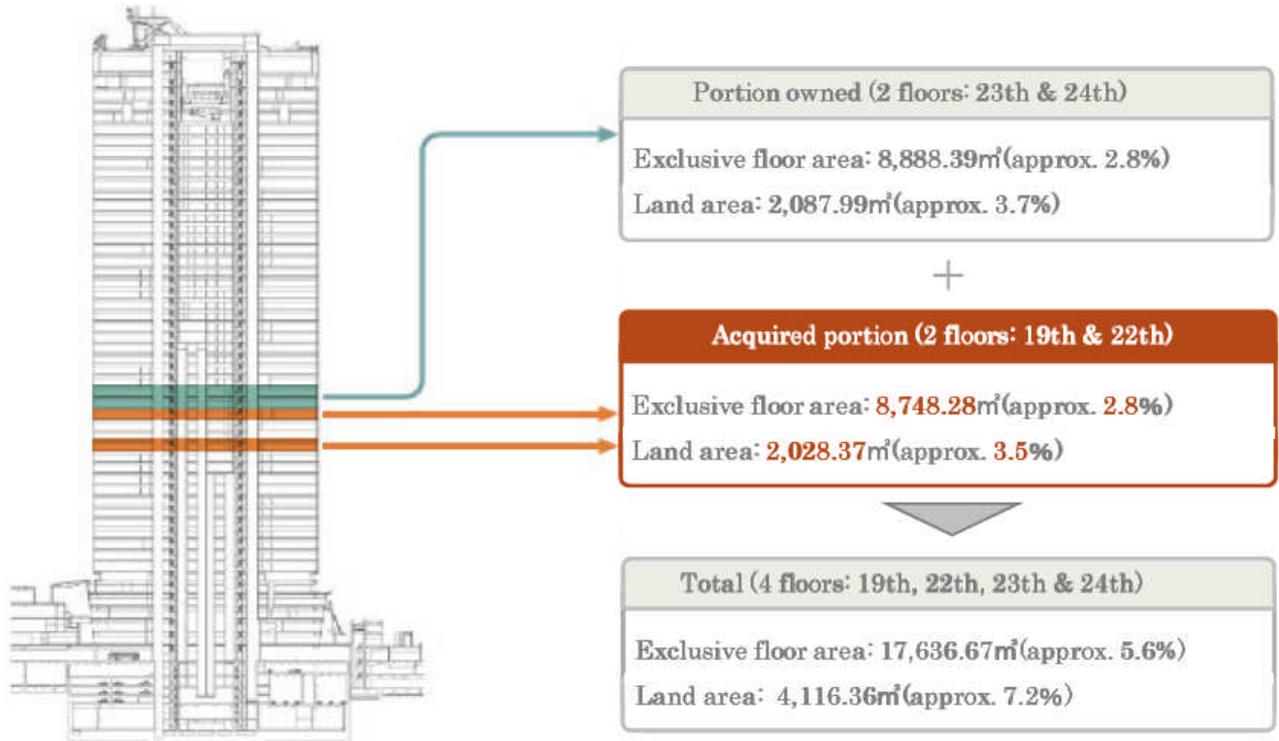
	(thousand yen)
Projected property income (1)	1,140,711
Projected property expenses (2)	259,430
Projected NOI ((3): (1)-(2))	881,280
NOI yield ((3)/ acquisition price)	4.0%

[Portfolio PML as of July 9, 2013]

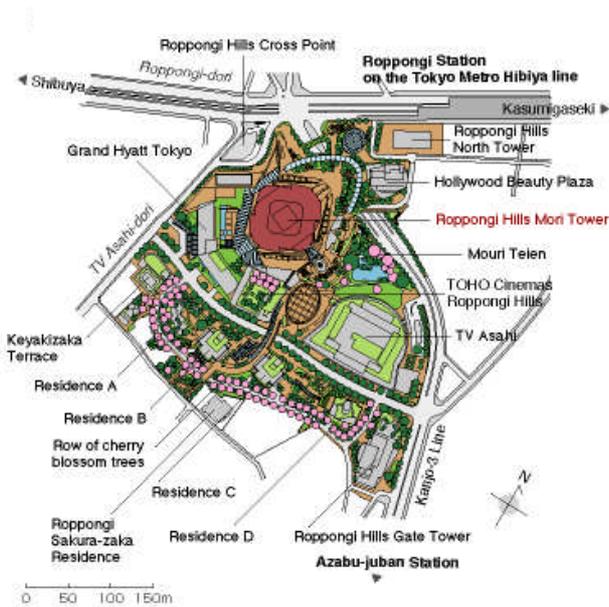
PML
0.29%

(Note) The figures above are the annual income and expense after excluding factors specific to the fiscal year of acquisition, and the figures are not forecasted figures for the next fiscal period. The projected property expenses do not include depreciation and amortization.

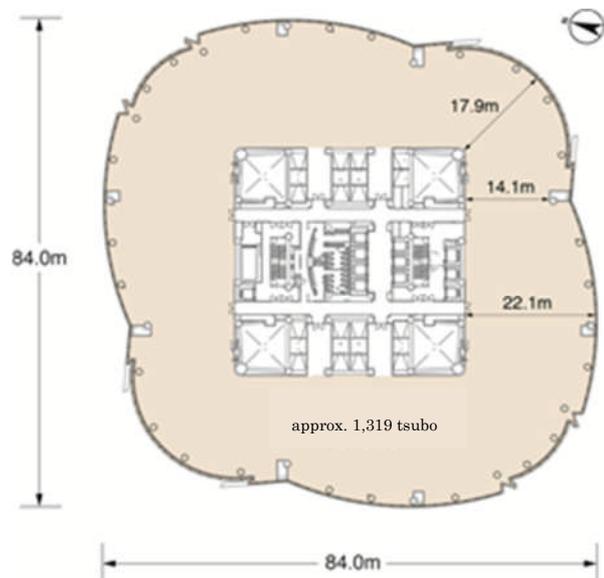
[Cross-section View]



[Building Layout]



[Cross-sectional Diagram of the Standard Floor]





HILLS REIT

Mori Building's Extensive Property Pipeline

- Total assets of 1.3 trillion yen as of March 2013
- 111 buildings for lease as of March 2013

MHR has "preferential negotiation rights" (Note 1)

Mori Building's development projects (Including future development)

[New redevelopment by Mori Building]

A. ARK Hills South Tower

B. Toranomom Hills (Note 2)



[Properties owned by Mori Building Group]

Office/Residential/Retail, etc.

Office/Residential/Retail, etc.

