



**Mori Hills REIT Investment Corporation**

**Semiannual Report**

**24th Fiscal Period  
(February 1, 2018 - July 31, 2018)**

## To Our Unitholders

All of us at Mori Hills REIT Investment Corporation ("MHR") wish to extend our deep appreciation to our unitholders for your continuous support of MHR. I am pleased to report on MHR's performance for the twenty-fourth fiscal period which ended July 31, 2018.

In the twenty-fourth fiscal period, the Japanese economy saw continued improvements in corporate earnings as well as in the employment and income environments backed by favorable economic circumstances both domestically and abroad, while maintaining a gradual upward trend.

Within this economic environment, the vacancy rate decreased steadily and the supply-demand balance remained tight in the rental office building market due to the ongoing demand for expansion and relocation driven by the strong employment situation as well as due to the steady lease up of tenants into new buildings. In the luxury rental housing market, occupancy rates remained solid and there was a steady rise in rent levels driven by the ongoing demand for quality housing in central Tokyo and an increasing sense of shortage. In the real estate trading market, transaction prices continue to be high and successive large transactions occurred in central Tokyo backed by the strong investment appetite from investors at home and abroad.

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

MHR's real estate portfolio, as of the end of the twenty-fourth fiscal period, was comprised of 11 properties under management with a total leasable area of 163,064.94m<sup>2</sup>. MHR has already invested 360,050 million yen (based on the acquisition price) into this portfolio. The occupancy rate at the end of the twenty-fourth fiscal period was 99.6%. The asset management activities described above resulted in MHR recording in the twenty-fourth fiscal period 8,751 million yen in operating revenue, 5,432 million yen in operating income, 4,820 million yen in ordinary income and 4,819 million yen in net income and 2,753 yen in dividend per unit.

Also, MHR issued new investment units through a Japanese public offering in August 2018. MHR acquired a part of Toranomom Hills Mori Tower (acquisition price: 26,070 million yen) and a part of Holland Hills Mori Tower (acquisition price: 4,570 million yen) additionally on September 3, 2018.

These acquisitions are expected to enhance the portfolio size and increase dividends. As a result, MHR declared dividends per unit of 2,790 yen for the twenty-fifth fiscal period ending January 31, 2019.

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

I would like to ask for your continued support.



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

## Financial Highlights

Dividend per unit: the 24th period

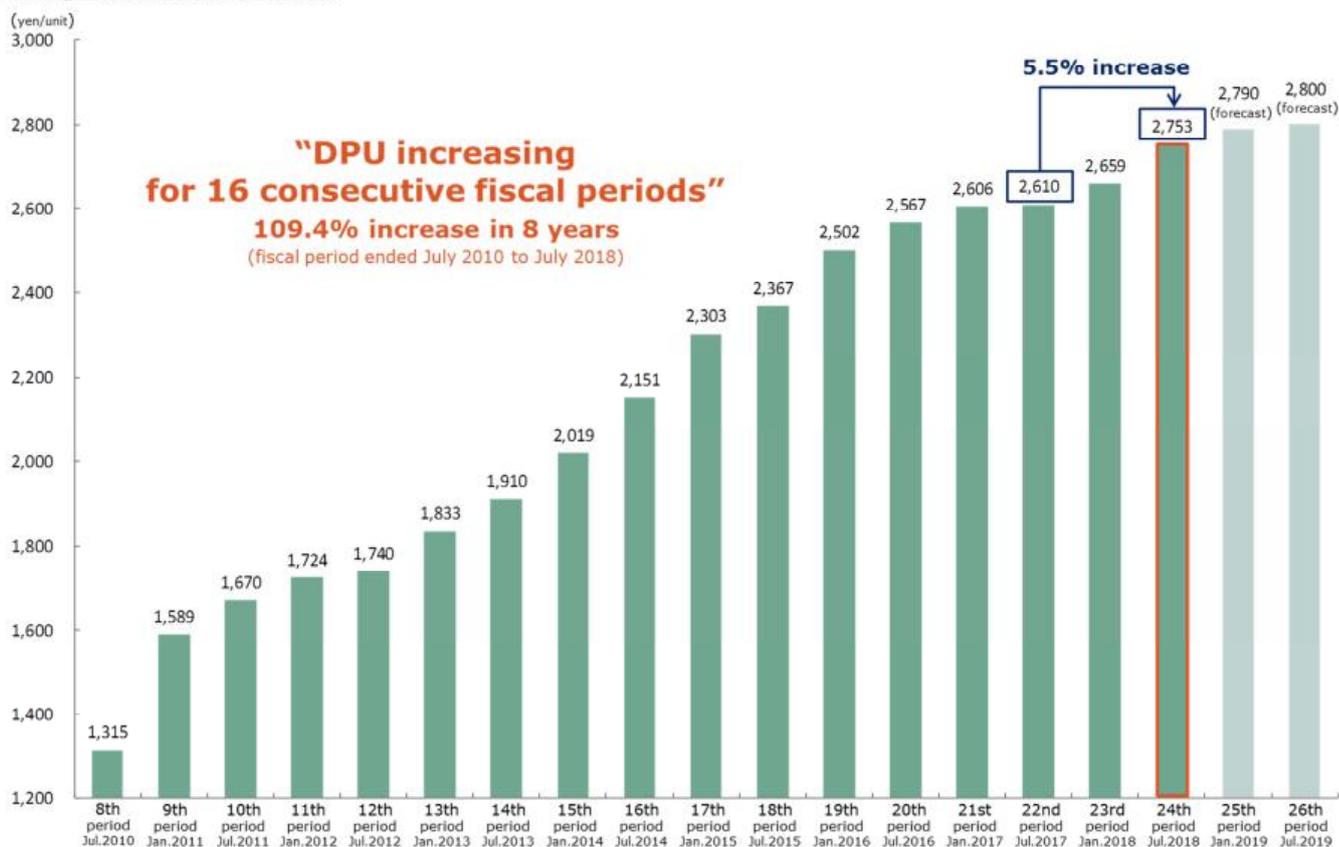
**2,753 yen**

Dividend per unit: the 25th period forecast\*

**2,790 yen**

\*The forecasted figures for the 25th and the 26th fiscal period are projections from historical figures based on certain assumptions. Accordingly, the figure may differ from actual results. Furthermore, the forecast shall not be construed as a guarantee of dividend amount.

### Change in dividend per unit



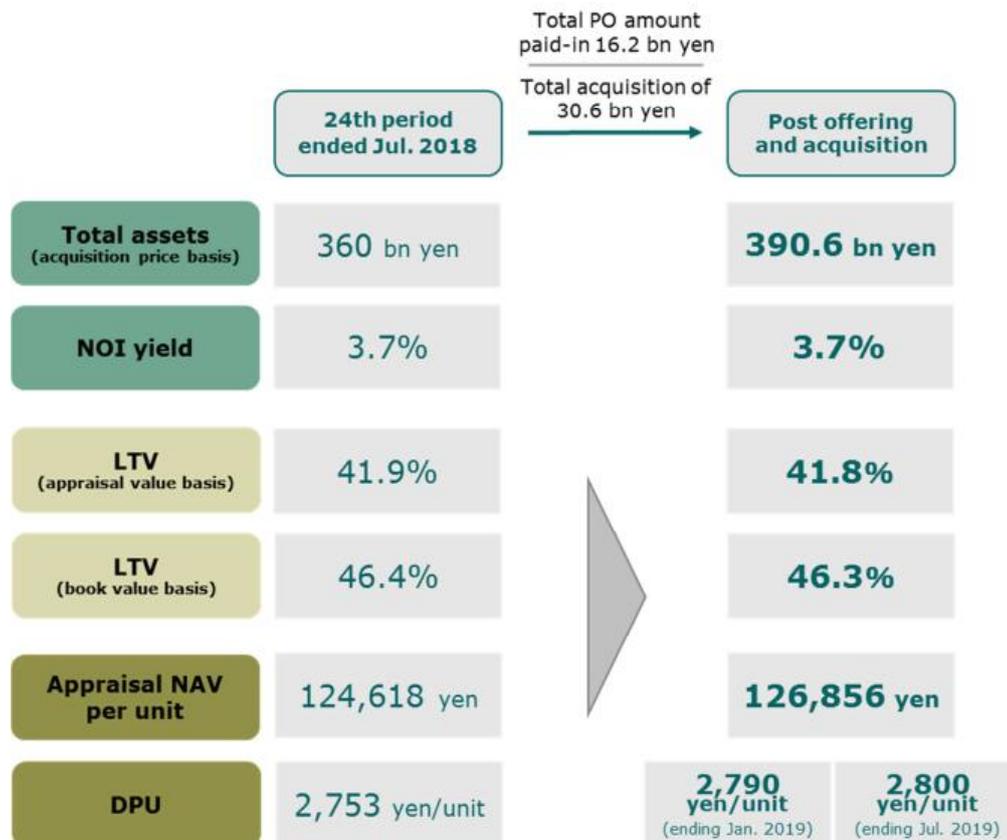
※ Implemented a 5-for-1 investment unit split effective on February 1, 2014. Actual dividends per unit were divided by 5 for the periods before the split of investment units in the graph.

### Results of the 24th period and Forecast of the 25th period

	Actual	Forecast	Difference
	24th period February 1, 2018 - July 31, 2018 (181 days)	25th period August 1, 2018 - January 31, 2018 (184 days)	25th - 24th period (Forecast - Actual)
Operating revenue	8,751 million yen	9,372 million yen	+ 621 million yen
Operating income	5,432 million yen	5,884 million yen	+452 million yen
Ordinary income	4,820 million yen	5,232 million yen	+411 million yen
Net income	4,819 million yen	5,231 million yen	+411 million yen
Dividend/unit	2,753 yen / unit	2,790 yen / unit	+ 37 yen / unit
Total units outstanding	1,750,640 units	1,874,960 units	
Acquisition price (weighted average based on the number of operating days during the period)	358,889 million yen	385,194 million yen	

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

Offering highlights



(Note) The figures are calculated by taking into consideration the effects of the proceeds through the offering, the scheduled asset acquisitions on September 3, 2018 and adding the new borrowings of 14.1 billion yen to the figures as of the end of the 24th period. Number of units is calculated on the assumption of 1,874,960 units.

