



H I L L S R E I T

March 18, 2008

**FINANCIAL REPORT  
FOR THE THIRD FISCAL PERIOD ENDED JANUARY 31, 2008**

Mori Hills REIT Investment Corporation is listed on the Tokyo Stock Exchange with the securities code number 3234.

Representative: Hiroshi Mori, Executive Director

URL: <http://www.mori-hills-reit.co.jp/>

Asset Manager: Mori Building Investment Management Co., Ltd.

Representative: Hiroshi Mori, President

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Planned submission of semiannual security report: April 28, 2008

Planned start of dividend payments: April 22, 2008

This financial report has been prepared in accordance with Japanese accounting standards, Japanese laws and other relevant regulations in Japan.  
Figures are rounded down to the nearest one million yen.

## 1. PERFORMANCE FOR THE THIRD FISCAL PERIOD ENDED JANUARY 31, 2008

(August 1, 2007 – January 31, 2008)

### (1) Business Results

(Millions of yen; Percentage change represents a period-on-period comparison)

	Operating Revenues	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change	Net Profit	Percentage Change
Third Fiscal Period	¥4,628	1.7%	¥2,349	(1.4%)	¥1,843	(4.8%)	¥1,842	(4.8%)
Second Fiscal Period	¥4,553	(35.1%)	¥2,381	(38.3%)	¥1,936	(27.3%)	¥1,935	(27.3%)

	Net Profit per Unit	Net Profit to Total Net Assets	Ordinary Profit to Total Assets	Ordinary Profit to Operating Revenues
Third Fiscal Period	¥14,197	2.5%	1.2%	39.8%
Second Fiscal Period	¥14,912	2.6%	1.2%	42.5%

(Notes)

- The third fiscal period was from August 1, 2007 to January 31, 2008, a period of 184 days. The second fiscal period was from February 1, 2007 to July 31, 2007, a period of 181 days.
- Net profit per unit is calculated by using the average number of investment units for the period as follows.  
 Third fiscal period: 129,800 units  
 Second fiscal period: 129,800 units

### (2) Dividend

	Dividend per Unit (excluding dividend in excess of earnings)	Total Dividends	Dividend in Excess of Earnings per Unit	Total Dividends in Excess of Earnings	Dividend Payout Ratio	Dividend Ratio to Net Assets
Third Fiscal Period	¥14,197	¥1,842 million	¥0	–	100.0%	2.5%
Second Fiscal Period	¥14,912	¥1,935 million	¥0	–	99.9%	2.6%

(Note) The dividend payout ratio is rounded down to the first decimal place.

### (3) Financial Position

	Total Assets	Net Assets	Total Net Assets to Total Assets	Net Assets per Unit
Third Fiscal Period	¥154,891 million	¥74,514 million	48.1%	¥574,069
Second Fiscal Period	¥155,165 million	¥74,607 million	48.1%	¥574,784

(Reference) Total net assets

Third fiscal period: ¥74,514 million      Second fiscal period: ¥74,607 million

### (4) Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
Third Fiscal Period	¥2,221 million	(¥47 million)	(¥1,991 million)	¥12,085 million
Second Fiscal Period	¥3,897 million	¥3 million	(¥2,656 million)	¥11,903 million

## 2. FORECAST OF RESULTS FOR THE FOURTH FISCAL PERIOD ENDING JULY 31, 2008

(February 1, 2008 – July 31, 2008)

(Millions of yen; Percentage change represents a period-on-period comparison)

	Operating Revenues	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change	Net Profit	Percentage Change
<b>Fourth Fiscal Period</b>	¥4,758	2.8%	¥2,371	0.9%	¥1,753	(4.9%)	¥1,752	(4.9%)

	Dividend per Unit (excluding dividend in excess of earnings)	Dividend in Excess of Earnings per Unit
<b>Fourth Fiscal Period</b>	¥13,500	¥0

(Reference) Estimated net profit per unit for the fourth fiscal period: ¥13,500

## 3. OTHER

### (1) Changes in Accounting Policies

- (a) Changes accompanying amendments to accounting standards, etc.: None
- (b) Changes other than (a): None

### (2) Number of Units Outstanding

- (a) Number of units outstanding at end of period (including treasury units)
 

Third fiscal period:	129,800 units	Second fiscal period:	129,800 units
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- (b) Number of treasury units at end of period
 

Third fiscal period:	0 units	Second fiscal period:	0 units
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### \*Explanation on the appropriate use of the forecast of results, and other matters of special note

(Note) The forecast of results for the fourth fiscal period ending July 31, 2008 are calculated as of today based on the assumptions presented on page 8 and 9. Forecasts for operating revenues, operating profit, ordinary profit, net profit and dividend per unit may differ from actual results due to changes in operating conditions and a variety of factors. Accordingly, Mori Hills REIT Investment Corporation does not guarantee any forecasted dividend amount.

