



H I L L S R E I T

September 14, 2011

**FINANCIAL REPORT  
FOR THE TENTH FISCAL PERIOD ENDED JULY 31, 2011**

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

Representative: Hideyuki Isobe, Executive Director

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

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

Representative: Hideyuki Isobe, President & CEO

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Planned submission of semiannual security report: October 27, 2011

Planned start of dividend payments: October 17, 2011

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 TENTH FISCAL PERIOD ENDED JULY 31, 2011**

(February 1, 2011 – July 31, 2011)

**(1) Business Results**

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

	Operating Revenue	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change	Net Income	Percentage Change
<b>Tenth Fiscal Period</b>	¥5,257	(4.1%)	¥3,059	3.5%	¥1,947	5.8%	¥1,933	5.1%
<b>Ninth Fiscal Period</b>	¥5,483	1.8%	¥2,957	10.4%	¥1,840	20.8%	¥1,839	20.8%

	Net Income per Unit	Net Income to Total Net Assets	Ordinary Income to Total Assets	Ordinary Income to Operating Revenue
<b>Tenth Fiscal Period</b>	¥8,352	1.9%	0.9%	37.0%
<b>Ninth Fiscal Period</b>	¥7,947	1.8%	0.8%	33.6%

(Note) Net income per unit is calculated by dividing net income by the following daily weighted average number of units and is rounded to the nearest yen.

Tenth fiscal period: 231,520 units

Ninth fiscal period: 231,520 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
<b>Tenth Fiscal Period</b>	¥8,352	¥1,933 million	¥0	–	99.9%	1.9%
<b>Ninth Fiscal Period</b>	¥7,947	¥1,839 million	¥0	–	99.9%	1.8%

(Note) The dividend payout ratio is calculated by using the formula below and is rounded down to the first decimal place.

Dividend Payout Ratio = [Total Dividends ÷ Net Income] × 100

**(3) Financial Position**

	Total Assets	Net Assets	Total Net Assets to Total Assets	Net Assets per Unit
<b>Tenth Fiscal Period</b>	¥218,950 million	¥103,944 million	47.5%	¥448,966
<b>Ninth Fiscal Period</b>	¥220,630 million	¥103,843 million	47.1%	¥448,530

**(4) Cash Flows**

	Net Cash Provided by (Used in) Operating Activities	Net Cash Provided by (Used in) Investing Activities	Net Cash Provided by (Used in) Financing Activities	Cash and Cash Equivalents at End of Period
<b>Tenth Fiscal Period</b>	¥18,532 million	(¥16,864 million)	(¥3,488 million)	¥9,050 million
<b>Ninth Fiscal Period</b>	¥23,872 million	(¥22,954 million)	(¥1,629 million)	¥10,870 million

**2. FORECAST OF RESULTS FOR THE ELEVENTH FISCAL PERIOD ENDING JANUARY 31, 2012**  
**(August 1, 2011 – January 31, 2012)**

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

	Operating Revenue	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change	Net Income	Percentage Change
<b>Eleventh Fiscal Period</b>	¥4,761	(9.4%)	¥3,109	1.6%	¥1,969	1.1%	¥1,967	1.8%

	Dividend per Unit (excluding dividend in excess of earnings)	Dividend in Excess of Earnings per Unit
<b>Eleventh Fiscal Period</b>	¥8,500	¥0

(Reference) Estimated net income per unit for the eleventh fiscal period: ¥8,500

**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 own units)
 

Tenth fiscal period:	231,520 units	Ninth fiscal period:	231,520 units
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- (b) Number of own units at end of period
 

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

The forecast of results for the eleventh fiscal period ending January 31, 2012 are calculated as of today based on the assumptions presented on pages 15 to 16. Forecasts for operating revenue, operating income, ordinary income, net income, dividend per unit and dividend in excess of earnings per unit may differ from actual results due to changes in operating conditions and a variety of factors. Furthermore, these forecasts shall not be construed as a guarantee of dividend amounts.

## **4. BUSINESS RESULTS**

### **(1) Overview of the Tenth 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). MHR later issued new investment units through third-party allotment (29,400 units) on September 29, 2008, issued new investment units through public offering (67,000 units) on March 23, 2010, and issued new investment units through third-party allotment (over-allotment) (5,320 units) on April 23, 2010. As of the end of MHR's fiscal period under review (tenth fiscal period: February 1, 2011 to July 31, 2011), the total number of investment units outstanding was 231,520 units. Recently, MHR closed its tenth fiscal period.

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

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

In the tenth fiscal period, the Japanese economy saw exports and production grow, buoyed by recovery in the global economy. However, disruptions in the supply chain and shortages in the power supply due to the Great East Japan Earthquake and accident at the Fukushima Daiichi Nuclear Power Station that occurred on March 11, 2011 caused declines in production, a decrease in exports and consumer spending, and considerable other impact.

Concerning post-earthquake developments, there are positive signs that the situation is heading towards recovery, such as progress in companies restoring their production activities and the trade balance in June registering a surplus for the first time in three months.

In such an economic environment, the rental office building market is seeing signs of vacancy rates improving, particularly for Class S and A buildings in central Tokyo. Rent levels have continued to decline, but interest in large blue-chip properties that possess high earthquake resistance and disaster prevention features has risen as business continuity planning (BCP) strategy becomes a bigger priority for many tenants. The luxury rental housing market did see some non-Japanese tenants at certain properties return to their home country or transfer to locations outside Tokyo in the wake of the Earthquake and nuclear plant disaster, but ultimately these departures were limited, and there are increasing signs that rent has hit bottom, and that vacancy rates are improving. In the real estate trading market, transactions of large properties in central Tokyo begun to recover as J-REITs raised capital through public offerings and as real estate lending by financial institutions gained momentum, however in the wake of the Earthquake trading activity temporarily stalled.

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

MHR acquired ARK Mori Building (50% co-ownership interest in compartmentalized ownership for the 23rd floor, and the 25th floor) and Akasaka Tameike Tower (Residential) from sponsor Mori Building Co., Ltd during this period. These assets are "Premium Properties" (Note 1), which MHR positions at the core of its portfolio development strategy. In conjunction with this

acquisition, MHR sold Moto-Azabu Hills (86 sections) to Mori Building Co., Ltd. with the objective of enhancing the portfolio's cap rate. MHR also strove to enhance tenant satisfaction through such measures as meticulous operational management and systematic maintenance and repair of properties in its portfolio. Moreover, MHR maintained and enhanced occupancy rates by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy while taking into account the quality of tenants.

MHR's real estate portfolio as of the end of the tenth fiscal period was comprised of 11 properties (Note 2) under management with a total leasable floor area of 98,632.64m<sup>2</sup>. MHR has already invested 212,136 million yen (based on acquisition price) into this portfolio. The occupancy rate (Note 3) at the end of the tenth fiscal period was 94.9%.

