



**Mori Hills REIT Investment Corporation**

**Semiannual Report**

**23rd Fiscal Period**

**(August 1, 2017 - January 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-third fiscal period which ended January 31, 2018.

In the twenty-third fiscal period, with exchange rates relatively stable, 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 the stock market also increased solidly.

Within this economic environment, the rental office building market experienced continued improvement in supply-demand balance due to the ongoing demand for expansion and relocation driven by the strong employment situation, and also due to the steady lease up of tenants into new buildings. In the luxury rental housing market, occupancy rates and rent levels remained solid with the ongoing steady demand for quality housing in central Tokyo. In the real estate trading market, transaction prices continue to be high backed by the strong investment appetite from investors at home and abroad, particularly by J-REITs that were actively turning to replace their assets under management and overseas entities which successively made large transactions.

In the twenty-third 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-third fiscal period, was comprised of 11 properties under management with a total leasable area of 159,828.74 m<sup>2</sup>. MHR has already invested 352,550 million yen (based on the acquisition price) into this portfolio. The occupancy rate at the end of the twenty-third fiscal period was 98.5%.

The asset management activities described above resulted in MHR recording in the twenty-third fiscal period 8,495 million yen in operating revenue, 5,287 million yen in operating income, 4,657 million yen in ordinary income, 4,655 million yen in net income and 2,659 yen in dividend per unit in the twenty-third period.

Also, MHR acquired a part of Toranomori Hills Mori Tower (acquisition price: 5,070 million yen) and a part of Holland Hills Mori Tower (acquisition price: 2,430 million yen) additionally on March 1, 2018.

These acquisitions are expected to enhance the portfolio size and increase dividends. As a result, MHR declared dividends per unit of 2,720 yen for the twenty-fourth fiscal period ending July 31, 2018.

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 23rd period

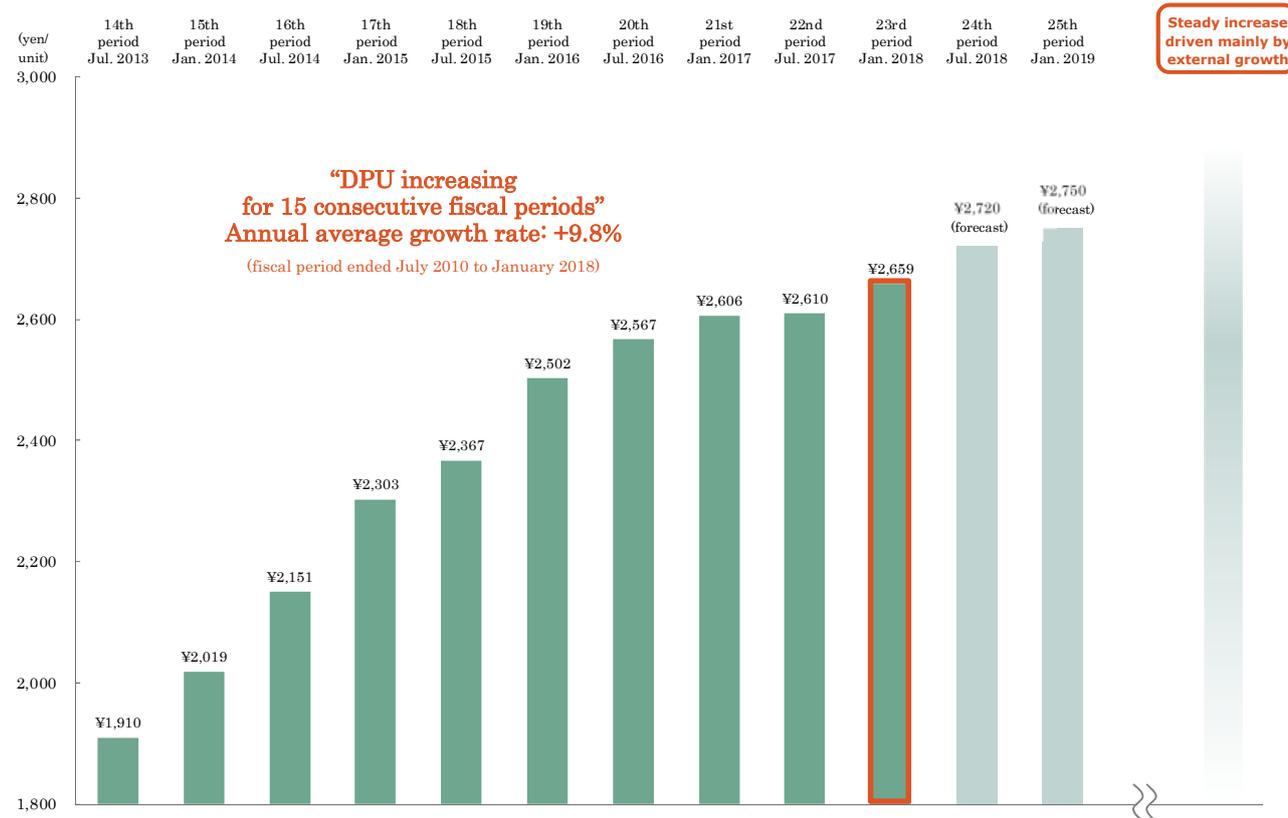
**2,659 yen**

Dividend per unit: the 24th period forecast\*

**2,720 yen**

\*The forecasted figures for the 24th and the 25th 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 was divided by 5 for the periods before the split of investment units in the graph.

### Results of the 23rd period and Forecast of the 24th period

|  | Actual   | Forecast  | Difference                                |
|--|--|---|---|
|  | 23rd period<br>August 1, 2017 -<br>January 31, 2018 (184 days) | 24th period<br>February 1, 2018 -<br>July 31, 2018 (181 days) | 24th - 23rd period<br>(Forecast - Actual) |
| Operating revenue  | 8,495 million yen  | 8,721 million yen   | + 225 million yen                         |
| Operating income   | 5,287 million yen  | 5,379 million yen   | +92 million yen                           |
| Ordinary income  | 4,657 million yen  | 4,763 million yen   | +106 million yen                          |
| Net income   | 4,655 million yen  | 4,762 million yen   | +106 million yen                          |
| Dividend/unit  | 2,659 yen / unit   | 2,720 yen / unit  | + 61 yen / unit                           |
| Total units outstanding  | 1,750,640 units  | 1,750,640 units   |   |
| Acquisition price<br>(weighted average based on the number of<br>operating days during the period) | 352,550 million yen  | 358,889 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.

## Overview of the Property Acquisitions

MHR acquired Toranomon Hills Mori Tower on March 1, 2018

Toranomon Hills Mori Tower Premium



Anticipated acquisition price

**5,070** mn yen

Appraisal value

**5,610** mn yen

Projected NOI yield

**3.4** %

### [Property overview]

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

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

|   |         |
|---|---------|
| Projected property income (1)                               | 217,162 |
| Projected property expenses (2)                             | 43,957  |
| Projected NOI ((3): (1)-(2))                                | 173,205 |
| Projected NOI yield<br>((3)/ anticipated acquisition price) | 3.4%    |

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

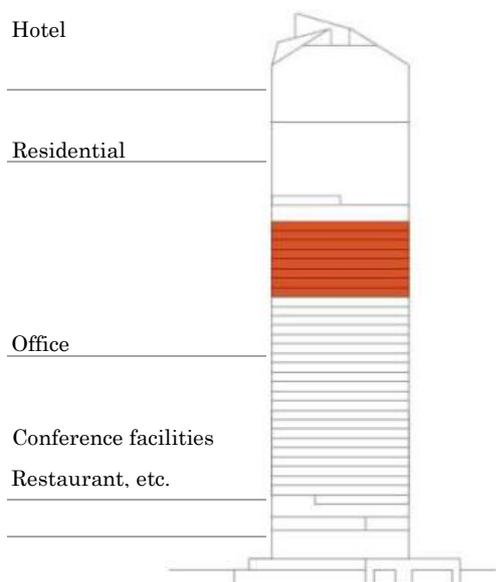
## 1. Super high rise tower - Tokyo's new landmark

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

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

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

[Acquisition portion (Portion of the red area)]

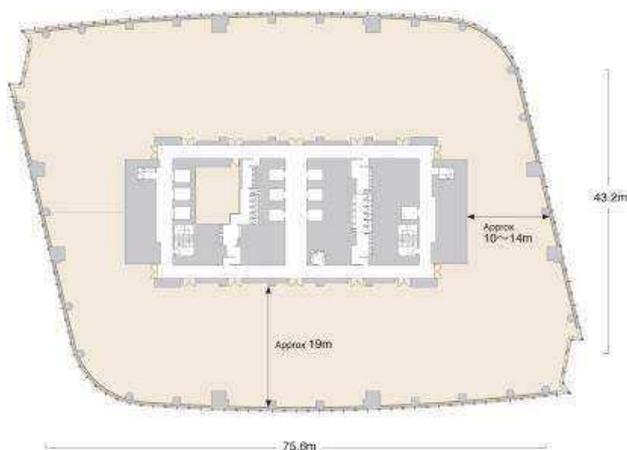


Acquisition portion is 7% quasi-co-ownership interest in trust beneficial interests in the co-ownership (87.95%) of compartmentalized ownership for the 28th to the 35th floors.  
MHR holds 14% including the 7% already acquired.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

|                                       |
|---------------------------------------|
| PML (the probable maximum loss ratio) |
| <b>0.50%</b>                          |

(Note) The value as indicated on the earthquake risk PML assessment report dated August 18, 2017 by Sompo Risk Management & Health Care Inc. is shown.

MHR acquired Holland Hills Mori Tower on March 1, 2018

Holland Hills Mori Tower Premium



Anticipated acquisition price

2,430 mn yen

Appraisal value

2,770 mn yen

Projected NOI yield

4.3 %

[Property overview]

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

[Income and Expenditure Projections] (thousand yen)

|   |         |
|---|---------|
| Projected property income (1)                               | 157,082 |
| Projected property expenses (2)                             | 52,330  |
| Projected NOI ((3): (1)-(2))                                | 104,752 |
| Projected NOI yield<br>((3)/ anticipated acquisition price) | 4.3%    |

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

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

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

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

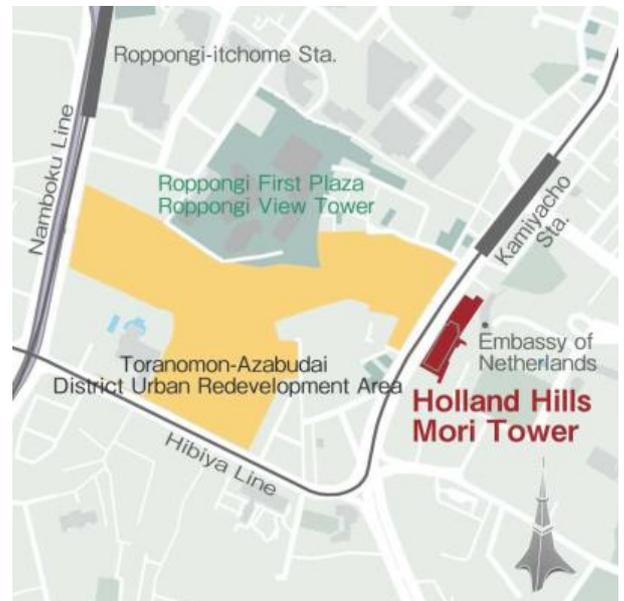
- An excellent location within a 1-minute walk from Tokyo Metro Hibiya Line Kamiyacho Station.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

[Acquisition portion (Portion of the red area)]

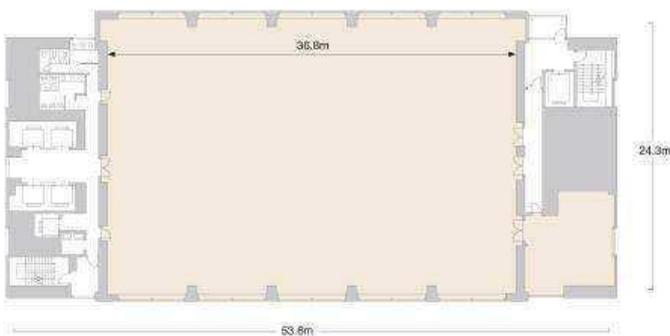


Acquisition portion is 15% quasi-co-ownership interest in trust beneficial interests in compartmentalized ownership for the 3rd and 4th floors; part of 5th floor, 14-18th floors and 22-24th floors. MHR holds 72% including the 57% already acquired.

[Location map]



[Cross-sectional Diagram of the Standard Floor]



[Earthquake PML]

|                                       |
|---------------------------------------|
| PML (the probable maximum loss ratio) |
| <b>0.85%</b>                          |

(Note) The value as indicated on the earthquake risk PML assessment report dated August 18, 2017 by Sompo Risk Management & Health Care Inc. is shown.

