

Mori Hills REIT Investment Corporation

Semiannual Report

**27th Fiscal Period
(August 1, 2019 - January 31, 2020)**

To Our Unitholders

All of us at Mori Hills REIT Investment Corporation ("MHR") wish to extend our deep appreciation to our unitholders for your continuous support of MHR. I am pleased to report on MHR's performance for the twenty-seventh fiscal period which ended January 31, 2020.

In the twenty-seventh fiscal period, the Japanese economy saw deteriorating business sentiment centering on the manufacturing industry in light of a slowdown of the global economy burdened by the prolonged US-China trade conflict. However, the economy remained steady due to the ongoing improvements in employment and household income and labor-saving investment against the backdrop of strong corporate earnings.

Within this economic environment, the rent level continued to be on an upward trend in the rental office building market as the supply-demand balance remained tight due to the vacancy rate in central Tokyo continuing to be low, and the leasing up of tenants into new buildings progressing steadily. In the luxury rental housing market, occupancy rates and rent levels remained solid driven by the ongoing stable demand for quality housing in central Tokyo amid limited new supply. In the real estate trading market transaction prices continue to be high, driven by the strong investment appetite from investors at home and abroad and by the favorable fund-raising environment. Transaction amounts also remained at a high level.

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

MHR's real estate portfolio, as of the end of the twenty-seventh fiscal period, was comprised of 11 properties under management with a total leasable area of 174,699.12m². MHR has already invested 390,690 million yen (based on the acquisition price) into this portfolio. The occupancy rate at the end of the twenty-seventh fiscal period was 99.2%. The asset management activities described above resulted in MHR recording 9,631 million yen in operating revenue, 6,026 million yen in operating income, 5,407 million yen in ordinary income, 5,406 million yen in net income and 2,883 yen in dividend per unit in the twenty-seventh fiscal period.

MHR declared dividends per unit of 2,890 yen for the twenty-eighth fiscal period ending July 31, 2020.

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

I would like to ask for your continued support.