(Notes)

1. Premium Properties refer to properties that are situated in "Premium Areas" (central five wards of Tokyo and their vicinity), where the Mori Building Group (Mori Building Co., Ltd., and Mori Building Co., Ltd.'s consolidated subsidiaries and, affiliated companies accounted for by the equity method, companies that are engaged in business in Japan; the same hereinafter) can fully demonstrate its brand/marketing strength and facilities management capabilities, and that are capable of maintaining competitiveness in the future due to attributes such as quality, size and specifications. The same shall apply hereinafter.
2. For Roppongi First Building and Roppongi View Tower, MHR purchased 6% of the trust beneficiary rights pertaining to the co-ownership portion on March 22, 2006 and 40% of the trust beneficiary rights pertaining to the co-ownership portion on April 13, 2006. However, MHR treats each of these properties as one property for purposes of calculating the number of properties in the portfolio. The same shall apply hereinafter.

Regarding ARK Mori Building, MHR made acquisitions as follows to date (However, MHR treats these as one property for purposes of calculating the number of properties in the portfolio. In addition, as the leasing scheme has been unified to the fixed master lease scheme, the property name is no longer differentiated in the manner that has been adopted up until the ninth fiscal period. The same shall apply hereinafter).

- 1) Trust beneficiary rights pertaining to compartmentalized ownership for the 13th floor portion on March 22, 2006
- 2) 75% quasi co-ownership interest of the trust beneficiary rights pertaining to compartmentalized ownership for the 12th and 22nd floor portions on March 28, 2008
- 3) The remaining 25% quasi co-ownership interest of the trust beneficiary rights pertaining to compartmentalized ownership for the 12th and 22nd floor portions on September 30, 2008
- 4) 50% co-ownership interest in compartmentalized ownership for the 23rd floor portion on March 23, 2010  
This ownership interest was changed to trust beneficiary rights on March 18, 2011.
- 5) The remaining 50% trust benefit rights pertaining to compartmentalized ownership for the 23rd floor portion and trust beneficiary rights pertaining to compartmentalized ownership for the 25th floor portion on March 18, 2011

Regarding Akasaka Tameike Tower, MHR made acquisitions as follows to date (However, MHR treats these as one property for purposes of calculating the number of properties in the portfolio. The same shall apply hereinafter).

- 1) Trust beneficiary rights pertaining to compartmentalized ownership for the office portion (including parts of shops, storage areas, parking lots, etc.) (about 35.4% of total private-use floor area) on September 30, 2008
  - 2) Trust beneficiary rights pertaining to compartmentalized ownership for 87 residential units out of a total of 130 residential units and 84.8% co-ownership interest in compartmentalized ownership for 1 residential unit, and trust beneficiary rights pertaining to approximately 31.2% co-ownership interest in compartmentalized ownership for a parking lot and bicycle parking lot on March 18, 2011
3. 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 tenth fiscal period, MHR took out short-term loans payable in the amount of 1,500 million yen and 10,000 million yen and issued investment corporation bonds totaling 5,000 million yen. Proceeds from these loans were used for the refinancing of an existing short-term loan payable in the amount of 3,010 million yen and existing long-term loans payable in the amounts of 5,000 million yen and 10,000 million yen. MHR also made a previously agreed repayment of 112 million yen on an existing long-term loan payable during the tenth fiscal period.

As a result, as of the end of the tenth fiscal period, the balance of loans payable stands at 82,112 million yen (long-term loans payable: 65,112 million yen (of which, current portion of long-term loans payable: 36,925 million yen); and short-term loans payable: 17,000 million yen), the balance of investment corporation bonds stands at 25,000 million yen and the balance of interest-bearing debt stands at 107,112 million yen.

Of the loans payable, in addition to the 25,000 million yen in investment corporation bonds and 8,012 million yen in long-term loans payable that have fixed interest rates, MHR utilizes interest rate swaps to in effect convert the interest rates for loans payable that have variable interest rates into fixed interest rates in order to hedge against the risk of upward fluctuations in interest rates. Such measures have been taken for 33,500 million yen of the 57,100 million yen in long-term loans payable. Concerning future loans payable, MHR will strive to minimize refinancing risks by diversifying repayment dates for loans payable.

As of the end of the tenth fiscal period, MHR has obtained a Baa1 issuer credit rating and unsecured long-term debt rating (rating outlook: negative) from Moody's Investors Service, Inc. and AA-long-term senior debt rating (rating outlook: negative) from Japan Credit Rating Agency, Ltd.

(Note) Long-term loans payable are loans payable with a period of over one year until the repayment date at the time of drawdown, and short-term loans payable are loans payable 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 5,257 million yen in operating revenue, 3,059 million yen in operating income and 1,947 million yen in ordinary income in the tenth fiscal period. However, the Great East Japan Earthquake caused damage – although minor – to assets in the portfolio for which 13 million yen in restoration expenses, etc. was posted as extraordinary loss (4 million yen in loss on disaster and 8 million yen in provision for loss on disaster) and this resulted in MHR recording 1,933 million yen in net income.

In regards to dividends, to ensure that income 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 8,352 yen.

## **(2) Outlook for the Eleventh Fiscal Period**

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

Pursuant to MHR's investment policy, MHR seeks to grow and enhance the profitability and asset value of assets under management 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 centered on office buildings and residential and retail properties that are situated in "Premium Areas" (Minato Ward, Chiyoda Ward, Chuo Ward, Shinjuku Ward, Shibuya Ward and their vicinity) and that are capable of maintaining competitiveness in the future due to attributes such 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 the Mori Building Group.

With respect to 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 management and administration that enhances satisfaction and captures the trust of tenants.

In addition, MHR will seek to maximize investor returns through conducting dividend-oriented management, such as by striving to enhance the portfolio NOI cap rate through asset exchanges, keeping borrowing costs down and minimizing other operating expenses.

With respect to asset exchanges, MHR will aim to improve the NOI cap rate by continuing to engage in property transactions primarily with the company sponsor in which MHR sells properties that have low cap rates and then acquires Premium Properties that have higher cap rates or properties other than Premium Properties that have high cap rates.

With respect to financing, while monitoring the trends of the financial and capital markets, MHR will aim to strengthen its financial standing by keeping borrowing costs down, along with promoting diversification of financing means, such as issuing investment corporation bonds.

In order to minimize other operating expenses, MHR will strive to reduce costs to a level that will allow it to maintain the quality of its assets under management by proactively leveraging Mori Building Co., Ltd.'s high value-added know-how and services in the operation of assets under management.

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

Not applicable.

**(Reference Information)****(c) Acquisition of Assets**

MHR acquired units at Roppongi Hills Mori Tower and ARK Mori Building on August 1, 2011.