Outline of transactions

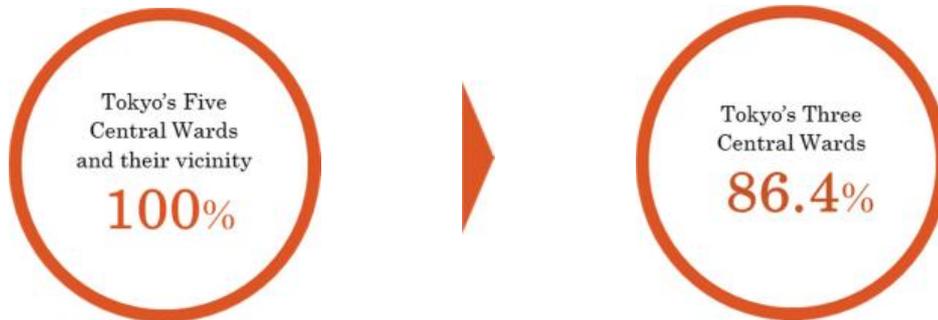
|                               |                           | Acquired as of<br>August 1, 2017 (A) | Acquired as of<br>March 1, 2018 (B) | (A) + (B)              |  |
|-------------------------------|---------------------------|--------------------------------------|-------------------------------------|------------------------|--|
| Toranomon Hills<br>Mori Tower | Acquisition price         | 5,070 million yen                    | 5,070 million yen                   | 10,140 million yen     | Total acquired area<br>Approx. 3.4% of<br>office area<br>Approx. 1.9% of total   |
|                               | NOI yield                 | 3.4%                                 | 3.4%                                | 3.4%                   |  |
|                               | NOI                       | 172 million yen                      | 173 million yen                     | 345 million yen        |  |
|                               | Total leasable floor area | 1,709.27m <sup>2</sup>               | 1,709.27m <sup>2</sup>              | 3,418.54m <sup>2</sup> |  |
| Holland Hills<br>Mori Tower   | Acquisition price         | 9,330 million yen                    | 2,430 million yen                   | 11,760 million yen     | Total acquired area<br>Approx. 55.5% of<br>office area<br>Approx. 34.9% of total |
|                               | NOI yield                 | 4.3%                                 | 4.3%                                | 4.3%                   |  |
|                               | NOI                       | 401 million yen                      | 104 million yen                     | 505 million yen        |  |
|                               | Total leasable floor area | 5,794.07m <sup>2</sup>               | 1,524.76m <sup>2</sup>              | 7,318.83m <sup>2</sup> |  |
| Total                         | Acquisition price         | 14,400 million yen                   | 7,500 million yen                   |                        |  |
|                               | NOI yield                 | 3.9%                                 | 3.7%                                |                        |  |
|                               | NOI                       | 574 million yen                      | 277 million yen                     |                        |  |

## Overview of Portfolio

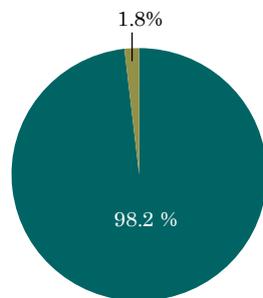
MHR has developed an urban portfolio mainly in Central Tokyo through its “investment in the city” concept, taking advantage of market opportunities and our competitive strengths to enhance profitability as well as portfolio value.

### Portfolio breakdown

Area

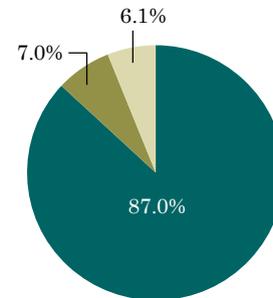


Size



■ 30,000m<sup>2</sup> or more  
■ Under 30,000m<sup>2</sup>

Type



■ Office  
■ Residential  
■ Retail

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

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

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

### Portfolio list



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

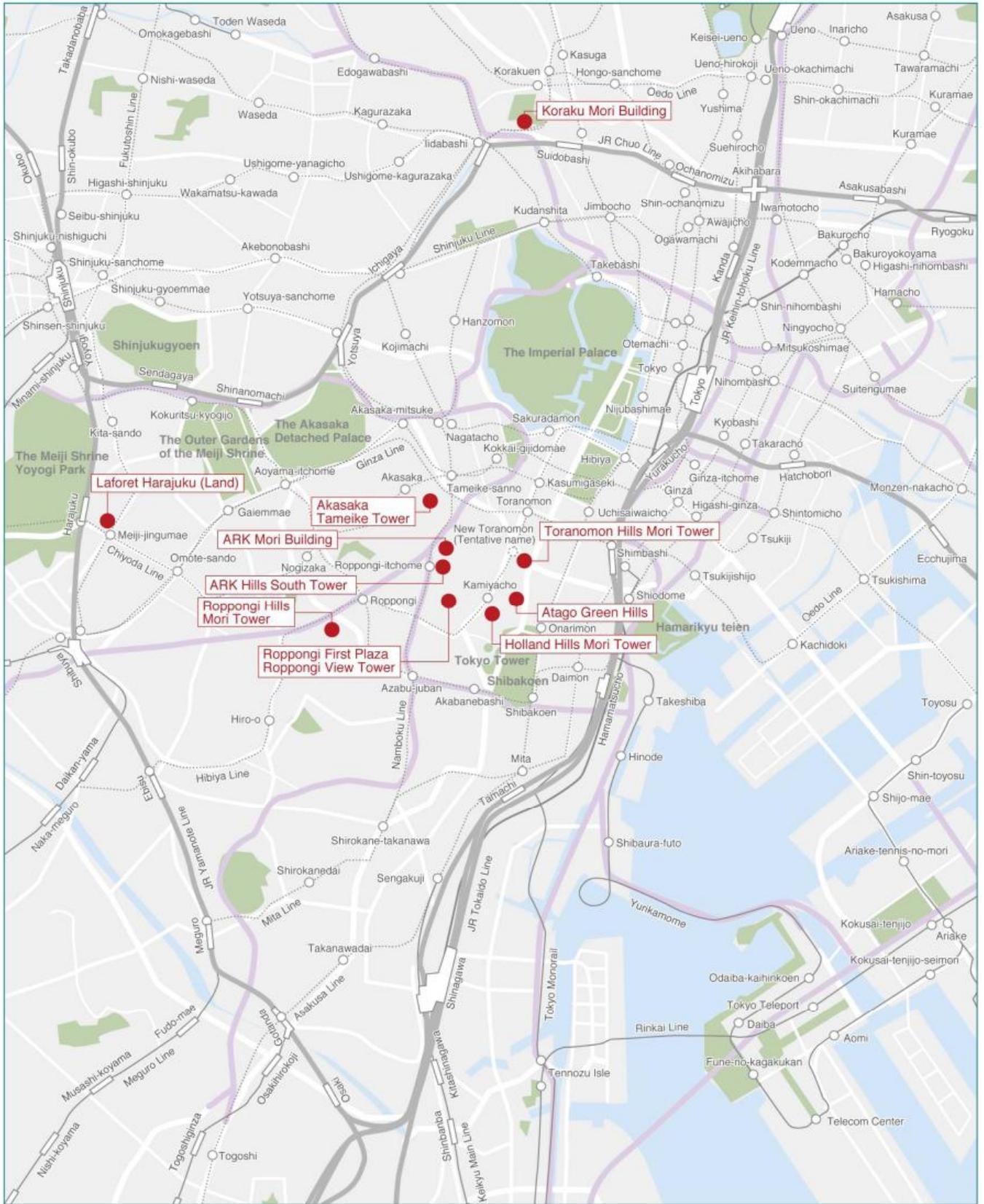
R-4

Roppongi View Tower



S-1 Premium

Laforet Harajuku (Land)



Earthquake-resistant Capability

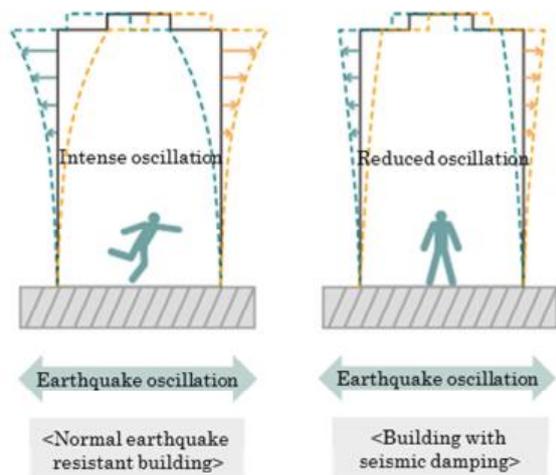
Earthquake-resistant features

Lowest portfolio  
PML of all listed  
J-REITs  
**0.97%**

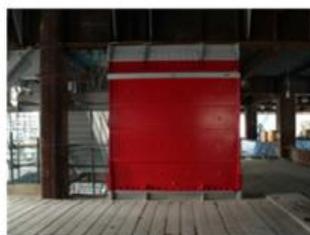
※PML refers to the probable maximum loss ratio expected to result from an earthquake. A smaller percentage indicates superiority in earthquake-resistance.

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

**Seismic damping**

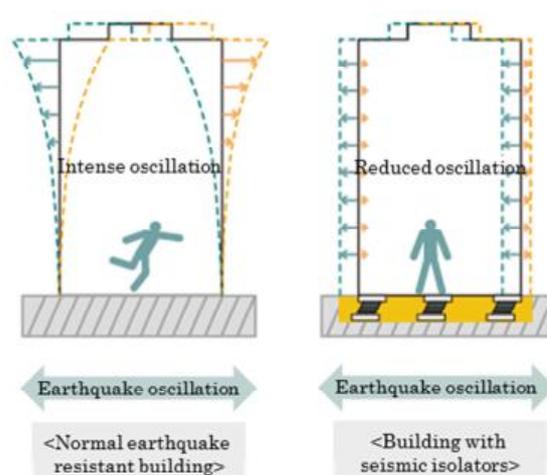


Seismic damping reduces earthquake magnitude of oscillation by approx. 20%



Viscous seismic damping wall

**Seismic isolators**



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



Seismic isolators

Environmental performance

Certified Green Buildings

Highest ratings in green building certifications  
**70.1%**

**CASBEE for Market Promotion: Rank S**



Roppongi Hills Mori Tower



ARK Mori Building



Atago Green Hills (Mori Tower)

**CASBEE for Buildings (New Construction): Rank S**



Toranomom Hills Mori Tower

**DBJ Green Buildings Certification: Five stars**



ARK Hills South Tower

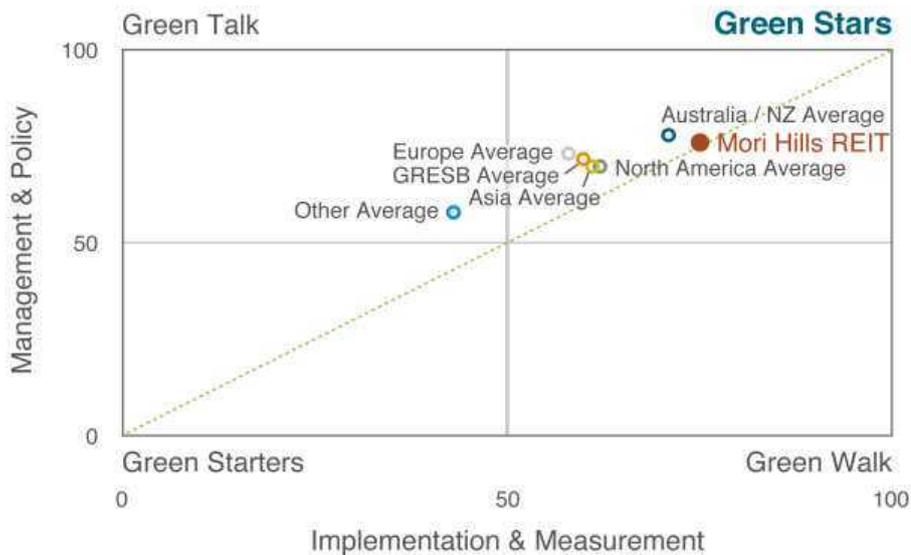
Acquired GRESB Green Star Rating



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 2017 GRESB Survey, MHR received a Green Star rating for the sixth consecutive year. In addition, MHR received 4 Stars in the GRESB Rating (Note).