## **4. BUSINESS RESULTS**

### **(1) Overview of the Third Fiscal Period**

#### **(a) Brief Background of MHR**

Mori Hills REIT Investment Corporation (MHR) was incorporated by Mori Building Investment Management Co., Ltd. (MHR's Asset Manager) on February 2, 2006 with 100 million yen in capital (200 units), and was registered by the Prime Minister based on Article 187 of the Law Concerning Investment Trusts and Investment Corporations on March 6, 2006 (Registration No. 51 filed with the Director-General of the Kanto Local Finance Bureau). Subsequently, MHR was listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange on November 30, 2006 (Securities Code: 3234). As of the end of MHR's fiscal period under review (third fiscal period ended January 31, 2008), the total number of units outstanding was 129,800 units. Recently, MHR closed its third fiscal period.

#### **(b) Investment Environment and Business Performance**

##### **i) Investment Environment**

During the third fiscal period, the turmoil in the financial markets worldwide caused by the subprime loan crisis in the U.S., and the surge in crude oil prices, among other factors, raised concerns of an economic slowdown. Nevertheless, the Japanese economy maintained its economic recovery as evidenced by the ongoing increased capital investment and better employment situation backed by continuing robust corporate earnings. In addition, though gradual, personal spending also rose. As for land price trends, polarization continues to spread nationwide into regions experiencing price rebounds, as well as into regions continuing to experience stagnation. Meanwhile, the upward trend in central Tokyo is becoming increasingly conspicuous. The rental office building market remains buoyant driven by an active demand for more floor area or to integrate offices, backed by strong corporate earnings. This is driving vacancy rates to drop, particularly at highly competitive large buildings in central Tokyo. The contracted rent of new tenants and revised rent of existing tenants are also clearly on an upward trend due to the tight demand and supply situation. The luxury rental housing market saw occupancy rates hover at high levels along with a trend of increasing new rent, owing to the increase in the number of foreigners working at foreign firms and the increase in demand for luxury rental housing in correlation with more vigorous personal spending by the wealthy. Consequently, despite concerns of the impact of the subprime loan crisis, the luxury rental housing market remained buoyant. In the real estate trading market, Japanese and overseas investors continued to proactively invest in real estate against a backdrop of robust rental office demand and supply in the face of further market polarization. The environment surrounding the acquisition of blue-chip real estate from which modest returns on investment can be secured remains extremely difficult.

##### **ii) Business Performance**

Under such circumstances, MHR proceeded to operate based on the policy of focusing on the competitiveness and the ability to create value attributable to "urban" areas (centering on central Tokyo) and based on a policy of conducting asset management focusing on "Premium Properties" (properties situated in urban areas and considered to be capable of maintaining competitiveness in the future in terms of quality, size and specifications). During the third fiscal period, there were no opportunities to acquire new properties that comply with such policies. Regarding properties in the portfolio, MHR achieved positive results by enhancing tenant satisfaction through meticulous operational management, systematic maintenance and repairs and other efforts, as

well as by negotiating upward rent revisions with existing tenants.

MHR's real estate portfolio as of the end of the third fiscal period was comprised of nine properties under management with a total leasable floor area of 87,631.12m<sup>2</sup>. MHR has already invested 142.7 billion yen (based on acquisition value) into this portfolio. The occupancy rate at the end of the third fiscal period was 96.3%.

(Notes)

- i. For Roppongi First Building and Roppongi View Tower, MHR purchased 6% of the trust certificate pertaining to the joint ownership portion on March 22, 2006 and 40% of the trust certificate pertaining to the joint ownership portion on April 13, 2006. However, MHR treats each of these properties as one property in the number of properties in the portfolio (the same hereinafter).
- ii. The occupancy rate expresses the sum total of the total leased floor area as a percentage of the sum total of the total leasable floor area, rounded to one decimal place.

### **(c) Overview of Fund Procurement**

During the third fiscal period, MHR borrowed a total of 23 billion yen (long-term debt: 13 billion yen; short-term debt: 10 billion yen (Note)), issued a total of 10 billion yen in investment corporation bonds and repaid 33 billion yen in short-term debt.

As a result, as of the end of the third fiscal period, the balance of debt stands at 63 billion yen (long-term debt: 38 billion yen; current portion of long-term debt: 15 billion yen; short-term debt: 10 billion yen), the balance of investment corporation bonds stands at 10 billion yen and the balance of interest-bearing debt stands at 73 billion yen.

Of this debt, for the 38 billion yen in long-term debt with variable interest rates and 15 billion yen in current portion of long-term debt, MHR takes measures that in effect convert variable interest rates into fixed interest rates. Such measures include utilizing interest rate swaps to hedge against the risk of fluctuations in interest rates. Concerning future debt, MHR will strive to minimize refinancing risks by diversifying debt repayment dates and by extending the average remaining duration of debt by increasing the percentage of fund procurement through long-term debt.