## Overview of the Property Acquisitions

MHR acquired Toranomon Hills Mori Tower on September 3, 2018

Toranomon Hills Mori Tower Premium



Acquisition price

**26,070** mn yen

Appraisal value

**28,830** mn yen

Projected NOI yield

**3.4** %

### [Property overview]

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

### [Income and Expenditure Projections] (Thousand yen)

Projected property income (1)	1,116,837
Projected property expenses (2)	228,611
Projected NOI ((3): (1)-(2))	888,226
Projected NOI yield ((3)/ acquisition price)	3.4%

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

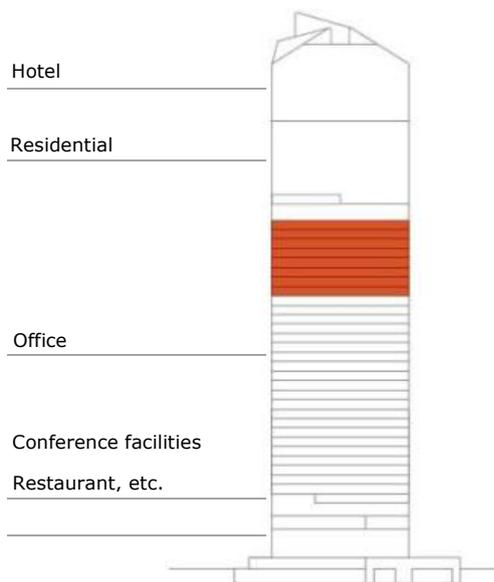
## 1. Super high rise tower - Tokyo's new landmark

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

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

- Six transit stations and 11 lines are nearby. With the "New Toranomon Station (tentative name)" on the Tokyo Metro Hibiya subway line scheduled to be in service by 2020, further improvements in convenience will be realized.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

[Acquisition portion (Portion of the red area)]

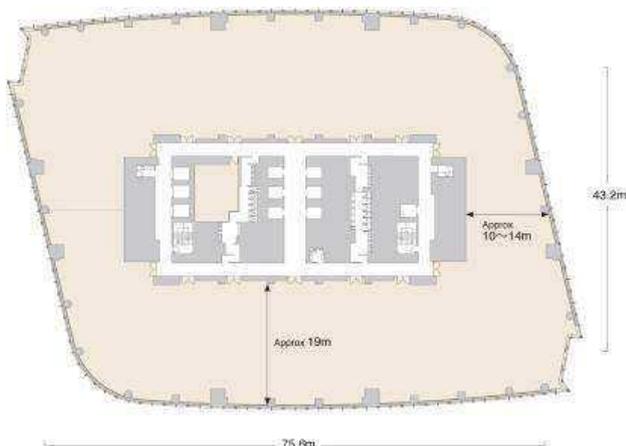


Acquisition portion is 36% quasi-co-ownership interest in trust beneficial interests in the co-ownership (87.95%) of compartmentalized ownership for the 28th to the 35th floors.  
MHR holds 50% including the 14% already acquired.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

PML (the probable maximum loss ratio)

**0.50%**

(Note) The value as indicated on the earthquake risk PML assessment report dated June 4, 2018 by Sompo Risk Management & Health Care Inc. is shown.

MHR acquired Holland Hills Mori Tower on September 3, 2018

Holland Hills Mori Tower Premium



Acquisition price

**4,570** mn yen

Appraisal value

**5,260** mn yen

Projected NOI yield

**4.3** %

[Property overview]

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

[Income and Expenditure Projections] (Thousand yen)

Projected property income (1)	295,291
Projected property expenses (2)	98,519
Projected NOI ((3): (1)-(2))	196,771
Projected NOI yield ((3)/ acquisition price)	4.3%

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

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

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

## 2. Located in the Toranomom area where further development is expected

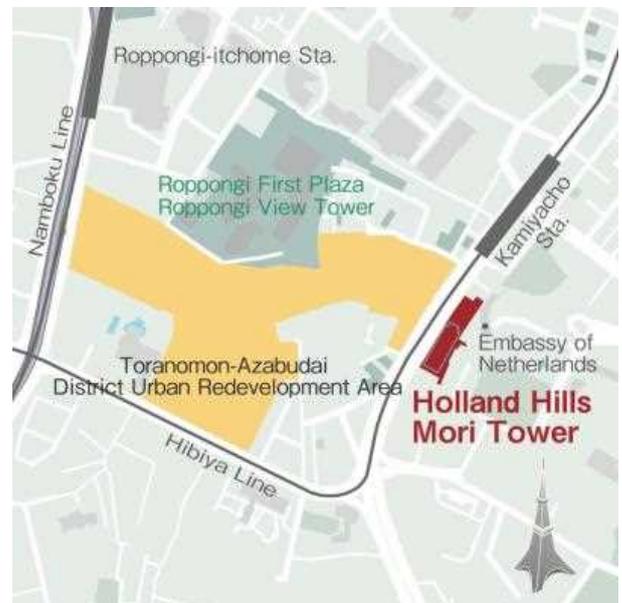
- An excellent location within a 1-minute walk from Tokyo Metro Hibiya Line Kamiyacho Station.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomom area has begun to rapidly evolve into an international urban center.

[Acquisition portion (Portion of the red area)]

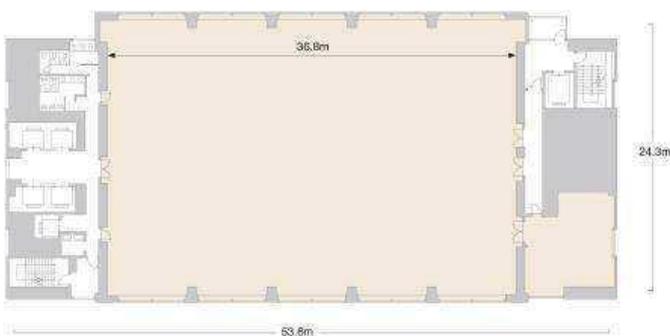


Acquisition portion is 28% quasi-co-ownership interest in trust beneficial interests in compartmentalized ownership for the 3rd and 4th floors; part of 5th floor, 14-18th floors and 22-24th floors. MHR holds 100% including the 72% already acquired.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

PML (the probable maximum loss ratio)

**0.85%**

(Note) The value as indicated on the earthquake risk PML assessment report dated June 4, 2018 by Sompo Risk Management & Health Care Inc. is shown.

Outline of transactions

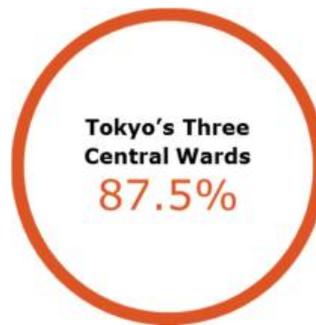
		Acquired as of August 1, 2017 March 1, 2018 (A)	Acquired as of September 3, 2018 (B)	(A) + (B)	
Toranomon Hills Mori Tower	Acquisition price	10,140 million yen	26,070 million yen	36,210 million yen	Total acquired area Approx. 12.3% of office area Approx. 6.9% of total
	NOI yield	3.4%	3.4%	3.4%	
	NOI	345 million yen	888 million yen	1,234 million yen	
	Total leasable floor area	3,418.54m <sup>2</sup>	8,790.53m <sup>2</sup>	12,209.08m <sup>2</sup>	
		+	+		
Holland Hills Mori Tower	Acquisition price	11,760 million yen	4,570 million yen	16,330 million yen	Total acquired area Approx. 77.1% of office area Approx. 48.5% of total
	NOI yield	4.3%	4.3%	4.3%	
	NOI	505 million yen	196 million yen	702 million yen	
	Total leasable floor area	7,318.83m <sup>2</sup>	2,846.21m <sup>2</sup>	10,165.04m <sup>2</sup>	
		▼	▼		
Total	Acquisition price	21,900 million yen	30,640 million yen	52,540 million yen	
	NOI yield	3.9%	3.5%	3.7%	
	NOI	851 million yen	1,084 million yen	1,936 million yen	

## Overview of Portfolio

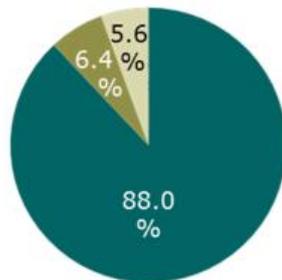
MHR has developed an urban portfolio mainly in Central Tokyo through its “investment in the city” concept, taking advantage of market opportunities and our competitive strengths to enhance profitability as well as portfolio value.

### Portfolio breakdown

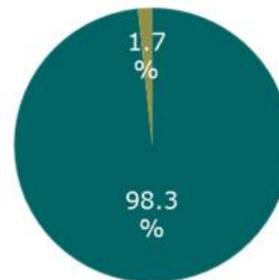
Area



Size



Type



■ Office

■ Residential

■ Retail

■ 30,000 m² or more

■ Under 30,000 m²

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

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

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

### Portfolio list



O-0 Premium

Roppongi Hills Mori Tower



O-1 Premium

ARK Mori Building



O-4 Premium

Koraku Mori Building



O-6 Premium

Akasaka Tameike Tower



O-7 Premium

Atago Green Hills



O-8 Premium

ARK Hills South Tower



O-9 Premium

Toranomon Hills Mori Tower



O-10 Premium

Holland Hills Mori Tower



R-3 Premium

Roppongi First Plaza

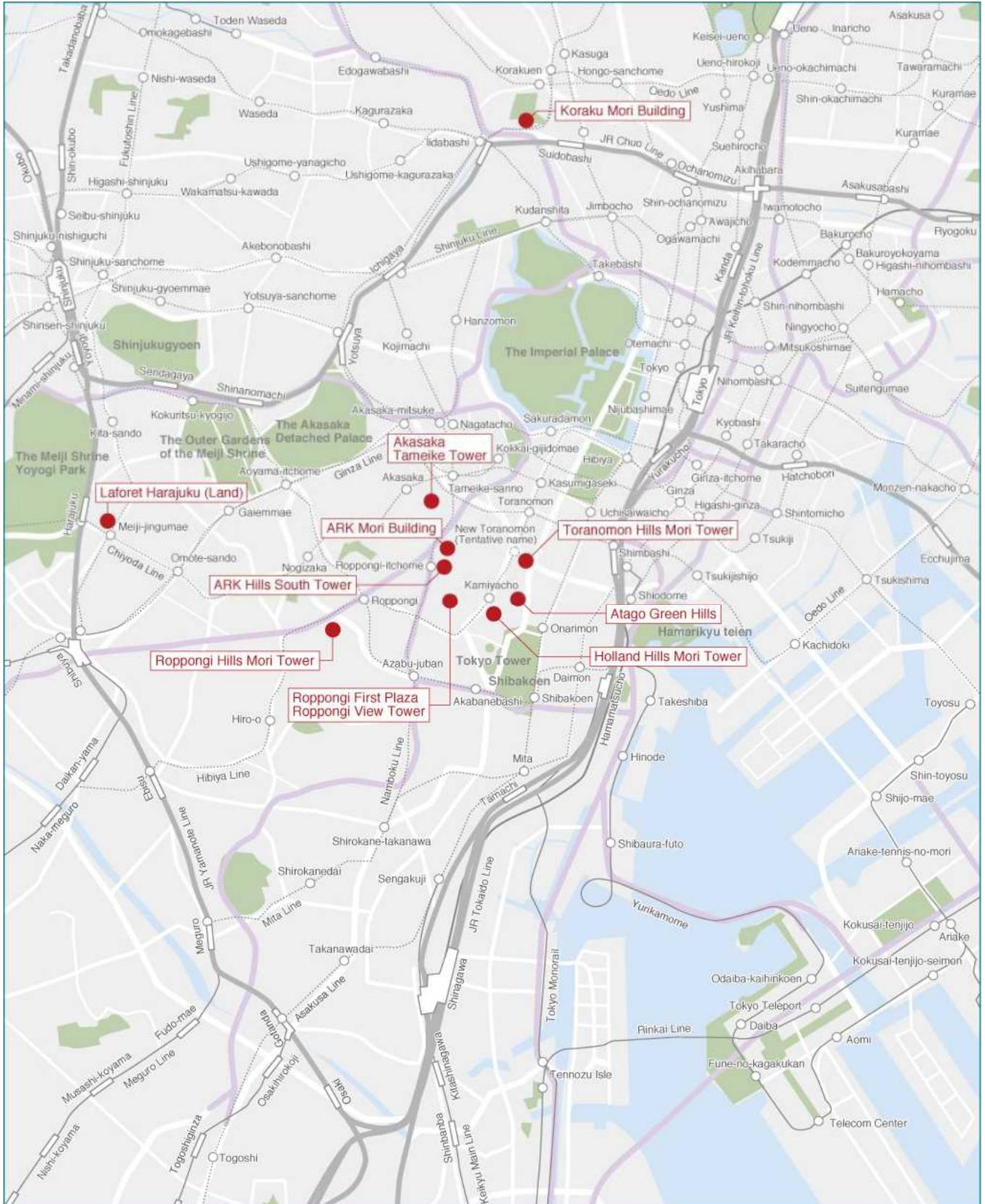
R-4

Roppongi View Tower



S-1 Premium

Laforet Harajuku (Land)