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

Financial Highlights

Dividend per unit: 27th period

2,883 yen

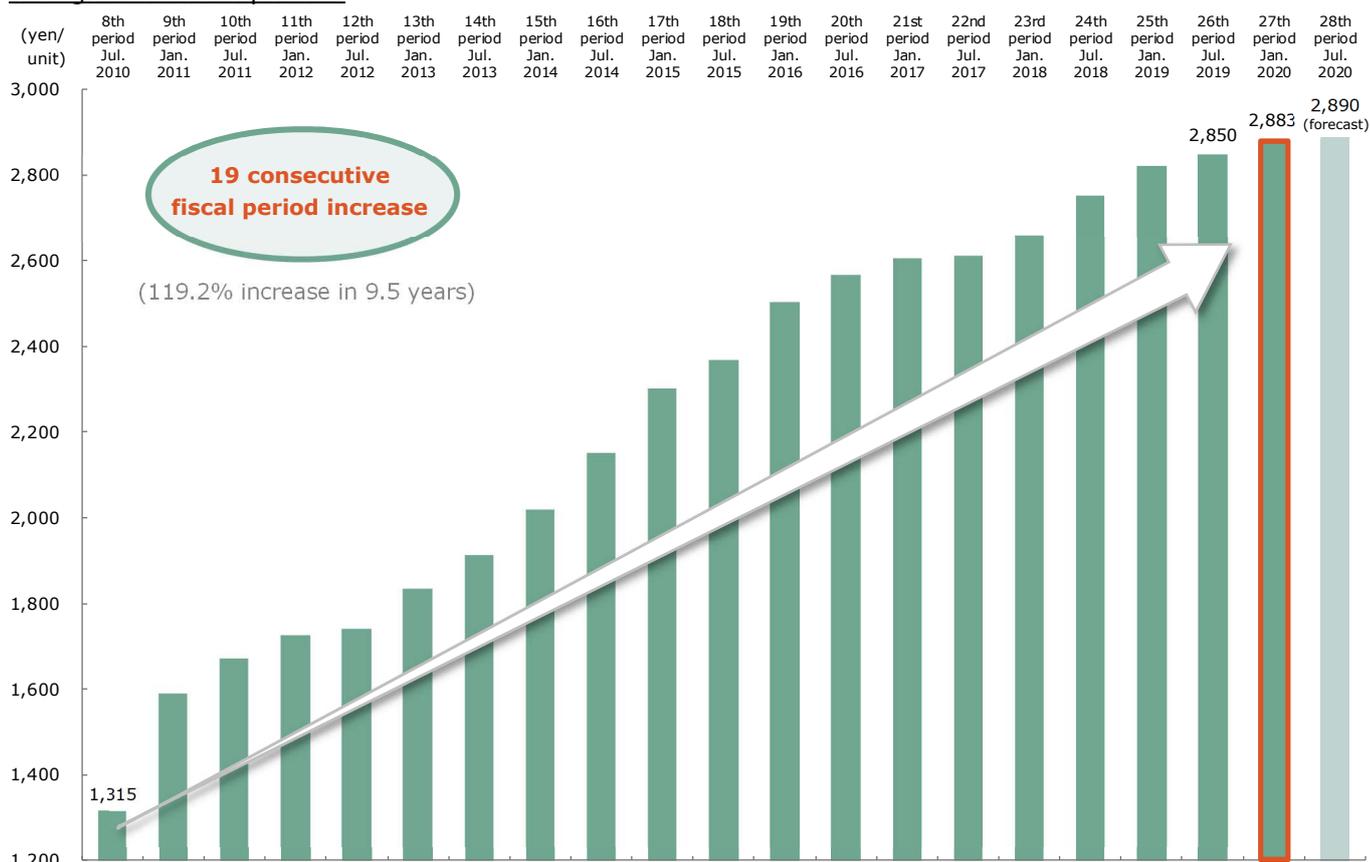
Dividend per unit: 28th period forecast*

2,890 yen

*The forecasted figure for the 28th fiscal period is projection from historical figures based on certain assumptions.

Accordingly, the figure may differ from actual results. Furthermore, the forecast shall not be construed as a guarantee of dividend amount.

Change in dividend per unit



※ Implemented a 5-for-1 investment unit split effective on February 1, 2014.

Actual dividends per unit were divided by 5 for the periods before the split of investment units in the graph.

Changes in major financial indicator

	26th period February 1, 2019 - July 31, 2019 (181 days)	27th period August 1, 2019 - January 31, 2020 (184 days)	27th - 26th period
Operating revenue	9,561 million yen	9,631 million yen	+69 million yen
Operating income	5,971 million yen	6,026 million yen	+54 million yen
Ordinary income	5,346 million yen	5,407 million yen	+61 million yen
Net income	5,344 million yen	5,406 million yen	+61 million yen
Dividend/unit	2,850 yen/unit	2,883 yen/unit	+ 33 yen/unit
Total units outstanding	1,874,960 units	1,874,960 units	
Acquisition price	390,690 million yen	390,690 million yen	

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

Overview of Portfolio

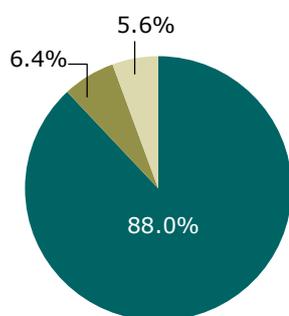
MHR has developed an urban portfolio mainly in Central Tokyo through its “investment in the city” concept, taking advantage of market opportunities and our competitive strengths to enhance profitability as well as portfolio value.