As of the end of the third fiscal period, MHR has obtained an A3 issuer credit rating (rating outlook: stable) from Moody's Investors Service, Inc. and AA- long-term senior debt rating (rating outlook: stable) from Japan Credit Rating Agency, Ltd.

(Note) Long-term debt is debt with a period of over one year until the repayment date at the time of drawdown, and short-term debt is debt with a period of one year or less until the repayment date at the time of drawdown (the same hereinafter).

### **(d) Overview of Business Results and Distributions**

The asset management activities described above resulted in MHR recording 4,628 million yen in operating revenues, 2,349 million yen in operating profit, 1,843 million yen in ordinary profit and 1,842 million yen in net profit in the third fiscal period.

In regards to dividends, to ensure that profit distributions would be deductible for tax purposes based on application of Article 67-15 of the Special Taxation Measures Law (Law No. 26 of 1957; including amendments thereto), MHR decided to pay out the entire amount of unappropriated retained earnings, excluding fractions of the dividend per unit that are less than 1 yen. Consequently, MHR declared a dividend per unit of 14,197 yen.

## **(2) Outlook of the Fourth Fiscal Period**

### **(a) Future Management Policy**

Pursuant to MHR's investment policy, MHR seeks to grow as well as increasingly enhance the profitability of assets under management and the value of assets by focusing on the competitiveness and the ability to create value attributable to "urban" areas (central Tokyo being the core area) and concentrating investment into "urban" areas. Specifically, MHR seeks to develop an urban portfolio with office buildings and residential and retail properties situated in "Premium Areas" (Minato Ward, Chiyoda Ward, Chuo Ward, Shinjuku Ward, Shibuya Ward and their vicinity) and hold assets that are capable of maintaining competitiveness in the future from such perspectives as quality, size and specifications ("Premium Properties"). The quintessential example is the "Hills" brand of large redevelopment properties exhibiting high creativity and added-value in a manner perfected over the years by MHR's sponsor, the Mori Building Group.

Concerning the acquisition of new properties, MHR will aim to further boost its portfolio size while increasing the quality of its portfolio by acquiring blue-chip assets utilizing the information independently gathered by MHR's Asset Manager based on a pipeline support agreement entered into with Mori Building Co., Ltd. However, given the current highly competitive nature of the market in acquiring blue-chip properties in Japan, MHR will keep a close eye on the conditions of a potential increase in liquidity due to several factors, including the subprime loan crisis, and exercise constructive and careful judgment regarding investment opportunities in properties that comply with MHR's management policy.

In the management of properties in the portfolio, MHR seeks to ensure stable revenue over the medium and long term and maintain and enhance the asset value of its portfolio by adopting the basic policy of conducting rational, efficient and systematic asset and operational management that enhances satisfaction and captures the extensive trust of tenants. Furthermore, in the operation of individual assets under management, MHR strives to raise the presence of its assets under management by proactively leveraging Mori Building Co., Ltd.'s know-how and high-level services. In addition, MHR will aim to achieve effective internal growth by focusing on raising the level of rent of new and existing tenants based on the tightening demand and supply situation in the rental office market.

### **(b) Significant Subsequent Events**

Not applicable.

#### **(Reference Information)**

##### **i) Property Acquisition**

The conclusion of a sale and purchase agreement for MHR's acquisition of and delivery of the real estate trust beneficiary rights to the 12F and 22F portions of ARK Mori Building is scheduled for March 28, 2008.

This will be an asset acquisition from Mori Building Co., Ltd., which is a related party of the Asset Manager. Accordingly, pursuant to the Asset Manager's Related Parties Transaction Guidelines, MHR's board of directors adopted a resolution concerning this acquisition at a meeting held on March 18, 2008.

**ii) Debt Financing**

A resolution concerning the borrowing on March 28, 2008 of 10 billion yen in short-term debt (repayment deadline: March 27, 2009) and 5 billion yen in long-term debt (repayment deadline: February 28, 2010) was adopted by MHR's board of directors at a meeting held on March 18, 2008. The funds will be used to acquire the real estate trust beneficiary rights mentioned in i) above.

**(c) Outlook of Business Results**

MHR expects the following business results for its next fiscal period (fourth fiscal period starting February 1, 2008 and ending July 31, 2008). For the assumptions underlying the forecast of results, please refer to "Assumptions of Forecast of Results for the Fourth Fiscal Period Ending July 31, 2008 (February 1, 2008 – July 31, 2008)" presented on page 8 and 9.