Earthquake-resistant capability

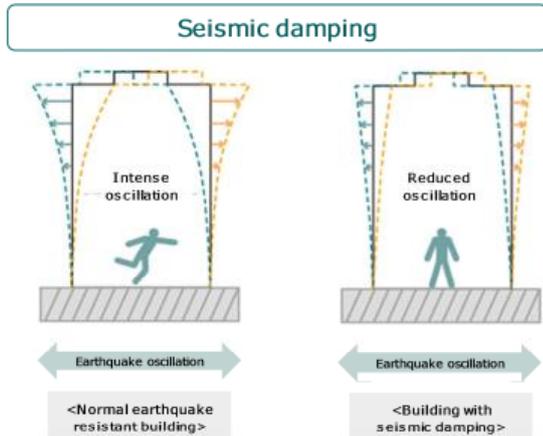
Earthquake-resistant features

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

**0.93%**

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

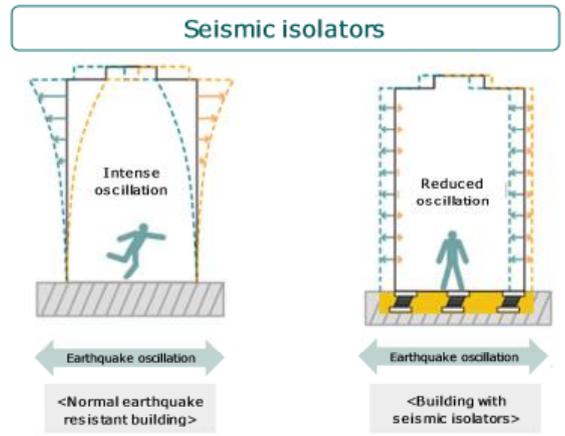
Property name		Type	PML	Earthquake-resistant feature
Roppongi Hills Mori Tower		Office	0.59%	Seismic damping
ARK Mori Building			0.78%	Seismic damping
Koraku Mori Building			0.73%	Seismic damping
ARK Hills South Tower			1.56%	Seismic damping
Toranomori Hills Mori Tower			0.50%	Seismic damping
Holland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



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



Viscous seismic damping wall



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



Seismic isolators

Environmental performance

Certified Green Buildings



CASBEE for Buildings: Rank S



CASBEE for Buildings: Rank A

DBJ Green Buildings Certification: Five stars



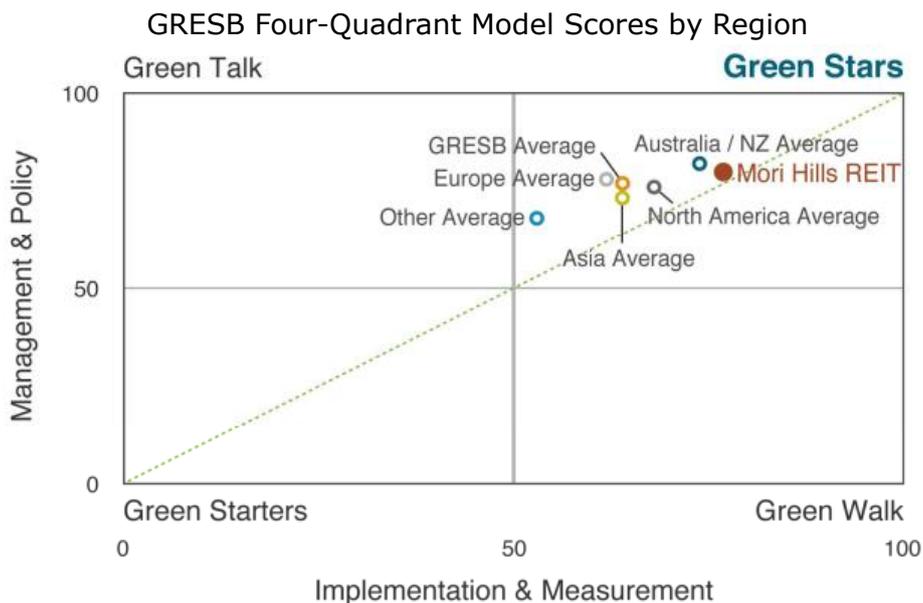
※In acquisition price base by excluding Laforet Harajuku (Land)

Acquired GRESB Green Star Rating



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

In the 2018 GRESB Survey, MHR received a Green Star rating for the seventh consecutive year.



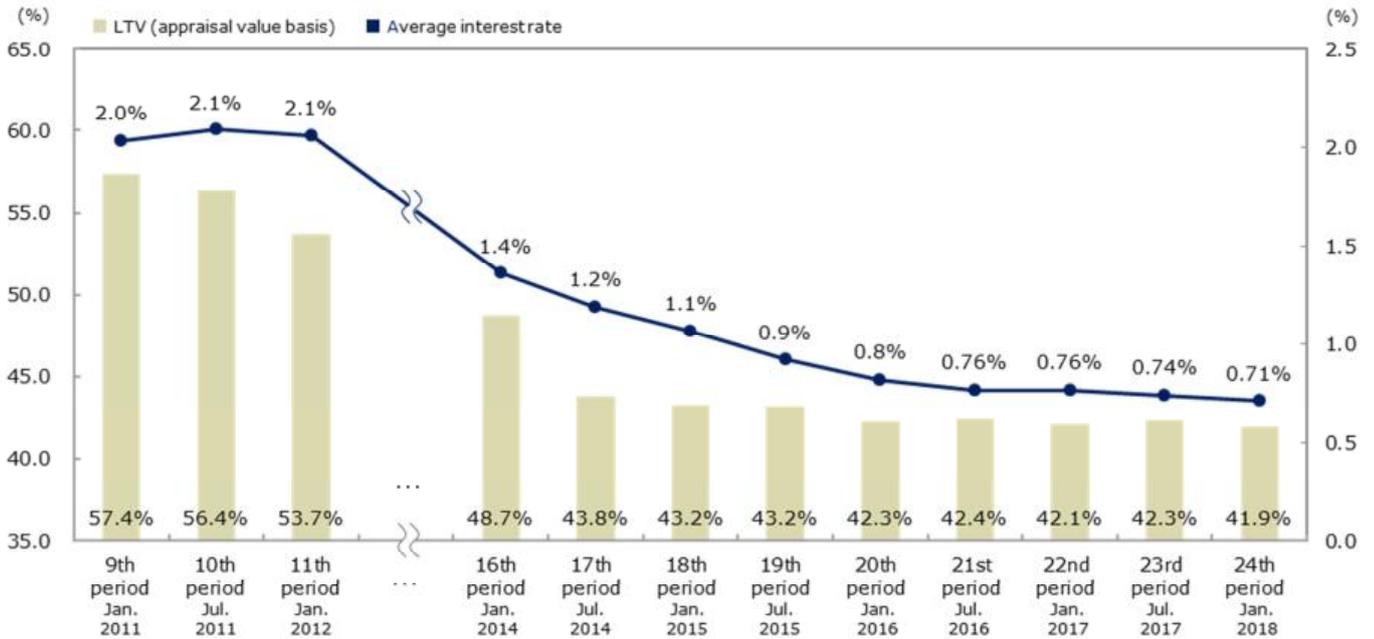
(Source) Prepared by the Asset Manager based on the "2018 GRESB Report" of the Global Real Estate Sustainability Benchmark (GRESB).  
(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" indicating the highest rank).

## Financial Status

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

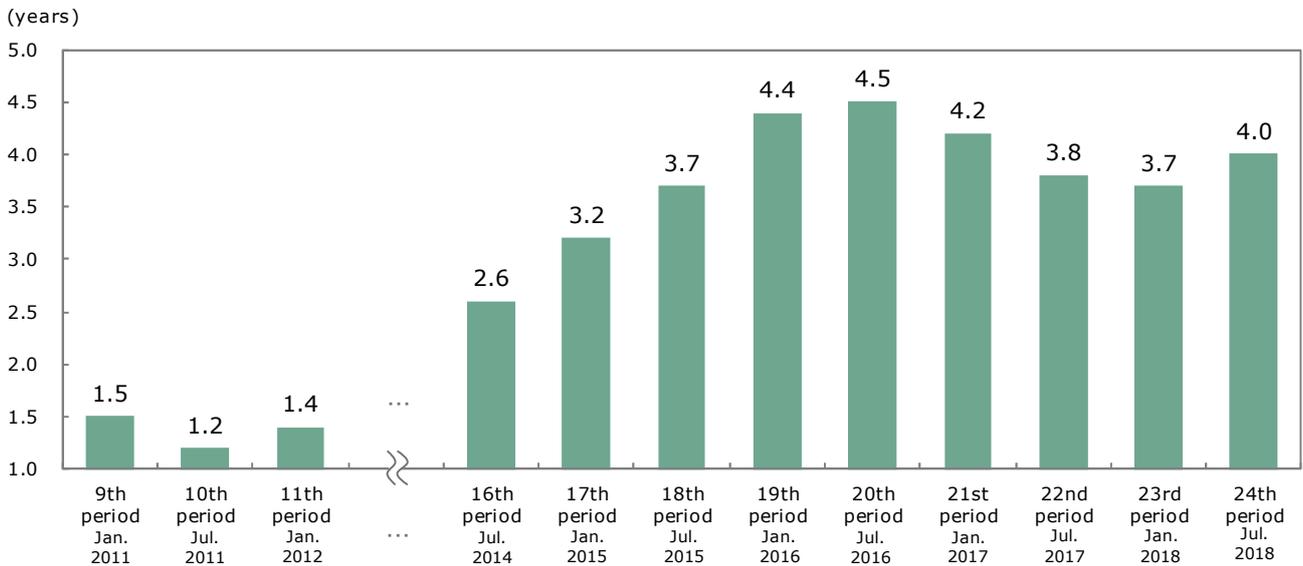
We will continue to maintain a debt duration level that allows us to further strengthen our healthy financial base.