Office/Residential/Retail

Office/Residential/Retail

Residential

Retail/Residential



1. Roppongi Hills
(Portion of property owned by MHR)



2. ARK Hills
(Portion of property owned by MHR)



3. Atago Green Hills
(Portion of property owned by MHR)



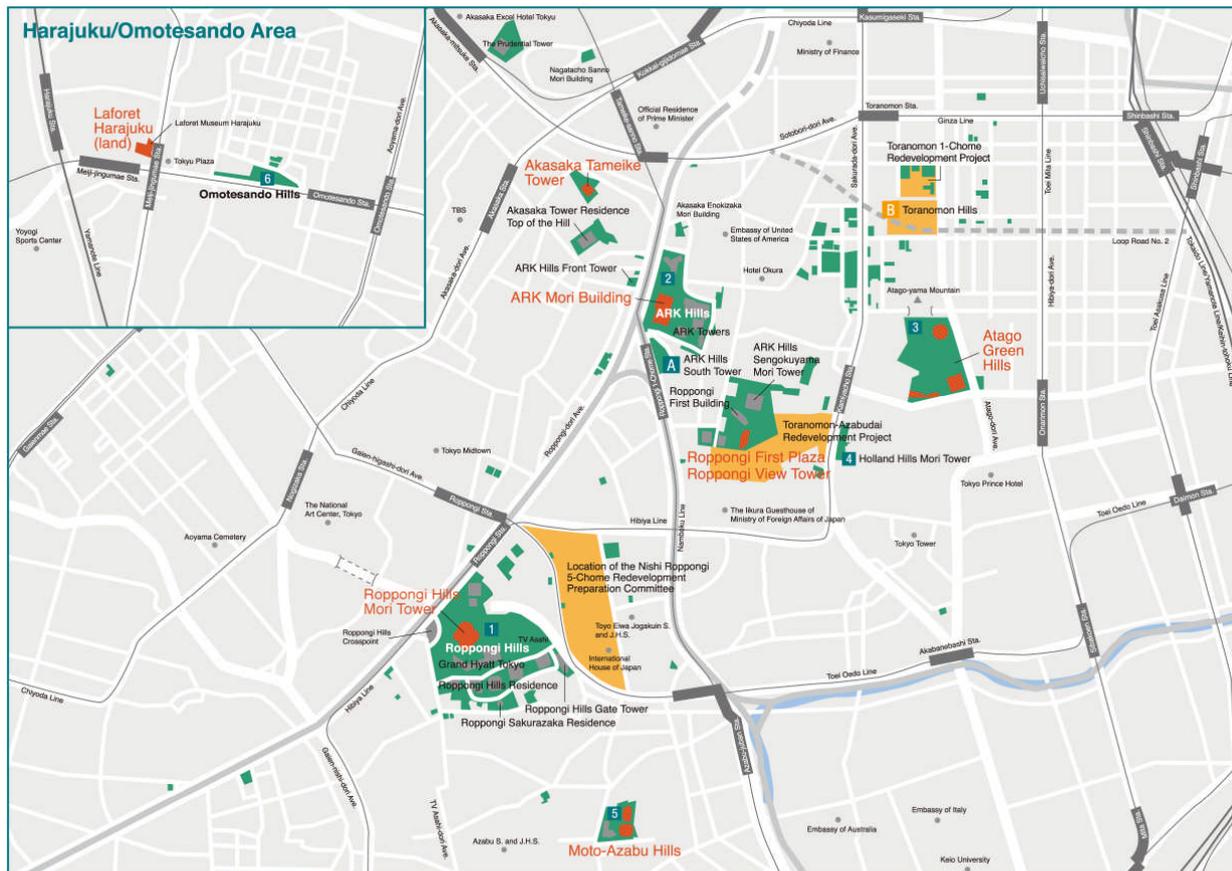
4. Holland Hills



5. Moto-Azabu Hills
(Portion of property owned by MHR)



6. Omotesando Hills



(Source) Prepared by the Asset Management Company based on Mori Building's "Mori Building Handy Map Mori Building Map/Home Route Support Map 2013"
 (Note 1) Some exemptions included.
 (Note 2) Mori Building was appointed as a distinct developer.
 (Note 3) Some of the above were partially acquired or are held by MHR.
 (Note 4) Properties are developed, owned, managed and planned for development by Mori Building Group, and there are no properties to be acquired as of the date of this material, excluding Roppongi Hills Mori Tower which was acquired on October 1, 2013.

MHR^{Note 3)} Mori Building Group^{Note 4)}
 In operation
 Planning / Under Construction

Debt Status (as of July 31, 2013)

MHR aims to optimally procure capital by accurately assessing financial and capital market trends. MHR will continuously strive to negotiate lower interest rates.

Financial Figures

	End of 10th period (as of July 2011)	End of 13th period (as of January 2013)	End of 14th period (as of July 2013)
Debt Balance	107,112mn yen	106,825mn yen	116,762mn yen
LTV (total assets basis) (Note 1)	48.9%	48.8%	48.5%
LTV (appraisal value basis) (Note 2)	56.4%	52.0%	50.9%
Avg. remaining duration	1.29 years	1.81 years	1.95 years

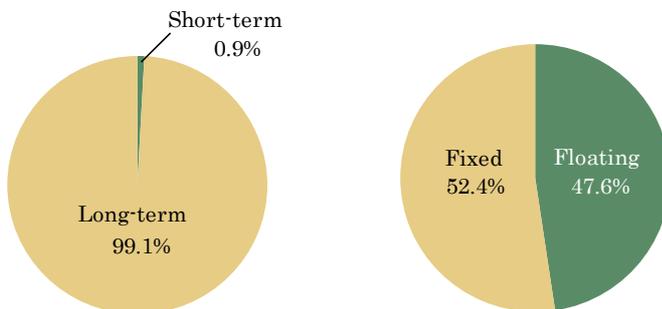
(Note 1) LTV (book value basis) is calculated as [Interest bearing debt/Total assets]

(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)]

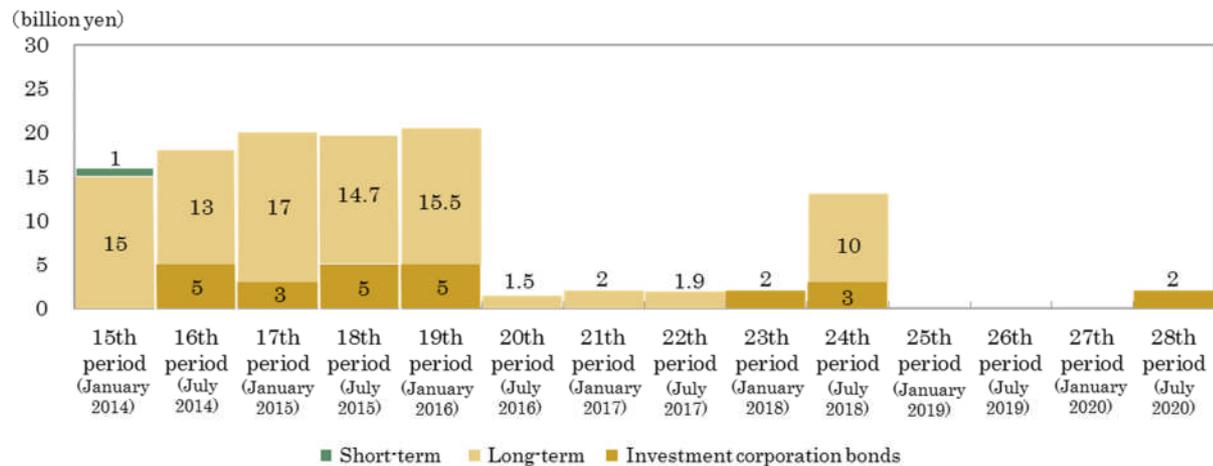
Rating

Japan Credit Rating (JCR)
Long-term issuer rating:
AA- (Stable)