**GRESB Four-Quadrant Model Scores by Region**



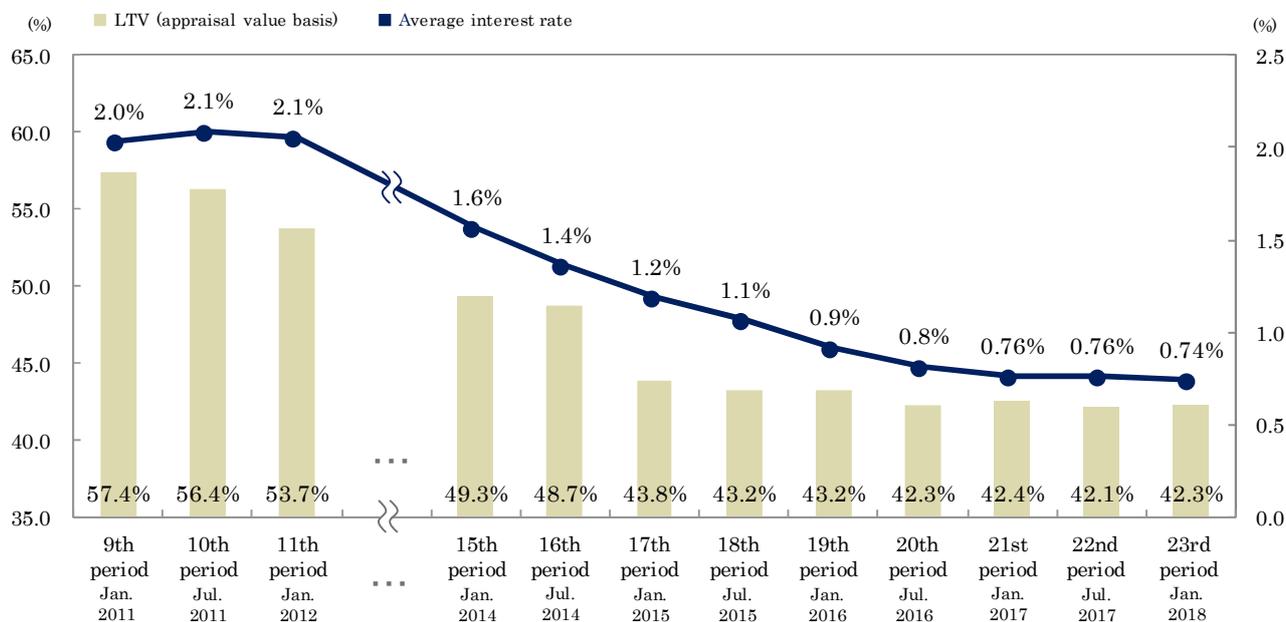
(Source) Prepared by the Asset Manager based on the “2017 GRESB Report” of the Global Real Estate Sustainability Benchmark (GRESB).  
 (Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale (“5 Stars” as the highest rank).

## Financial Status

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

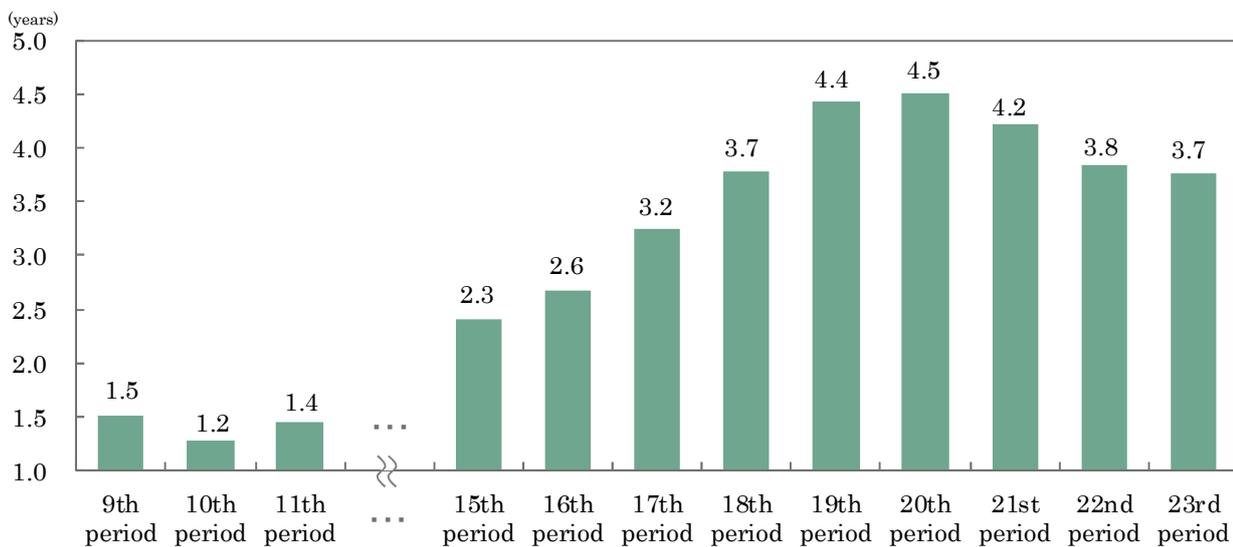
We will continue to maintain a debt duration level that allows us to further strengthen our healthy financial base.

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



(Note) Average interest rate is calculated as [(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

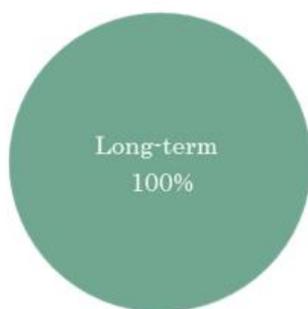
|   | End of the 22nd period<br>Jul. 31, 2017 | End of the 23rd period<br>Jan. 31, 2018 |
|---|---|---|
| Debt Balance                                    | 156,022 mn yen                          | 161,222 mn yen                          |
| LTV (book value basis) <sup>(Note 1)</sup>      | 44.7%                                   | 45.4%                                   |
| LTV (appraisal value basis) <sup>(Note 2)</sup> | 42.1%                                   | 42.3%                                   |
| Avg. remaining duration                         | 3.8 years                               | 3.7 years                               |

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

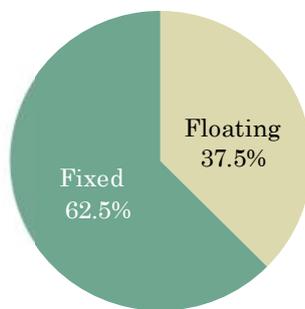
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

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

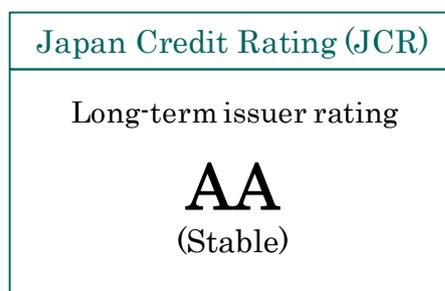
[Long and short-term debt ratio]



[Fixed rate ratio]

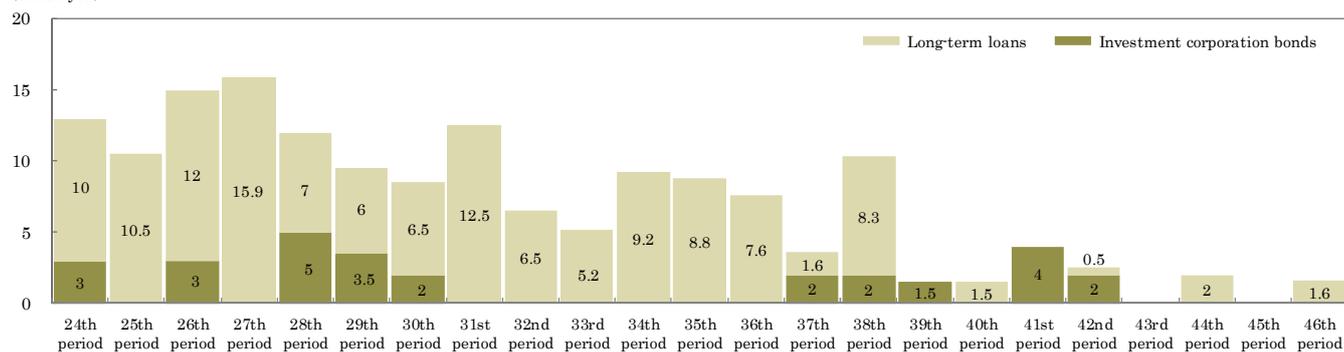


### Rating



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

(billion yen)

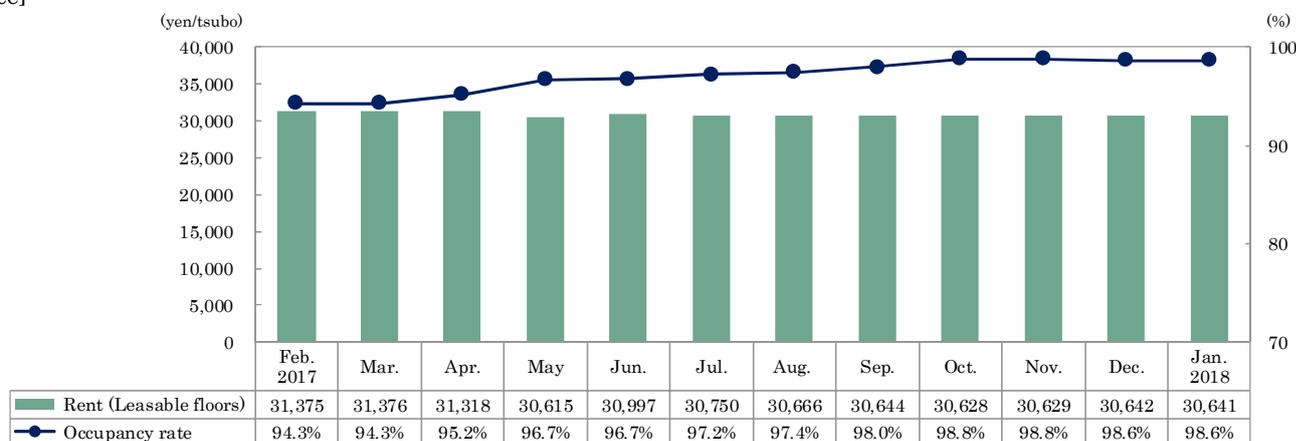


## Portfolio Management

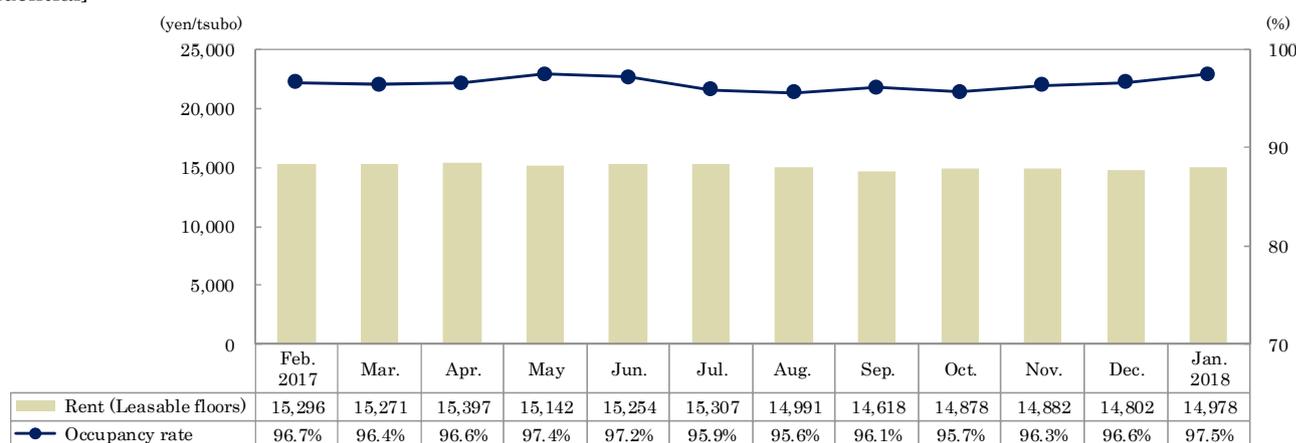
MHR maintained and enhanced occupancy rates and rents by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy.