Operating revenues	¥4,758 million
Operating profit	¥2,371 million
Ordinary profit	¥1,753 million
Net profit	¥1,752 million
Dividend per unit	¥13,500
Dividend in excess of earnings per unit	¥0

(Note) The forecasted figures above are calculated as of today based on certain assumptions. Forecasts for operating revenues, operating profit, ordinary profit, net profit, dividend per unit and dividend in excess of earnings per unit may differ significantly from actual results due to changes in operating conditions and a variety of factors. Accordingly, these shall not be construed as a guarantee of those amounts.

**Assumptions of Forecast of Results for the Fourth Fiscal Period Ending July 31, 2008**  
**(February 1, 2008 – July 31, 2008)**

The forecasts for operating revenues, operating profit, ordinary profit, net profit, dividend per unit and dividend in excess of earnings per unit for the fourth fiscal period were calculated based on the following assumptions. MHR may revise the forecast if it expects substantial discrepancies in the following assumptions from that of the initial forecast and if, as a result, it anticipates a large variance in the forecasted figures presented in the foregoing “(c) Outlook of Business Results.”

Item	Assumptions
Investment Portfolio	<ul style="list-style-type: none"> <li>• MHR assumes that its investment portfolio up to March 27, 2008 will comprise the 9 properties in its portfolio as of March 18, 2008. From March 28, 2008 onwards, MHR assumes that it will acquire ARK Mori Building to add to the portfolio and that there will be no subsequent change in the investment portfolio (acquisition of new properties, disposition of existing properties, etc.) during the period up to the end of the fourth fiscal period (July 31, 2008).</li> <li>• In actual practice, however, the forecast is subject to change due to changes in the investment portfolio.</li> </ul>
Operating Revenues	<ul style="list-style-type: none"> <li>• Property revenues are estimated based on the lease contracts effective as of January 31, 2008, taking into account the market environment, the competitiveness of the individual properties and other factors, and in view of an increase in revenues in correlation with acquisition of ARK Mori Building on March 28, 2008 to add to the portfolio.</li> <li>• For estimation of operating revenues, MHR assumes that there will be no delinquencies or unpaid rent by tenants.</li> </ul>
Operating Expenses	<ul style="list-style-type: none"> <li>• Of the property expenses, which accounts for the majority of operating expenses, the expenses other than depreciation and amortization are calculated by referring to historical figures and adjusted to reflect variable factors.</li> <li>• For property taxes, city planning taxes, etc., the amount of taxation during the fourth fiscal period is expected to total 240 million yen (for 6 months). Furthermore, the portion of property taxes, city planning taxes, etc. that is to be reimbursed to the seller in correlation with the acquisition of ARK Mori Building on March 28, 2008 shall be incorporated into the acquisition costs for ARK Mori Building and, thus, shall not be recognized as operating expenses for the fourth and fifth fiscal periods. About 6 million yen (for 3 months) in property taxes, city planning taxes, etc. is expected to be recorded as expenses during the fifth fiscal period.</li> <li>• For building maintenance and repairs, MHR recorded the estimated required amount for the respective fiscal period (123 million yen). However, please note that the actual expenses for maintenance and repairs in the respective fiscal period may differ significantly from estimated amounts due to various reasons. For example, an unforeseeable event may cause serious damage to a building and emergency repairs may be required as a consequence. Also, maintenance and repairs are expenses that are not accrued on a regular basis and the amount of variation may vary significantly from one period to the next.</li> <li>• Depreciation and amortization are calculated using the straight-line method, with future additional capital expenditures taken into account (594 million yen).</li> </ul>
Non-Operating Expenses	<ul style="list-style-type: none"> <li>• MHR expects to incur 570 million yen in debt related expenses, such as interest expense, and investment corporation bond interest expense.</li> </ul>
Debt and Investment Corporation Bonds	<ul style="list-style-type: none"> <li>• Concerning debt, MHR assumes that debt outstanding until March 27, 2008 will be the 63,000 million yen outstanding as of the end of the third fiscal period (January 31, 2008), and that debt outstanding from March 28, 2008 onwards will be 78,000 million yen.</li> <li>• Concerning investment corporation bonds, the balance as of the end of the third fiscal period (January 31, 2008) was 10,000 million yen. MHR assumes that there will be no change in the balance of investment corporation bonds and the interest rate will not change until the end of the fourth fiscal period (July 31, 2008).</li> </ul>