The seller Mori Building Co., Ltd. constitutes an interested party, etc. of MHR's Asset Manager, and the transaction constitutes a transaction with an interested party, etc. as defined in the Law Concerning Investment Trusts and Investment Corporations. Accordingly, to comply with applicable laws and regulations and with the asset management agreement, as well as to prevent the interests of MHR from being negatively impacted with respect to the acquisition price and other terms and conditions, the Asset Manager has taken steps pursuant to the Related Parties Transaction Guidelines.

**i. Overview of Acquisition****(1) Roppongi Hills Mori Tower**

1) Acquired asset:	Trust beneficiary right (Note 1)
2) Property name:	Roppongi Hills Mori Tower
3) Acquisition price:	18,680 million yen (Note 3)
4) Appraisal value:	22,200 million yen
5) Agreement date:	August 1, 2011
6) Acquisition date:	August 1, 2011
7) Seller:	Mori Building Co., Ltd.
8) Acquisition financing:	Cash on hand (capital acquired through sale of asset)

**(2) ARK Mori Building**

1) Acquired asset:	Trust beneficiary right (Note 2)
2) Property name:	ARK Mori Building
3) Acquisition price:	17,200 million yen (Note 3)
4) Appraisal value:	19,800 million yen
5) Agreement date:	August 1, 2011
6) Acquisition date:	August 1, 2011
7) Seller:	Mori Building Co., Ltd.
8) Acquisition financing:	Cash on hand (capital acquired through sale of asset)

**(Notes)**

- MHR acquired 50% co-ownership interest in compartmentalized ownership of the 24th floor and a trust beneficiary right in a trust that holds title to compartmentalized ownership of the 23rd floor. Furthermore, on August 1, 2011, MHR concluded an additional trust agreement with the trust fiduciary for the purpose of adding the 50% co-ownership interest in compartmentalized ownership of the 24th floor which MHR already owns as a trust asset in accordance with the new trust agreement for the acquisition.
- MHR acquired a trust beneficiary right in a trust that holds title to compartmentalized ownership of the 4th, 15th and 24th floors.
- Acquisition price excludes acquisition costs, consumption taxes, etc. The same shall apply hereinafter.

## ii. Details of the Acquired Assets

**[Roppongi Hills Mori Tower]**

Property name		Roppongi Hills Mori Tower
Type of specified asset		Trust beneficiary right
Trust fiduciary		The Sumitomo Trust and Banking Co., Ltd.
Trust beneficiary		MHR
Trust establishment		August 1, 2011
Trust maturity date		July 31, 2026
Location	Lot number	6-502-1~13 Roppongi, Minato-ku, Tokyo
	Residential indication	6-10-1 Roppongi, Minato-ku, Tokyo
Use		Offices, Shops, Museum
Area (Note 1)	Land	57,177.66m <sup>2</sup>
	Building	442,150.70m <sup>2</sup>
Structure		Reinforced concrete and steel-framed reinforced concrete structure with flat roof; 54 floors above ground and 6 floors below ground
Construction completion		April 2003
Designers		Mori Building Co., Ltd., first class architect office, and Irie Miyake Architects & Engineers
Contractors		Obayashi Corporation and Kajima Corporation, a consortium
Building verification agency		Tokyo Metropolitan Government
Form of ownership	Land	Ownership (Note 2)
	Building	Compartmentalized ownership (Note 3)
Former owner		Mori Building Co., Ltd.
Acquisition price		18,680 million yen
Acquisition date		August 1, 2011
Appraisal	Appraisal value	22,200 million yen
	Appraisal date	July 15, 2011
	Appraiser	Japan Real Estate Institute
PML (Note 4)		0.29%
Collateral		None
Property manager		Mori Building Co., Ltd.
Leasing scheme		Fixed master lease
Master lessee		Mori Building Co., Ltd.
Details of tenants (as of August 1, 2011)		
Total number of end tenants		1 (Note 5)
Gross rent income (annual rent)		905,841,708 yen
Deposits/Guarantees		754,868,090 yen
Total leasable floor area (Note 6)		6,744.41m <sup>2</sup>
Total leased floor area (Note 7)		6,744.41m <sup>2</sup>
Other special consideration		None

## (Notes)

1. Area (land) is the area of the entire parcel, and area (building) is the total floor area of the entire building, as indicated on the real estate registry. The same shall apply hereinafter.
2. Land use rights for the property are in place. The lot size as indicated in the real estate registry corresponding to the trust beneficiary right that MHR acquired is 1,564.84m<sup>2</sup>. The land use right interest ratio is about 2.7%. Moreover, lot size, as indicated in the real estate registry corresponding to the trust beneficiary right that MHR owns after the acquisition, is 2,087.99m<sup>2</sup> and the land use right interest ratio is about 3.7%.
3. The private-use floor area as indicated in the real estate registry corresponding to the trust beneficiary right that MHR acquired is 6,666.30m<sup>2</sup>. The private-use floor area interest ratio is about 2.1%. Moreover, private-use floor area, as indicated in the real estate registry corresponding to the trust beneficiary right that MHR owns after the acquisition, is 8,888.39m<sup>2</sup> and the private-use floor area interest ratio is about 2.8%.

4. PML refers to the widely used index for assessing a property's probability of loss expected to result from an earthquake. There is no precise, standardized definition. Rather, definitions vary depending on the intended purpose and use. Herein, however, PML is defined as the amount of damage that a building has a 90% probability not to exceed as a result of a major earthquake with a 10 percent probability of occurring during a 50-year period. It is expressed as a percentage of the cost of totally reconstructing the building. The value as indicated on the engineering report dated July 15, 2011 by Tokyo Bldg-Tech Center Co., Ltd. is shown. The same shall apply hereinafter.
5. With regards to the property, MHR outsources building lease operations to Mori Building Co., Ltd. and receives a fixed amount of rent from the company, regardless of the rent amount paid by end tenants. As a result, Mori Building Co., Ltd. is treated as the end tenant in this acquisition.
6. Total leasable floor area is the floor area deemed leasable to end tenants. The same shall apply hereinafter.
7. Total leased floor area is the floor area being leased to end tenants. The same shall apply hereinafter.