Long and Short-term Debt Ratio / Fixed Rate Ratio



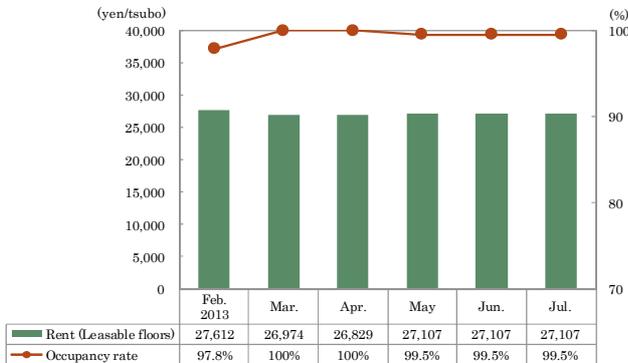
Overview of Maturity (as of July 31, 2013)



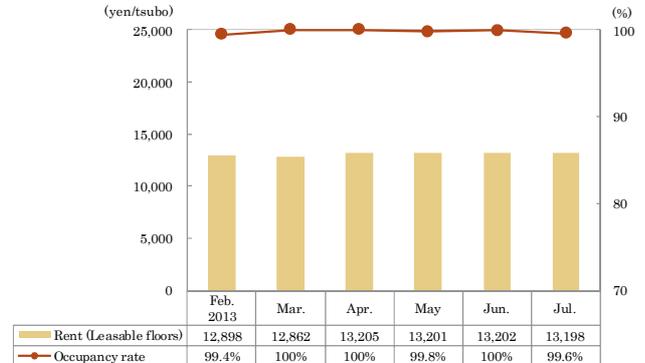
Portfolio Management

MHR has maintained stable operating revenue by increasing the percentage of fixed rent master leases.

Office



Residential



Actions to Achieve Sustainability

[Acquisition of Highest Rank in CASBEE Real Estate Certification System for Pilot Evaluation]

The Comprehensive Assessment System for Built Environment Efficiency (CASBEE) was established under the leadership of the Ministry of Land, Infrastructure, Transport and Tourism to appropriately identify and evaluate profit-oriented real estate such as office buildings which are well managed and have high environmental performance and value. It evaluates five categories, namely "energy and greenhouse gases," "water," "resource use and safety," "biodiversity and site" and "indoor environment," considering indices that are common around the globe such as LEED, an international environmental certification system.

In the pilot evaluation before full-fledged operation in fiscal 2013, MHR acquired rank S (the highest rank) ratings for Roppongi Hills Mori Tower, ARK Mori Building and Atago Green Hills (MORI Tower) and a rank A rating for Koraku Mori Building.



Roppongi Hills Mori Tower

Rank S: ★★★★★



ARK Mori Building

Rank S: ★★★★★



Atago Green Hills MORI Tower

Rank S: ★★★★★



Koraku Mori Building

Rank A: ★★★★★

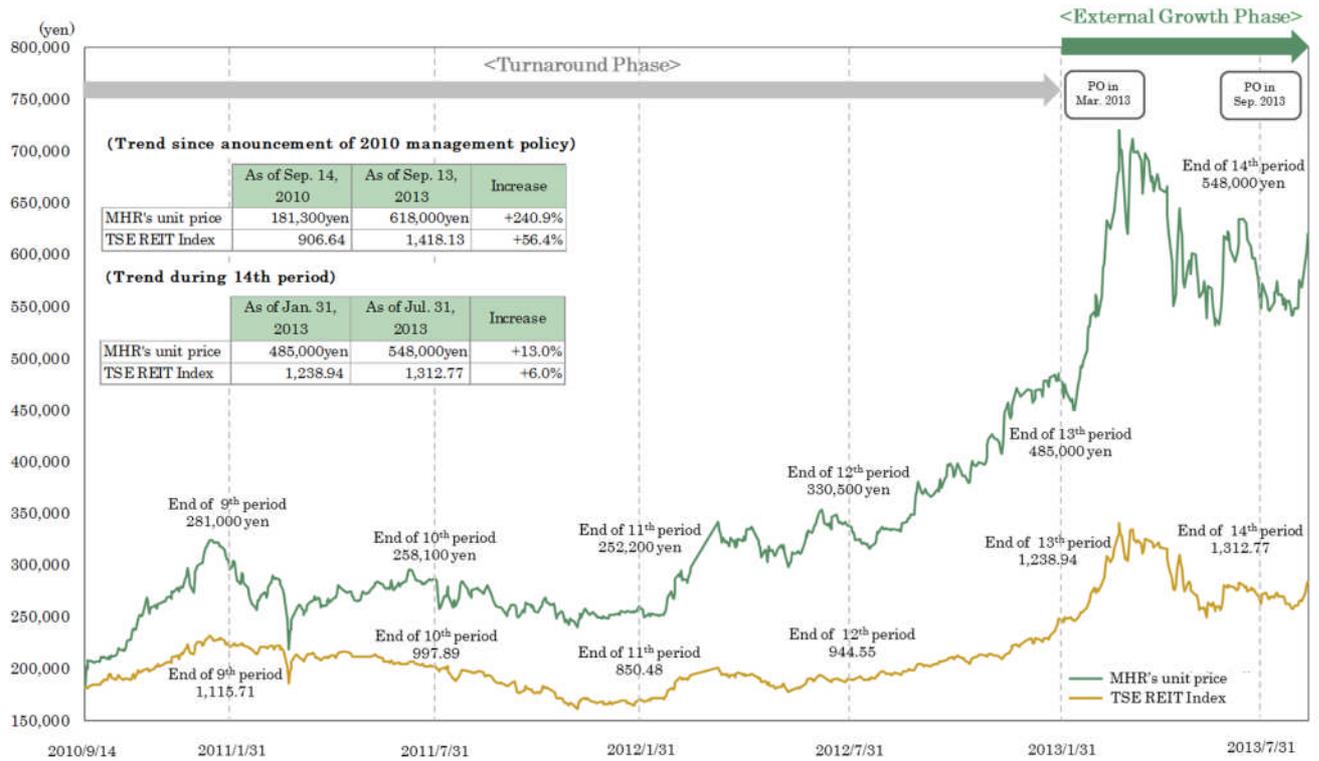
[Acquired GRESB Green Star Ratings]

For the 2nd consecutive year, MHR received a "Green Star" award in the Global Real Estate Sustainability Benchmark (GRESB) survey. MHR was awarded 2nd place among the participants whose main investment target is offices in Japan.