Investment Units	<ul style="list-style-type: none"> <li>• MHR assumes that it will not issue any additional investment units through the end of the fourth fiscal period (July 31, 2008).</li> </ul>
Dividend per Unit	<ul style="list-style-type: none"> <li>• Dividend per unit is calculated based on the assumption that MHR will distribute all profits in accordance with its cash distribution policy as outlined in its Articles of Incorporation.</li> <li>• Dividend per unit may vary due to numerous factors, including changes in the investment portfolio, changes in rent income caused by the moving-in/out of tenants, unplanned repairs, changes in interest rates, or additional issue of new investment units.</li> </ul>
Dividend in Excess of Earnings per Unit	<ul style="list-style-type: none"> <li>• MHR assumes at present that it will not conduct any cash distributions in excess of earnings (dividend in excess of earnings per unit).</li> </ul>
Other	<ul style="list-style-type: none"> <li>• MHR assumes that there will be no amendments to legislation, taxation, accounting standards, listing regulations, Investment Trusts Association rules, etc. that would affect the above forecasts.</li> <li>• MHR assumes that there will be no unforeseen material changes in general economic conditions, the real estate market, etc.</li> </ul>

**5. FINANCIAL STATEMENTS****(1) Balance Sheets**

Item	Second Fiscal Period (as of July 31, 2007)		Third Fiscal Period (as of January 31, 2008)		Period-on-Period Comparison	
	Amount (thousands of yen)	Share of Total (%)	Amount (thousands of yen)	Share of Total (%)	Amount (thousands of yen)	Percentage Change (%)
<b>Assets</b>						
<b>I. Current assets</b>						
Cash and deposits	4,688,388		6,013,529		1,325,141	
Entrusted cash and deposits	7,214,625		6,072,304		(1,142,320)	
Accounts receivable – trade	87,521		100,449		12,927	
Prepaid expenses	101,877		105,894		4,016	
Deferred tax assets	19		18		0	
Other current assets	1,955		5,933		3,978	
Total current assets	12,094,388	7.8	12,298,130	7.9	203,742	1.7
<b>II. Fixed assets</b>						
<b>1. Property and equipment, at cost</b>						
Entrusted buildings	38,445,457		38,469,182			
Accumulated depreciation	(1,402,987)	37,042,470	(1,931,516)	36,537,666	(504,804)	
Entrusted structures	602,654		602,654			
Accumulated depreciation	(87,101)	515,552	(118,720)	483,933	(31,618)	
Entrusted machinery and equipment	705,617		705,617			
Accumulated depreciation	(29,132)	676,484	(39,944)	665,673	(10,811)	
Entrusted tools, furniture and fixtures	7,682		15,359			
Accumulated depreciation	(608)	7,073	(1,656)	13,702	6,629	
Entrusted land		86,332,510		86,332,510	–	
Property and equipment, net		124,574,091		124,033,486	(540,605)	(0.4)
<b>2. Intangible assets</b>						
Entrusted leasehold rights		18,409,956		18,409,956	–	
Total intangible assets		18,409,956		18,409,956	–	0.0
<b>3. Investments and other assets</b>						
Security deposits		10,300		10,000	(300)	
Long-term prepaid expenses		41,356		54,170	12,813	
Total investments and other assets		51,656	0.0	64,170	12,513	24.2
Total fixed assets		143,035,705	92.2	142,507,614	(528,091)	(0.4)
<b>III. Deferred assets</b>						
Initial expenses		35,779		30,668	(5,111)	
Issue costs of investment corporation bonds		–		54,874	54,874	
Total deferred assets		35,779	0.0	85,542	49,762	139.1
Total assets		155,165,873	100.0	154,891,286	(274,586)	(0.2)

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Item	Second Fiscal Period (as of July 31, 2007)		Third Fiscal Period (as of January 31, 2007)		Period-on-Period Comparison		
	Amount (thousands of yen)	Share of Total (%)	Amount (thousands of yen)	Share of Total (%)	Amount (thousands of yen)	Percentage Change (%)	
<b>Liabilities</b>							
<b>I. Current liabilities</b>							
Accounts payable – trade	271,778		253,426		(18,352)		
Short-term debt	33,000,000		10,000,000		(23,000,000)		
Current portion of long-term debt	–		15,000,000		15,000,000		
Accounts payable – other	11,085		11,311		226		
Accrued expenses	150,643		182,913		32,269		
Accrued income taxes	654		652		(2)		
Accrued consumption taxes	117,541		38,870		(78,671)		
Rent received in advance	617,454		609,531		(7,923)		
Deposits received	143,117		57,576		(85,540)		
Total current liabilities	34,312,274	22.1	26,154,281	16.9	(8,157,993)	(23.8)	
<b>II. Long-term liabilities</b>							
Investment corporation bonds	–		10,000,000		10,000,000		
Long-term debt	40,000,000		38,000,000		(2,000,000)		
Tenant leasehold and security deposits received	6,246,570		6,222,814		(23,755)		
Total long-term liabilities	46,246,570	29.8	54,222,814	35.0	7,976,244	17.2	
Total liabilities	80,558,844	51.9	80,377,095	51.9	(181,749)	(0.2)	
<b>Net Assets</b>							
<b>I. Unitholders' equity</b>							
1. Unitholders' capital	72,671,418	46.8	72,671,418	46.9	–	0.0	
2. Retained earnings							
Unappropriated retained earnings	1,935,609		1,842,772		(92,836)		
Total retained earnings	1,935,609	1.3	1,842,772	1.2	(92,836)	(4.8)	
Total unitholders' equity	74,607,028	48.1	74,514,191	48.1	(92,836)	(0.1)	
Total net assets	74,607,028	48.1	74,514,191	48.1	(92,836)	(0.1)	
Total liabilities and net assets	155,165,873	100.0	154,891,286	100.0	(274,586)	(0.2)	