**[ARK Mori Building]**

Property name		ARK Mori Building
Type of specified asset		Trust beneficiary right
Trust fiduciary		The Sumitomo Trust and Banking Co., Ltd.
Trust beneficiary		MHR
Trust establishment		August 1, 2011
Trust maturity date		July 31, 2026
Location	Lot number	1-1 Akasaka, Minato-ku, Tokyo, and 1-1 Roppongi, Minato-ku, Tokyo
	Residential indication	1-12-32 Akasaka, Minato-ku, Tokyo
Use		Offices
Area	Land	39,602.42m <sup>2</sup>
	Building	177,486.95m <sup>2</sup>
Structure		Reinforced concrete, steel-framed reinforced concrete and steel-framed structure with flat roof; 37 floors above ground and 4 floors below ground
Construction completion		March 1986
Designers		Mori Building Co., Ltd., first class architect office, and Irie Miyake Architects & Engineers
Contractors		Kajima Corporation, Toda Corporation and Fujita Engineering Co., Ltd., a consortium
Building verification agency		Tokyo Metropolitan Government
Form of ownership	Land	Ownership (Note 1)
	Building	Compartmentalized ownership (Note 2)
Former owner		Mori Building Co., Ltd.
Acquisition price		17,200 million yen
Acquisition date		August 1, 2011
Appraisal	Appraisal value	19,800 million yen
	Appraisal date	July 15, 2011
	Appraiser	Japan Real Estate Institute
PML		0.38%
Collateral		None
Property manager		Mori Building Co., Ltd.
Leasing scheme		Fixed master lease
Master lessee		Mori Building Co., Ltd.
Details of tenants (as of August 1, 2011)		
Total number of end tenants		1 (Note 3)
Gross rent income (annual rent)		836,408,628 yen
Deposits/Guarantees		697,007,190 yen
Total leasable floor area		7,680.52m <sup>2</sup>
Total leased floor area		7,680.52m <sup>2</sup>

Other special consideration	Wet-spray rockwool containing asbestos is used on the columns, beams, etc. of the ceiling, party wall, etc. No scattering has been found and the places are in stable condition. Furthermore, appropriate removal and other action are scheduled to be taken at the expense of the seller.
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(Notes)

1. Land use rights for the property are in place. The lot size as indicated in the real estate registry corresponding to the trust beneficiary right that MHR acquired is 1,617.15m<sup>2</sup>. The land use right interest ratio is about 4.1%. Moreover, lot size, as indicated in the real estate registry corresponding to the trust beneficiary right that MHR owns after the acquisition, is 4,325.52m<sup>2</sup> and the land use right interest ratio is about 10.9%.
2. The private-use floor area as indicated in the real estate registry corresponding to the trust beneficiary right that MHR acquired is 8,013.26m<sup>2</sup>. The private-use floor area interest ratio is about 5.8%. Moreover, private-use floor area, as indicated in the real estate registry corresponding to the trust beneficiary right that MHR owns after the acquisition, is 21,638.48m<sup>2</sup> and the private-use floor area interest ratio is about 15.6%.
3. With regards to the property, MHR outsources building lease operations to Mori Building Co., Ltd. and receives a fixed amount of rent from the company, regardless of the rent amount paid by end tenants. As a result, Mori Building Co., Ltd. is treated as the end tenant in this acquisition.

#### (d) Sale of Asset

MHR sold Roppongi Hills Gate Tower on August 1, 2011.

The buyer Mori Building Co., Ltd. constitutes an interested party, etc. of MHR's Asset Manager, and the transaction constitutes a transaction with an interested party, etc. as defined in the Law Concerning Investment Trusts and Investment Corporations. Accordingly, to comply with applicable laws and regulations and with the asset management agreement, as well as to prevent the interests of MHR from being negatively impacted with respect to the sales price and other terms and conditions, the Asset Manager has taken steps pursuant to the Related Parties Transaction Guidelines.

##### i. Overview of Sale

1) Sold asset:	Trust beneficiary right
2) Property name:	Roppongi Hills Gate Tower
3) Book value:	35,681 million yen (Note 1)
4) Sales price:	35,920 million yen (Note 2)
5) Gain (loss) on sale:	185 million yen (Note 3)
6) Agreement date:	August 1, 2011
7) Sales date:	August 1, 2011
8) Buyer:	Mori Building Co., Ltd.

(Notes)

1. Book value is an estimate of the sold asset's book value at the sales date based on the book value as of May 31, 2011. The same shall apply hereinafter.
2. Sales price excludes sales costs, property taxes, city planning taxes and consumption taxes. The same shall apply hereinafter.
3. Gain (loss) on sale is the amount arrived at when the book value shown in the table and sales costs are deducted from the sales price. The same shall apply hereinafter.

**ii. Details of the Sold Asset**

Property name		Roppongi Hills Gate Tower				
Type of specified asset		Trust beneficiary right				
Trust fiduciary		The Sumitomo Trust and Banking Co., Ltd.				
Trust beneficiary		MHR				
Location		6-11-1 Roppongi, Minato-ku, Tokyo (Residential indication)				
Use		Offices, Residences, Shops				
Area	Land	4,560.15m <sup>2</sup>				
	Building	29,111.78m <sup>2</sup>				
Structure		Reinforced concrete, steel-framed reinforced concrete and steel-framed structure; 15 floors above ground and 2 floors below ground				
Construction completion		October 2001				
Form of ownership	Land	Ownership				
	Building	Compartmentalized ownership (Note 1)				
Book value		35,681 million yen				
Sales price		35,920 million yen				
Gain (loss) on sale		185 million yen				
Appraisal	Appraisal value	31,900 million yen (Note 2)				
	Appraisal date	July 15, 2011				
	Appraiser	Japan Real Estate Institute				
Sales date		August 1, 2011				
Details of tenants (as of June 30, 2011)						
Total number of end tenants		42 (Note 3)				
Gross rent income (annual rent)		1,874,707,956 yen (Note 4)				
Deposits/Guarantees		1,681,937,626 yen				
Total leasable floor area		16,657.52m <sup>2</sup>				
Total leased floor area		16,173.39m <sup>2</sup>				
Occupancy rate (with past data)		End of Jan. 2009	End of July 2009	End of Jan. 2010	End of July 2010	End of Jan. 2011
		98.1%	93.8%	96.0%	98.7%	97.1%
Other special consideration		None				

(Notes)

1. The property's building is classified as compartmentalized ownership, but MHR holds the trust beneficiary right in a trust that holds title to the entire compartmentalized ownership of the building.
2. The type of price in the appraisal is an ordinary price (fair value that reflects market value, thought to be formed in the market upon fulfilling conditions that are deemed logical under current social conditions) and not a specific price (price that reflects investor break-even price to show to investors).
3. Of the total number of end tenants (42), there are 38 end tenants for residential units.
4. The gross rent income (annual income) represents the figure obtained by multiplying the combined amount of the monthly rents described in the lease agreements with the end tenants in relation to the property held in trust (including percentage-of-sales rents invoiced to the end tenants from June 1 to June 30, 2011) and the proceeds for monthly common expenses (excluding income from parking lots, utilities and sources) by 12.

**(e) Amendment of Part of the Articles of Incorporation**

MHR amended part of the Articles of Incorporation, effective August 1, 2011, pursuant to the transitional provisions concerning amendment of part of the Articles of Incorporation approved by vote at MHR's fourth general meeting of unitholders held on April 8, 2011.

For details, please refer to the "MHR Announces Amendment of Part of the Articles of

Incorporation” news release separately announced on August 1, 2011.

(f) **Borrowing of Funds**

MHR borrowed funds as follows on August 31, 2011 to fund the refinancing of a 5,500 million yen short-term loan payable and 17,000 million yen long-term loan payable, which are due for repayment on August 31, 2011.