Portfolio breakdown

Area

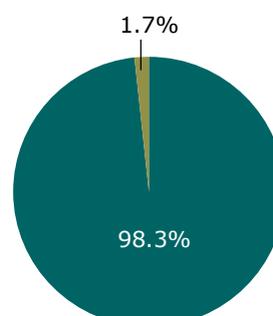


Type



- Office
- Residential
- Retail

Size



- 30,000 m² or more
- Under 30,000 m²

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

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

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

Portfolio list



O-0 Premium

Roppongi Hills Mori Tower



O-1 Premium

ARK Mori Building



O-4 Premium

Koraku Mori Building



O-6 Premium

Akasaka Tameike Tower



O-7 Premium

Atago Green Hills



O-8 Premium

ARK Hills South Tower



O-9 Premium

Toranomom Hills Mori Tower



O-10 Premium

Holland Hills Mori Tower



R-3 Premium

Roppongi First Plaza

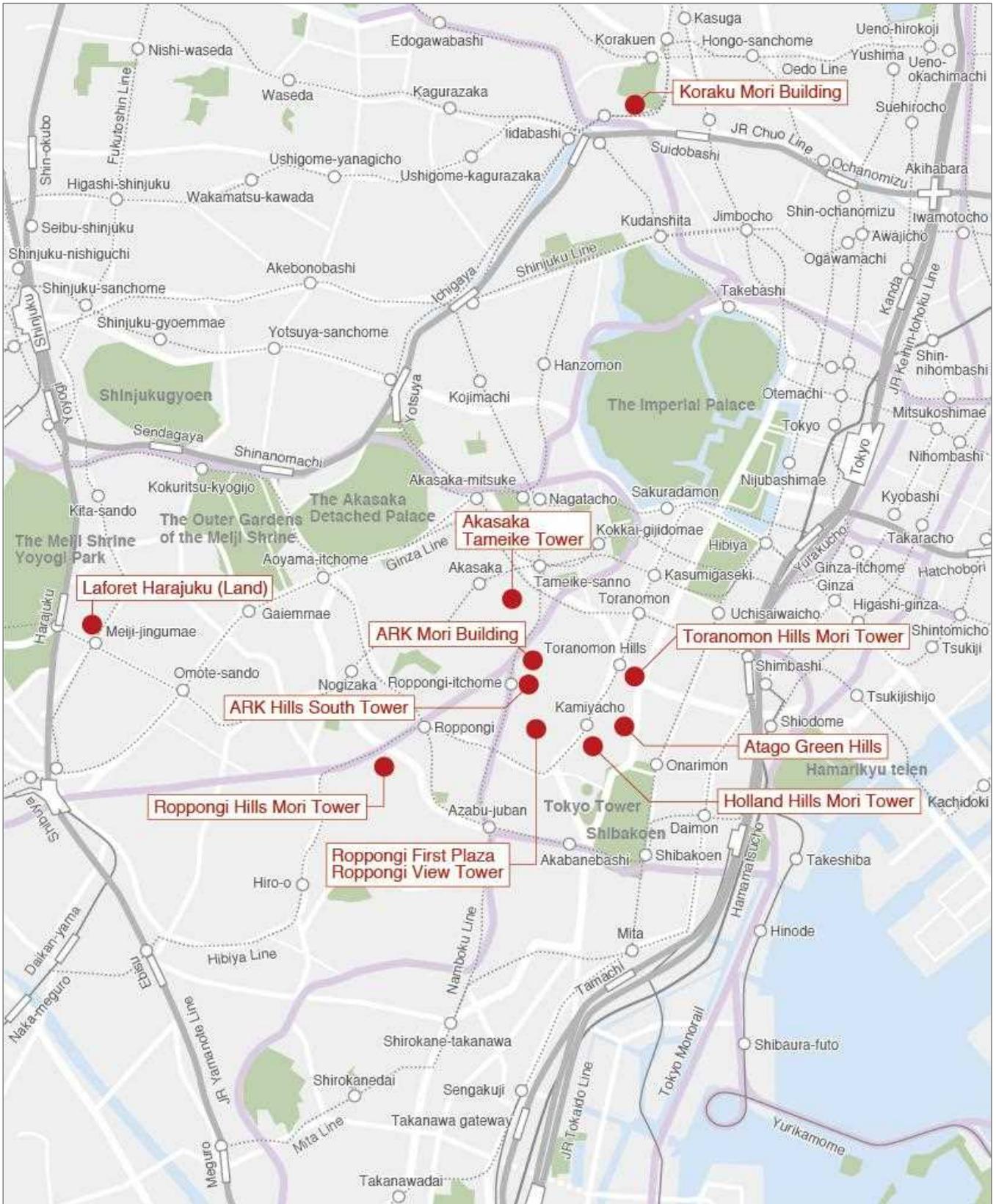


S-1 Premium

Laforet Harajuku (Land)