### Rent and occupancy rate

[Office]

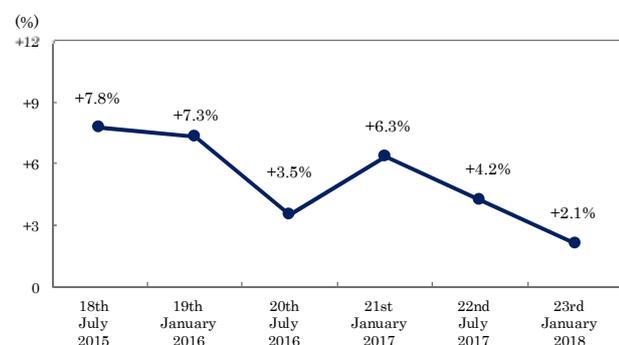


[Residential]

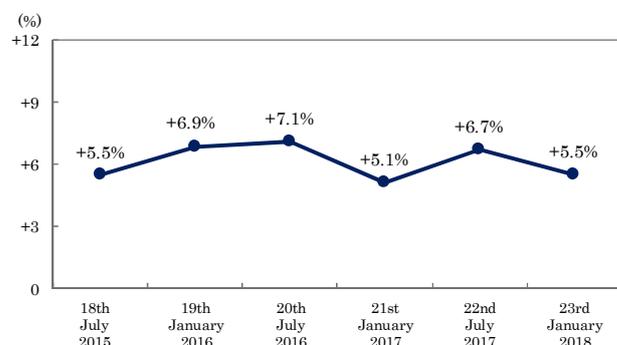


### Result of tenants' rent revision

[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 January 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.

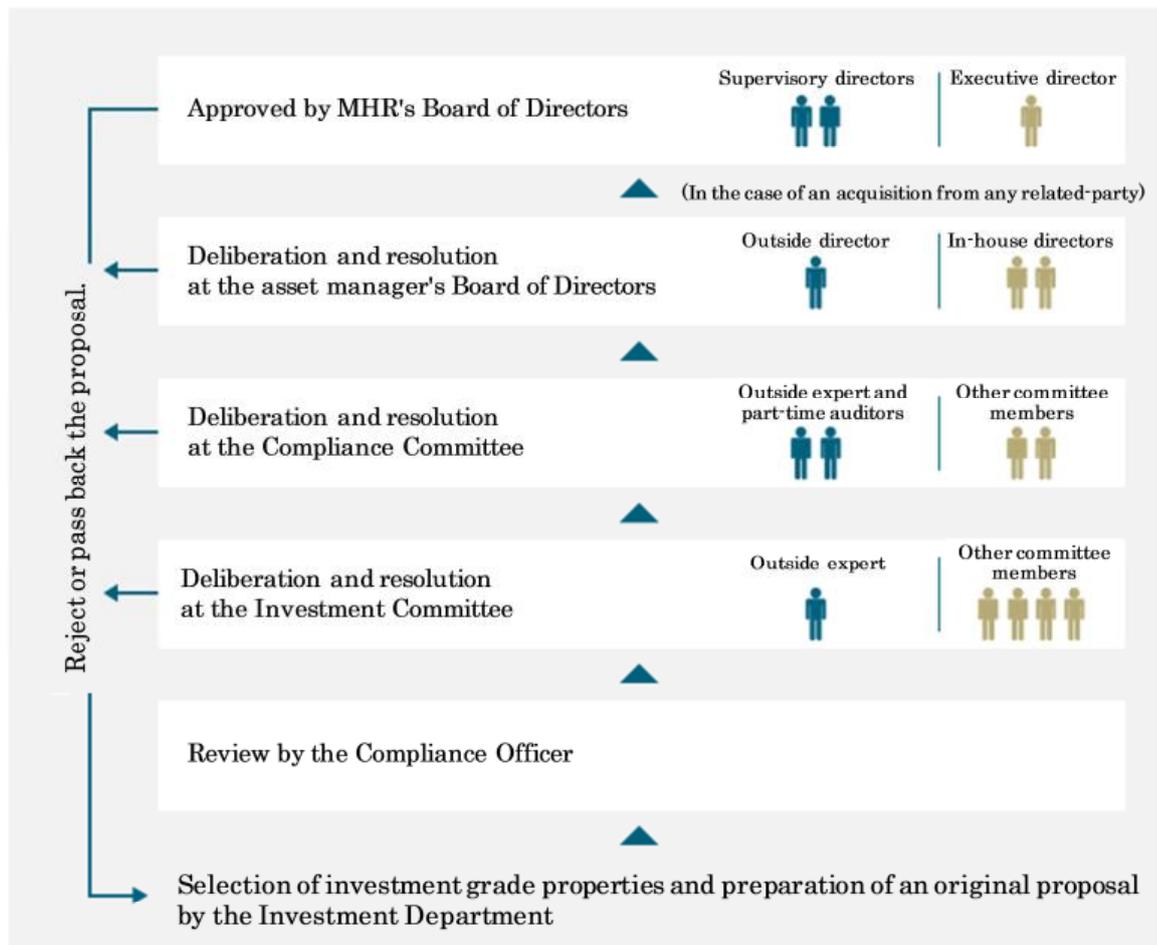
### Governance structure taking unitholders' value into consideration

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



## 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.

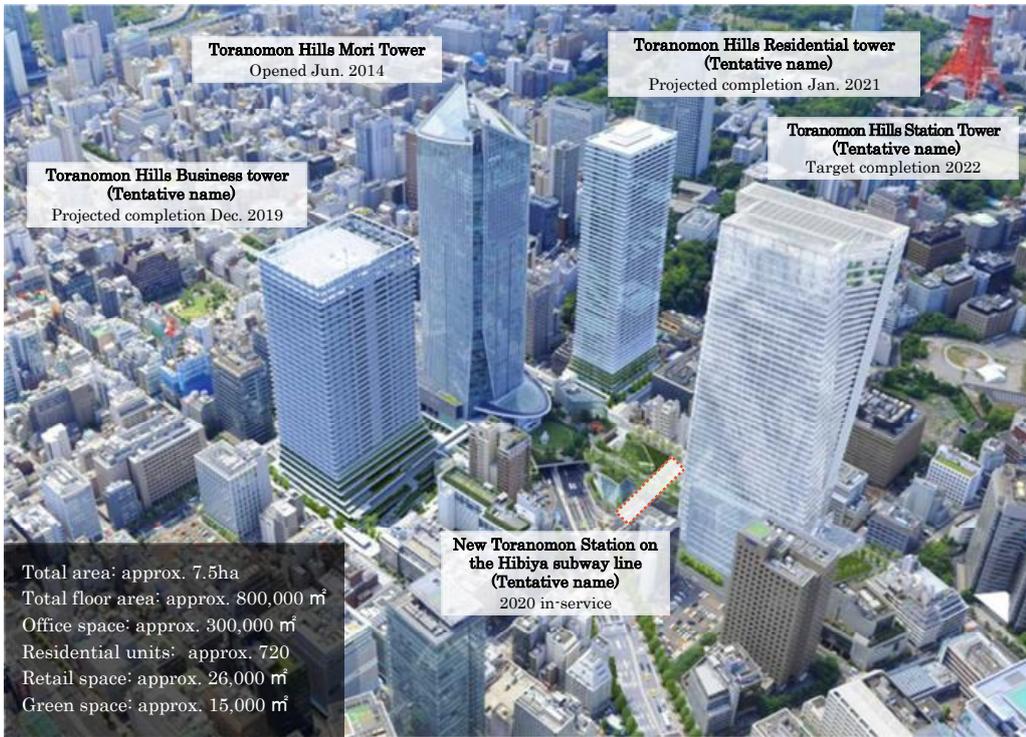
### Mori Building's Total Assets and Property Management

- Total assets: **1.9 trillion yen** (as of the end of March 2017)
- Number of properties under management: **97 buildings** (as of April 2017)

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

|  |  |  |   |
|--|--|--|---|
| <p><b>1</b> <b>Roppongi Hills</b><br/>(Partly owned by MHR)</p>  <p>〈Office/Residential/Retail, etc.〉</p> | <p><b>2</b> <b>Toranomon Hills</b><br/>(Partly owned by MHR)</p>  <p>〈Office/Residential/Hotel, etc.〉</p> | <p><b>3</b> <b>ARK Hills</b><br/>(Partly owned by MHR)</p>  <p>〈Office/Residential/Retail, etc.〉</p> | <p><b>4</b> <b>Atago Green Hills</b><br/>(Partly owned by MHR)</p>  <p>〈Office/Residential/Retail〉</p> |
|--|--|--|---|

### [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)**  
Projected completion Dec. 2019

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

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

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>

(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 exceptions included.

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

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

(Note 4) Some of the properties have been partially acquired and held by MHR.

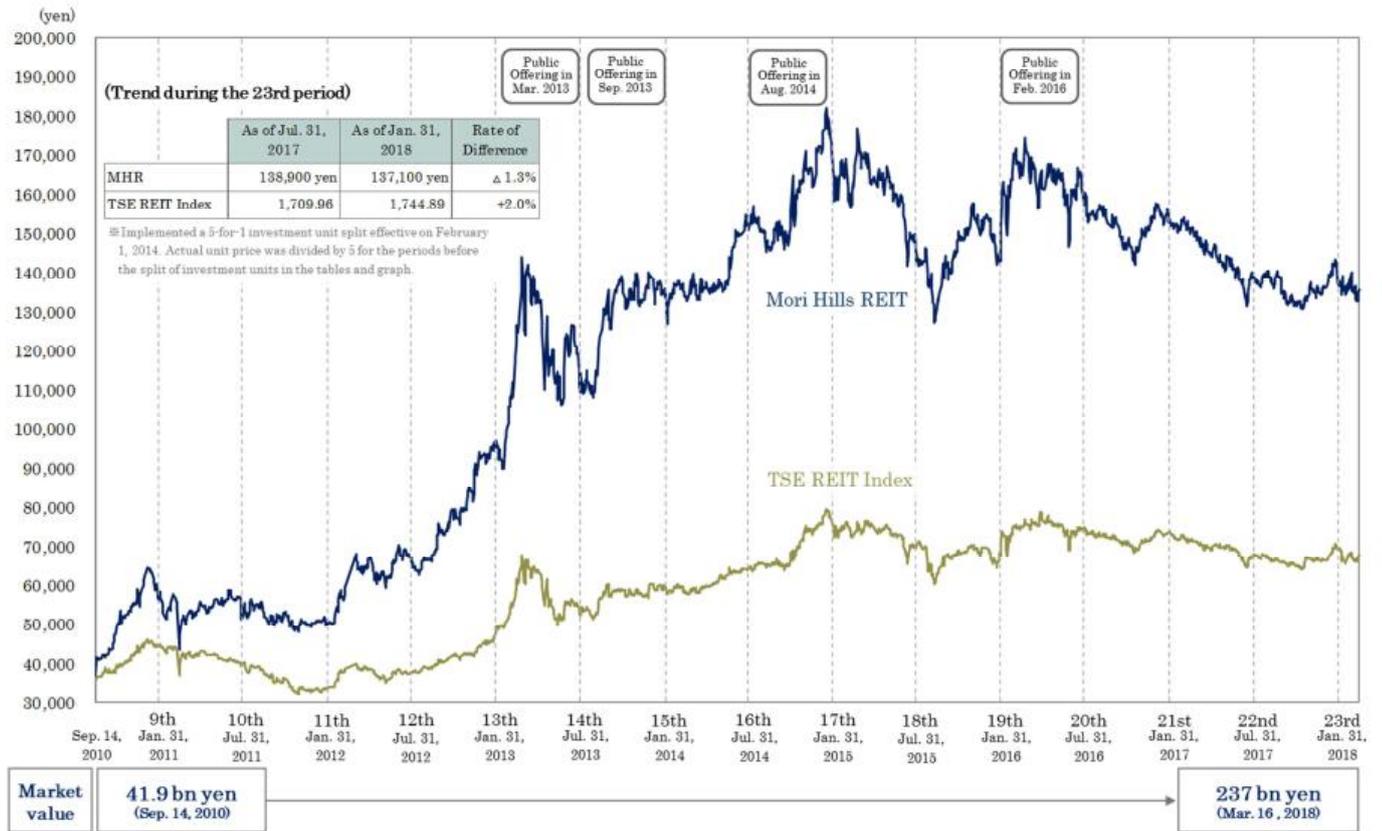
Alternatively, the properties MHR acquired as of March 1, 2018 are also included.

(Note 5) Properties are developed, owned, managed and planned for development by Mori Building Group as of March 1, 2018, and there are no properties anticipated to be acquired by MHR.