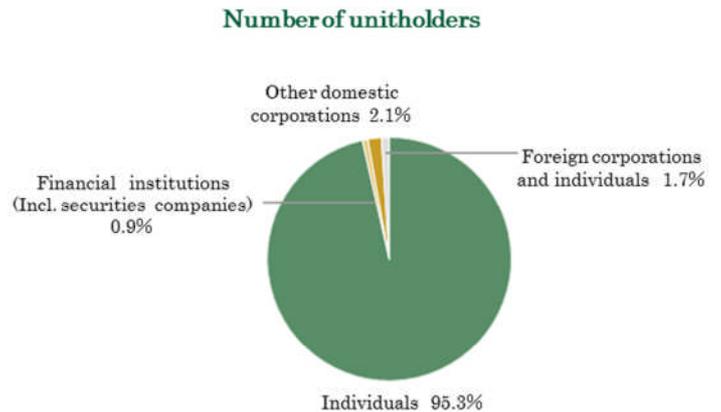
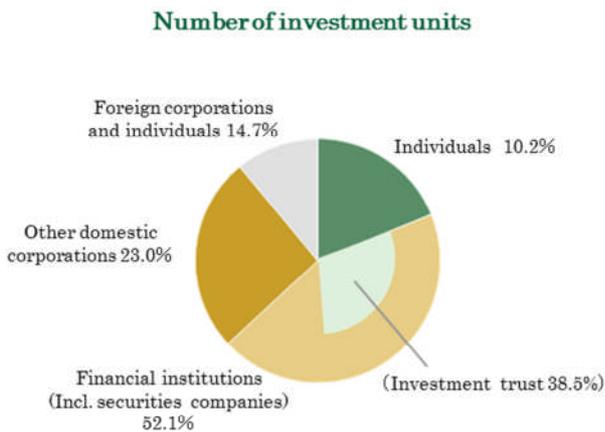
GRESB is a benchmark that measures the sustainability performance of real estate companies and real estate management institutions based on a questionnaire survey conducted by the GRESB foundation, composed primarily of European pension fund groups, and aims to improve shareholder value (economic performance) by increasing the transparency of the environmental and social aspects of the real estate sector. Furthermore, the "Green Star" rating is the highest rating category among the 4 ranking categories.

Unit Price Performance



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

Unitholders Breakdown (as of July 31, 2013)





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.



Building a better
working world

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Independent Auditor's Report

The Board of Directors
Mori Hills REIT Investment Corporation

We have audited the accompanying financial statements of Mori Hills REIT Investment Corporation, which comprise the balance sheet as at July 31, 2013, 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 at July 31, 2013, 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 Shin Nihon LLC

October 29, 2013

FINANCIAL STATEMENTS

BALANCE SHEET

(Unit: thousands of yen)

	Fourteenth Fiscal Period (as of July 31, 2013)	Thirteenth Fiscal Period (as of January 31, 2013)
Assets		
Current assets		
Cash and deposits	3,960,756	2,633,516
Cash and deposits in trust	7,825,875	6,845,858
Operating accounts receivable	74,073	73,626
Prepaid expenses	423,788	431,022
Deferred tax assets	17	18
Consumption taxes receivable	115,985	81,821
Other	7,229	-
Total current assets	12,407,726	10,065,863
Noncurrent assets		
Property, plant and equipment		
Land	22,074,160	22,074,160
Buildings in trust	46,868,973	41,650,705
Accumulated depreciation	(5,366,193)	(4,673,002)
Buildings in trust, net	41,502,780	36,977,703
Structures in trust	495,486	393,266
Accumulated depreciation	(134,290)	(118,078)
Structures in trust, net	361,195	275,188
Machinery and equipment in trust	529,870	449,066
Accumulated depreciation	(60,477)	(48,222)
Machinery and equipment in trust, net	469,392	400,844
Tools, furniture and fixtures in trust	63,545	60,940
Accumulated depreciation	(27,545)	(22,826)
Tools, furniture and fixtures in trust, net	35,999	38,114
Land in trust	132,702,890	122,721,231
Construction in progress in trust	273	273
Total property, plant and equipment	197,146,693	182,487,516
Intangible assets		
Leasehold rights in trust	30,650,962	25,825,688
Other intangible assets in trust	1,208	398
Other	1,496	1,996
Total intangible assets	30,653,667	25,828,083
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	386,058	357,936
Total investments and other assets	396,058	367,936
Total noncurrent assets	228,196,420	208,683,536
Deferred assets		
Investment corporation bonds issuance cost	77,108	63,781
Total deferred assets	77,108	63,781
Total assets	240,681,255	218,813,181

STATEMENT OF INCOME AND RETAINED EARNINGS

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	(Unit: thousands of yen) Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Operating revenue		
Rent revenue of real estate (Note 12)	4,949,170	4,568,819
Other rent revenue of real estate (Note 12)	103,034	107,776
Total operating revenue	<u>5,052,204</u>	<u>4,676,596</u>
Operating expenses		
Expenses of real estate rent (Note 12)	1,358,705	1,257,009
Asset management fee	184,957	220,361
Directors' compensation	5,400	5,400
Asset custody fee	5,470	5,485
Administrative service fees	15,444	14,096
Other operating expenses (Note 12)	51,430	48,831
Total operating expenses	<u>1,621,408</u>	<u>1,551,184</u>
Operating income	<u>3,430,796</u>	<u>3,125,411</u>
Non-operating income		
Interest income	840	866
Exclusion gain of unpaid dividend	2,230	2,178
Interest on refund	607	-
Other	860	-
Total non-operating income	<u>4,539</u>	<u>3,044</u>
Non-operating expenses		
Interest expenses	532,111	553,240
Interest expenses on investment corporation bonds	168,407	188,041
Amortization of investment corporation bonds issuance cost	17,558	17,556
Borrowing expenses	243,582	243,935
Investment unit issuance cost	38,699	-
Other	1,840	1,855
Total non-operating expenses	<u>1,002,199</u>	<u>1,004,628</u>
Ordinary income	<u>2,433,136</u>	<u>2,123,827</u>
Income before income taxes	<u>2,433,136</u>	<u>2,123,827</u>
Income taxes-current	972	982
Income taxes-deferred	0	(4)
Total income taxes	<u>972</u>	<u>977</u>
Net income	<u>2,432,164</u>	<u>2,122,849</u>
Retained earnings brought forward	42	-
Unappropriated retained earnings	2,432,207	2,122,849

STATEMENT OF CHANGES IN NET ASSETS

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(Unit: thousands of yen)

	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
		Voluntary retained earnings Reserve for reduction entry	Unappropriated retained earnings	Total surplus		
Balance at February 1, 2013	102,010,939	105,244	2,122,849	2,228,093	104,239,033	104,239,033
Change during the period						
Issuance of new investment units	10,955,498	-	-	-	10,955,498	10,955,498
Dividends from surplus	-	-	(2,122,806)	(2,122,806)	(2,122,806)	(2,122,806)
Net income	-	-	2,432,164	2,432,164	2,432,164	2,432,164
Total changes of items during the period	10,955,498	-	309,357	309,357	11,264,855	11,264,855
Balance at July 31, 2013	112,966,437	105,244	2,432,207	2,537,451	115,503,888	115,503,888

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

(Unit: thousands of yen)