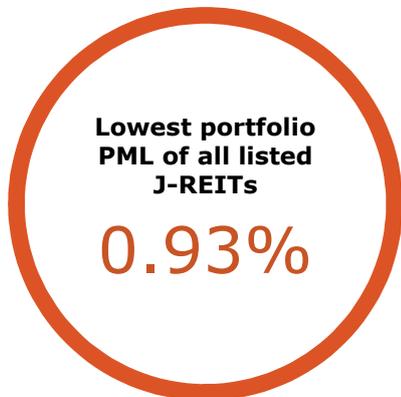
R-4

Roppongi View Tower



Earthquake-resistance capacity

Best portfolio PML among J-REITs



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

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

Environmental performance

Highest quality ratio of green building (GB) certified properties among all J-REITs

CASBEE for Existing Buildings: Rank S



Roppongi Hills Mori Tower



ARK Mori Building



Atago Green Hills (MORI Tower)



Toranomom Hills Mori Tower



Holland Hills Mori Tower

CASBEE for Existing Buildings: Rank A



Akasaka Tameike Tower



Koraku Mori Building

DBJ Green Building Certification: Four stars



ARK Hills South Tower

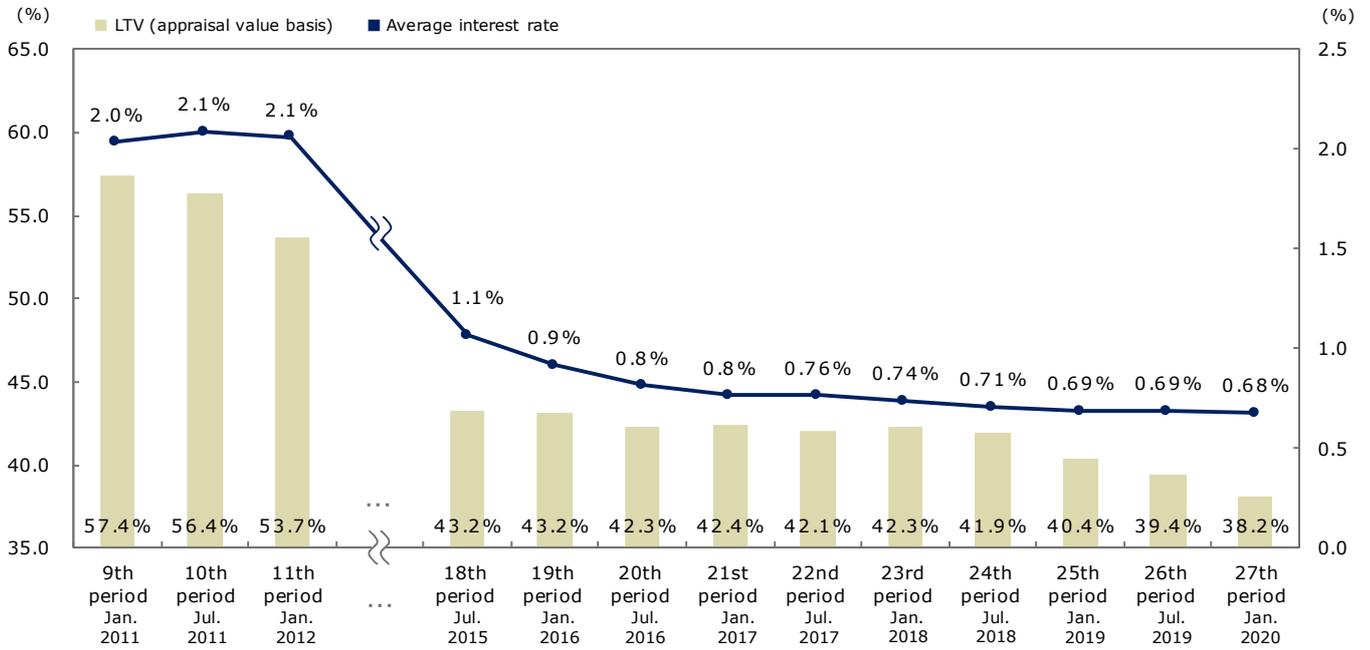
※ Based on acquisition price excluding Laforet Harajuku (Land)