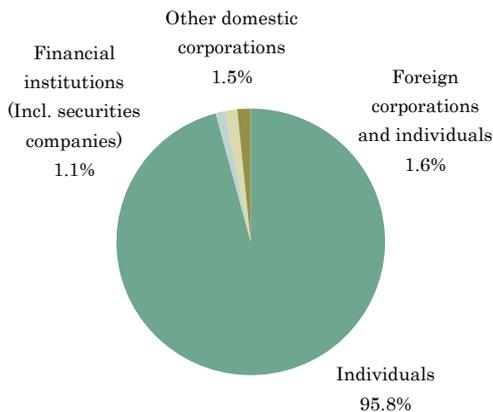
## Unit Price Performance



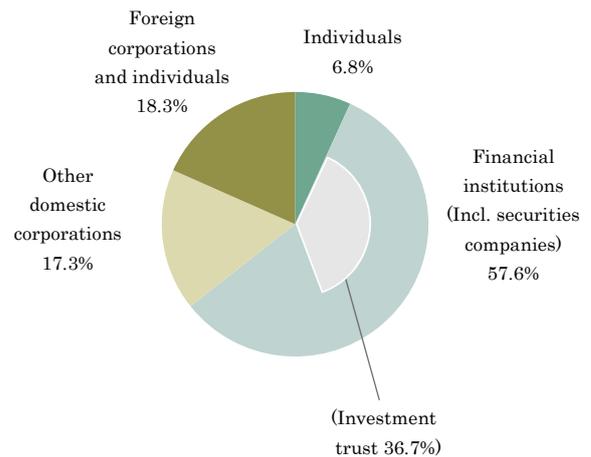
(Note) TSE REIT Index is adjusted as of the 8th period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

## Unitholders Breakdown (as of January 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 January 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 January 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*

April 24, 2018  
Tokyo, Japan

## FINANCIAL STATEMENTS

### BALANCE SHEET

(Unit: thousands of yen)

|   | As of              |                    |
|---|--------------------|--------------------|
|   | January 31, 2018   | July 31, 2017      |
| <b>Assets</b>                               |                    |                    |
| <b>Current assets</b>                       |                    |                    |
| Cash and deposits                           | 1,475,138          | 9,609,786          |
| Cash and deposits in trust                  | 7,596,522          | 7,321,280          |
| Operating accounts receivable               | 381,165            | 208,751            |
| Prepaid expenses                            | 463,592            | 448,573            |
| Deferred tax assets                         | 40                 | -                  |
| Consumption taxes receivable                | 121,627            | -                  |
| Other                                       | 13                 | 3,593              |
| <b>Total current assets</b>                 | <b>10,038,101</b>  | <b>17,591,985</b>  |
| <b>Noncurrent assets</b>                    |                    |                    |
| <b>Property, plant and equipment</b>        |                    |                    |
| Land  | 22,074,160         | 22,074,160         |
| Buildings in trust                          | 72,407,178         | 69,104,243         |
| Accumulated depreciation                    | (13,103,174)       | (12,120,079)       |
| Buildings in trust, net                     | 59,304,004         | 56,984,163         |
| Structures in trust                         | 782,883            | 739,438            |
| Accumulated depreciation                    | (268,115)          | (251,195)          |
| Structures in trust, net                    | 514,767            | 488,243            |
| Machinery and equipment in trust            | 798,696            | 761,534            |
| Accumulated depreciation                    | (202,727)          | (184,141)          |
| Machinery and equipment in trust, net       | 595,968            | 577,393            |
| Tools, furniture and fixtures in trust      | 213,594            | 192,828            |
| Accumulated depreciation                    | (103,946)          | (90,814)           |
| Tools, furniture and fixtures in trust, net | 109,647            | 102,013            |
| Land in trust                               | 230,442,284        | 219,188,377        |
| Construction in progress in trust           | 30,561             | 383                |
| <b>Total property, plant and equipment</b>  | <b>313,071,395</b> | <b>299,414,737</b> |
| <b>Intangible assets</b>                    |                    |                    |
| Leasehold rights in trust                   | 30,650,962         | 30,650,962         |
| Other intangible assets in trust            | 1,857              | 2,480              |
| Other                                       | 1,096              | 1,483              |
| <b>Total intangible assets</b>              | <b>30,653,917</b>  | <b>30,654,927</b>  |
| <b>Investments and other assets</b>         |                    |                    |
| Lease and guarantee deposits                | 10,000             | 10,000             |
| Long-term prepaid expenses                  | 816,379            | 815,432            |
| Derivatives                                 | 1                  | -                  |
| <b>Total investments and other assets</b>   | <b>826,381</b>     | <b>825,432</b>     |
| <b>Total noncurrent assets</b>              | <b>344,551,694</b> | <b>330,895,097</b> |
| <b>Deferred assets</b>                      |                    |                    |
| Investment corporation bonds issuance cost  | 108,129            | 122,315            |
| Investment unit issuance cost               | 42,823             | 64,235             |
| <b>Total deferred assets</b>                | <b>150,953</b>     | <b>186,550</b>     |
| <b>Total assets</b>                         | <b>354,740,749</b> | <b>348,673,632</b> |

(Unit: thousands of yen)

|  | As of              |                    |
|--|--------------------|--------------------|
|  | January 31, 2018   | July 31, 2017      |
| <b>Liabilities</b>                                 |                    |                    |
| <b>Current liabilities</b>                         |                    |                    |
| Operating accounts payable                         | 194,977            | 184,927            |
| Current portion of investment corporation bonds    | 3,000,000          | 5,000,000          |
| Current portion of long-term loans payable         | 20,500,000         | 12,600,000         |
| Accounts payable – other                           | 12,118             | 15,377             |
| Accrued expenses                                   | 276,605            | 278,759            |
| Income taxes payable                               | 1,385              | 596                |
| Accrued consumption taxes                          | -                  | 163,774            |
| Advances received                                  | 1,095,433          | 1,064,305          |
| Deposits received                                  | 36,521             | 27,543             |
| <b>Total current liabilities</b>                   | <b>25,117,041</b>  | <b>19,335,284</b>  |
| <b>Noncurrent liabilities</b>                      |                    |                    |
| Investment corporation bonds                       | 25,000,000         | 25,000,000         |
| Long-term loans payable                            | 112,722,000        | 113,422,000        |
| Lease and guarantee deposits in trust              | 12,699,579         | 11,800,930         |
| <b>Total noncurrent liabilities</b>                | <b>150,421,579</b> | <b>150,222,930</b> |
| <b>Total liabilities</b>                           | <b>175,538,621</b> | <b>169,558,214</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                        | 105,244            | 105,244            |
| Reserve for special account for reduction entry    | 186,700            | -                  |
| <b>Total voluntary retained earnings</b>           | <b>291,944</b>     | <b>105,244</b>     |
| Unappropriated retained earnings                   | 4,678,311          | 4,778,304          |
| <b>Total surplus</b>                               | <b>4,970,255</b>   | <b>4,883,548</b>   |
| <b>Total unitholders' equity</b>                   | <b>179,202,125</b> | <b>179,115,418</b> |
| <b>Valuation and translation adjustments</b>       |                    |                    |
| Deferred gains or losses on hedges                 | 1                  | -                  |
| <b>Total valuation and translation adjustments</b> | <b>1</b>           | <b>-</b>           |
| <b>Total net assets (Note8)</b>                    | <b>179,202,127</b> | <b>179,115,418</b> |
| <b>Total liabilities and net assets</b>            | <b>354,740,749</b> | <b>348,673,632</b> |

## STATEMENT OF INCOME AND RETAINED EARNINGS

(Unit: thousands of yen)

|   | For the six months ended |                  |
|---|--------------------------|------------------|
|   | January 31, 2018         | July 31, 2017    |
| Operating revenue   |                          |                  |
| Rent revenues (Note12)  | 8,284,596                | 7,853,452        |
| Other operating revenues (Note12)                             | 211,201                  | 225,208          |
| Gain on sales of real estate properties (Note12)              | -                        | 413,312          |
| Total operating revenue                                       | <u>8,495,797</u>         | <u>8,491,973</u> |
| Operating expenses  |                          |                  |
| Expenses related to properties (Note12)                       | 2,910,598                | 2,788,717        |
| Asset management fee  | 201,565                  | 201,529          |
| Directors' compensation                                       | 4,200                    | 5,200            |
| Asset custody fee   | 8,716                    | 8,727            |
| Administrative service fees                                   | 19,264                   | 19,899           |
| Other operating expenses (Note12)                             | 64,449                   | 72,028           |
| Total operating expenses                                      | <u>3,208,795</u>         | <u>3,096,102</u> |
| Operating income  | <u>5,287,002</u>         | <u>5,395,871</u> |
| Non-operating income  |                          |                  |
| Interest income   | 67                       | 58               |
| Gain on forfeiture of unclaimed dividends                     | 1,549                    | 861              |
| Other   | 32                       | -                |
| Total non-operating income                                    | <u>1,649</u>             | <u>919</u>       |
| Non-operating expenses  |                          |                  |
| Interest expenses   | 329,221                  | 316,623          |
| Interest expenses on investment corporation bonds             | 93,013                   | 92,264           |
| Amortization of investment corporation bonds<br>issuance cost | 14,185                   | 14,073           |
| Borrowing expenses  | 171,628                  | 166,568          |
| Amortization of investment unit issuance cost                 | 21,411                   | 48,664           |
| Other   | 1,960                    | 1,930            |
| Total non-operating expenses                                  | <u>631,420</u>           | <u>640,124</u>   |
| Ordinary income   | <u>4,657,232</u>         | <u>4,756,667</u> |
| Income before income taxes                                    | <u>4,657,232</u>         | <u>4,756,667</u> |
| Income taxes-current  | 1,395                    | 605              |
| Income taxes-deferred   | (40)                     | 192              |
| Total income taxes  | <u>1,354</u>             | <u>797</u>       |
| Net income  | <u>4,655,877</u>         | <u>4,755,870</u> |
| Retained earnings brought forward                             | <u>22,433</u>            | <u>22,433</u>    |
| Unappropriated retained earnings (undisposed loss)            | 4,678,311                | 4,778,304        |

## STATEMENT OF CHANGES IN NET ASSETS

For the six months ended January 31, 2018

(Unit: thousands of yen)

|  | Surplus              |                             |   |                                   |                                  |               | Total unitholders' equity |
|--|----------------------|-----------------------------|---|-----------------------------------|----------------------------------|---------------|---------------------------|
|  | Unitholders' capital | Voluntary retained earnings |   | Total voluntary retained earnings | Unappropriated retained earnings | Total surplus |                           |
|  |                      | Reserve for reduction entry | Reserve for special account for reduction entry |                                   |                                  |               |                           |
| Balance at August 1, 2017                                    | 174,231,870          | 105,244                     | -   | 105,244                           | 4,778,304                        | 4,883,548     | 179,115,418               |
| Change during the period                                     |                      |                             |   |                                   |                                  |               |                           |
| Provision of reserve for special account for reduction entry |                      |                             | 186,700   | 186,700                           | (186,700)                        | -             | -                         |
| Dividends from surplus                                       |                      |                             |   |                                   | (4,569,170)                      | (4,569,170)   | (4,569,170)               |
| Net income   |                      |                             |   |                                   | 4,655,877                        | 4,655,877     | 4,655,877                 |
| Net changes of items other than unitholders' equity          |                      |                             |   |                                   |                                  |               |                           |
| Total changes of items during the period                     | -                    | -                           | 186,700   | 186,700                           | (99,992)                         | 86,707        | 86,707                    |
| Balance at January 31, 2018                                  | 174,231,870          | 105,244                     | 186,700   | 291,944                           | 4,678,311                        | 4,970,255     | 179,202,125               |

|  | Valuation and translation adjustments |   | Total net assets |
|--|---------------------------------------|---|------------------|
|  | Deferred gains or losses on hedges    | Total valuation and translation adjustments |                  |
| Balance at August 1, 2017                                    | -                                     | -   | 179,115,418      |
| Change during the period                                     |                                       |   |                  |
| Provision of reserve for special account for reduction entry |                                       |   | -                |
| Dividends from surplus                                       |                                       |   | (4,569,170)      |
| Net income   |                                       |   | 4,655,877        |
| Net changes of items other than unitholders' equity          | 1                                     | 1   | 1                |
| Total changes of items during the period                     | 1                                     | 1   | 86,709           |
| Balance at January 31, 2018                                  | 1                                     | 1   | 179,202,127      |

For the six months ended July 31, 2017

(Unit: thousands of yen)

|  | Surplus              |                             |                                   |                                  |               |                           | Total net assets |
|--|----------------------|-----------------------------|-----------------------------------|----------------------------------|---------------|---------------------------|------------------|
|  | Unitholders' capital | Voluntary retained earnings |                                   | Unappropriated retained earnings | Total surplus | Total unitholders' equity |                  |
|  |                      | Reserve for reduction entry | Total voluntary retained earnings |                                  |               |                           |                  |
| Balance at February 1, 2017              | 174,231,870          | 105,244                     | 105,244                           | 4,584,601                        | 4,689,845     | 178,921,716               | 178,921,716      |
| Change during the period                 |                      |                             |                                   |                                  |               |                           |                  |
| Dividends from surplus                   |                      |                             |                                   | (4,562,167)                      | (4,562,167)   | (4,562,167)               | (4,562,167)      |
| Net income                               |                      |                             |                                   | 4,755,870                        | 4,755,870     | 4,755,870                 | 4,755,870        |
| Total changes of items during the period | -                    | -                           | -                                 | 193,702                          | 193,702       | 193,702                   | 193,702          |
| Balance at July 31, 2017                 | 174,231,870          | 105,244                     | 105,244                           | 4,778,304                        | 4,883,548     | 179,115,418               | 179,115,418      |