	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
		Voluntary retained earnings Reserve for reduction entry	Unappropriated retained earnings	Total surplus		
Balance at August 1, 2012	102,010,939	-	2,119,468	2,119,468	104,130,407	104,130,407
Change during the period						
Provision of reserve for reduction entry	-	105,244	(105,244)	-	-	-
Dividends from surplus	-	-	(2,014,224)	(2,014,224)	(2,014,224)	(2,014,224)
Net income	-	-	2,122,849	2,122,849	2,122,849	2,122,849
Total changes of items during the period	-	105,244	3,381	108,625	108,625	108,625
Balance at January 31, 2013	102,010,939	105,244	2,122,849	2,228,093	104,239,033	104,239,033

STATEMENT OF CASH DISTRIBUTIONS

(Unit: yen)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
I . Unappropriated retained earnings	2,432,207,002	2,122,849,651
II . Amount of dividends	2,432,130,240	2,122,806,880
Amount of dividends per unit	9,552	9,169
III . Retained earnings carried forward	76,762	42,771
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 has declared the total dividends to be 2,432,130,240 yen, which is the largest integral multiple of the number of investment units issued and outstanding (254,620 units), and not in excess of unappropriated retained earnings. 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 has declared the total dividends to be 2,122,806,880 yen, which is the largest integral multiple of the number of investment units issued and outstanding (231,520 units), and not in excess of unappropriated retained earnings. 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)	
	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Net cash provided by (used in) operating activities		
Income before income taxes	2,433,136	2,123,827
Depreciation and amortization	727,293	672,023
Amortization of investment corporation bonds issuance cost	17,558	17,556
Investment unit issuance cost	38,699	-
Interest income	(840)	(866)
Exclusion gain of unpaid dividend	(2,230)	(2,178)
Interest expenses	700,519	741,282
Decrease (increase) in operating accounts receivable	(447)	825
Decrease (increase) in consumption taxes refund receivable	(34,164)	(81,746)
Increase (decrease) in operating accounts payable	(10,709)	9,028
Increase (decrease) in accounts payable – other	(792)	(1,349)
Increase (decrease) in accrued expenses	(36,989)	(15,639)
Increase (decrease) in accrued consumption taxes	(20,902)	(70,872)
Increase (decrease) in advances received	111,736	(3,189)
Increase (decrease) in deposits received	9,267	(7,069)
Decrease (increase) in prepaid expenses	7,233	(29,211)
Decrease (increase) in long-term prepaid expenses	(28,122)	(13,316)
Other, net	(7,229)	140
Subtotal	<u>3,903,014</u>	<u>3,339,245</u>
Interest income received	840	866
Interest expenses paid	(704,090)	(787,361)
Income taxes paid	(979)	(894)
Net cash provided by (used in) operating activities	<u>3,198,785</u>	<u>2,551,856</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(15,415,551)	(47,706)
Purchase of intangible assets in trust	(4,826,500)	-
Repayments of lease and guarantee deposits in trust	(92,181)	(672,226)
Proceeds from lease and guarantee deposits in trust	<u>742,187</u>	<u>109,323</u>
Net cash provided by (used in) investing activities	<u>(19,592,045)</u>	<u>(610,609)</u>
Net cash provided by (used in) financing activities		
Proceeds from short-term loans payable	-	1,000,000
Repayments of short-term loans payable	(3,478,000)	(5,500,000)
Proceeds from long-term loans payable	13,478,000	17,500,000
Repayments of long-term loans payable	(62,500)	(13,062,500)
Proceeds from issuance of investment corporation bonds	4,969,110	6,963,659
Redemption of investment corporation bonds	(5,000,000)	(7,000,000)
Proceeds from issuance of investment units	10,916,798	-
Cash dividends paid	(2,122,893)	(2,014,508)
Net cash provided by (used in) financing activities	<u>18,700,516</u>	<u>(2,113,349)</u>
Net increase (decrease) in cash and cash equivalents	<u>2,307,256</u>	<u>(172,102)</u>
Cash and cash equivalents at beginning of the period	<u>9,479,375</u>	<u>9,651,478</u>
Cash and cash equivalents at end of the period (Note 16)	<u>11,786,631</u>	<u>9,479,375</u>

NOTES TO FINANCIAL STATEMENTS

For the six-month periods ended July 31, 2013 and January 31, 2013

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).

In the fourteenth fiscal period (February 1, 2013 to July 31, 2013), the Company issued new investment units through a public offering (23,100 units; including a third-party allotment through an over-allotment option). As of the end of the Company’s fiscal period under review, the total number of investment units outstanding was 254,620.

The Company’s real estate portfolio as of the end of the fourteenth fiscal period was comprised of 9 properties under management with a total leasable floor area of 112,337.42m². The Company has already invested 230,816 million yen (based on acquisition price) into this portfolio. The occupancy rate at the end of the fourteenth fiscal period was 99.5%.

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 application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements are 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 in the financial statements originally prepared in Japanese, which were rounded down to the nearest yen, have been rounded off to the nearest thousand 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	3~66 years
Structures	3~41 years
Machinery and equipment	8~31 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 recognized as expenses when incurred.

(6) Revenue recognition

Revenues from leasing of investment properties are recognized as rent accrued 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 of real estate rent.

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 amounts equivalent to property taxes included in the cost of acquisition of real estate are 43,496 thousand yen and none as of July 31, 2013 and January 31, 2013, respectively.

(8) Hedge accounting approach

(a) Hedge accounting approach

Deferred hedge accounting is adopted for interest rate swap transactions. However, special treatment is adopted 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. PROPERTY AND EQUIPMENT

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(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 and amortization			
Property, plant and equipment	Land	22,074,160	-	-	22,074,160	-	-	22,074,160	
	Buildings in trust	41,650,705	5,218,268	-	46,868,973	5,366,193	693,190	41,502,780	(Note 1)
	Structures in trust	393,266	102,219	-	495,486	134,290	16,211	361,195	(Note 1)
	Machinery and equipment in trust	449,066	80,803	-	529,870	60,477	12,255	469,392	(Note 2)
	Tools, furniture and fixtures in trust	60,940	2,604	-	63,545	27,545	4,719	35,999	
	Land in trust	122,721,231	9,981,658	-	132,702,890	-	-	132,702,890	(Note 1)
	Construction in progress in trust	273	-	-	273	-	-	273	
	Subtotal	187,349,645	15,385,554	-	202,735,200	5,588,506	726,376	197,146,693	
Intangible assets	Leasehold rights in trust	25,825,688	4,825,274	-	30,650,962	-	-	30,650,962	(Note 2)
	Other intangible assets in trust	5,742	1,225	-	6,968	5,760	416	1,208	
	Subtotal	25,831,431	4,826,500	-	30,657,931	5,760	416	30,652,171	
Total	213,181,077	20,212,054	-	233,393,131	5,594,266	726,793	227,798,865		

(Note 1) The amount of increase during the fourteenth fiscal period is primarily attributable to the acquisition of Atago Green Hills and ARK Mori Building.

(Note 2) The amount of increase during the fourteenth fiscal period is primarily attributable to the acquisition of Atago Green Hills.