**i. Short-Term Loan Payable**

Lenders	Mizuho Corporate Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Banking Corporation, and The Sumitomo Trust and Banking Co., Ltd.
Borrowing amount	5,500 million yen
Interest rate	1.18000% per annum (variable interest rate) (The interest rate shown above is the interest rate that is applicable until September 30, 2011.)
Drawdown date	August 31, 2011
Principal repayment date	August 31, 2012 (However, if such date is not a business day, the next business day shall be the payment date. If this next business day falls into the following month, the business day immediately prior shall be the payment date.)
Method of repayment	To be repaid in full on the principal repayment date
Collateral	Unsecured/Unguaranteed

**ii. Short-Term Loan Payable**

Lenders	Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Banking Corporation, and The Sumitomo Trust and Banking Co., Ltd.
Borrowing amount	12,500 million yen
Interest rate	1.18000% per annum (variable interest rate) (The interest rate shown above is the interest rate that is applicable until September 30, 2011.)
Drawdown date	August 31, 2011
Principal repayment date	November 30, 2011 (However, if such date is not a business day, the next business day shall be the payment date. If this next business day falls into the following month, the business day immediately prior shall be the payment date.)
Method of repayment	To be repaid in full on the principal repayment date
Collateral	Unsecured/Unguaranteed

**iii. Long-Term Loan Payable**

Lenders	Aozora Bank, Ltd.
Borrowing amount	2,000 million yen
Interest rate	1.38000% per annum (variable interest rate) (The interest rate shown above is the interest rate that is applicable until September 30, 2011.)
Drawdown date	August 31, 2011
Principal repayment date	August 31, 2014 (However, if such date is not a business day, the next business day shall be the payment date. If this next business day falls into the following month, the business day immediately prior shall be the payment date.)
Method of repayment	To be repaid in full on the principal repayment date

Collateral	Unsecured/Unguaranteed
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**iv. Long-Term Loan Payable**

Lenders	Resona Bank, Ltd.
Borrowing amount	2,500 million yen
Interest rate	1.38000% per annum (variable interest rate) (The interest rate shown above is the interest rate that is applicable until September 30, 2011.)
Drawdown date	August 31, 2011
Principal repayment date	August 31, 2014 (However, if such date is not a business day, the next business day shall be the payment date. If this next business day falls into the following month, the business day immediately prior shall be the payment date.)
Method of repayment	To be repaid in full on the principal repayment date
Collateral	Unsecured/Unguaranteed

**(c) Outlook of Business Results**

MHR expects the following business results for its next fiscal period (eleventh fiscal period: August 1, 2011 to January 31, 2012). For the assumptions underlying the forecast of results, please refer to “Assumptions of Forecast of Results for the Eleventh Fiscal Period Ending January 31, 2012 (August 1, 2011 – January 31, 2012)” presented below.

Operating revenue	¥4,761 million
Operating income	¥3,109 million
Ordinary income	¥1,969 million
Net income	¥1,967 million
Dividend per unit	¥8,500
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 revenue, operating income, ordinary income, net income, dividend per unit and dividend in excess of earnings per unit may differ from actual results due to changes in operating conditions and a variety of factors. Furthermore, these forecasts shall not be construed as a guarantee of dividend amounts.

**Assumptions of Forecast of Results for the Eleventh Fiscal Period Ending January 31, 2012**  
**(August 1, 2011 – January 31, 2012)**

Item	Assumptions
Investment Portfolio	<ul style="list-style-type: none"> <li>• In addition to the properties in its portfolio as of the end of the tenth fiscal period (July 31, 2011), MHR additionally acquired Roppongi Hills Mori Tower and ARK Mori Building and sold Roppongi Hills Gate Tower on August 1, 2011.</li> <li>• MHR assumes that, besides the abovementioned additional acquisition and sale, there will be no change in the investment portfolio (new acquisition of properties, sale of existing properties, etc.) during the period up to the end of the eleventh fiscal period (January 31, 2012).</li> <li>• In actual practice, however, the forecast is subject to change due to changes in the investment portfolio and other factors.</li> </ul>
Operating Revenue	<ul style="list-style-type: none"> <li>• Rent revenue is estimated based on lease contracts, etc. of the assets under management above, taking into account the market environment, the trends of individual tenants and other factors.</li> <li>• MHR assumes that there will be no delinquencies or unpaid rent by tenants.</li> <li>• Of the operating revenue, the revenue associated with the properties in its portfolio as of the end of the tenth fiscal period (July 31, 2011) (excluding Roppongi Hills Gate Tower, which was sold on August 1, 2011) is expected to be 3,705 million yen and the revenue associated with the additional Roppongi Hills Mori Tower and ARK Mori Building property which were acquired on August 1, 2011, is expected to be 871 million yen.</li> <li>• MHR estimates that 185 million yen will be generated as a gain on sale from the sale of Roppongi Hills Gate Tower.</li> </ul>
Operating Expenses	<ul style="list-style-type: none"> <li>• Incorporating the abovementioned additional acquisition and sale of assets under management, as well as reduction in amount from the change in the manner in which to deal with expenses relating to Akasaka Tameike Tower and other impact, 1,362 million yen is expected for the expenses related to rent business, which account for the majority of operating expenses. The expenses other than those below are calculated by referring to historical figures and adjusted to reflect variable factors. <ul style="list-style-type: none"> <li>A) For property taxes, city planning taxes, etc., the amount of taxation during the eleventh fiscal period is expected to total 235 million yen (for 6 months). For the property taxes, city planning taxes, etc. associated with ARK Mori Building and Akasaka Tameike Tower, which were additionally acquired on March 18, 2011, and Roppongi Hills Mori Tower and ARK Mori Building, which were additionally acquired on August 1, 2011, MHR shall incorporate these amounts into the cost of acquisition and, thus, shall not recognize them as operating expenses for the eleventh fiscal period.</li> <li>B) For building maintenance and repairs, MHR recorded the estimated required amount for the respective fiscal period (41 million yen). However, please note that the actual expenses for maintenance and repairs in the respective fiscal period may differ materially 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>C) Depreciation and amortization, which are calculated using the straight-line method with future additional capital expenditures taken into account, is expected to be 636 million yen.</li> <li>D) 199 million yen is expected for property management fees.</li> </ul> </li> <li>• 290 million yen is expected for the operating expenses other than expenses related to rent business (asset management fee, asset custody fee, administrative service fees, etc.).</li> </ul>