Financial Status

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

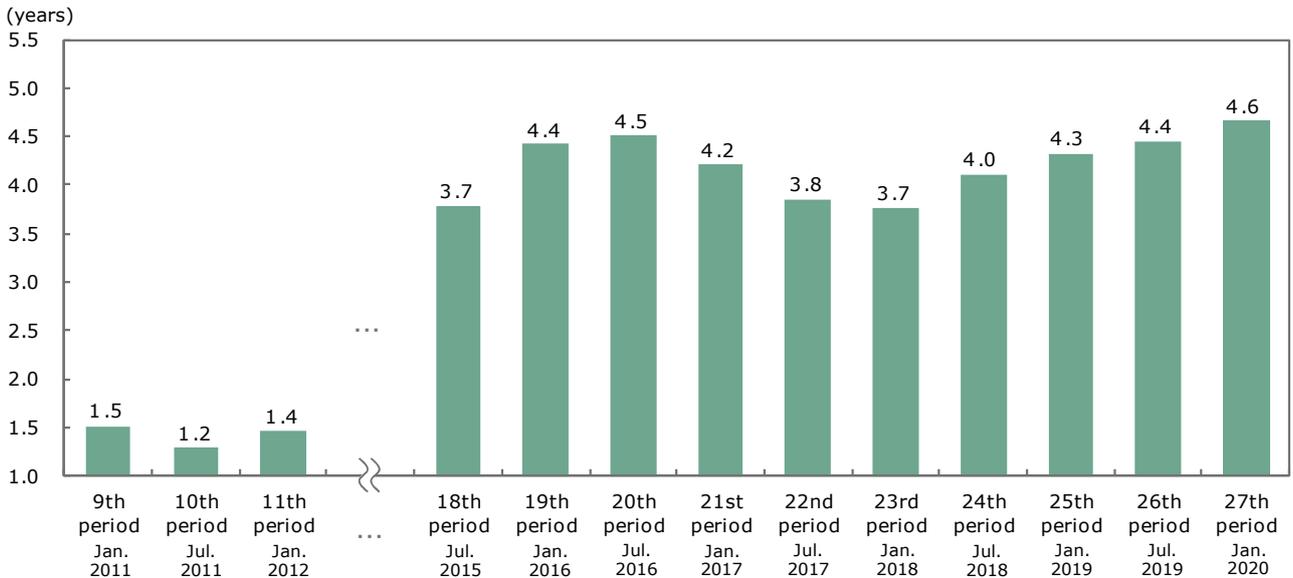
We will continue to maintain a debt duration level that allows us to further strengthen our healthy financial base.

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



(Note) Average interest rate is calculated as $[(\text{interest expenses} + \text{interest expenses on investment corporation bonds} + \text{borrowing expenses} + \text{amortization of investment corporation bond issuance costs}) \times 365 \div \text{operating days during each period} \div \text{average interest-bearing debt balance during each period}]$.