## (2) Statements of Income

Item	Second Fiscal Period (February 1, 2007 – July 31, 2007)		Percentage (%)	Third Fiscal Period (August 1, 2007 – January 31, 2008)		Percentage (%)	Period-on-Period Comparison	
	Amount (thousands of yen)			Amount (thousands of yen)			Amount (thousands of yen)	Percentage Change (%)
1. Operating revenues								
Property revenues	4,135,555			4,176,880				
Other property revenues	417,613	4,553,168	100.0	451,525	4,628,405	100.0	75,236	1.7
2. Operating expenses								
Property expenses	1,809,353			1,929,934				
Asset management fees	247,707			251,812				
Directors' compensation	10,400			7,200				
Asset custody fees	3,883			3,879				
Administration fees	11,411			11,160				
Other operating expenses	88,918	2,171,673	47.7	75,220	2,279,207	49.2	107,534	5.0
Operating profit		2,381,495	52.3		2,349,198	50.8	(32,297)	(1.4)
3. Non-operating revenues								
Interest income	4,814			19,975				
Other non-operating revenues	9,438	14,252	0.3	1,660	21,636	0.4	7,383	51.8
4. Non-operating expenses								
Interest expense	414,336			445,265				
Investment corporation bond interest expense	–			28,458				
Amortization of issue costs of investment corporation bonds	–			2,812				
Amortization of initial expenses	5,111			5,111				
Loan related expenses	38,139			43,923				
Other non-operating expenses	1,545	459,132	10.1	1,545	527,115	11.4	67,982	14.8
Ordinary profit		1,936,615	42.5		1,843,719	39.8	(92,896)	(4.8)
Profit before tax		1,936,615	42.5		1,843,719	39.8	(92,896)	(4.8)
Current income taxes	995			977				
Deferred income taxes	18	1,013	0.0	0	978	0.0	(35)	(3.5)
Net profit		1,935,601	42.5		1,842,740	39.8	(92,861)	(4.8)
Retained earnings brought forward		7			31		24	316.7
Unappropriated retained earnings		1,935,609			1,842,772		(92,836)	(4.8)

**(3) Statements of Changes in Unitholders' Equity**

Second Fiscal Period (February 1, 2007 – July 31, 2007)

(Unit: thousands of yen)

	Unitholders' equity			Total net assets
	Unitholders' capital	Retained earnings Unappropriated retained earnings	Total unitholders' equity	
Balance at end of previous period	72,671,418	2,662,335	75,333,754	75,333,754
Changes during period				
Distribution of retained earnings	–	(2,662,327)	(2,662,327)	(2,662,327)
Net profit	–	1,935,601	1,935,601	1,935,601
Net change during period	–	(726,726)	(726,726)	(726,726)
Balance at end of period	72,671,418	1,935,609	74,607,028	74,607,028

Third Fiscal Period (August 1, 2007 – January 31, 2008)

(Unit: thousands of yen)

	Unitholders' equity			Total net assets
	Unitholders' capital	Retained earnings Unappropriated retained earnings	Total unitholders' equity	
Balance at end of previous period	72,671,418	1,935,609	74,607,028	74,607,028
Changes during period				
Distribution of retained earnings	–	(1,935,577)	(1,935,577)	(1,935,577)
Net profit	–	1,842,740	1,842,740	1,842,740
Net change during period	–	(92,836)	(92,836)	(92,836)
Balance at end of period	72,671,418	1,842,772	74,514,191	74,514,191

**(4) Statements of Cash Distributions**

(Unit: yen)

Item	Period	Second Fiscal Period	Third Fiscal Period
		(February 1, 2007 – July 31, 2007)	(August 1, 2007 – January 31, 2008)
I. Unappropriated retained earnings		1,935,609,421	1,842,772,497
II. Amount of dividends		1,935,577,600	1,842,770,600
[Amount of dividend per unit]		[14,912]	[14,197]
III. Retained earnings carried forward		31,821	1,897