## STATEMENT OF CASH DISTRIBUTIONS

(Unit: yen)

|  | For the six months ended<br>January 31, 2018  | For the six months ended<br>July 31, 2017  |
|--|---|--|
| . Unappropriated retained earnings                             | 4,678,311,114   | 4,778,304,094  |
| . Reversal of voluntary retained earnings                      |   |  |
| Reversal of reserve for special account<br>for reduction entry | 186,700,069   | -  |
| . Amount of dividends  | 4,654,951,760   | 4,569,170,400  |
| Amount of dividends per unit                                   | 2,659   | 2,610  |
| . Voluntary retained earnings                                  |   |  |
| Reserve for special account for reduction<br>entry             | -   | 186,700,069  |
| Reserve for reduction entry                                    | 186,700,069   | -  |
| . Retained earnings carried forward                            | 23,359,354  | 22,433,625   |
| Method of calculating the amount of<br>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 (4,654,951,760yen), 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> | <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 (4,569,170,400 yen), which is the largest integral multiple of the total number of investment units issued and outstanding (1,750,640 units) out of the amount remaining reserve for special account for reduction entry based on Article 65-8 of the Act on Special Measures Concerning Taxation and retained earnings brought forward, not in excess of unappropriated retained earnings for the twenty-second fiscal period. In addition, the Company decided to pay out dividends of earnings in an amount not in excess of unappropriated retained earnings as stipulated in Article 37 (2) of the Company's Articles of Incorporation.</p> |

## STATEMENT OF CASH FLOWS

(Unit: thousands of yen)

For the six months ended

|  | January 31, 2018    | July 31, 2017      |
|--|---------------------|--------------------|
| Net cash provided by (used in) operating activities            |                     |                    |
| Income before income taxes                                     | 4,657,232           | 4,756,667          |
| Depreciation and amortization                                  | 1,032,744           | 1,000,732          |
| Amortization of investment corporation bonds<br>issuance cost  | 14,185              | 14,073             |
| Amortization of investment unit issuance cost                  | 21,411              | 48,664             |
| Interest income  | (67)                | (58)               |
| Gain on forfeiture of unclaimed dividends                      | (1,549)             | (861)              |
| Interest expenses  | 422,234             | 408,887            |
| Decrease (increase) in operating accounts receivable           | (172,413)           | (145,505)          |
| Decrease (increase) in consumption taxes receivable            | (121,627)           | -                  |
| Increase (decrease) in operating accounts payable              | (25,097)            | 40,242             |
| Increase (decrease) in accounts payable – other                | (2,733)             | (13,377)           |
| Increase (decrease) in accrued expenses                        | 840                 | (36,811)           |
| Increase (decrease) in accrued consumption taxes               | (163,774)           | (238,864)          |
| Increase (decrease) in advances received                       | 31,127              | (31,409)           |
| Increase (decrease) in deposits received                       | 8,977               | 166                |
| Decrease (increase) in prepaid expenses                        | (15,019)            | 4,553              |
| Decrease (increase) in long-term prepaid expenses              | (947)               | 126,790            |
| Decrease in property, plant and equipment in trust due to sale | -                   | 1,608,849          |
| Other, net   | 3,579               | (3,574)            |
| Subtotal   | <u>5,689,102</u>    | <u>7,539,164</u>   |
| Interest income received                                       | 67                  | 58                 |
| Interest expenses paid   | (425,229)           | (408,061)          |
| Income taxes paid  | (606)               | (14,143)           |
| Net cash provided by (used in) operating activities            | <u>5,263,334</u>    | <u>7,117,018</u>   |
| Net cash provided by (used in) investing activities            |                     |                    |
| Purchase of property, plant and equipment in trust             | (14,653,244)        | (405,638)          |
| Repayments of lease and guarantee deposits in trust            | (31,978)            | (780,144)          |
| Proceeds from lease and guarantee deposits in trust            | 930,628             | 498,801            |
| Net cash provided by (used in) investing activities            | <u>(13,754,595)</u> | <u>(686,980)</u>   |
| Net cash provided by (used in) financing activities            |                     |                    |
| Proceeds from long-term loans payable                          | 9,800,000           | -                  |
| Repayments of long-term loans payable                          | (2,600,000)         | (1,978,000)        |
| Proceeds from issuance of investment corporation bonds         | -                   | 1,983,845          |
| Redemption of investment corporation bonds                     | (2,000,000)         | -                  |
| Cash dividends paid  | (4,568,145)         | (4,561,951)        |
| Net cash provided by (used in) financing activities            | <u>631,854</u>      | <u>(4,556,105)</u> |
| Net increase (decrease) in cash and cash equivalents           | <u>(7,859,405)</u>  | <u>1,873,931</u>   |
| Cash and cash equivalents at beginning of the period           | <u>16,931,067</u>   | <u>15,057,135</u>  |
| Cash and cash equivalents at end of the period (Note16)        | <u>9,071,661</u>    | <u>16,931,067</u>  |

## NOTES TO FINANCIAL STATEMENTS

For the six months ended January 31, 2018 and July 31, 2017

### 1. ORGANIZATION

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

The Company’s real estate portfolio as of January 31, 2018 was comprised of 11 properties under management with a total leasable floor area of 159,828.74m<sup>2</sup>. The Company has already invested 352,550 million yen (based on acquisition price) into this portfolio. The occupancy rate as of January 31, 2018 was 98.5%.

### 2. BASIS OF PRESENTATION

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Financial Instruments and Exchange Act of Japan and the Investment Trust Act and related regulations, which are different in certain respects as to 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 21,373 thousand yen as of January 31, 2018, and none as of July 31, 2017, 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 January 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              | Amortization |                                  |             |        |
| Property, plant and equipment | Land                                   | 22,074,160                           | -                                    | -                            | 22,074,160                            | -            | -                                | 22,074,160  | -      |
|                               | Buildings in trust                     | 69,104,243                           | 3,302,935                            | -                            | 72,407,178                            | 13,103,174   | 983,094                          | 59,304,004  | (Note) |
|                               | Structures in trust                    | 739,438                              | 43,444                               | -                            | 782,883                               | 268,115      | 16,920                           | 514,767     | (Note) |
|                               | Machinery and equipment in trust       | 761,534                              | 37,161                               | -                            | 798,696                               | 202,727      | 18,586                           | 595,968     | (Note) |
|                               | Tools, furniture and fixtures in trust | 192,828                              | 20,766                               | -                            | 213,594                               | 103,946      | 13,132                           | 109,647     | (Note) |
|                               | Land in trust                          | 219,188,377                          | 11,253,906                           | -                            | 230,442,284                           | -            | -                                | 230,442,284 | (Note) |
|                               | Construction in progress in trust      | 383                                  | 30,177                               | -                            | 30,561                                | -            | -                                | 30,561      | -      |
| Subtotal                      | 312,060,967                            | 14,688,392                           | -                                    | 326,749,359                  | 13,677,964                            | 1,031,734    | 313,071,395                      |             |        |
| Intangible assets             | Leasehold rights in trust              | 30,650,962                           | -                                    | -                            | 30,650,962                            | -            | -                                | 30,650,962  | -      |
|                               | Other intangible assets in trust       | 11,952                               | -                                    | -                            | 11,952                                | 10,095       | 623                              | 1,857       | -      |
|                               | Subtotal                               | 30,662,915                           | -                                    | -                            | 30,662,915                            | 10,095       | 623                              | 30,652,820  |        |
| Total                         | 342,723,883                            | 14,688,392                           | -                                    | 357,412,275                  | 13,688,059                            | 1,032,357    | 343,724,215                      |             |        |

(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 January 31, 2018

Not applicable.

## 6. INVESTMENT CORPORATION BONDS

For the six months ended January 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 |
|---|---------------|------------------------------------|--------------------------------------|--------------------------------------|------------------------------|---------------|--------------------------|--------------|------------|
| Seventh Series Unsecured Investment Corporation Bonds     | Nov. 28, 2012 | 2,000,000                          | -                                    | 2,000,000                            | -                            | 0.9700%       | Nov. 28, 2017            | (Note 1)     | none       |
| Eighth Series Unsecured Investment Corporation Bonds      | May 24, 2013  | 3,000,000                          | -                                    | -                                    | 3,000,000                    | 0.8500%       | May 24, 2018             |              |            |
| Ninth Series Unsecured Investment Corporation Bonds       | May 24, 2013  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 1.2600%       | May 22, 2020             |              |            |
| Tenth Series Unsecured Investment Corporation Bonds       | Feb. 24, 2014 | 3,000,000                          | -                                    | -                                    | 3,000,000                    | 0.4140%       | Feb. 22, 2019            |              |            |
| Eleventh Series Unsecured Investment Corporation Bonds    | Feb. 24, 2014 | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.6880%       | Feb. 24, 2021            |              |            |
| Twelfth Series Unsecured Investment Corporation Bonds     | Nov. 27, 2014 | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.8650%       | Nov. 27, 2024            |              |            |
| Thirteenth Series Unsecured Investment Corporation Bonds  | May 26, 2015  | 3,000,000                          | -                                    | -                                    | 3,000,000                    | 0.3220%       | May 26, 2020             |              |            |
| Fourteenth Series Unsecured Investment Corporation Bonds  | May 26, 2015  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.8200%       | May 26, 2025             |              |            |
| Fifteenth Series Unsecured Investment Corporation Bonds   | Nov. 26, 2015 | 3,500,000                          | -                                    | -                                    | 3,500,000                    | 0.3800%       | Nov. 26, 2020            |              |            |
| Sixteenth Series Unsecured Investment Corporation Bonds   | Nov. 26, 2015 | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.8860%       | Nov. 26, 2025            |              |            |
| Seventeenth Series Unsecured Investment Corporation Bonds | Aug. 30, 2016 | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.3400%       | Aug. 28, 2026            |              |            |
| Eighteenth Series Unsecured Investment Corporation Bonds  | Jan. 31, 2017 | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.4900%       | Jan. 29, 2027            |              |            |
| Nineteenth Series Unsecured Investment Corporation Bonds  | Jun. 30, 2017 | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.5000%       | Jun. 30, 2027            |              |            |
| Total   |               | 30,000,000                         | -                                    | 2,000,000                            | 28,000,000                   |               |                          |              |            |

(Note 1) The funds are used for the repayment of loans payable and redemption of investment corporation bonds.