Extension in remaining duration of debt



Overview of debt financing

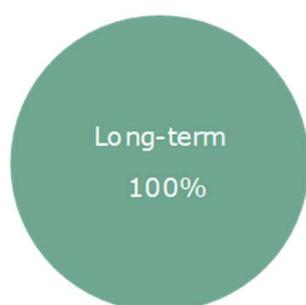
	End of the 26th period Jul. 31, 2019	End of the 27th period Jan. 31, 2020
Debt Balance	179,222 mn yen	179,222 mn yen
LTV (book value basis) ^(Note 1)	45.7%	45.7%
LTV (appraisal value basis) ^(Note 2)	39.4%	38.2%
Avg. remaining duration	4.4 years	4.6 years

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

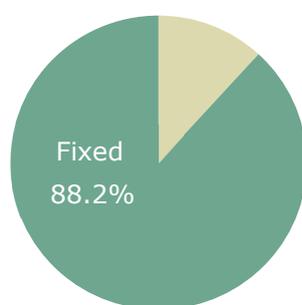
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

Long-term debt ratio / Fixed rate ratio

[Long and short-term debt ratio]



[Fixed rate ratio]



Rating

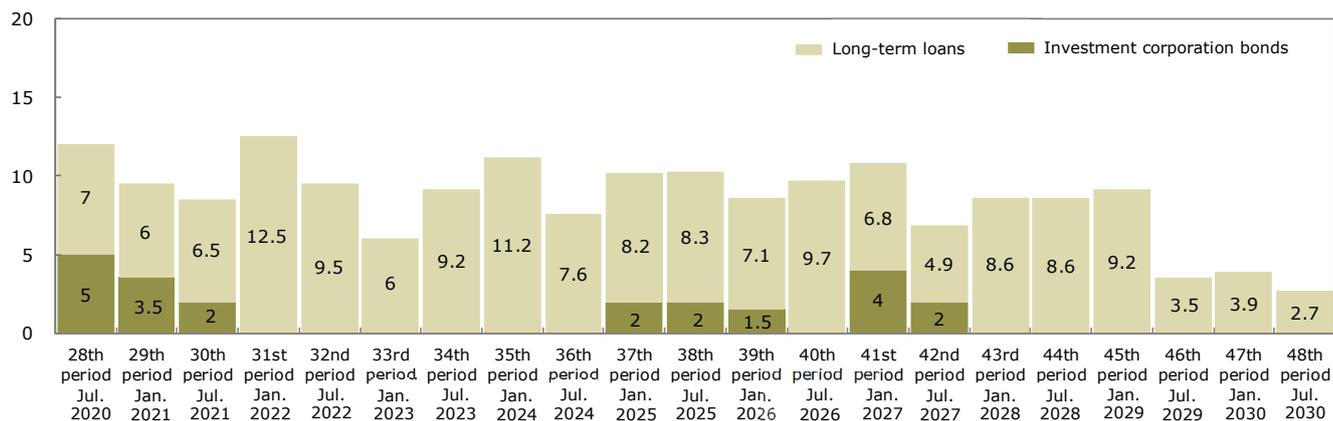
Japan Credit Rating (JCR)

Long-term issuer rating

AA
(Stable)

Overview of maturity (as of January 31, 2020)

(billion yen)