Non-Operating Expenses	<ul style="list-style-type: none"> <li>• MHR expects to incur 852 million yen in interest expenses and 272 million yen in borrowing expenses.</li> </ul>
Interest-Bearing Debt	<ul style="list-style-type: none"> <li>• The balance of loans payable outstanding as of the end of the tenth fiscal period (July 31, 2011) was 82,112 million yen. MHR assumes that, of that amount and other than the 17,000 million yen long-term loan payable (due for repayment on August 31, 2011) and 5,500 million yen short-term loan payable (due for repayment on August 31, 2011) that have been refinanced as of the date of this document, the 12,500 million yen short-term loan payable (due for repayment on November 30, 2011), 2,000 million yen long-term loan payable (due for repayment on November 30, 2011) and 3,000 million yen long-term loan payable (due for repayment on November 30, 2011) will be refinanced in the entire amount. MHR also assumes that an agreed repayment of 50 million yen of the 1,800 million yen long-term loan payable (due for repayment on March 27, 2012) and an agreed repayment of 62 million yen of the 2,312 million yen long-term loan payable (due for repayment on November 30, 2013) will be concluded, resulting in the balance of loans payable outstanding as of the end of the eleventh fiscal period (January 31, 2012) being 82,000 million yen.</li> <li>• The balance of investment corporation bonds as of the end of the tenth fiscal period (July 31, 2011) was 25,000 million yen. MHR assumes that there will be no change in the balance of investment corporation bonds from this amount until the end of the eleventh fiscal period (January 31, 2012).</li> </ul>
Issuance of Investment Units	<ul style="list-style-type: none"> <li>• The number of investment units outstanding as of the end of the tenth fiscal period (July 31, 2011) was 231,520 units. MHR assumes that there will be no additional issuance of investment units to this number until the end of the eleventh fiscal period (January 31, 2012).</li> </ul>
Dividend per Unit (excluding dividend in excess of earnings)	<ul style="list-style-type: none"> <li>• Dividend per unit is calculated based on the assumption that MHR will make distributions 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 issuance 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 make 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 Sheet**

	(Unit: thousands of yen)	
	Ninth Fiscal Period	Tenth Fiscal Period
	(as of January 31, 2011)	(as of July 31, 2011)
Assets		
Current assets		
Cash and deposits	3,644,923	1,470,106
Cash and deposits in trust	7,225,291	7,580,028
Operating accounts receivable	92,656	94,198
Prepaid expenses	395,005	354,462
Deferred tax assets	4,626	19
Other	345	1,080
Total current assets	11,362,849	9,499,894
Noncurrent assets		
Property, plant and equipment		
Buildings	2,023,533	1,700,018
Accumulated depreciation	(63,991)	(74,086)
Buildings, net	1,959,542	1,625,932
Structures	12,933	12,160
Accumulated depreciation	(1,440)	(1,942)
Structures, net	11,492	10,217
Machinery and equipment	20,407	20,407
Accumulated depreciation	(639)	(988)
Machinery and equipment, net	19,768	19,419
Land	30,363,849	27,243,942
Buildings in trust	43,905,819	42,173,024
Accumulated depreciation	(5,180,189)	(5,176,592)
Buildings in trust, net	38,725,629	36,996,431
Structures in trust	550,278	307,141
Accumulated depreciation	(250,221)	(158,740)
Structures in trust, net	300,056	148,400
Machinery and equipment in trust	802,416	699,866
Accumulated depreciation	(108,159)	(97,129)
Machinery and equipment in trust, net	694,257	602,737
Tools, furniture and fixtures in trust	67,994	65,775
Accumulated depreciation	(20,771)	(20,253)
Tools, furniture and fixtures in trust, net	47,223	45,522
Land in trust	118,350,594	124,071,738
Construction in progress in trust	449	722
Total property, plant and equipment	190,472,863	190,765,064
Intangible assets		
Leasehold rights in trust	18,409,956	18,409,956
Other intangible assets in trust	3,035	2,211
Other	3,703	3,496
Total intangible assets	18,416,695	18,415,665
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	300,901	182,609
Total investments and other assets	310,901	192,609
Total noncurrent assets	209,200,460	209,373,339
Deferred assets		
Investment corporation bond issuance costs	66,727	77,569
Total deferred assets	66,727	77,569
Total assets	220,630,037	218,950,803

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	Ninth Fiscal Period (as of January 31, 2011)	Tenth Fiscal Period (as of July 31, 2011)
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	203,639	241,560
Short-term loans payable	8,510,000	17,000,000
Current portion of long-term loans payable	37,225,000	36,925,000
Accounts payable – other	26,735	27,423
Accrued expenses	245,022	236,674
Income taxes payable	653	775
Accrued consumption taxes	347,231	113,539
Advances received	537,089	383,129
Deposits received	45,425	279,496
Derivatives liabilities	11,715	–
Provision for loss on disaster	–	8,418
Total current liabilities	<u>47,152,512</u>	<u>55,216,019</u>
Noncurrent liabilities		
Investment corporation bond	20,000,000	25,000,000
Long-term loans payable	43,000,000	28,187,500
Tenant leasehold and security deposits	454,440	302,040
Tenant leasehold and security deposits in trust	6,179,242	6,300,513
Total noncurrent liabilities	<u>69,633,682</u>	<u>59,790,053</u>
Total liabilities	<u>116,786,194</u>	<u>115,006,073</u>
<b>Net assets</b>		
Unitholders' equity		
Unitholders' capital	102,010,939	102,010,939
Surplus		
Unappropriated retained earnings (undisposed loss)	1,840,011	1,933,790
Total surplus	<u>1,840,011</u>	<u>1,933,790</u>
Total unitholders' equity	<u>103,850,950</u>	<u>103,944,730</u>
Valuation and translation adjustments		
Deferred gains or losses on hedges	(7,107)	–
Total valuation and translation adjustments	<u>(7,107)</u>	<u>–</u>
Total net assets	<u>103,843,842</u>	<u>103,944,730</u>
Total liabilities and net assets	<u>220,630,037</u>	<u>218,950,803</u>

**(2) Statement of Income**

(Unit: thousands of yen)

	Ninth Fiscal Period (August 1, 2010 to January 31, 2011)	Tenth Fiscal Period (February 1, 2011 to July 31, 2011)
Operating revenue		
Rent revenue – real estate	4,755,213	4,586,939
Other lease business revenue	445,878	334,661
Gain on sales of real estate properties	282,589	336,190
Total operating revenue	5,483,681	5,257,791
Operating expenses		
Expenses related to rent business	2,114,307	1,878,299
Asset management fee	299,040	220,665
Directors' compensations	7,200	6,300
Asset custody fee	5,526	5,497
Administrative service fees	15,514	15,574
Other operating expenses	84,748	71,631
Total operating expenses	2,526,338	2,197,968
Operating income	2,957,343	3,059,822
Non-operating income		
Interest income	3,442	1,149
Exclusion gain of unpaid dividend	1,128	2,032
Interest on refund	633	–
Other	16	283
Total non-operating income	5,220	3,465
Non-operating expenses		
Interest expenses	714,388	669,327
Interest expenses on investment corporation bonds	164,400	191,967
Amortization of investment corporation bond issuance costs	11,888	16,287
Amortization of deferred organization expenses	5,111	–
Borrowing expenses	224,135	236,080
Other	1,753	1,765
Total non-operating expenses	1,121,676	1,115,427
Ordinary income	1,840,886	1,947,860
Extraordinary loss		
Loss on disaster	–	4,767
Provision for loss on disaster	–	8,418
Total extraordinary loss	–	13,186
Income before income taxes	1,840,886	1,934,674
Income taxes – current	995	1,005
Income taxes – deferred	0	0
Total income taxes	996	1,005
Net income	1,839,890	1,933,668
Retained earnings brought forward	121	121
Unappropriated retained earnings (undisposed loss)	1,840,011	1,933,790