**(5) Statements of Cash Flows**

Item	Second Fiscal Period	Third Fiscal Period	Period-on-Period
	(February 1, 2007 – July 31, 2007)	(August 1, 2007 – January 31, 2008)	Comparison
	Amount	Amount	Amount
	(thousands of yen)	(thousands of yen)	(thousands of yen)
<b>I. Cash flows from operating activities</b>			
Profit before tax	1,936,615	1,843,719	(92,896)
Depreciation and amortization	570,637	572,007	1,370
Amortization of initial expenses	5,111	5,111	–
Issue costs of investment corporation bonds	–	2,812	2,812
Interest income	(4,814)	(19,975)	(15,161)
Interest expense	414,336	473,723	59,386
Decrease (Increase) in accounts receivable – trade	8,181	(12,927)	(21,109)
Decrease (Increase) in consumption taxes receivable	1,193,776	–	(1,193,776)
Increase (Decrease) in accounts payable – trade	48,604	(26,113)	(74,718)
Increase (Decrease) in accounts payable – other	(15,923)	(1,714)	14,209
Increase (Decrease) in accrued expenses	(1,985)	(26)	1,959
Increase (Decrease) in accrued consumption taxes	117,541	(78,671)	(196,213)
Increase (Decrease) in rent received in advance	15,848	(7,923)	(23,771)
Increase (Decrease) in deposits received	(11,975)	(85,540)	(73,564)
Decrease (Increase) in prepaid expenses	5,543	(4,016)	(9,559)
Decrease (Increase) in long-term prepaid expenses	21,293	(12,813)	(34,106)
Other	(1,955)	(848)	1,107
Sub total	4,300,834	2,646,802	(1,654,031)
Interest received	4,814	17,144	12,330
Interest paid	(405,655)	(441,427)	(35,772)
Income taxes paid	(2,006)	(979)	1,026
Net cash provided by operating activities	3,897,987	2,221,540	(1,676,446)
<b>II. Cash flows from investing activities</b>			
Payments for purchase of entrusted property and equipment	(73,678)	(23,640)	50,038
Proceeds from tenant leasehold and security deposits received	292,691	374,857	82,165
Payments for tenant leasehold and security deposits received	(215,223)	(398,613)	(183,389)
Net cash provided by (used in) investing activities	3,789	(47,369)	(51,185)
<b>III. Cash flows from financing activities</b>			
Proceeds from short-term debt	–	10,000,000	10,000,000
Repayment of short-term debt	–	(33,000,000)	(33,000,000)
Proceeds from long-term debt	–	13,000,000	13,000,000
Proceeds from issue of investment corporation bonds	–	10,000,000	10,000,000
Payments for issue costs of investment corporation bonds	–	(56,349)	(56,349)
Dividends paid	(2,656,496)	(1,934,973)	721,522
Net cash provided by (used in) financing activities	(2,656,496)	(1,991,323)	665,173
IV. Net increase (decrease) in cash and cash equivalents	1,245,279	182,820	(1,062,459)
V. Cash and cash equivalents at beginning of period	10,657,734	11,903,014	1,245,279
VI. Cash and cash equivalents at end of period	11,903,014	12,085,834	182,820

**6. OVERVIEW OF LEASE CONDITIONS (as of January 31, 2008)**

Property no.	Property name	Leasing scheme	Total leasable floor area (m <sup>2</sup> )	Total leased floor area (m <sup>2</sup> )	Occupancy rate (%)	Total no. of end tenants	Gross rent income (annual rent) (millions of yen)	Deposits / Guarantees (millions of yen)
O-1	ARK Mori Building	Fixed master lease	2,728.96	2,728.96	100.0	1	297	297
O-2	Roppongi Hills Gate Tower	Pass-through master lease	16,657.52	16,151.83	97.0	42	1,986	1,720
O-3	Roppongi First Building	—	11,525.55	10,860.21	94.2	15	1,191	1,199
O-4	Koraku Mori Building	Pass-through master lease	16,199.26	16,199.26	100.0	16	1,793	1,674
O-5	Toranomon 35 Mori Building (OMRON Tokyo Headquarters Building)	Pass-through master lease	6,720.34	6,720.34	100.0	1	801	351
R-1	Moto-Azabu Hills	Pass-through master lease	19,251.84	17,941.29	93.2	106	1,604	676
R-2	ARK Forest Terrace	Pass-through master lease	5,246.04	4,919.48	93.8	37	354	150
R-3	Roppongi First Plaza	Pass-through master lease	2,956.77	2,511.75	84.9	35	151	63
R-4	Roppongi View Tower	Fixed master lease	6,344.84	6,344.84	100.0	1	219	0
Total portfolio			87,631.12	84,377.96	96.3	254	8,397	6,130

**7. STATUS OF INCOME AND EXPENDITURES (August 1, 2007 – January 31, 2008)**

(Unit: thousands of yen)