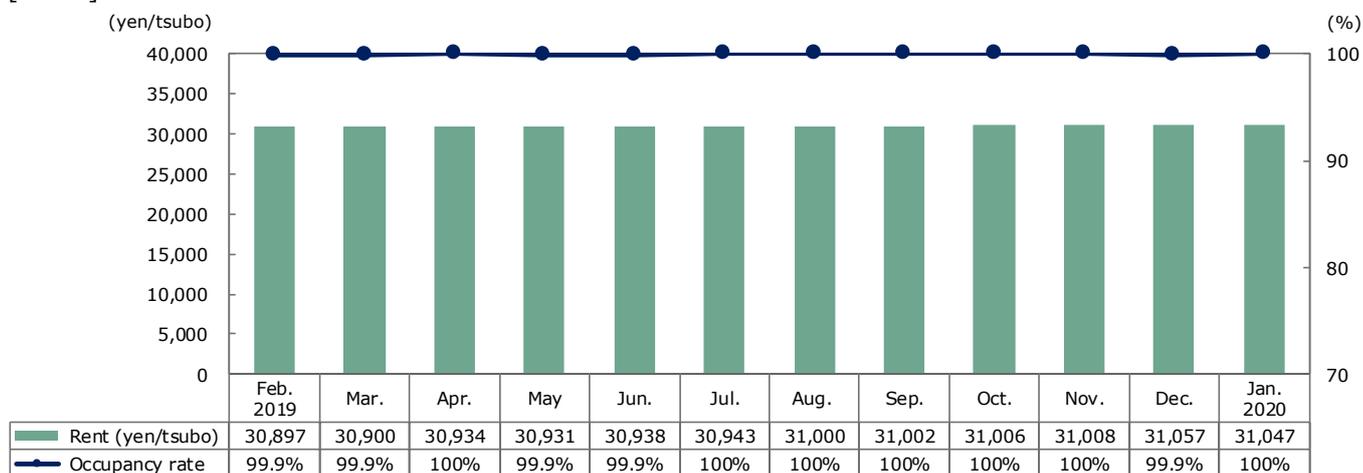


Portfolio Management

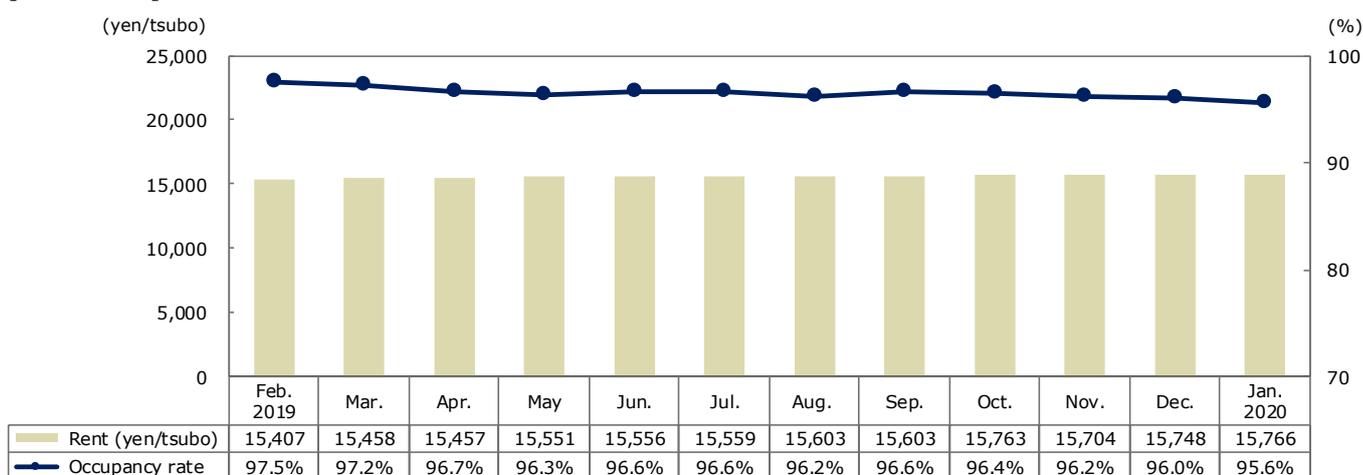
MHR maintained and enhanced occupancy rates and rents by proactively launching marketing activities targeting new and existing tenants based on a flexible price policy.