5. SHORT-TERM LOANS PAYABLE

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(Unit: millions of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Sumitomo Mitsui Trust Bank, Ltd.	1,978	-	1,978	-	0.8645%	May 31, 2013	(Note 2)	Unsecured/ Unguaranteed
	1,000	-	-	1,000	0.8596%	Aug. 30, 2013		
ORIX Bank Corporation	1,000	-	1,000	-	0.7749%	Mar. 29, 2013		
The Hiroshima Bank, Ltd.	500	-	500	-	0.7749%	Mar. 29, 2013		
Total	4,478	-	3,478	1,000				

(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 refinancing of loans payable, as well as the payment of the various related expenses.

6. INVESTMENT CORPORATION BONDS

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(Unit: millions of yen)

	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
Second Series Unsecured Investment Corporation Bonds	Nov. 29, 2007	3,000	-	-	3,000	1.7700%	Nov. 28, 2014	(Note 1)	-
Third Series Unsecured Investment Corporation Bonds	May 27, 2010	5,000	-	5,000	-	1.3800%	May 27, 2013		-
Fourth Series Unsecured Investment Corporation Bonds	May 27, 2010	5,000	-	-	5,000	1.9500%	May 27, 2015		-
Fifth Series Unsecured Investment Corporation Bonds	Feb. 25, 2011	5,000	-	-	5,000	1.2900%	Feb. 25, 2014		-
Sixth Series Unsecured Investment Corporation Bonds	Nov. 28, 2012	5,000	-	-	5,000	0.7800%	Nov. 27, 2015		-
Seventh Series Unsecured Investment Corporation Bonds	Nov. 28, 2012	2,000	-	-	2,000	0.9700%	Nov. 28, 2017		-
Eighth Series Unsecured Investment Corporation Bonds	May 24, 2013	-	3,000	-	3,000	0.8500%	May 24, 2018		-
Ninth Series Unsecured Investment Corporation Bonds	May 24, 2013	-	2,000	-	2,000	1.2600%	May 22, 2020		-
Total		25,000	5,000	5,000	25,000				

(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: millions of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Investment corporation bonds	5,000	8,000	5,000	-	5,000

7. LONG-TERM LOANS PAYABLE

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(1) Current portion of long-term loans payable

(Unit: millions 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
The Norinchukin Bank	1,200	-	-	1,200	1.5596%	Nov. 29, 2013	(Note 2)	Unsecured/ Unguaranteed
	-	3,000	-	3,000	1.3096%	May 30, 2014		
The Bank of Fukuoka, Ltd.	2,000	-	-	2,000	1.5596%	Nov. 29, 2013		
	-	2,000	-	2,000	1.3096%	May 30, 2014		
Mizuho Bank, Ltd. (Note 4)	1,100	-	-	1,100	1.5596%	Nov. 29, 2013		
	-	2,276	-	2,276	0.9596%	May 30, 2014		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,100	-	-	1,100	1.5596%	Nov. 29, 2013		
	-	2,276	-	2,276	0.9596%	May 30, 2014		
Mitsubishi UFJ Trust and Banking Corporation	1,100	-	-	1,100	1.5596%	Nov. 29, 2013		
	-	2,276	-	2,276	0.9596%	May 30, 2014		
Sumitomo Mitsui Banking Corporation	1,600	-	-	1,600	1.5596%	Nov. 29, 2013		
	-	1,194	-	1,194	0.9596%	May 30, 2014		
Development Bank of Japan Inc.	2,125	-	62	2,062	2.3400%	Nov. 29, 2013 (Note 3)		
Sumitomo Mitsui Trust Bank, Ltd.	1,000	-	-	1,000	1.5596%	Nov. 29, 2013		
The Hiroshima Bank, Ltd.	1,000	-	-	1,000	1.6838%	Nov. 29, 2013		
The Oita Bank, Ltd.	1,000	-	-	1,000	1.6838%	Nov. 29, 2013		
ShinGinko Tokyo, Ltd.	1,000	-	-	1,000	1.6838%	Nov. 29, 2013		
Shinsei Bank, Ltd.	900	-	-	900	1.6838%	Nov. 29, 2013		
Total	15,125	13,022	62	28,084				

(2) Long-term loans payable

(Unit: millions 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. (Note 4)	2,500	-	-	2,500	1.3596%	Nov. 28, 2014	(Note 2)	Unsecured/ Unguaranteed
	2,276	-	2,276	-	0.9596%	May 30, 2014		
	1,600	-	-	1,600	1.0096%	May 29, 2015		
	1,138	-	-	1,138	1.2280%	May 29, 2015		
	1,500	-	-	1,500	1.0096%	Aug. 31, 2015		
	1,600	-	-	1,600	1.0400%	Nov. 30, 2015		
	-	1,500	-	1,500	0.8421%	Mar. 30, 2018		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,500	-	-	2,500	1.3596%	Nov. 28, 2014		
	2,276	-	2,276	-	0.9596%	May 30, 2014		
	1,600	-	-	1,600	1.0096%	May 29, 2015		
	1,138	-	-	1,138	1.2280%	May 29, 2015		
	1,500	-	-	1,500	1.0096%	Aug. 31, 2015		
	1,600	-	-	1,600	1.0400%	Nov. 30, 2015		
	-	1,500	-	1,500	0.8421%	Mar. 30, 2018		
Mitsubishi UFJ Trust and Banking Corporation	2,500	-	-	2,500	1.3596%	Nov. 28, 2014		
	2,276	-	2,276	-	0.9596%	May 30, 2014		
	1,600	-	-	1,600	1.0096%	May 29, 2015		
	1,138	-	-	1,138	1.2280%	May 29, 2015		
	1,500	-	-	1,500	1.0096%	Aug. 31, 2015		
	1,600	-	-	1,600	1.0400%	Nov. 30, 2015		
	-	1,500	-	1,500	0.8421%	Mar. 30, 2018		
Sumitomo Mitsui Banking Corporation	3,000	-	-	3,000	1.3596%	Nov. 28, 2014		
	1,194	-	1,194	-	0.9596%	May 30, 2014		
	1,600	-	-	1,600	1.0096%	May 29, 2015		
	597	-	-	597	1.2280%	May 29, 2015		
	1,500	-	-	1,500	1.0096%	Aug. 31, 2015		
	1,600	-	-	1,600	1.0400%	Nov. 30, 2015		
	-	1,500	-	1,500	0.8421%	Mar. 30, 2018		

Sumitomo Mitsui Trust Bank, Ltd.	2,000	-	-	2,000	1.3596%	Nov. 28, 2014	(Note 2)	Unsecured/ Unguaranteed
	1,600	-	-	1,600	1.0096%	May 29, 2015		
	989	-	-	989	1.2280%	May 29, 2015		
	1,600	-	-	1,600	1.0400%	Nov. 30, 2015		
	-	1,500	-	1,500	0.8421%	Mar. 30, 2018		
	-	1,978	-	1,978	0.7460%	May 31, 2017		
Aozora Bank, Ltd.	2,000	-	-	2,000	1.3596%	Aug. 29, 2014		
	2,000	-	-	2,000	1.1850%	Aug. 31, 2016		
	-	750	-	750	0.8421%	Mar. 30, 2018		
Resona Bank, Ltd.	2,500	-	-	2,500	1.3596%	Aug. 29, 2014		
Development Bank of Japan Inc.	1,700	-	-	1,700	1.4313%	Mar. 27, 2015		
	-	750	-	750	0.8421%	Mar. 30, 2018		
Shinsei Bank, Ltd.	1,500	-	-	1,500	1.0400%	Nov. 30, 2015		
Mizuho Trust & Banking Co., Ltd.	-	1,000	-	1,000	0.8421%	Mar. 30, 2018		
ORIX Bank Corporation	-	1,000	-	1,000	0.6026%	Mar. 31, 2016		
The Hiroshima Bank, Ltd.	-	500	-	500	0.6026%	Mar. 31, 2016		
The Norinchukin Bank	3,000	-	3,000	-	1.3096%	May 30, 2014		
The Bank of Fukuoka, Ltd.	2,000	-	2,000	-	1.3096%	May 30, 2014		
Total	62,222	13,478	13,022	62,678				

(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 of trust beneficial interests and refinancing of loans payable, as well as the payment of the various related expenses.