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

(Unit: thousands of yen)

|                              | Due within 1 year | Due after 1 year,<br>but within 2 years | Due after 2 years,<br>but within 3 years | Due after 3 years,<br>but within 4 years | Due after 4 years,<br>but within 5 years |
|------------------------------|-------------------|---|--|--|--|
| Investment corporation bonds | 3,000,000         | 3,000,000                               | 8,500,000                                | 2,000,000                                | -  |

## 7. LONG-TERM LOANS PAYABLE

For the six months ended January 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                    |
|---|------------------------------------|--------------------------------------|--------------------------------------|------------------------------|--------------------------------|----------------|--------------|----------------------------|
| Mizuho Bank, Ltd.                                     | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.8421%                        | Mar. 30, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|   | -                                  | 1,400,000                            | -                                    | 1,400,000                    | 0.7760%                        | Sep. 28, 2018  |              |                            |
| 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  |              |                            |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 3)       | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.8421%                        | Mar. 30, 2018  |              |                            |
|   | -                                  | 1,400,000                            | -                                    | 1,400,000                    | 0.7760%                        | Sep. 28, 2018  |              |                            |
| Mitsubishi UFJ Trust and Banking Corporation (Note 3) | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.8421%                        | Mar. 30, 2018  |              |                            |
|   | -                                  | 1,400,000                            | -                                    | 1,400,000                    | 0.7760%                        | Sep. 28, 2018  |              |                            |
| 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  |              |                            |
| 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  |              |                            |
| Development Bank of Japan Inc.                        | 750,000                            | -                                    | -                                    | 750,000                      | 0.8421%                        | Mar. 30, 2018  |              |                            |
|   | -                                  | 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  |              |                            |
| The Norinchukin Bank, Ltd.                            | -                                  | 500,000                              | -                                    | 500,000                      | 0.7760%                        | Sep. 28, 2018  |              |                            |
|   | 600,000                            | -                                    | 600,000                              | -                            | 0.2848%                        | Nov. 30, 2017  |              |                            |
| The Bank of Fukuoka, Ltd.                             | -                                  | 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  |              |                            |
| The Hiroshima Bank, Ltd.                              | 1,000,000                          | -                                    | 1,000,000                            | -                            | 0.2848%                        | Nov. 30, 2017  |              |                            |
| The Oita Bank, Ltd.                                   | 1,000,000                          | -                                    | 1,000,000                            | -                            | 0.2848%                        | Nov. 30, 2017  |              |                            |
| Total   | 12,600,000                         | 10,500,000                           | 2,600,000                            | 20,500,000                   |                                |                |              |                            |

(2) Long-term loans payable

(Unit: thousands of yen)

| Lender                              | Balance at beginning of the period | Amount of increase during the period | Amount of decrease during the period | Balance at end of the period | Average interest rate (Note 1) | Repayment date | Use of funds | Remarks                    |
|-------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|------------------------------|--------------------------------|----------------|--------------|----------------------------|
| Mizuho Bank, Ltd.                   | 1,400,000                          | -                                    | 1,400,000                            | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                     | 250,000                            | -                                    | -                                    | 250,000                      | 0.3381%                        | May 31, 2019   |              |                            |
|                                     | 1,100,000                          | -                                    | -                                    | 1,100,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                     | 1,702,000                          | -                                    | -                                    | 1,702,000                    | 0.2881%                        | May 31, 2019   |              |                            |
|                                     | 574,000                            | -                                    | -                                    | 574,000                      | 0.3381%                        | May 29, 2020   |              |                            |
|                                     | 834,000                            | -                                    | -                                    | 834,000                      | 0.3383%                        | 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                      | 0.2881%                        | Mar. 29, 2024  |              |                            |
|                                     | 2,400,000                          | -                                    | -                                    | 2,400,000                    | 0.2881%                        | Mar. 31, 2025  |              |                            |
| -                                   | 1,100,000                          | -                                    | 1,100,000                            | 0.3381%                      | Jul. 31, 2029                  |                |              |                            |
| Sumitomo Mitsui Banking Corporation | 1,400,000                          | -                                    | 1,400,000                            | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                     | 250,000                            | -                                    | -                                    | 250,000                      | 0.3381%                        | May 31, 2019   |              |                            |
|                                     | 1,600,000                          | -                                    | -                                    | 1,600,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                     | 894,000                            | -                                    | -                                    | 894,000                      | 0.2881%                        | May 31, 2019   |              |                            |
|                                     | 300,000                            | -                                    | -                                    | 300,000                      | 0.3381%                        | May 29, 2020   |              |                            |
|                                     | 834,000                            | -                                    | -                                    | 834,000                      | 0.3383%                        | 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                    | 0.2381%                        | Mar. 31, 2023  |              |                            |
|                                     | 800,000                            | -                                    | -                                    | 800,000                      | 0.2881%                        | Mar. 29, 2024  |              |                            |
| -                                   | 1,100,000                          | -                                    | 1,100,000                            | 0.2381%                      | Jul. 31, 2025                  |                |              |                            |



| Lender  | Balance at beginning of the period | Amount of increase during the period | Amount of decrease during the period | Balance at end of the period | Average interest rate (Note 1) | Repayment date | Use of funds | Remarks                    |
|---|------------------------------------|--------------------------------------|--------------------------------------|------------------------------|--------------------------------|----------------|--------------|----------------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 3)       | 1,400,000                          | -                                    | 1,400,000                            | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|   | 250,000                            | -                                    | -                                    | 250,000                      | 0.3381%                        | May 31, 2019   |              |                            |
|   | 1,100,000                          | -                                    | -                                    | 1,100,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|   | 1,702,000                          | -                                    | -                                    | 1,702,000                    | 0.2881%                        | May 31, 2019   |              |                            |
|   | 574,000                            | -                                    | -                                    | 574,000                      | 0.3381%                        | May 29, 2020   |              |                            |
|   | 834,000                            | -                                    | -                                    | 834,000                      | 0.3383%                        | May 29, 2020   |              |                            |
|   | 1,200,000                          | -                                    | -                                    | 1,200,000                    | 0.6242%                        | Nov. 30, 2020  |              |                            |
|   | 1,300,000                          | -                                    | -                                    | 1,300,000                    | 0.7535%                        | Nov. 30, 2021  |              |                            |
|   | 1,369,000                          | -                                    | -                                    | 1,369,000                    | 0.5730%                        | May 31, 2021   |              |                            |
|   | 1,369,000                          | -                                    | -                                    | 1,369,000                    | 0.7020%                        | May 31, 2022   |              |                            |
|   | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.4932%                        | Aug. 31, 2021  |              |                            |
|   | 500,000                            | -                                    | -                                    | 500,000                      | 0.6529%                        | Aug. 31, 2023  |              |                            |
|   | 1,600,000                          | -                                    | -                                    | 1,600,000                    | 0.4980%                        | Nov. 30, 2022  |              |                            |
|   | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.2381%                        | Mar. 31, 2023  |              |                            |
|   | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.2881%                        | Mar. 29, 2024  |              |                            |
| Mitsubishi UFJ Trust and Banking Corporation (Note 3) | 1,400,000                          | -                                    | 1,400,000                            | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|   | 250,000                            | -                                    | -                                    | 250,000                      | 0.3381%                        | May 31, 2019   |              |                            |
|   | 1,100,000                          | -                                    | -                                    | 1,100,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|   | 1,702,000                          | -                                    | -                                    | 1,702,000                    | 0.2881%                        | May 31, 2019   |              |                            |
|   | 574,000                            | -                                    | -                                    | 574,000                      | 0.3381%                        | May 29, 2020   |              |                            |
|   | 834,000                            | -                                    | -                                    | 834,000                      | 0.3383%                        | 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                      | 0.2881%                        | Mar. 29, 2024  |              |                            |
|   | 2,400,000                          | -                                    | -                                    | 2,400,000                    | 0.2881%                        | Mar. 31, 2025  |              |                            |

| 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. | 1,400,000                          | -                                    | 1,400,000                            | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                  | 834,000                            | -                                    | -                                    | 834,000                      | 0.3383%                        | 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                      | 0.2881%                        | Mar. 29, 2024  |              |                            |
|                                  | 2,400,000                          | -                                    | -                                    | 2,400,000                    | 0.2881%                        | Mar. 31, 2025  |              |                            |
|                                  | -                                  | 1,000,000                            | -                                    | 1,000,000                    | 0.2381%                        | Jul. 31, 2026  |              |                            |
|                                  | -                                  | 2,000,000                            | -                                    | 2,000,000                    | 0.2881%                        | Jul. 31, 2028  |              |                            |
| The Norinchukin Bank             | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 600,000                            | -                                    | -                                    | 600,000                      | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                  | 3,000,000                          | -                                    | -                                    | 3,000,000                    | 0.2881%                        | May 31, 2019   |              |                            |
|                                  | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.2381%                        | Mar. 31, 2023  |              |                            |
|                                  | -                                  | 500,000                              | -                                    | 500,000                      | 0.1881%                        | Jul. 31, 2024  |              |                            |
|                                  | -                                  | 600,000                              | -                                    | 600,000                      | 0.2946%                        | Nov. 29, 2024  |              |                            |
| The Bank of Fukuoka, Ltd.        | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.2881%                        | May 31, 2019   |              |                            |
|                                  | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.2881%                        | Mar. 29, 2024  |              |                            |
|                                  | -                                  | 500,000                              | -                                    | 500,000                      | 0.2381%                        | Jul. 31, 2026  |              |                            |
| Development Bank of Japan Inc.   | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                  | 1,700,000                          | -                                    | -                                    | 1,700,000                    | 0.7963%                        | Mar. 27, 2023  |              |                            |
|                                  | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.2881%                        | Mar. 29, 2024  |              |                            |
| Resona Bank, Ltd.                | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 830,000                            | -                                    | -                                    | 830,000                      | 0.3383%                        | May 29, 2020   |              |                            |
|                                  | 2,500,000                          | -                                    | -                                    | 2,500,000                    | 0.2881%                        | Aug. 30, 2019  |              |                            |
|                                  | 800,000                            | -                                    | -                                    | 800,000                      | 0.2381%                        | Mar. 31, 2023  |              |                            |
|                                  | -                                  | 500,000                              | -                                    | 500,000                      | 0.2881%                        | Jul. 30, 2027  |              |                            |

| 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.                | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  | (Note 2)     | Unsecured/<br>Unguaranteed |
|                                  | 2,000,000                          | -                                    | -                                    | 2,000,000                    | 0.2881%                        | Aug. 30, 2019  |              |                            |
|                                  | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.2881%                        | Mar. 29, 2024  |              |                            |
| Shinsei Bank, Ltd.               | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  |              |                            |
|                                  | 900,000                            | -                                    | -                                    | 900,000                      | 0.3881%                        | Nov. 29, 2019  |              |                            |
|                                  | 1,500,000                          | -                                    | -                                    | 1,500,000                    | 0.6155%                        | Nov. 30, 2023  |              |                            |
|                                  | 500,000                            | -                                    | -                                    | 500,000                      | 0.2381%                        | Mar. 31, 2023  |              |                            |
| Mizuho Trust & Banking Co., Ltd. | 500,000                            | -                                    | 500,000                              | -                            | 0.7760%                        | Sep. 28, 2018  |              |                            |
|                                  | 500,000                            | -                                    | -                                    | 500,000                      | 0.2381%                        | Mar. 31, 2023  |              |                            |
|                                  | -                                  | 500,000                              | -                                    | 500,000                      | 0.3381%                        | Jul. 31, 2029  |              |                            |
| The Hiroshima Bank, Ltd.         | 1,000,000                          | -                                    | -                                    | 1,000,000                    | 0.2381%                        | 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  |              |                            |
| The Nishi-Nippon City Bank, Ltd. | -                                  | 1,000,000                            | -                                    | 1,000,000                    | 0.2946%                        | Nov. 29, 2024  |              |                            |
| Total                            | 113,422,000                        | 9,800,000                            | 10,500,000                           | 112,722,000                  |                                |                |              |                            |

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

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

(Note 3) The 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 | 27,900,000                           | 13,022,000                            | 19,000,000                            | 11,700,000                            |

## 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            |               |
|--|------------------|---------------|
|  | January 31, 2018 | July 31, 2017 |
| Deferred tax assets                              |                  |               |
| Accrued enterprise tax excluded<br>from expenses | 40               | -             |
| Total deferred tax assets                        | 40               | -             |
| Net deferred tax assets                          | 40               | -             |

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

|  | As of            |               |
|--|------------------|---------------|
|  | January 31, 2018 | July 31, 2017 |
| Statutory tax rate                                 | 31.74%           | 31.74%        |
| [Adjustments]                                      |                  |               |
| Deductible cash distributions                      | (31.72%)         | (30.47%)      |
| Reserve for special account for reduction<br>entry | - %              | (1.25%)       |
| Others   | 0.01%            | (0.01%)       |
| Effective tax rate                                 | 0.03%            | 0.02%         |

## 10. PER UNIT INFORMATION

|  | For the six months ended |               |
|--|--------------------------|---------------|
|  | January 31, 2018         | July 31, 2017 |
| Net assets per unit (yen)  | 102,363                  | 102,314       |
| Net income per unit (yen)  | 2,659                    | 2,717         |
| (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 |               |
|---|--------------------------|---------------|
|   | January 31, 2018         | July 31, 2017 |
| Net income (thousands of yen)   | 4,655,877                | 4,755,870     |
| Amounts not attributable to common unitholders (thousands of yen)     | -                        | -             |
| Net income attributable to common investment units (thousands of yen) | 4,655,877                | 4,755,870     |
| 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 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   |
|  |                         |                                       |  |                         |  |                                       |  |   | Lease and guarantee deposits in trust | 8,678,475                                       |
|  |                         |                                       |  |                         |  |                                       | Payment of property operation and management fees (Note 8) | 230,610 (Note 4)                                  | Prepaid expenses                      | 5,039   |
|  |                         |                                       |  |                         |  |                                       |  |   | Operating accounts payable            | 47,669  |
| 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.