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



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

### Extension in remaining duration of debt



### Overview of debt financing

	End of the 23rd period Jan. 31, 2018	End of the 24th period Jul. 31, 2018
Debt Balance	161,222 mn yen	168,122 mn yen
LTV (book value basis) <sup>(Note 1)</sup>	45.4%	46.4%
LTV (appraisal value basis) <sup>(Note 2)</sup>	42.3%	41.9%
Avg. remaining duration	3.7 years	4.0 years

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

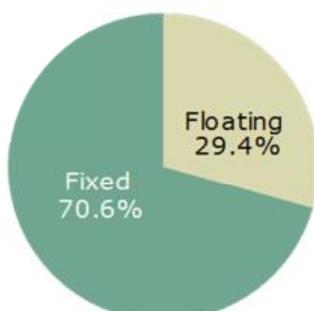
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

### Long and short-term debt ratio / Fixed rate ratio

[Long and short-term debt ratio]



[Fixed rate ratio]



### Rating

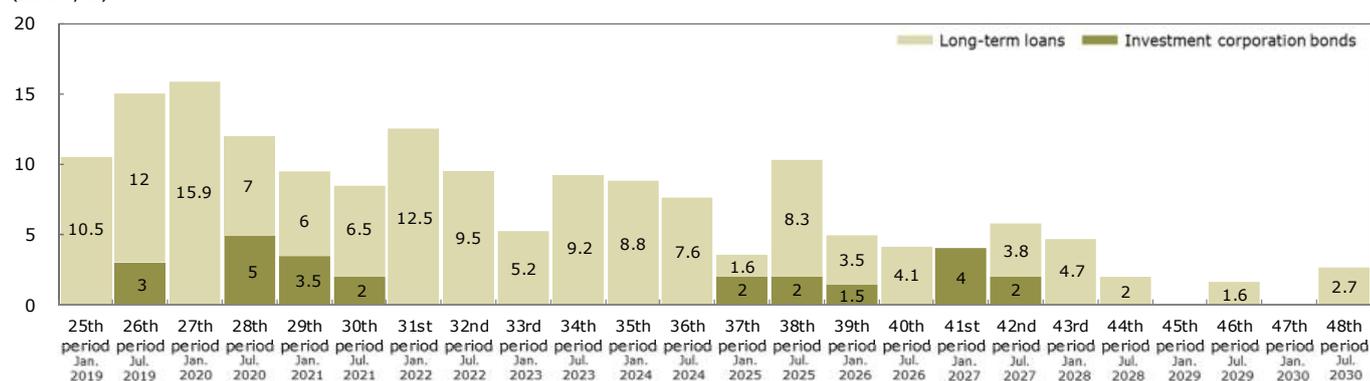
Japan Credit Rating (JCR)

Long-term issuer rating

**AA**  
(Stable)

### Overview of maturity (as of July 31, 2018)

(billion yen)

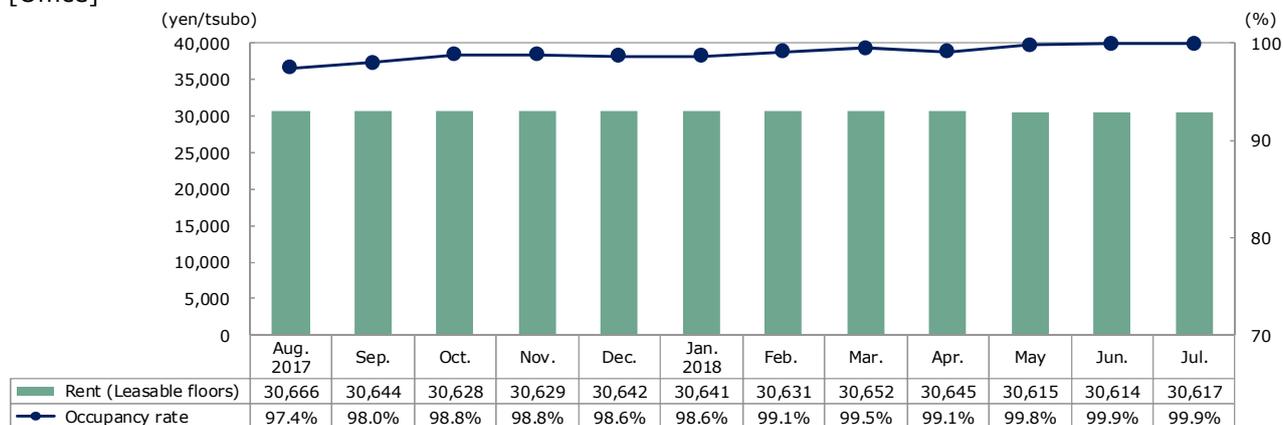


## Portfolio Management

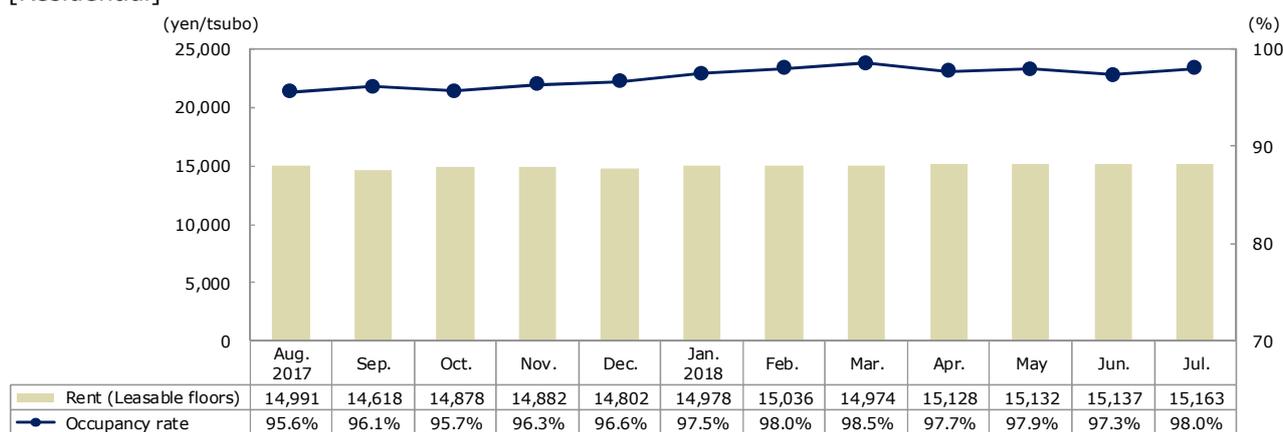
MHR maintained and enhanced occupancy rates and rents by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy.

### Rent and occupancy rate

[Office]

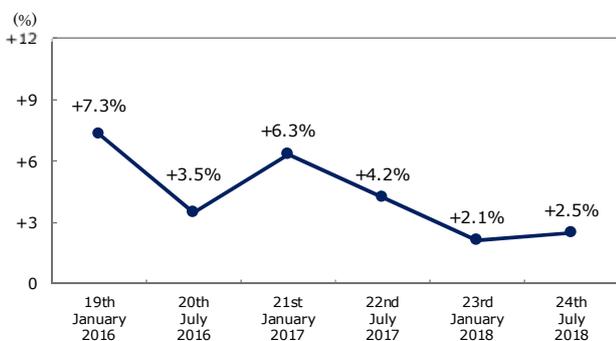


[Residential]

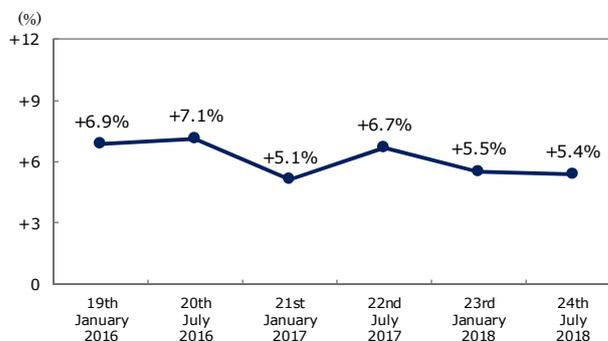


### Result of tenants' rent revision

[Office]



[Residential]



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

(Note 2) Figures are calculated based on asset acquisitions and monthly rents which reflect move outs of end tenants confirmed as of July 31, 2018.

## Corporate Governance

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

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

### Governance structure taking unitholders' value into consideration

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

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

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

### Process to counter transactions involving conflicts of interest



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

## Mori Building's Extensive Property Pipeline

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

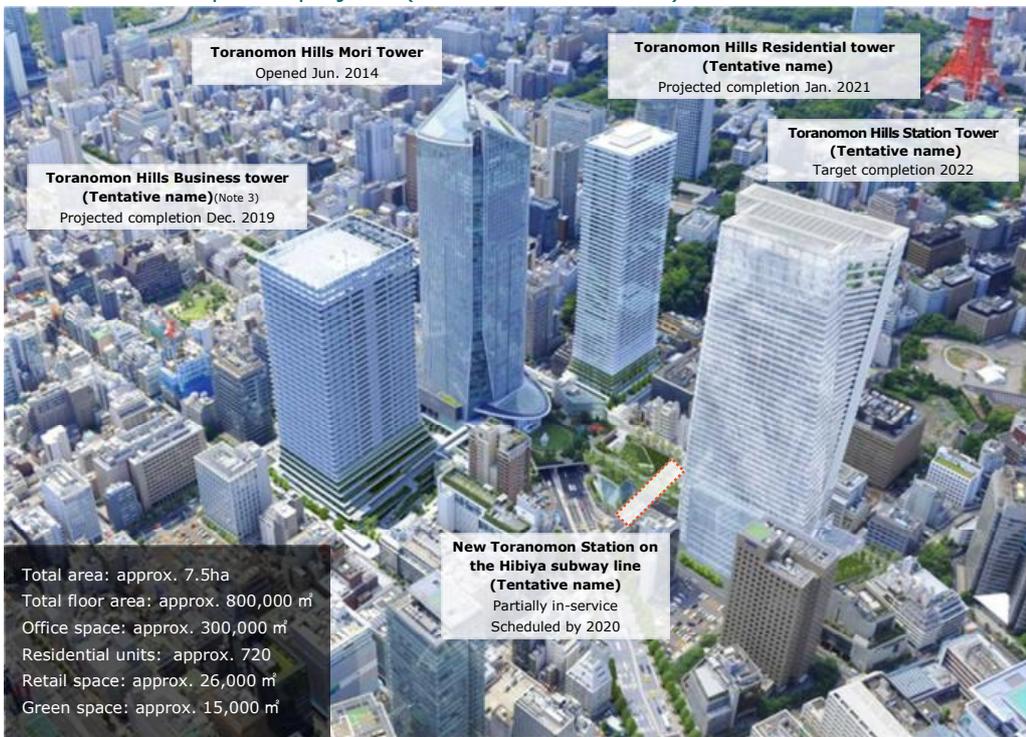
### Mori Building's Total Assets and Property Management

- Total assets: **1.9 trillion yen** (as of the end of March 2018)
- Number of properties under management: **97 buildings** (as of April 1, 2018)

### [Properties owned by Mori Building Group] (Note 2)

<p><b>1</b> <b>Roppongi Hills</b> (Partly owned by MHR)</p>  <p>〈Office/Residential/Retail, etc.〉</p>	<p><b>2</b> <b>Toranomon Hills</b> (Partly owned by MHR)</p>  <p>〈Office/Residential/Hotel, etc.〉</p>	<p><b>3</b> <b>ARK Hills</b> (Partly owned by MHR)</p>  <p>〈Office/Residential/Retail, etc.〉</p>	<p><b>4</b> <b>Atago Green Hills</b> (Partly owned by MHR)</p>  <p>〈Office/Residential/Retail〉</p>
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### [Recent redevelopment projects (Toranomon Hills area)]



**Toranomon Hills Mori Tower**  
Opened Jun. 2014

**Toranomon Hills Residential tower (Tentative name)**  
Projected completion Jan. 2021

**Toranomon Hills Business tower (Tentative name) (Note 3)**  
Projected completion Dec. 2019

**Toranomon Hills Station Tower (Tentative name)**  
Target completion 2022

**New Toranomon Station on the Hibiya subway line (Tentative name)**  
Partially in-service  
Scheduled by 2020

Total area: approx. 7.5ha  
Total floor area: approx. 800,000 m<sup>2</sup>  
Office space: approx. 300,000 m<sup>2</sup>  
Residential units: approx. 720  
Retail space: approx. 26,000 m<sup>2</sup>  
Green space: approx. 15,000 m<sup>2</sup>

(Note 1) Some exceptions included.