**(3) Statement of Unitholders' Equity**

(Unit: thousands of yen)

	Ninth Fiscal Period (August 1, 2010 to January 31, 2011)	Tenth Fiscal Period (February 1, 2011 to July 31, 2011)
Unitholders' equity		
Unitholders' capital		
Balance at the end of previous period	102,010,939	102,010,939
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	102,010,939	102,010,939
Surplus		
Unappropriated retained earnings (undisposed loss)		
Balance at the end of previous period	1,522,828	1,840,011
Changes of items during the period		
Dividends from surplus	(1,522,707)	(1,839,889)
Net income	1,839,890	1,933,668
Total changes of items during the period	317,183	93,779
Balance at the end of current period	1,840,011	1,933,790
Total unitholders' equity		
Balance at the end of previous period	103,533,767	103,850,950
Changes of items during the period		
Dividends from surplus	(1,522,707)	(1,839,889)
Net income	1,839,890	1,933,668
Total changes of items during the period	317,183	93,779
Balance at the end of current period	103,850,950	103,944,730
Valuation and translation adjustments		
Deferred gains or losses on hedges		
Balance at the end of previous period	(13,038)	(7,107)
Changes of items during the period		
Net changes of items other than unitholders' equity	5,930	7,107
Total changes of items during the period	5,930	7,107
Balance at the end of current period	(7,107)	-
Total valuation and translation adjustments		
Balance at the end of previous period	(13,038)	(7,107)
Changes of items during the period		
Net changes of items other than unitholders' equity	5,930	7,107
Total changes of items during the period	5,930	7,107
Balance at the end of current period	(7,107)	-
Total net assets		
Balance at the end of previous period	103,520,729	103,843,842
Changes of items during the period		
Dividends from surplus	(1,522,707)	(1,839,889)
Net income	1,839,890	1,933,668
Net changes of items other than unitholders' equity	5,930	7,107
Total changes of items during the period	323,113	100,887
Balance at the end of current period	103,843,842	103,944,730

**(4) Statement of Cash Distributions**

(Unit: yen)

Item \ Period	Ninth Fiscal Period (August 1, 2010 to January 31, 2011)	Tenth Fiscal Period (February 1, 2011 to July 31, 2011)
I. Unappropriated retained earnings	1,840,011,405	1,933,790,907
II. Amount of dividends	1,839,889,440	1,933,655,440
[Amount of dividend per unit]	[7,947]	[8,352]
III. Retained earnings carried forward	121,965	135,867

**(5) Statement of Cash Flows**

(Unit: thousands of yen)

Account	Ninth Fiscal Period (August 1, 2010 to January 31, 2011)	Tenth Fiscal Period (February 1, 2011 to July 31, 2011)
Net cash provided by (used in) operating activities		
Income before income taxes	1,840,886	1,934,674
Depreciation and amortization	699,502	670,782
Amortization of deferred organization expenses	5,111	-
Amortization of investment corporation bond issuance costs	11,888	16,287
Increase (decrease) in provision for loss on disaster	-	8,418
Interest income	(3,442)	(1,149)
Gain on exclusion of distribution payable	(1,128)	(2,032)
Interest expenses	878,788	861,294
Decrease (increase) in operating accounts receivable	5,726	(1,542)
Decrease (increase) in consumption taxes refund receivable	67,217	-
Increase (decrease) in operating accounts payable	677	30,716
Increase (decrease) in accounts payable – other	2,690	1,876
Increase (decrease) in accrued expenses	(285)	3,041
Increase (decrease) in accrued consumption taxes	324,600	(233,691)
Increase (decrease) in advances received	(174,673)	(153,959)
Increase (decrease) in deposits received	(256,402)	234,071
Decrease (increase) in prepaid expenses	(17,290)	40,543
Decrease (increase) in long-term prepaid expenses	(69,225)	118,291
Decrease in carrying amounts of property, plant and equipment in trust due to sale	21,451,382	15,877,281
Decrease in carrying amounts of intangible assets in trust due to sale	128	210
Other, net	515	185
Subtotal	24,766,668	19,405,299
Interest income received	3,442	1,149
Interest expenses paid	(896,654)	(872,683)
Income taxes paid	(997)	(883)
Net cash provided by (used in) operating activities	23,872,457	18,532,882
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(22,095,341)	(323)
Purchase of intangible assets	(375)	(287)
Purchase of property, plant and equipment in trust	(48,206)	(16,832,549)
Repayments of tenant leasehold and security deposits in trust	(1,565,923)	(1,390,190)
Proceeds from tenant leasehold and security deposits in trust	755,652	1,359,062
Net cash provided by (used in) investing activities	(22,954,194)	(16,864,289)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	5,500,000	11,500,000
Decrease in short-term loans payable	(5,500,000)	(3,010,000)
Proceeds from long-term loans payable	13,000,000	-
Repayment of long-term loans payable	(13,112,500)	(15,112,500)
Proceeds from issuance of investment corporation bonds	-	4,972,870
Dividends paid	(1,516,994)	(1,839,044)
Net cash provided by (used in) financing activities	(1,629,494)	(3,488,674)
Net increase (decrease) in cash and cash equivalents	(711,231)	(1,820,080)
Cash and cash equivalents at beginning of period	11,581,446	10,870,215
Cash and cash equivalents at end of period	10,870,215	9,050,134

**6. OVERVIEW OF LEASE CONDITIONS (as of July 31, 2011)**

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-0	Roppongi Hills Mori Tower	–	2,249.04	2,249.04	100.0	1	302	302
O-1	ARK Mori Building	Fixed master lease	13,695.50	13,695.50	100.0	1	1,491	1,299
O-2	Roppongi Hills Gate Tower	Pass-through master lease	16,657.52	15,935.64	95.7	41	1,566	1,388
O-3	Roppongi First Building	–	11,525.55	9,381.82	81.4	14	860	706
O-4	Koraku Mori Building	Pass-through master lease	16,197.46	16,197.46	100.0	15	1,361	1,416
O-6	Akasaka Tameike Tower	Pass-through and fixed master lease	19,869.56	18,348.11	92.3	12	1,472	896
R-1	Moto-Azabu Hills	Pass-through master lease	1,325.30	1,325.30	100.0	7	130	52
R-2	ARK Forest Terrace	Pass-through master lease	5,246.04	4,798.95	91.5	37	258	101
R-3	Roppongi First Plaza	Pass-through master lease	2,956.77	2,729.67	92.3	39	134	46
R-4	Roppongi View Tower	Fixed master lease	6,344.84	6,344.84	100.0	1	218	–
S-1	Laforet Harajuku (Land)	Business-use fixed-term land lease	2,565.06	2,565.06	100.0	1	1,293	–
Total portfolio			98,632.64	93,571.39	94.9	169	9,089	6,210