(Note 3) Installment payments of 62 million yen will be made at the end of every sixth month starting on May 31, 2010, with the remaining payment of 2,062 million yen to be repaid on November 29, 2013.

(Note 4) Mizuho Corporate Bank, Ltd. conducted an absorption-type merger. Mizuho Corporate Bank, Ltd. was the surviving company and Mizuho Bank, Ltd. was the dissolving company on July 1, 2013. The surviving company changed its trade name to "Mizuho Bank, Ltd." on the same date.

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

(Unit: millions 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	31,700	17,000	3,978	10,000

8. NET ASSETS

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

9. INCOME TAXES

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

(Unit: thousands of yen)

	Fourteenth Fiscal Period (as of July 31, 2013)	Thirteenth Fiscal Period (as of January 31, 2013)
[Deferred tax assets]		
Current assets		
Accrued enterprise tax excluded from expenses	17	18
Total deferred tax assets [current]	17	18
[Net deferred tax assets [current]]	17	18

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

	Fourteenth Fiscal Period (as of July 31, 2013)	Thirteenth Fiscal Period (as of January 31, 2013)
Statutory tax rate	36.59%	36.59%
[Adjustments]		
Deductible cash distributions	(36.57%)	(36.57%)
Others	0.02%	0.03%
Effective tax rate	0.04%	0.05%

10. PER UNIT INFORMATION

(Unit: yen)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Net assets per unit	453,632	450,237
Net income per unit	9,710	9,169

(Note 1) Net income per unit was calculated by dividing the net income by the daily weighted average number of investment units during the period.

Diluted net income per unit has not been stated as there are no diluted investment units.

(Note 2) The following is the basis for calculating net income per unit.

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Net income (thousands of yen)	2,432,164	2,122,849
Amounts not attributable to common unitholders (thousands of yen)	-	-
Net income attributable to common investment units (thousands of yen)	2,432,164	2,122,849
Average number of investment units during the period (units)	250,481	231,520

11. RELATED PARTY TRANSACTIONS

(1) Parent company and major corporate unitholders

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

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	19.2% directly held by related party	Leasing and management of real estate	Acquisition of property (Note 2) (Note 6)	20,000,000	-	-
							Leasing of properties (Note 3) (Note 7)	3,477,159	Operating accounts receivable	778
									Advances received	635,177
									Lease and guarantee deposits in trust	5,712,051
							Payment of property operation and management fees (Note 8)	93,009 (Note 5)	Prepaid expenses	2,251
Operating accounts payable	20,986									
Payment of other operating expenses (IR related expenses) (Note 4) (Note 9)	735	-	-							

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

(Note 2) A portion of Atago Green Hills and a portion of ARK Mori Building

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

(Note 4) The venue expenses for the thirteenth fiscal period financial results briefing and the fifth general meeting of unitholders.

(Note 5) The amount includes construction fees (637 thousand yen) and construction management fees (298 thousand yen) that are not charged to expenses but recognized as assets.

[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. 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.

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

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	21.1% directly held by related party	Leasing and management of real estate	Leasing of properties (Note 2) (Note 5)	3,114,802	Operating accounts receivable	670
									Advances received	541,079
									Lease and guarantee deposits in trust	5,023,359
							Payment of property operation and management fees (Note 6)	100,755 (Note 3)	Prepaid expenses	1,858
									Operating accounts payable	25,297
Payment of other operating expenses (IR related expenses) (Note 4) (Note 7)	552	-	-							

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

(Note 2) Roppongi Hills Mori Tower, ARK Mori Building, Akasaka Tameike Tower, Atago Green Hills and a portion of Koraku Mori Building

(Note 3) The amount includes construction fees (4,083 thousand yen) and construction management fees (1,634 thousand yen) that are not charged to expenses but recognized as assets.

(Note 4) The venue expenses for the twelfth fiscal period financial results briefing.

[Transaction terms and conditions and related policies]

(Note 5) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

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

(Note 7) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

(2) Subsidiaries and affiliates

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

Not applicable.

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

Not applicable.

(3) Subsidiaries of Parent company

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

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)	204,957 (Note 3)	Accrued expenses	194,205

(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 20,000 thousand yen in acquisition fees pertaining to 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.

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

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)	220,361	Accrued expenses	231,379

(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.

(4) Directors and major individual unitholders

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

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)	204,957 (Note 3)	Accrued expenses	194,205

(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 20,000 thousand yen in acquisition fees pertaining to 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.

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

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)	220,361	Accrued expenses	231,379

(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.

12. BREAKDOWN OF PROPERTY-RELATED REVENUE AND EXPENSES

Breakdown of property operating income

(Unit: thousands of yen)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)		Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)	
A.	Property operating revenue			
	Rent revenue of real estate			
	Rent and common area revenue	4,945,540	4,565,601	
	Other rent revenue	3,629	3,218	4,568,819
	Other rent revenue of real estate			
	Parking revenue	16,366	14,268	
	Utilities and other revenue	86,283	92,907	
	Cancellation penalty	384	-	
	Key money income	-	600	107,776
	Total property operating revenue	5,052,204	4,676,596	
B.	Property operating expenses			
	Expenses of real estate rent			
	Property management fees	103,752	103,933	
	Property taxes	285,171	260,799	
	Utilities	79,748	84,335	
	Maintenance and repairs	39,096	21,950	
	Insurance premium	11,193	11,519	
	Custodian fees	5,696	5,635	
	Depreciation and amortization	726,793	671,523	
	Rent expenses	98,966	90,053	
	Other lease business expenses	8,286	7,259	1,257,009
	Total property operating expenses	1,358,705	1,257,009	
C.	Property operating income [A – B]		3,693,499	3,419,586

Transactions with major unitholders

(Unit: thousands of yen)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)		Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)	
From operating transactions				
	Rent revenue of real estate	3,475,048	3,112,728	
	Other rent revenue of real estate	2,111	2,074	
	Expenses of real estate rent	92,073	95,038	
	Other operating expenses	735	552	

13. UNITHOLDERS' EQUITY

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	2,000,000 units	2,000,000 units
Total number of investment units issued and outstanding	254,620 units	231,520 units

14. 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, failure of the financial institutions that are holding the deposits, but the Company limits the risks by diversifying financial institutions.