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

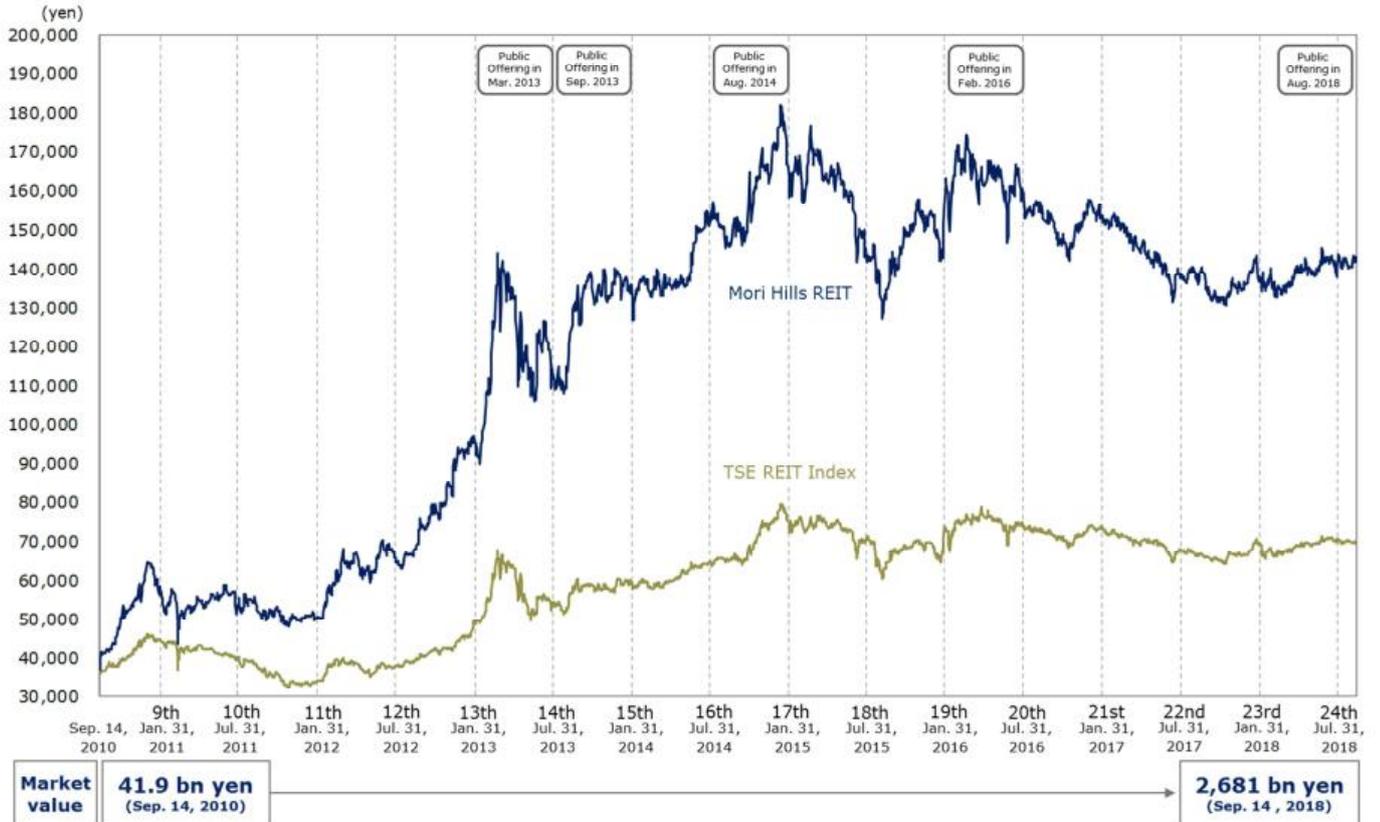
(Note 3) Mori Building Co., Ltd. is involved in the project as one of the participating consortium members.



(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map/ Mori Building Map/Home Route Support Map 2018."  
 (Note 1) Some of the properties have been partially acquired and held by MHR. Alternatively, the properties MHR acquired as of September 3, 2018 are also included.  
 (Note 2) Properties are developed, owned, managed and planned for development by Mori Building Group as of September 3, 2018, and there are no properties anticipated to be acquired by MHR.



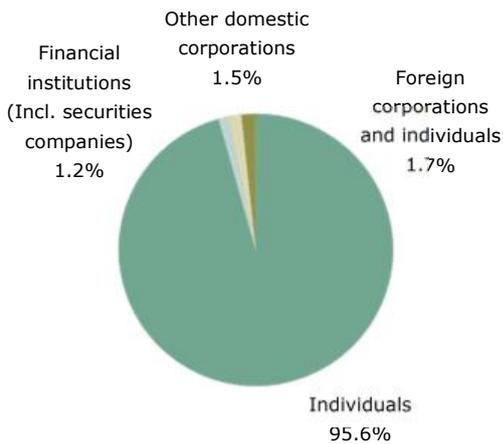
## Unit Price Performance



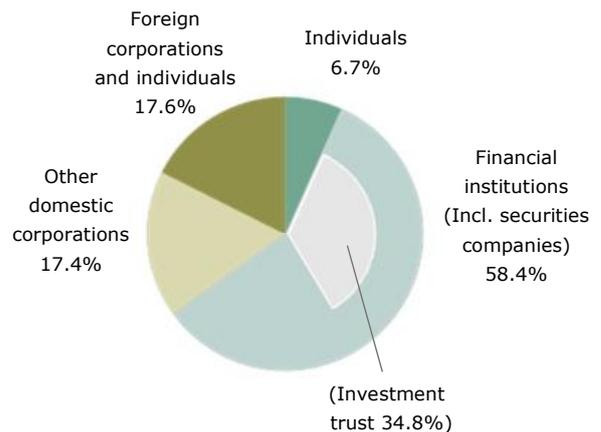
(Note) TSE REIT Index is adjusted as of the 8th period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

## Unitholders Breakdown (as of July 31, 2018)

<Number of unitholders>



<Number of investment units>



## Risk Factors

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

### Property and Business Risks

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

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

#### **Management and Governance Risks**

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

#### **Taxation Risks**

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

#### **Legal and Regulatory Risks**

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

financing.

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



## **Disclaimer**

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

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

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

## Independent Auditor's Report

The Board of Directors  
Mori Hills REIT Investment Corporation

We have audited the accompanying financial statements of Mori Hills REIT Investment Corporation, which comprise the balance sheet as of July 31, 2018, and the statements of income and retained earnings, changes in net assets, cash distributions, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mori Hills REIT Investment Corporation as of July 31, 2018, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

October 25, 2018  
Tokyo, Japan

## FINANCIAL STATEMENTS

### BALANCE SHEET

(Unit: thousands of yen)

	As of	
	July 31, 2018	January 31, 2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	3,738,489	1,475,138
Cash and deposits in trust	6,010,142	7,596,522
Operating accounts receivable	450,960	381,165
Prepaid expenses	434,675	463,592
Deferred tax assets	20	40
Consumption taxes receivable	-	121,627
Other	2	13
<b>Total current assets</b>	<b>10,634,290</b>	<b>10,038,101</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Land	22,074,160	22,074,160
Buildings in trust	74,559,278	72,407,178
Accumulated depreciation	(14,086,495)	(13,103,174)
Buildings in trust, net	60,472,782	59,304,004
Structures in trust	829,241	782,883
Accumulated depreciation	(283,616)	(268,115)
Structures in trust, net	545,624	514,767
Machinery and equipment in trust	811,497	798,696
Accumulated depreciation	(221,563)	(202,727)
Machinery and equipment in trust, net	589,934	595,968
Tools, furniture and fixtures in trust	220,769	213,594
Accumulated depreciation	(117,521)	(103,946)
Tools, furniture and fixtures in trust, net	103,247	109,647
Land in trust	236,217,189	230,442,284
Construction in progress in trust	1,711	30,561
<b>Total property, plant and equipment</b>	<b>320,004,650</b>	<b>313,071,395</b>
<b>Intangible assets</b>		
Leasehold rights in trust	30,650,962	30,650,962
Other intangible assets in trust	1,336	1,857
Other	709	1,096
<b>Total intangible assets</b>	<b>30,653,009</b>	<b>30,653,917</b>
<b>Investments and other assets</b>		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	924,947	816,379
Derivatives	2,312	1
<b>Total investments and other assets</b>	<b>937,260</b>	<b>826,381</b>
<b>Total noncurrent assets</b>	<b>351,594,919</b>	<b>344,551,694</b>
<b>Deferred assets</b>		
Investment corporation bonds issuance cost	95,364	108,129
Investment unit issuance cost	21,411	42,823
<b>Total deferred assets</b>	<b>116,776</b>	<b>150,953</b>
<b>Total assets</b>	<b>362,345,987</b>	<b>354,740,749</b>

(Unit: thousands of yen)

	As of	
	July 31, 2018	January 31, 2018
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating accounts payable	158,142	194,977
Current portion of investment corporation bonds	3,000,000	3,000,000
Current portion of long-term loans payable	22,500,000	20,500,000
Accounts payable – other	12,268	12,118
Accrued expenses	300,925	276,605
Income taxes payable	1,016	1,385
Accrued consumption taxes	162,954	-
Advances received	1,111,772	1,095,433
Deposits received	29,156	36,521
<b>Total current liabilities</b>	<b>27,276,235</b>	<b>25,117,041</b>
<b>Noncurrent liabilities</b>		
Investment corporation bonds	22,000,000	25,000,000
Long-term loans payable	120,622,000	112,722,000
Lease and guarantee deposits in trust	13,078,440	12,699,579
Derivatives liabilities	2,328	-
<b>Total noncurrent liabilities</b>	<b>155,702,768</b>	<b>150,421,579</b>
<b>Total liabilities</b>	<b>182,979,004</b>	<b>175,538,621</b>
<b>Net assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	174,231,870	174,231,870
<b>Surplus</b>		
<b>Voluntary retained earnings</b>		
Reserve for reduction entry	291,944	105,244
Reserve for special account for reduction entry	-	186,700
<b>Total voluntary retained earnings</b>	<b>291,944</b>	<b>291,944</b>
Unappropriated retained earnings	4,843,183	4,678,311
<b>Total surplus</b>	<b>5,135,127</b>	<b>4,970,255</b>
<b>Total unitholders' equity</b>	<b>179,366,998</b>	<b>179,202,125</b>
<b>Valuation and translation adjustments</b>		
Deferred gains or losses on hedges	(15)	1
<b>Total valuation and translation adjustments</b>	<b>(15)</b>	<b>1</b>
<b>Total net assets (Note8)</b>	<b>179,366,982</b>	<b>179,202,127</b>
<b>Total liabilities and net assets</b>	<b>362,345,987</b>	<b>354,740,749</b>

## STATEMENT OF INCOME AND RETAINED EARNINGS

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2018	January 31, 2018
Operating revenue		
Rent revenues (Note12)	8,533,727	8,284,596
Other operating revenues (Note12)	217,357	211,201
Total operating revenue	8,751,085	8,495,797
Operating expenses		
Expenses related to properties (Note12)	2,995,757	2,910,598
Asset management fee	227,001	201,565
Directors' compensation	4,200	4,200
Asset custody fee	8,868	8,716
Administrative service fees	19,154	19,264
Other operating expenses	63,888	64,449
Total operating expenses	3,318,870	3,208,795
Operating income	5,432,215	5,287,002
Non-operating income		
Interest income	45	67
Gain on forfeiture of unclaimed dividends	1,929	1,549
Insurance income	90	-
Interest on refund	522	-
Other	0	32
Total non-operating income	2,587	1,649
Non-operating expenses		
Interest expenses	319,643	329,221
Interest expenses on investment corporation bonds	81,964	93,013
Amortization of investment corporation bonds issuance cost	12,765	14,185
Borrowing expenses	176,197	171,628
Amortization of investment unit issuance cost	21,411	21,411
Other	1,952	1,960
Total non-operating expenses	613,934	631,420
Ordinary income	4,820,868	4,657,232
Income before income taxes	4,820,868	4,657,232
Income taxes-current	1,023	1,395
Income taxes-deferred	20	(40)
Total income taxes	1,043	1,354
Net income	4,819,824	4,655,877
Retained earnings brought forward	23,359	22,433
Unappropriated retained earnings (undisposed loss)	4,843,183	4,678,311