Property no.	O-1 Premium		O-2 Premium		O-3 Premium		O-4 Premium		O-5	
Property name	ARK Mori Building		Roppongi Hills Gate Tower		Roppongi First Building		Koraku Mori Building		Toranomon 35 Mori Building (OMRON Tokyo Headquarters Building)	
Fiscal period (Note)	Second	Third	Second	Third	Second	Third	Second	Third	Second	Third
Days of operations	181	184	181	184	181	184	181	184	181	184
Property revenues	148,591	148,591	986,724	982,094	606,941	590,246	847,915	885,055	400,375	400,375
Other property revenues	–	–	127,922	142,956	86,273	85,735	116,423	128,133	9,240	9,240
<b>Total property revenues</b>	<b>148,591</b>	<b>148,591</b>	<b>1,114,647</b>	<b>1,125,051</b>	<b>693,214</b>	<b>675,982</b>	<b>964,338</b>	<b>1,013,189</b>	<b>409,615</b>	<b>409,615</b>
Property management fees	1,200	1,200	150,316	164,092	80,043	82,340	87,343	88,884	66,777	65,448
Property taxes	4,158	8,316	33,105	66,214	21,684	43,368	17,652	35,303	11,054	22,108
Utilities	–	–	56,403	62,439	34,579	34,998	77,858	88,356	–	–
Maintenance and repairs	–	208	9,091	16,635	6,136	3,329	4,766	6,893	32,953	–
Insurance premium	422	427	2,137	1,960	1,722	1,750	1,875	1,831	564	616
Depreciation and amortization	17,768	17,768	116,194	116,508	99,589	99,604	123,128	123,401	35,553	35,606
Other property expenses	516	518	37,603	38,379	1,200	1,208	65,541	66,326	766	767
<b>Total property expenses</b>	<b>24,064</b>	<b>28,438</b>	<b>404,852</b>	<b>466,230</b>	<b>244,956</b>	<b>266,599</b>	<b>378,165</b>	<b>410,997</b>	<b>147,669</b>	<b>124,546</b>
<b>Property income (NOI)</b>	<b>142,294</b>	<b>137,921</b>	<b>825,989</b>	<b>775,329</b>	<b>547,847</b>	<b>508,986</b>	<b>709,301</b>	<b>725,592</b>	<b>297,498</b>	<b>320,674</b>

Property no.	R-1 Premium		R-2 Premium		R-3 Premium		R-4	
Property name	Moto-Azabu Hills		ARK Forest Terrace		Roppongi First Plaza		Roppongi View Tower	
Fiscal period (Note)	Second	Third	Second	Third	Second	Third	Second	Third
Days of operations	181	184	181	184	181	184	181	184
Property revenues	782,255	813,218	174,869	171,717	78,455	76,154	109,426	109,426
Other property revenues	66,377	72,378	10,583	12,595	793	485	–	–
<b>Total property revenues</b>	<b>848,633</b>	<b>885,597</b>	<b>185,453</b>	<b>184,313</b>	<b>79,249</b>	<b>76,639</b>	<b>109,426</b>	<b>109,426</b>
Property management fees	189,818	184,403	36,106	38,689	13,327	13,262	6,474	6,474
Property taxes	19,869	39,742	4,614	9,233	3,065	6,130	4,901	9,802
Utilities	3,823	3,856	8,902	10,533	145	192	–	–
Maintenance and repairs	55,670	47,392	6,147	5,612	6,395	5,257	–	–
Insurance premium	4,619	4,889	1,098	1,164	505	539	743	791
Depreciation and amortization	122,020	122,414	31,820	31,888	9,056	9,310	15,504	15,504
Other property expenses	50,053	50,896	9,191	9,707	4,859	4,523	905	905
<b>Total property expenses</b>	<b>445,875</b>	<b>453,595</b>	<b>97,882</b>	<b>106,829</b>	<b>37,355</b>	<b>39,216</b>	<b>28,529</b>	<b>33,478</b>
<b>Property income (NOI)</b>	<b>524,778</b>	<b>554,416</b>	<b>119,391</b>	<b>109,371</b>	<b>50,949</b>	<b>46,733</b>	<b>96,401</b>	<b>91,453</b>

(Notes)

1. The second fiscal period was from February 1, 2007 to July 31, 2007. The third fiscal period was from August 1, 2007 to January 31, 2008.
2. The amounts are rounded down to the nearest thousand yen. Accordingly, the amounts shown do not necessarily add up to the total figures.



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This report contains translations of selected information described in the Financial Release (*Kessan-Tanshin*) dated March 18, 2008, and portions of the Financial Statements and the Performance Information Report for the third fiscal period from August 1, 2007 to January 31, 2008, of Mori Hills REIT Investment Corporation (MHR), prepared pursuant to the Law Concerning Investment Trusts and Investment Corporations of Japan.

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