For the six months ended July 31, 2017

| Type  | Name                    | Location                              | Capital stock or investments in capital (thousands of yen) | Description of business | Percentage of voting rights held in (by) related party | Relationship with related party       | Description of transaction                                 | Amount of transaction (thousands of yen) (Note 1) | Account item                          | Balance at end of the period (thousands of yen) |
|---|-------------------------|---------------------------------------|--|-------------------------|--|---------------------------------------|--|---|---------------------------------------|---|
| Other related company                             | Mori Building Co., Ltd. | Minato-ku, Tokyo                      | 67,000,000   | Real estate business    | 15.0% directly held by related party                   | Leasing and management of real estate | Transfer of property (Note 2) (Note 6)                     | 2,030,000   | -                                     | -   |
|   |                         |                                       |  |                         |  |                                       | Leasing of properties (Note 3) (Note 7)                    | 5,364,311   | Operating accounts receivable         | 1,428   |
|   |                         |                                       |  |                         |  |                                       |  |   | Advances received                     | 947,904   |
|   |                         |                                       |  |                         |  |                                       |  |   | Lease and guarantee deposits in trust | 8,497,506                                       |
|   |                         |                                       |  |                         |  |                                       | Payment of property operation and management fees (Note 8) | 259,939 (Note 4)                                  | Prepaid expenses                      | 4,433   |
|   |                         |                                       |  |                         |  |                                       |  |   | Operating accounts payable            | 45,111  |
|   |                         |                                       |  |                         |  |                                       | Payment of other operating expenses (Note 9)               | 1,274   | -                                     | -   |
| Deposit of lease and guarantee (Note 5) (Note 10) | -                       | Lease and guarantee deposits in trust | 53,886   |                         |  |                                       |  |   |                                       |   |

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

(Note 2) Moto-Azabu Hills

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

(Note 4) The amount includes fees (21,111 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) Transfer 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, transfers are not made at a value below the appraisal value as determined by an independent third-party real estate appraiser (including corporations).

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

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

(Note 9) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

(Note 10) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.



(2) Subsidiaries and affiliates

For the six months ended January 31, 2018

Not applicable.

For the six months ended July 31, 2017

Not applicable.

(3) Subsidiaries of parent company

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<br>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.

For the six months ended July 31, 2017

| Type                                | Name  | Location         | Capital stock or investments in capital (thousands of yen) | Description of business  | Percentage of voting rights held in (by) related party | Relationship with related party                                 | Description of transaction                   | Amount of transaction (thousands of yen) (Note 1) | Account item     | Balance at end of the period (thousands of yen) |
|-------------------------------------|---|------------------|--|--|--|---|--|---|------------------|---|
| Subsidiary of other related company | Mori Building Investment Management Co., Ltd. | Minato-ku, Tokyo | 200,000  | Real estate, trust beneficiary right and other financial asset management operations | None   | Outsourcing of asset management<br>Concurrent post of directors | Payment of management fees (Note 2) (Note 3) | 201,529   | Accrued expenses | 217,651   |

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

(Note 2) The amount of management fees is provided in the "Asset Management Contract" concluded between the Company and the Company's Asset Manager.

[Transaction terms and conditions and related policies]

(Note 3) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

(4) Directors and major individual unitholders

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.

For the six months ended July 31, 2017

| Type                                | Name           | Location | Capital stock or investments in capital (thousands of yen) | Description of business or position   | Percentage of voting rights held in (by) related party | Relationship with related party   | Description of transaction  | Amount of transaction (thousands of yen) (Note 1) | Account item     | Balance at end of the period (thousands of yen) |
|-------------------------------------|----------------|----------|--|---|--|---|---|---|------------------|---|
| Directors and their close relatives | Hideyuki Isobe | -        | -  | Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd. | None   | Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd. | Payment of management fees to Mori Building Investment Management Co., Ltd. (Note 2) (Note 3) | 201,529   | Accrued expenses | 217,651   |

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

(Note 2) The transaction was conducted with Hideyuki Isobe as third-party representative (Mori Building Investment Management Co., Ltd.) and the amount of management fees is provided in the "Asset Management Contract" concluded between the Company and the Company's Asset Manager.

[Transaction terms and conditions and related policies]

(Note 3) The Company decides on transactions in light of the market situation, the content of services provided, overall operational capacity and other factors.

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

Breakdown of property operating income

(Unit: thousands of yen)

|                                      | For the six months ended |               |
|--------------------------------------|--------------------------|---------------|
|                                      | January 31, 2018         | July 31, 2017 |
| A. Property operating revenue        |                          |               |
| Rent revenues                        |                          |               |
| Rent and common area revenue         | 8,279,445                | 7,849,110     |
| Other rent revenue                   | 5,150                    | 4,342         |
| Other operating revenues             |                          |               |
| Parking revenue                      | 48,740                   | 43,065        |
| Utilities and other revenue          | 161,900                  | 140,750       |
| Cancellation penalty                 | 502                      | 41,392        |
| Key money income                     | 57                       | -             |
| Total property operating revenue     | 8,495,797                | 8,078,661     |
| B. Property operating expenses       |                          |               |
| Expenses related to properties       |                          |               |
| Property management fees             | 980,712                  | 936,590       |
| Property taxes                       | 555,906                  | 516,999       |
| Utilities                            | 136,588                  | 117,171       |
| Maintenance and repairs              | 55,682                   | 64,009        |
| Insurance premium                    | 15,597                   | 14,985        |
| Custodian fees                       | 5,811                    | 6,638         |
| Depreciation and amortization        | 1,032,357                | 1,000,345     |
| Rent expenses                        | 112,673                  | 112,673       |
| Other lease business expenses        | 15,268                   | 19,304        |
| Total property operating expenses    | 2,910,598                | 2,788,717     |
| C. Property operating income [A – B] | 5,585,199                | 5,289,944     |

Transactions with major unitholders

(Unit: thousands of yen)

|   | For the six months ended |               |
|---|--------------------------|---------------|
|   | January 31, 2018         | July 31, 2017 |
| From operating transactions             |                          |               |
| Rent revenues                           | 5,420,960                | 5,362,051     |
| Other operating revenues                | 2,438                    | 2,259         |
| Gain on sales of real estate properties | -                        | 413,312       |
| Expenses related to properties          | 223,196                  | 238,828       |
| Other operating expenses                | -                        | 1,274         |

Breakdown of gain on sales of real estate properties (Unit: thousands of yen)  
 For the six months ended January 31, 2018  
 Not applicable.

For the six months ended July 31, 2017

Moto-Azabu Hills

|  |           |
|--|-----------|
| Revenue from sales of real estate properties | 2,030,000 |
| Cost of sales of real estate properties      | 1,608,849 |
| Other sales expenses                         | 7,838     |
| Gain on sales of real estate properties      | 413,312   |

### 13. UNITHOLDERS' EQUITY

|   | For the six months ended |                  |
|---|--------------------------|------------------|
|   | January 31, 2018         | July 31, 2017    |
| 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 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           | -          |

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2017.

|   | (Unit: thousands of yen) |             |            |
|---|--------------------------|-------------|------------|
|   | Carrying amount          | Fair value  | Difference |
| (a) Cash and deposits                               | 9,609,786                | 9,609,786   | -          |
| (b) Cash and deposits in trust                      | 7,321,280                | 7,321,280   | -          |
| Total   | 16,931,067               | 16,931,067  | -          |
| (c) Current portion of investment corporation bonds | 5,000,000                | 5,022,400   | 22,400     |
| (d) Current portion of long-term loans payable      | 12,600,000               | 12,639,467  | 39,467     |
| (e) Investment corporation bonds                    | 25,000,000               | 25,174,075  | 174,075    |
| (f) Long-term loans payable                         | 113,422,000              | 113,880,503 | 458,503    |
| Total   | 156,022,000              | 156,716,446 | 694,446    |
| Derivative transactions (Note 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 January 31, 2018)

(Unit: thousands of yen)

|                            | Due within<br>1 year | Due after<br>1 year,<br>but within<br>2 years | Due after<br>2 years,<br>but within<br>3 years | Due after<br>3 years,<br>but within<br>4 years | Due after<br>4 years,<br>but within<br>5 years | Due after<br>5 years |
|----------------------------|----------------------|---|--|--|--|----------------------|
| Cash and deposits          | 1,475,138            | -   | -  | -  | -  | -                    |
| Cash and deposits in trust | 7,596,522            | -   | -  | -  | -  | -                    |
| Total                      | 9,071,661            | -   | -  | -  | -  | -                    |

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

(Unit: thousands of yen)

|                            | Due within<br>1 year | Due after<br>1 year,<br>but within<br>2 years | Due after<br>2 years,<br>but within<br>3 years | Due after<br>3 years,<br>but within<br>4 years | Due after<br>4 years,<br>but within<br>5 years | Due after<br>5 years |
|----------------------------|----------------------|---|--|--|--|----------------------|
| Cash and deposits          | 9,609,786            | -   | -  | -  | -  | -                    |
| Cash and deposits in trust | 7,321,280            | -   | -  | -  | -  | -                    |
| Total                      | 16,931,067           | -   | -  | -  | -  | -                    |

(Note 4) 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<br>1 year | Due after<br>1 year,<br>but within<br>2 years | Due after<br>2 years,<br>but within<br>3 years | Due after<br>3 years,<br>but within<br>4 years | Due after<br>4 years,<br>but within<br>5 years | Due after<br>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           |

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

(Unit: thousands of yen)

|                              | Due within<br>1 year | Due after<br>1 year,<br>but within<br>2 years | Due after<br>2 years,<br>but within<br>3 years | Due after<br>3 years,<br>but within<br>4 years | Due after<br>4 years,<br>but within<br>5 years | Due after<br>5 years |
|------------------------------|----------------------|---|--|--|--|----------------------|
| Investment corporation bonds | 5,000,000            | 3,000,000                                     | 5,000,000                                      | 5,500,000                                      | -  | 11,500,000           |
| Long-term loans payable      | 12,600,000           | 22,500,000                                    | 22,922,000                                     | 12,500,000                                     | 19,000,000                                     | 36,500,000           |
| Total                        | 17,600,000           | 25,500,000                                    | 27,922,000                                     | 18,000,000                                     | 19,000,000                                     | 48,000,000           |

## 15. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

As of January 31, 2018

Not applicable

As of July 31, 2017

Not applicable

(2) Transactions for which hedge accounting is applied

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<br>Floating receivable;<br>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<br>Floating receivable;<br>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).

As of July 31, 2017

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

(Unit: thousands of yen)

| Method of hedge accounting                | Type of derivative transaction   | Main hedged item        | Contract amount |                  | Fair value | Method of calculating the fair value |
|---|--|-------------------------|-----------------|------------------|------------|--------------------------------------|
|   |  |                         |                 | Due after 1 year |            |                                      |
| Special treatment for interest rate swaps | Interest rate swap transactions<br>Floating receivable;<br>Fixed payable | Long-term loans payable | 64,000,000      | 54,000,000       | *          | -                                    |

\* Derivative transactions that are subject to special treatment for interest rate swaps are accounted for together with long-term loans payable that are the hedged items and the fair value is included in the fair value of those long-term loans payable (please refer to Liabilities (d) and (f) of (Note 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 |               |
|----------------------------|--------------------------|---------------|
|                            | January 31, 2018         | July 31, 2017 |
| Cash and deposits          | 1,475,138                | 9,609,786     |
| Cash and deposits in trust | 7,596,522                | 7,321,280     |
| Cash and cash equivalents  | 9,071,661                | 16,931,067    |

## 17. LEASES

Operating lease transactions (as lessor)

Future minimum rent revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

|                   | As of            |               |
|-------------------|------------------|---------------|
|                   | January 31, 2018 | July 31, 2017 |
| Due within 1 year | 4,253,411        | 4,187,285     |
| Due after 1 year  | 14,630,053       | 15,259,453    |
| Total             | 18,883,465       | 19,446,738    |

## 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 |               |
|---|--------------------------|---------------|
|   | January 31, 2018         | July 31, 2017 |
| Carrying amount                                 |                          |               |
| Balance at beginning of the period              | 330,068,181              | 332,339,444   |
| Amount of increase (decrease) during the period | 13,656,034               | (2,271,263)   |
| Balance at end of the period                    | 343,724,215              | 330,068,181   |
| Fair value at end of the period                 | 370,446,000              | 352,090,000   |

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

(Note 2) Of the increase (decrease) during the period ended January 31, 2018, the increase is primarily attributable to the acquisition of two properties (Toranomori 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. Of the increase (decrease) during the period ended July 31, 2017, the decrease is primarily attributable to the sale of the property (Moto-Azabu Hills (1,608,849 thousand yen) and 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 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 |

For the six months ended July 31, 2017

(1) Information about each product and service

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

(2) Information about each geographical area

(a) Operating revenue

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

(b) Property, plant and equipment

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

(3) Information about each major tenant

| (Unit: thousands of yen) |                   |                              |
|--------------------------|-------------------|------------------------------|
| Name of tenant           | Operating revenue | Related segment              |
| Mori Building Co., Ltd.  | 5,777,623         | Real estate leasing business |

## 20. SUBSEQUENT EVENTS

Not applicable.