## STATEMENT OF CHANGES IN NET ASSETS

For the six months ended July 31, 2018

(Unit: thousands of yen)

	Surplus						Total unitholders' equity
	Unitholders' capital	Voluntary retained earnings			Unappropriated retained earnings	Total surplus	
		Reserve for reduction entry	Reserve for special account for reduction entry	Total voluntary retained earnings			
Balance at February 1, 2018	174,231,870	105,244	186,700	291,944	4,678,311	4,970,255	179,202,125
Change during the period							
Reversal of reserve for special account for reduction entry			(186,700)	(186,700)	186,700	-	-
Provision of reserve for reduction entry		186,700		186,700	(186,700)	-	-
Dividends from surplus					(4,654,951)	(4,654,951)	(4,654,951)
Net income					4,819,824	4,819,824	4,819,824
Net changes of items other than unitholders' equity							
Total changes of items during the period	-	186,700	(186,700)	-	164,872	164,872	164,872
Balance at July 31, 2018	174,231,870	291,944	-	291,944	4,843,183	5,135,127	179,366,998

	Valuation and translation adjustments		Total net assets
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at February 1, 2018	1	1	179,202,127
Change during the period			
Reversal of reserve for special account for reduction entry			-
Provision of reserve for reduction entry			-
Dividends from surplus			(4,654,951)
Net income			4,819,824
Net changes of items other than unitholders' equity	(17)	(17)	(17)
Total changes of items during the period	(17)	(17)	164,854
Balance at July 31, 2018	(15)	(15)	179,366,982



## STATEMENT OF CASH DISTRIBUTIONS

(Unit: yen)

	For the six months ended July 31, 2018	For the six months ended January 31, 2018
. Unappropriated retained earnings	4,843,183,642	4,678,311,114
. Reversal of voluntary retained earnings		
Reversal of reserve for special account for reduction entry	-	186,700,069
. Amount of dividends	4,819,511,920	4,654,951,760
Amount of dividends per unit	2,753	2,659
. Voluntary retained earnings		
Reserve for reduction entry	-	186,700,069
. Retained earnings carried forward	23,671,722	23,359,354
Method of calculating the amount of dividends	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings. Based on such policy, the Company decided to pay out dividends of earnings (4,819,511,920yen), which is the integral multiple of the total number of investment units issued and outstanding (1,750,640 units) out of the amount remaining after reserving part of retained earnings, not in excess of unappropriated retained earnings for the twenty-third fiscal period. In addition, the Company decided to pay out dividends of earnings in an amount not in excess of unappropriated retained earnings as stipulated in Article 37 (2) of the Company's Articles of Incorporation.</p>	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings. Based on such policy, the Company decided to pay out dividends of earnings (4,654,951,760yen), which is the integral multiple of the total number of investment units issued and outstanding (1,750,640 units) out of the amount remaining after reserving part of retained earnings, not in excess of unappropriated retained earnings for the twenty-third fiscal period. In addition, the Company decided to pay out dividends of earnings in an amount not in excess of unappropriated retained earnings as stipulated in Article 37 (2) of the Company's Articles of Incorporation.</p>

## STATEMENT OF CASH FLOWS

(Unit: thousands of yen)

For the six months ended

	July 31, 2018	January 31, 2018
Net cash provided by (used in) operating activities		
Income before income taxes	4,820,868	4,657,232
Depreciation and amortization	1,032,141	1,032,744
Amortization of investment corporation bonds issuance cost	12,765	14,185
Amortization of investment unit issuance cost	21,411	21,411
Interest income	(45)	(67)
Gain on forfeiture of unclaimed dividends	(1,929)	(1,549)
Interest expenses	401,607	422,234
Decrease (increase) in operating accounts receivable	(69,794)	(172,413)
Decrease (increase) in consumption taxes receivable	121,627	(121,627)
Increase (decrease) in operating accounts payable	(3,385)	(25,097)
Increase (decrease) in accounts payable – other	(32)	(2,733)
Increase (decrease) in accrued expenses	28,008	840
Increase (decrease) in accrued consumption taxes	164,429	(163,774)
Increase (decrease) in advances received	16,338	31,127
Increase (decrease) in deposits received	(7,364)	8,977
Decrease (increase) in prepaid expenses	28,916	(15,019)
Decrease (increase) in long-term prepaid expenses	(108,567)	(947)
Other, net	10	3,579
Subtotal	6,457,006	5,689,102
Interest income received	45	67
Interest expenses paid	(405,296)	(425,229)
Income taxes paid	(1,392)	(606)
Net cash provided by (used in) operating activities	6,050,362	5,263,334
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(7,999,413)	(14,653,244)
Repayments of lease and guarantee deposits in trust	(180,582)	(31,978)
Proceeds from lease and guarantee deposits in trust	559,444	930,628
Net cash provided by (used in) investing activities	(7,620,552)	(13,754,595)
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	19,900,000	9,800,000
Repayments of long-term loans payable	(10,000,000)	(2,600,000)
Redemption of investment corporation bonds	(3,000,000)	(2,000,000)
Cash dividends paid	(4,652,840)	(4,568,145)
Net cash provided by (used in) financing activities	2,247,159	631,854
Net increase (decrease) in cash and cash equivalents	676,969	(7,859,405)
Cash and cash equivalents at beginning of the period	9,071,661	16,931,067
Cash and cash equivalents at end of the period (Note16)	9,748,631	9,071,661

## NOTES TO FINANCIAL STATEMENTS

For the six months ended July 31, 2018 and January 31, 2018

### 1. ORGANIZATION

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

The Company’s real estate portfolio as of July 31, 2018 was comprised of 11 properties under management with a total leasable floor area of 163,064.94m<sup>2</sup>. The Company has already invested 360,050 million yen (based on acquisition price) into this portfolio. The occupancy rate as of July 31, 2018 was 99.6%.

### 2. BASIS OF PRESENTATION

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(2) Intangible assets (including assets in trust)

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

(3) Long-term prepaid expenses

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

(4) Investment corporation bonds issuance cost

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

(5) Investment unit issuance cost

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

(6) Revenue recognition

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

(7) Accounting for property taxes

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

Registered owners of properties in Japan as of January 1 are responsible for paying property taxes for the calendar year based on assessments by local governments. Therefore, registered owners who sold properties to the Company were liable for property taxes for the calendar year, including the period from the date of the acquisition by the Company until the end of the year. The Company reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate. The amount included in the cost of acquisition of real estate equivalent to property taxes was 20,932 thousand yen as of July 31, 2018, and 21,373 thousand yen as of January 31, 2018, respectively.

(8) Hedge accounting approach

(a) Hedge accounting approach

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

(b) Hedging instruments and hedged items

Hedging instruments: Interest rate swap transactions

Hedged items: Borrowing interest rates

(c) Hedging policy

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

(d) Method for assessing the effectiveness of hedging

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

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

(9) Cash and cash equivalents

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

(10) Accounting for trust beneficial interest in real estate

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

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

(a) Cash and deposits in trust

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

(c) Lease and guarantee deposits in trust

(11) Consumption taxes

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



#### 4. PROPERTY AND EQUIPMENT

For the six months ended July 31, 2018

(Unit: thousands of yen)

Type of asset	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Accumulated depreciation/Amortization		Net balance at end of the period	Remarks	
					Accumulated depreciation	Accumulated amortization			
Property, plant and equipment	Land	22,074,160	-	-	22,074,160	-	-	22,074,160	-
	Buildings in trust	72,407,178	2,152,099	-	74,559,278	14,086,495	983,321	60,472,782	(Note)
	Structures in trust	782,883	46,357	-	829,241	283,616	15,501	545,624	(Note)
	Machinery and equipment in trust	798,696	12,801	-	811,497	221,563	18,835	589,934	(Note)
	Tools, furniture and fixtures in trust	213,594	7,174	-	220,769	117,521	13,574	103,247	(Note)
	Land in trust	230,442,284	5,774,905	-	236,217,189	-	-	236,217,189	(Note)
	Construction in progress in trust	30,561	1,327	30,177	1,711	-	-	1,711	-
Subtotal	326,749,359	7,994,666	30,177	334,713,848	14,709,197	1,031,233	320,004,650		
Intangible assets	Leasehold rights in trust	30,650,962	-	-	30,650,962	-	-	30,650,962	-
	Other intangible assets in trust	11,952	-	-	11,952	10,616	521	1,336	-
	Subtotal	30,662,915	-	-	30,662,915	10,616	521	30,652,299	
Total	357,412,275	7,994,666	30,177	365,376,763	14,719,814	1,031,754	350,656,949		

(Note) The amount of increase during the period is primarily attributable to the acquisitions of a portion of Toranomon Hills Mori Tower and a portion of Holland Hills Mori Tower.

#### 5. SHORT-TERM LOANS PAYABLE

For the six months ended July 31, 2018

Not applicable.

## 6. INVESTMENT CORPORATION BONDS

For the six months ended July 31, 2018

(Unit: thousands of yen)

Bond	Issue date	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Interest rate	Redemption maturity date	Use of funds	Collateral
Eighth Series Unsecured Investment Corporation Bonds	May 24, 2013	3,000,000	-	3,000,000	-	0.8500%	May 24, 2018	(Note 1)	none
Ninth Series Unsecured Investment Corporation Bonds	May 24, 2013	2,000,000	-	-	2,000,000	1.2600%	May 22, 2020		
Tenth Series Unsecured Investment Corporation Bonds	Feb. 24, 2014	3,000,000	-	-	3,000,000	0.4140%	Feb. 22, 2019		
Eleventh Series Unsecured Investment Corporation Bonds	Feb. 24, 2014	2,000,000	-	-	2,000,000	0.6880%	Feb. 24, 2021		
Twelfth Series Unsecured Investment Corporation Bonds	Nov. 27, 2014	2,000,000	-	-	2,000,000	0.8650%	Nov. 27, 2024		
Thirteenth Series Unsecured Investment Corporation Bonds	May 26, 2015	3,000,000	-	-	3,000,000	0.3220%	May 26, 2020		
Fourteenth Series Unsecured Investment Corporation Bonds	May 26, 2015	2,000,000	-	-	2,000,000	0.8200%	May 26, 2025		
Fifteenth Series Unsecured Investment Corporation Bonds	Nov. 26, 2015	3,500,000	-	-	3,500,000	0.3800%	Nov. 26, 2020		
Sixteenth Series Unsecured Investment Corporation Bonds	Nov. 26, 2015	1,500,000	-	-	1,500,000	0.8860%	Nov. 26, 2025		
Seventeenth Series Unsecured Investment Corporation Bonds	Aug. 30, 2016	2,000,000	-	-	2,000,000	0.3400%	Aug. 28, 2026		
Eighteenth Series Unsecured Investment Corporation Bonds	Jan. 31, 2017	2,000,000	-	-	2,000,000	0.4900%	Jan. 29, 2027		
Nineteenth Series Unsecured Investment Corporation Bonds	Jun. 30, 2017	2,000,000	-	-	2,000,000	0.5000%	Jun. 30, 2027		
Total		28,000,000	-	3,000,000	25,000,000				

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

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

(Unit: thousands of yen)