**7. STATUS OF INCOME AND EXPENDITURES (August 1, 2010 – July 31, 2011)**

(Unit: thousands of yen)

Property no.	O-0		O-1		O-2		O-3	
	Premium		Premium		Premium		Premium	
Property name	Roppongi Hills Mori Tower		ARK Mori Building (Note 2)		Roppongi Hills Gate Tower		Roppongi First Building	
Fiscal period (Note 1)	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth
Days of operations	184	181	184	181	184	181	184	181
Rent revenue – real estate	151,020	151,020	497,985	684,686	953,924	920,143	438,415	415,767
Other lease business revenue	–	–	18,572	2,641	127,039	105,305	57,889	48,208
Total property operating revenue	151,020	151,020	516,558	687,327	1,080,964	1,025,449	496,305	463,976
Property management fees	1,200	1,200	69,713	1,956	158,421	158,161	62,274	71,640
Utilities	–	–	6,570	1,160	56,530	43,706	28,643	23,271
Property taxes	–	5,130	25,425	28,521	71,864	73,278	44,611	45,127
Maintenance and repairs	–	–	2,439	–	12,538	16,318	–	–
Insurance premium	158	235	730	1,110	2,141	2,218	1,780	1,857
Depreciation and amortization	27,189	27,206	67,207	81,544	118,380	118,811	60,395	60,471
Other lease business expenses	–	–	2,824	2,609	34,543	34,764	1,209	1,180
Total property operating expenses	28,548	33,773	174,912	116,901	454,421	447,259	198,914	203,549
NOI	149,661	144,453	408,853	651,970	744,922	697,001	357,786	320,898

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Property no.	O-4 Premium		O-5		O-6 Premium	
	Koraku Mori Building		Toranomon 35 Mori Building (OMRON Tokyo Headquarters Building) (Note 3)		Akasaka Tameike Tower (Note 2)	
Fiscal period (Note 1)	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth
Days of operations	184	181	45	—	184	181
Rent revenue – real estate	780,396	629,774	103,014	—	486,916	651,026
Other lease business revenue	104,988	83,862	2,258	—	80,240	73,299
Total property operating revenue	885,385	713,636	105,272	—	567,156	724,326
Property management fees	78,084	83,913	15,998	—	93,201	144,047
Utilities	77,836	67,023	—	—	26,570	24,216
Property taxes	34,444	34,398	490	—	31,671	31,390
Maintenance and repairs	16,254	1,323	—	—	8,855	2,206
Insurance premium	2,007	2,080	506	—	1,519	2,251
Depreciation and amortization	126,087	127,620	11,576	—	135,423	166,058
Other lease business expenses	77,158	76,552	189	—	1,431	2,790
Total property operating expenses	411,872	392,912	28,761	—	298,672	372,961
NOI	599,599	448,345	88,087	—	403,907	517,423

Property no.	R-1 Premium		R-2 Premium		R-3 Premium		R-4		S-1 Premium	
	Moto Azabu Hills (Note 4)		ARK Forest Terrace		Roppongi First Plaza		Roppongi View Tower		Laforet Harajuku (Land) (Note 5)	
Fiscal period (Note 1)	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth	Ninth	Tenth
Days of operations	184	181	184	181	184	181	184	181	139	181
Rent revenue – real estate	541,702	171,316	137,639	139,671	66,077	67,305	109,426	109,426	488,693	646,800
Other lease business revenue	46,738	12,124	8,151	8,629	—	590	—	—	—	—
Total property operating revenue	588,441	183,440	145,790	148,301	66,077	67,895	109,426	109,426	488,693	646,800
Property management fees	122,934	36,703	40,267	38,948	13,263	12,561	3,738	3,738	—	—
Utilities	4,861	1,374	10,703	9,544	250	144	—	—	—	—
Property taxes	28,806	16,664	9,430	9,465	6,952	7,079	10,739	10,967	—	24,982
Maintenance and repairs	42,081	10,198	22,334	12,760	1,138	1,631	—	—	—	—
Insurance premium	2,748	548	650	671	294	307	444	457	—	—
Depreciation and amortization	96,645	31,830	33,353	33,673	9,734	10,016	13,055	13,055	—	—
Other lease business expenses	31,396	10,740	7,688	8,128	3,779	3,843	905	905	4	—
Total property operating expenses	329,474	108,060	124,427	113,192	35,414	35,583	28,882	29,124	4	24,982
NOI	355,612	107,210	54,716	68,782	40,397	42,328	93,598	93,357	488,688	621,817

(Notes)

- The ninth fiscal period was from August 1, 2010 to January 31, 2011.  
The tenth fiscal period was from February 1, 2011 to July 31, 2011.
- Additionally acquired on March 18, 2011.
- Sold on September 15, 2010. Accordingly, the income and expenditures are for the period from August 1, 2010 to September 14, 2010.
- Sold a portion on September 15, 2010 and March 18, 2011.
- Acquired on September 15, 2010. Accordingly, the income and expenditures are for the period from September 15, 2010 to July 31, 2011.

Disclaimer:

This report contains translations of selected information described in the Financial Release (*Kessan-Tanshin*) dated September 14, 2011, and portions of the Financial Statements and the Performance Information Report for the tenth fiscal period from February 1, 2011 to July 31, 2011, of Mori Hills REIT Investment Corporation (MHR), prepared pursuant to the Law Concerning Investment Trusts and Investment Corporations of Japan.

This English language document was prepared solely for the convenience of and reference by investors and does not necessarily correspond to the original Japanese documents nor is it intended to constitute a disclosure document. The Japanese language *Kessan-Tanshin* and the Financial Statements and the Performance Information Report for the aforementioned should always be referred to as originals of this document.

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The financial statements are a translation of the audited financial statements of MHR, that were prepared in accordance with generally accepted accounting principles in Japan (Japanese GAAP) which may materially differ in certain respects from generally accepted accounting principles and practices in other jurisdictions. In preparing the financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan.

Certain provisions of this document contain forward-looking statements and information. We base these statements on our beliefs as well as our assumptions based solely on certain limited information currently available to us. Because these statements reflect our current views concerning future events, these statements involve known and unknown risks, uncertainties and assumptions.

These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including without limitation: the general economy, market conditions, financial markets including the performance of the real estate market, interest rate fluctuations, competition with our properties, and the impact of changing regulations or taxation.

The forward-looking statements contained in this document express information only as of the date of release, September 14, 2011, and MHR does not undertake to update those forward-looking statements to reflect events or circumstances occurring after the date of this release.