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

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

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

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

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

(2) Fair value of financial instruments

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2013.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	3,960,756	3,960,756	-
(b) Cash and deposits in trust	7,825,875	7,825,875	-
Total	11,786,631	11,786,631	-
(c) Short-term loans payable	1,000,000	1,000,000	-
(d) Current portion of investment corporation bonds	5,000,000	5,025,500	25,500
(e) Current portion of long-term loans payable	28,084,500	28,101,989	17,489
(f) Investment corporation bonds	20,000,000	20,272,100	272,100
(g) Long-term loans payable	62,678,000	62,659,028	(18,971)
Total	116,762,500	117,058,617	296,117
Derivative transactions	-	-	-

The following are the carrying amount, fair value and the difference between them of financial instruments as of January 31, 2013.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	2,633,516	2,633,516	-
(b) Cash and deposits in trust	6,845,858	6,845,858	-
Total	9,479,375	9,479,375	-
(c) Short-term loans payable	4,478,000	4,478,000	-
(d) Current portion of investment corporation bonds	5,000,000	5,011,500	11,500
(e) Current portion of long-term loans payable	15,125,000	15,168,163	43,163
(f) Investment corporation bonds	20,000,000	20,199,000	199,000
(g) Long-term loans payable	62,222,000	62,223,152	1,152
Total	106,825,000	107,079,816	254,816
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) Short-term loans payable

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.

(d) Current portion of investment corporation bonds; (f) Investment corporation bonds

The fair value of these is based on market prices.

(e) Current portion of long-term loans payable; (g) Long-term loans payable

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

Derivative transactions

Please refer to "Derivative transactions" below.

(Note 2) Redemption of monetary claims scheduled to be due after the balance sheet date (as of July 31, 2013)

(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	3,960,756	-	-	-	-	-
Cash and deposits in trust	7,825,875	-	-	-	-	-
Total	11,786,631	-	-	-	-	-

Redemption of monetary claims scheduled to be due after the balance sheet date (as of January 31, 2013)

(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	2,633,516	-	-	-	-	-
Cash and deposits in trust	6,845,858	-	-	-	-	-
Total	9,479,375	-	-	-	-	-

(Note 3) Short-term loans payable, investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of July 31, 2013)

(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
Short-term loans payable	1,000,000	-	-	-	-	-
Investment corporation bonds	5,000,000	8,000,000	5,000,000	-	5,000,000	2,000,000
Long-term loans payable	28,084,500	31,700,000	17,000,000	3,978,000	10,000,000	-
Total	34,084,500	39,700,000	22,000,000	3,978,000	15,000,000	2,000,000

Short-term loans payable, investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of January 31, 2013)

(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
Short-term loans payable	4,478,000	-	-	-	-	-
Investment corporation bonds	5,000,000	8,000,000	10,000,000	-	2,000,000	-
Long-term loans payable	15,125,000	30,022,000	30,200,000	2,000,000	-	-
Total	24,603,000	38,022,000	40,200,000	2,000,000	2,000,000	-

15. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

Fourteenth Fiscal Period (as of July 31, 2013)

Not applicable.

Thirteenth Fiscal Period (as of January 31, 2013)

Not applicable.

(2) Transactions for which hedge accounting is applied

Fourteenth Fiscal Period (as of July 31, 2013)

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	28,478,000	28,478,000	*	-

* 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 (e) and (g) 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).

Thirteenth Fiscal Period (as of January 31, 2013)

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	16,500,000	16,500,000	*	-

* Derivative transactions that are subject to special treatment for interest rate swaps are accounted for together with long-term loans payable that are the hedged items and the fair value is included in the fair value of those long-term loans payable (please refer to Liabilities (e) and (g) 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).

16. 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)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Cash and deposits	3,960,756	2,633,516
Cash and deposits in trust	7,825,875	6,845,858
Cash and cash equivalents	11,786,631	9,479,375

17. LEASES

Operating lease transactions (as lessor)

Future minimum rental revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

	Fourteenth Fiscal Period (as of July 31, 2013)	Thirteenth Fiscal Period (as of January 31, 2013)
Due within 1 year	2,407,440	2,428,639
Due after 1 year	19,813,506	21,574,368
Total	22,220,947	24,003,007

18. 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)

	Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)	Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)
Carrying amount		
Balance at beginning of the period	208,313,604	208,875,768
Amount of increase (decrease) during the period	19,485,261	(562,164)
Balance at end of the period	227,798,865	208,313,604
Fair value at end of the period	216,680,000	194,870,000

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

(Note 2) Of the amount of increase (decrease) during the fourteenth fiscal period, the amount of increase is primarily attributable to the acquisition of two properties (Atago Green Hills (about 12.9% of total property) (16,658,414 thousand yen) and ARK Mori Building (the area used as District Heating and Cooling) (3,526,027 thousand yen)), while the amount of decrease is primarily attributable to the recognition of depreciation and amortization. Of the amount of increase (decrease) during the thirteenth fiscal period, the amount of increase is primarily attributable to renewal of the central monitoring system at Akasaka Tameike Tower (56,988 thousand yen), while the amount of decrease is primarily attributable to the recognition of depreciation and amortization.

(Note 3) The fair value at the 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.

19. SEGMENT AND RELATED INFORMATION

[Segment Information]

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

[Related Information]

Fourteenth Fiscal Period (February 1, 2013 to July 31, 2013)

(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.	3,477,159	Real estate leasing business
Mori Building Ryutsu System Co., Ltd.	646,800	Real estate leasing business

Thirteenth Fiscal Period (August 1, 2012 to January 31, 2013)

(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.	3,114,802	Real estate leasing business
Mori Building Ryutsu System Co., Ltd.	646,800	Real estate leasing business

20. SUBSEQUENT EVENTS

Issuance of New Investment Units

The issuance of new investment units was resolved at the Company's Board of Directors Meetings held on August 19, 2013 and August 28, 2013. Furthermore, the cash contribution for the issuance of new investment units through a public offering and a third-party allotment were completed on September 4, 2013 and October 2, 2013, respectively.

As a result, unitholders' capital is 124,330,988,910 yen, with 276,985 investment units issued and outstanding as of October 2, 2013.

(a) Issuance of New Investment Units through Public Offering (Primary Offering)

Number of new investment units issued:	21,300 units
Issued price (offering price):	526,500 yen per unit
Total amount of issued price (offering price):	11,214,450,000 yen
Amount contributed in (issued value):	508,140 yen per unit
Total amount contributed in (issued value):	10,823,382,000 yen
Contribution date:	September 4, 2013

(b) Issuance of New Investment Units through Third-Party Allotment

Number of new investment units issued:	1,065 units
Amount contributed in (issued value):	508,140 yen per unit
Total amount contributed in (issued value):	541,169,100 yen
Allottee:	Mizuho Securities Co., Ltd.
Subscription period (subscription date):	October 1, 2013
Contribution date:	October 2, 2013

(c) Use of funds

The funds provided through issuance of new investment units through public offering (primary offering) and through third-party allotment were used as a part of the funds for the acquisition of assets (a part of Roppongi Hills Mori Tower).