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



## 7. LONG-TERM LOANS PAYABLE

For the six months ended July 31, 2018

### (1) Current portion of long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd. (Note 3)	1,500,000	-	1,500,000	-	0.8421%	Mar. 30, 2018	(Note 2)	Unsecured/ Unguaranteed
	1,400,000	-	-	1,400,000	0.7760%	Sep. 28, 2018		
	1,400,000	-	-	1,400,000	0.7760%	Sep. 28, 2018		
	-	250,000	-	250,000	0.3545%	May 31, 2019		
	-	250,000	-	250,000	0.3545%	May 31, 2019		
	-	1,702,000	-	1,702,000	0.3045%	May 31, 2019		
	-	1,702,000	-	1,702,000	0.3045%	May 31, 2019		
The Norinchukin Bank	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
	-	3,000,000	-	3,000,000	0.3045%	May 31, 2019		
Mizuho Bank, Ltd.	1,500,000	-	1,500,000	-	0.8421%	Mar. 30, 2018		
	1,400,000	-	-	1,400,000	0.7760%	Sep. 28, 2018		
	-	250,000	-	250,000	0.3545%	May 31, 2019		
	-	1,702,000	-	1,702,000	0.3045%	May 31, 2019		
Sumitomo Mitsui Banking Corporation	1,500,000	-	1,500,000	-	0.8421%	Mar. 30, 2018		
	1,400,000	-	-	1,400,000	0.7760%	Sep. 28, 2018		
	-	250,000	-	250,000	0.3545%	May 31, 2019		
	-	894,000	-	894,000	0.3045%	May 31, 2019		
The Bank of Fukuoka, Ltd.	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
	-	2,000,000	-	2,000,000	0.3045%	May 31, 2019		
Sumitomo Mitsui Trust Bank, Ltd.	1,500,000	-	1,500,000	-	0.8421%	Mar. 30, 2018		
	1,400,000	-	-	1,400,000	0.7760%	Sep. 28, 2018		
Development Bank of Japan Inc.	750,000	-	750,000	-	0.8421%	Mar. 30, 2018		
	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
Resona Bank, Ltd.	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
Shinsei Bank, Ltd.	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
Aozora Bank, Ltd.	750,000	-	750,000	-	0.8421%	Mar. 30, 2018		
	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
Mizuho Trust & Banking Co., Ltd.	1,000,000	-	1,000,000	-	0.8421%	Mar. 30, 2018		
	500,000	-	-	500,000	0.7760%	Sep. 28, 2018		
Mitsubishi UFJ Trust and Banking Corporation	1,500,000	-	1,500,000	-	0.8421%	Mar. 30, 2018		
<b>Total</b>	<b>20,500,000</b>	<b>12,000,000</b>	<b>10,000,000</b>	<b>22,500,000</b>				

(2) Long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd. (Note 3)	250,000	-	250,000	-	0.3545%	May 31, 2019	(Note 2)	Unsecured/ Unguaranteed
	250,000	-	250,000	-	0.3545%	May 31, 2019		
	1,100,000	-	-	1,100,000	0.4047%	Nov. 29, 2019		
	1,100,000	-	-	1,100,000	0.4047%	Nov. 29, 2019		
	1,702,000	-	1,702,000	-	0.3045%	May 31, 2019		
	1,702,000	-	1,702,000	-	0.3045%	May 31, 2019		
	574,000	-	-	574,000	0.3548%	May 29, 2020		
	574,000	-	-	574,000	0.3548%	May 29, 2020		
	834,000	-	-	834,000	0.3760%	May 29, 2020		
	834,000	-	-	834,000	0.3760%	May 29, 2020		
	1,200,000	-	-	1,200,000	0.6242%	Nov. 30, 2020		
	1,200,000	-	-	1,200,000	0.6242%	Nov. 30, 2020		
	1,300,000	-	-	1,300,000	0.7535%	Nov. 30, 2021		
	1,300,000	-	-	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	-	-	1,369,000	0.5730%	May 31, 2021		
	1,369,000	-	-	1,369,000	0.5730%	May 31, 2021		
	1,369,000	-	-	1,369,000	0.7020%	May 31, 2022		
	1,369,000	-	-	1,369,000	0.7020%	May 31, 2022		
	1,500,000	-	-	1,500,000	0.4932%	Aug. 31, 2021		
	1,500,000	-	-	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	-	-	500,000	0.6529%	Aug. 31, 2023		
	500,000	-	-	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	-	-	1,600,000	0.4980%	Nov. 30, 2022		
	1,600,000	-	-	1,600,000	0.6155%	Nov. 30, 2023		
	1,500,000	-	-	1,500,000	0.2678%	Mar. 31, 2023		
	1,500,000	-	-	1,500,000	0.3221%	Mar. 29, 2024		
	600,000	-	-	600,000	0.3221%	Mar. 29, 2024		
2,400,000	-	-	2,400,000	0.3045%	Mar. 31, 2025			
-	4,700,000	-	4,700,000	0.2743%	Aug. 31, 2027			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Mizuho Bank, Ltd	250,000	-	250,000	-	0.3545%	May 31, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,100,000	-	-	1,100,000	0.4047%	Nov. 29, 2019		
	1,702,000	-	1,702,000	-	0.3045%	May 31, 2019		
	574,000	-	-	574,000	0.3548%	May 29, 2020		
	834,000	-	-	834,000	0.3760%	May 29, 2020		
	1,200,000	-	-	1,200,000	0.6242%	Nov. 30, 2020		
	1,300,000	-	-	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	-	-	1,369,000	0.5730%	May 31, 2021		
	1,369,000	-	-	1,369,000	0.7020%	May 31, 2022		
	1,500,000	-	-	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	-	-	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	-	-	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	-	-	600,000	0.3221%	Mar. 29, 2024		
	2,400,000	-	-	2,400,000	0.3045%	Mar. 31, 2025		
	1,100,000	-	-	1,100,000	0.3545%	Jul. 31, 2029		
	-	2,700,000	-	2,700,000	0.3543%	Feb. 28, 2030		
	-	3,000,000	-	3,000,000	0.1850%	May 23, 2022		
Sumitomo Mitsui Banking Corporation	250,000	-	250,000	-	0.3545%	May 31, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,600,000	-	-	1,600,000	0.4047%	Nov. 29, 2019		
	894,000	-	894,000	-	0.3045%	May 31, 2019		
	300,000	-	-	300,000	0.3548%	May 29, 2020		
	834,000	-	-	834,000	0.3760%	May 29, 2020		
	1,440,000	-	-	1,440,000	0.6242%	Nov. 30, 2020		
	1,560,000	-	-	1,560,000	0.7535%	Nov. 30, 2021		
	1,099,000	-	-	1,099,000	0.5730%	May 31, 2021		
	1,098,000	-	-	1,098,000	0.7020%	May 31, 2022		
	1,500,000	-	-	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	-	-	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	-	-	1,600,000	0.4980%	Nov. 30, 2022		
	2,200,000	-	-	2,200,000	0.2678%	Mar. 31, 2023		
	800,000	-	-	800,000	0.3221%	Mar. 29, 2024		
	1,100,000	-	-	1,100,000	0.2545%	Jul. 31, 2025		
-	2,650,000	-	2,650,000	0.3043%	Feb. 27, 2026			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	-	-	1,000,000	0.4047%	Nov. 29, 2019	(Note 2)	Unsecured/ Unguaranteed
	834,000	-	-	834,000	0.3760%	May 29, 2020		
	960,000	-	-	960,000	0.6242%	Nov. 30, 2020		
	1,040,000	-	-	1,040,000	0.7535%	Nov. 30, 2021		
	1,294,000	-	-	1,294,000	0.5730%	May 31, 2021		
	1,295,000	-	-	1,295,000	0.7020%	May 31, 2022		
	500,000	-	-	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	-	-	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	-	-	600,000	0.3221%	Mar. 29, 2024		
	2,400,000	-	-	2,400,000	0.3045%	Mar. 31, 2025		
	1,000,000	-	-	1,000,000	0.2545%	Jul. 31, 2026		
	2,000,000	-	-	2,000,000	0.3045%	Jul. 31, 2028		
	-	2,600,000	-	2,600,000	0.2943%	Feb. 26, 2027		
Development Bank of Japan Inc.	2,000,000	-	-	2,000,000	0.4047%	Nov. 29, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,700,000	-	-	1,700,000	0.7963%	Mar. 27, 2023		
	1,000,000	-	-	1,000,000	0.3221%	Mar. 29, 2024		
	-	750,000	-	750,000	0.3543%	Feb. 26, 2027		
Resona Bank, Ltd.	830,000	-	-	830,000	0.3760%	May 29, 2020	(Note 2)	Unsecured/ Unguaranteed
	2,500,000	-	-	2,500,000	0.3045%	Aug. 30, 2019		
	800,000	-	-	800,000	0.2678%	Mar. 31, 2023		
	500,000	-	-	500,000	0.3045%	Jul. 30, 2027		
	-	500,000	-	500,000	0.2543%	Aug. 29, 2025		
The Bank of Fukuoka, Ltd.	2,000,000	-	-	2,000,000	0.4047%	Nov. 29, 2019	(Note 2)	Unsecured/ Unguaranteed
	2,000,000	-	2,000,000	-	0.3045%	May 31, 2019		
	1,000,000	-	-	1,000,000	0.3221%	Mar. 29, 2024		
	500,000	-	-	500,000	0.2545%	Jul. 31, 2026		
	-	500,000	-	500,000	0.2543%	Aug. 29, 2025		
Shinsei Bank, Ltd.	900,000	-	-	900,000	0.4047%	Nov. 29, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,500,000	-	-	1,500,000	0.6155%	Nov. 30, 2023		
	500,000	-	-	500,000	0.2678%	Mar. 31, 2023		
	-	500,000	-	500,000	0.3243%	Aug. 29, 2025		

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	0.3045%	Aug. 30, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,000,000	-	-	1,000,000	0.3221%	Mar. 29, 2024		
The Norinchukin Bank	600,000	-	-	600,000	0.4047%	Nov. 29, 2019		
	3,000,000	-	3,000,000	-	0.3045%	May 31, 2019		
	1,000,000	-	-	1,000,000	0.2678%	Mar. 31, 2023		
	500,000	-	-	500,000	0.2045%	Jul. 31, 2024		
	600,000	-	-	600,000	0.3045%	Nov. 29, 2024		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.2678%	Mar. 31, 2023		
	500,000	-	-	500,000	0.3545%	Jul. 31, 2029		
	-	1,500,000	-	1,500,000	0.2543%	Aug. 29, 2025		
The Nishi-Nippon City Bank, Ltd.	1,000,000	-	-	1,000,000	0.3045%	Nov. 29, 2024		
	-	500,000	-	500,000	0.3243%	Aug. 29, 2025		
The Hiroshima Bank, Ltd.	1,000,000	-	-	1,000,000	0.2678%	Mar. 31, 2023		
The Oita Bank, Ltd.	1,000,000	-	-	1,000,000	0.2300%	Nov. 30, 2022		
Shinkin Central Bank	1,000,000	-	-	1,000,000	0.1795%	Sep. 30, 2022		
Total	112,722,000	19,900,000	12,000,000	120,622,000				

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

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

(Note 3) The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its name to MUFG Bank, Ltd. as of April 1, 2018. MUFG Bank, Ltd. has taken over the position of lender from Mitsubishi UFJ Trust and Banking Corporation as of April 16, 2018.

(Note 4) The repayment schedule of long-term loans payable (excluding the current portion of long-term loans payable) due within 5 years after the balance sheet date is as follows.

(Unit: thousands of yen)

	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Long-term loans payable	22,922,000	12,500,000	22,000,000	14,400,000

## 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)

	As of	
	July 31, 2018	January 31, 2018
Deferred tax assets		
Accrued enterprise tax excluded from expenses	20	40
Total deferred tax assets	20	40
Net deferred tax assets	20	40

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

	As of	
	July 31, 2018	January 31, 2018
Statutory tax rate	31.74%	31.74%
[Adjustments]		
Deductible cash distributions	(31.73%)	(31.72%)
Others	0.01%	0.01%
Effective tax rate	0.02%	0.03%

## 10. PER UNIT INFORMATION

	For the six months ended	
	July 31, 2018	January 31, 2018
Net assets per unit (yen)	102,457	102,363
Net income per unit (yen)	2,753	2,659
(Note 1) Net income per unit was calculated by dividing the net income by the daily weighted average number of investment units during the period.		
Diluted net income per unit has not been stated as there are no diluted investment units.		
(Note 2) The following is the basis for calculating net income per unit.		

	For the six months ended	
	July 31, 2018	January 31, 2018
Net income (thousands of yen)	4,819,824	4,655,877
Amounts not attributable to common unitholders (thousands of yen)	-	-
Net income attributable to common investment units (thousands of yen)	4,819,824	4,655,877
Average number of investment units during the period (units)	1,750,640	1,750,640

## 11. RELATED PARTY TRANSACTIONS

### (1) Parent company and major corporate unitholders

For the six months ended July 31, 2018

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	67,000,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Acquisition of Property (Note 2) (Note 6)	7,500,000	-	-
							Leasing of properties (Note 3) (Note 7)	5,518,849	Operating accounts receivable	1,437
									Advances received	989,645
									Lease and guarantee deposits in trust	8,867,893
							Payment of property operation and management fees (Note 8)	250,123 (Note 4)	Prepaid expenses	5,807
									Operating accounts payable	46,186
Deposit of lease and guarantee (Note 5) (Note 9)	-	Lease and guarantee deposits in trust	53,886							

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

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

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

(Note 4) The amount includes fees (13,297 thousand yen) that are not charged to expenses but recognized as assets.

(Note 5) Roppongi View Tower

[Transaction terms and conditions and related policies]

(Note 6) Acquisition decisions are made in accordance with the provisions of the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations. Furthermore, acquisitions are not made at a value exceeding the appraisal value as determined by an independent third-party real estate appraiser (including corporations).

(Note 7) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

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

(Note 9) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

For the six months ended January 31, 2018

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	67,000,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Acquisition of Property ( Note 2 ) ( Note 6 )	14,400,000	-	-
							Leasing of properties (Note 3) (Note 7)	5,423,399	Operating accounts receivable	799
									Advances received	968,529
							Payment of property operation and management fees (Note 8)	230,610 (Note 4)	Lease and guarantee deposits in trust	8,678,475
									Prepaid expenses	5,039
							Deposit of lease and guarantee (Note 5) (Note 9)	-	Lease and guarantee deposits in trust	53,886

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

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

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

(Note 4) The amount includes fees (7,413 thousand yen) that are not charged to expenses but recognized as assets.

(Note 5) Roppongi View Tower

[Transaction terms and conditions and related policies]

(Note 6) Acquisition decisions are made in accordance with the provisions of the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations. Furthermore, acquisitions are not made at a value exceeding the appraisal value as determined by an independent third-party real estate appraiser (including corporations).

(Note 7) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

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

(Note 9) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.

(2) Subsidiaries and affiliates

For the six months ended July 31, 2018

Not applicable.

For the six months ended January 31, 2018

Not applicable.

(3) Subsidiaries of parent company

For the six months ended July 31, 2018

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)	234,501 (Note 3)	Accrued expenses	245,161

(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 7,500 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

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

For the six months ended January 31, 2018

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)	215,965 (Note 3)	Accrued expenses	217,691

(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 14,400 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

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

(4) Directors and major individual unitholders

For the six months ended July 31, 2018

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)	234,501 (Note 3)	Accrued expenses	245,161

(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 7,500 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

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

For the six months ended January 31, 2018

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)	215,965 (Note 3)	Accrued expenses	217,691

(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 14,400 thousand yen in acquisition fees pertaining to a real estate acquisition included in the book value of real estate.

[Transaction terms and conditions and related policies]

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

## 12. BREAKDOWN OF PROPERTY-RELATED REVENUE AND EXPENSES

Breakdown of property operating income

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2018	January 31, 2018
A. Property operating revenue		
Rent revenues		
Rent and common area revenue	8,528,198	8,279,445
Other rent revenue	5,529	5,150
Other operating revenues		
Parking revenue	50,845	48,740
Utilities and other revenue	165,697	161,900
Cancellation penalty	815	502
Key money income	-	57
Total property operating revenue	8,751,085	8,495,797
B. Property operating expenses		
Expenses related to properties		
Property management fees	1,002,543	980,712
Property taxes	584,918	555,906
Utilities	132,723	136,588
Maintenance and repairs	94,728	55,682
Insurance premium	15,787	15,597
Custodian fees	5,841	5,811
Depreciation and amortization	1,031,754	1,032,357
Rent expenses	112,821	112,673
Other lease business expenses	14,638	15,268
Total property operating expenses	2,995,757	2,910,598
C. Property operating income [A – B]	5,755,328	5,585,199

Transactions with major unitholders

(Unit: thousands of yen)

	For the six months ended	
	July 31, 2018	January 31, 2018
From operating transactions		
Rent revenues	5,516,494	5,420,960
Other operating revenues	2,355	2,438
Expenses related to properties	236,825	223,196

### 13. UNITHOLDERS' EQUITY

	For the six months ended	
	July 31, 2018	January 31, 2018
Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	1,750,640 units	1,750,640 units

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

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

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

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

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

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

(2) Fair value of financial instruments

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2018.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	3,738,489	3,738,489	-
(b) Cash and deposits in trust	6,010,142	6,010,142	-
Total	9,748,631	9,748,631	-
(c) Current portion of investment corporation bonds	3,000,000	3,003,975	3,975
(d) Current portion of long-term loans payable	22,500,000	22,508,794	8,794
(e) Investment corporation bonds	22,000,000	22,152,900	152,900
(f) Long-term loans payable	120,622,000	120,870,924	248,924
Total	168,122,000	168,536,594	414,594
Derivative transactions (Note 1)	(15)	(15)	-

The following are the carrying amount, fair value and the difference between them of financial instruments as of January 31, 2018.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	1,475,138	1,475,138	-
(b) Cash and deposits in trust	7,596,522	7,596,522	-
Total	9,071,661	9,071,661	-
(c) Current portion of investment corporation bonds	3,000,000	3,006,600	6,600
(d) Current portion of long-term loans payable	20,500,000	20,544,378	44,378
(e) Investment corporation bonds	25,000,000	25,153,015	153,015
(f) Long-term loans payable	112,722,000	113,074,395	352,395
Total	161,222,000	161,778,388	556,388
Derivative transactions (Note 1)	1	1	-

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

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

Assets

(a) Cash and deposits; (b) Cash and deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

Liabilities

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

The fair value of these is based on market prices.

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

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

**Derivative transactions**

Please refer to “Derivative transactions” below.

(Note 3) Redemption of monetary claims scheduled to be due after the balance sheet date (as of July 31, 2018)

(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	3,738,489	-	-	-	-	-
Cash and deposits in trust	6,010,142	-	-	-	-	-
Total	9,748,631	-	-	-	-	-

Redemption of monetary claims scheduled to be due after the balance sheet date (as of January 31, 2018)

(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	1,475,138	-	-	-	-	-
Cash and deposits in trust	7,596,522	-	-	-	-	-
Total	9,071,661	-	-	-	-	-

(Note 4) Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of July 31, 2018)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	3,000,000	5,000,000	5,500,000	-	-	11,500,000
Long-term loans payable	22,500,000	22,922,000	12,500,000	22,000,000	14,400,000	48,800,000
Total	25,500,000	27,922,000	18,000,000	22,000,000	14,400,000	60,300,000

Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of January 31, 2018)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	3,000,000	3,000,000	8,500,000	2,000,000	-	11,500,000
Long-term loans payable	20,500,000	27,900,000	13,022,000	19,000,000	11,700,000	41,100,000
Total	23,500,000	30,900,000	21,522,000	21,000,000	11,700,000	52,600,000

## 15. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

As of July 31, 2018

Not applicable

As of January 31, 2018

Not applicable

(2) Transactions for which hedge accounting is applied

As of July 31, 2018

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

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	33,022,000	33,022,000	(15)	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	54,000,000	43,500,000	*	-

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

As of January 31, 2018

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

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	5,000,000	5,000,000	1	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	64,000,000	43,500,000	*	-

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

## 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)

	For the six months ended	
	July 31, 2018	January 31, 2018
Cash and deposits	3,738,489	1,475,138
Cash and deposits in trust	6,010,142	7,596,522
Cash and cash equivalents	9,748,631	9,071,661

## 17. LEASES

Operating lease transactions (as lessor)

Future minimum rent revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

	As of	
	July 31, 2018	January 31, 2018
Due within 1 year	4,409,351	4,253,411
Due after 1 year	14,000,653	14,630,053
Total	18,410,004	18,883,465

## 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)

	For the six months ended	
	July 31, 2018	January 31, 2018
Carrying amount		
Balance at beginning of the period	343,724,215	330,068,181
Amount of increase (decrease) during the period	6,932,734	13,656,034
Balance at end of the period	350,656,949	343,724,215
Fair value at end of the period	389,452,000	370,446,000

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

(Note 2) Of the increase (decrease) during the period ended July 31, 2018, the increase is primarily attributable to the acquisition of two properties (Toranomom Hills Mori Tower (approximately 1.0% of total exclusive floor area) (5,091,395 thousand yen) and Holland Hills Mori Tower (approximately 7.3% of total exclusive floor area) (2,444,066 thousand yen)), the decrease is primarily attributable to depreciation and amortization.

Of the increase (decrease) during the period ended January 31, 2018, the increase is primarily attributable to the acquisition of two properties (Toranomom Hills Mori Tower (approximately 1.0% of total exclusive floor area) (5,090,943 thousand yen) and Holland Hills Mori Tower (approximately 27.6% of total exclusive floor area) (9,377,795 thousand yen)), the decrease is primarily attributable to depreciation and amortization.

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

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

## 19. SEGMENT AND RELATED INFORMATION

[Segment Information]

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

[Related Information]

For the six months ended July 31, 2018

(1) Information about each product and service

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

(2) Information about each geographical area

(a) Operating revenue

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

(b) Property, plant and equipment

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

(3) Information about each major tenant

		(Unit: thousands of yen)
Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	5,518,849	Real estate leasing business

For the six months ended January 31, 2018

(1) Information about each product and service

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

(2) Information about each geographical area

(a) Operating revenue

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

(b) Property, plant and equipment

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

(3) Information about each major tenant

		(Unit: thousands of yen)
Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	5,423,399	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 July 12, 2018 and July 24, 2018. Furthermore, the cash contribution to new investment units through public offering was completed on August 1, 2018 and the cash contribution to new investment units through third-party allotment was completed on August 22, 2018.

As a result, unitholders' capital is 190,460,106,090 yen, with the number of investment units issued and outstanding is 1,874,960 units as of August 22, 2018.

#### (1) Issuance of New Investment Units through Public Offering (Primary Offering)

Number of new investment units issued	:	118,400 units
Issue price (offer price)	:	134,823 yen per unit
Total amount of issue price (offer price)	:	15,963,043,200 yen
Amount contributed in (issued value)	:	130,536 yen per unit
Total amount contributed in (issued value)	:	15,455,462,400 yen
Contribution date	:	August 1, 2018

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

Number of new investment units issued	:	5,920 units
Amount contributed in (issued value)	:	130,536 yen per unit
Total amount contributed in (issued value)	:	772,773,120 yen
Contribution date	:	August 22, 2018
Allottee	:	Mizuho Securities Co., Ltd.

#### (3) Use of Funds

The funds procured through the issuance of new investment units through the above public offering (Primary Offering) and through the above third-party allotment were used the funds for the acquisition of assets (a portion of Toranomori Hills Mori Tower and a portion of Holland Hills Mori Tower) acquired on September 3, 2018 and acquisition-related costs.