Rent and occupancy rate

[Office]

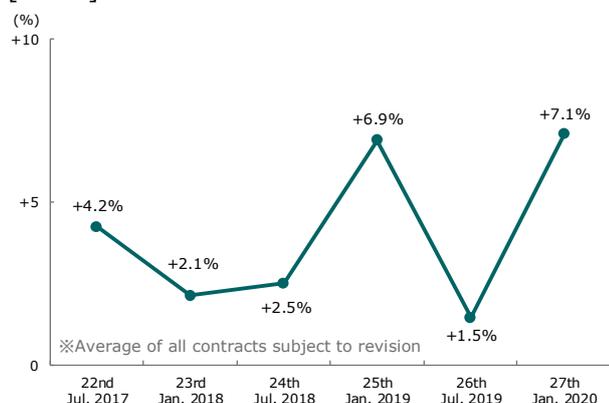


[Residential]

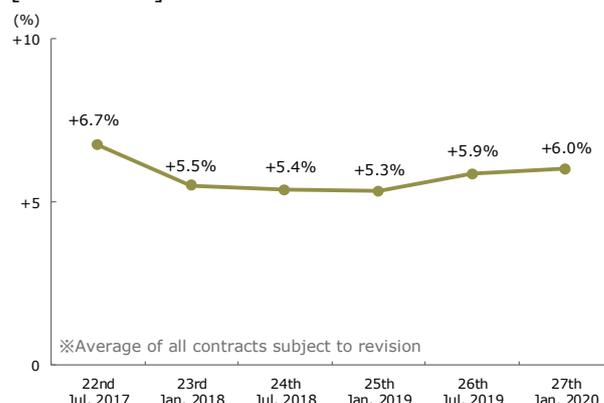


Result of tenants' rent revision

[Office]



[Residential]



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

(Note 2) Figures are calculated based on asset acquisitions and monthly rents which reflect move outs of end tenants confirmed as of January 31, 2020.

Sustainability Initiatives

Approach to Sustainability

MHR and Mori Building Investment Management Co., Ltd. (MIM) aim to contribute to the creation and development of cities by providing investment opportunities in high-quality urban assets to investors, as stated in the Basic Policy of MHR and Company Mission of MIM.

Society today is faced with various challenges such as global warming, preservation of ecosystems and other environmental problems, as well as social problems, including human rights and the decreasing birthrate/aging population. Companies need to contribute to solving these issues amidst conducting business activities, and we believe that working on these issues will in fact lead to increasing our competitiveness.

MHR and MIM aim to contribute to the realization of a sustainable society and maximization of unitholder value in the medium to long term by emphasizing ESG (Environment, Social and Governance) and investing in high-quality urban assets while striving to improve various environmental and social performance levels.

Sustainability Promotion System

Our operations connected to sustainability will be promoted primarily by the Sustainability Committee to be established by MIM.

The Chairperson of the Committee shall be the President & CEO while all directors and some administration staff shall comprise the committeepersons. Various initiatives will be implemented based on the Sustainability Promotion Program which is established every fiscal year.

In principle, the Committee shall meet four times a year and shall formulate policies and the Sustainability Promotion Program, monitor progress of programs, deliberate various suggestions from departments, etc. in light of social conditions and the operating status of MHR. The President & CEO approves the policies and promotion programs, constantly monitors the thorough promotion of sustainability, and establishes and maintains a sustainability promotion structure as a responsible party in promoting sustainability.

Moreover, sustainability-related efforts shall be reported on periodically to the Board of Directors of both MHR and MIM. Each Board oversees the status of initiatives for important issues related to ESG and the status of compliance and risk management.

Initiatives throughout the Entire Supply Chain

Promotion of sustainability operations, whether environmental or social, requires initiatives that involve the whole supply chain. We believe it is necessary to pursue initiatives with various stakeholders with whom our values are aligned.

By proactively initiating communication with stakeholders such as tenants, local residents, property management companies and our sponsor Mori Building that provides the property pipeline, and aligning our values, we aim to contribute to the realization of a sustainable society.

Sustainability Initiatives: 1) Environment

MHR aims to contribute to the realization of a sustainable society and maximization of unitholder value in the medium to long term by investing in high-quality urban assets while striving to improve various environmental and social performance levels.

MIM obtains a third-party sustainability evaluation in order to better understand its own achievement level and uses this as a benchmark for further improvement.

Green Building Certified Properties

Property Name	Type of Assessment	Rating
Roppongi Hills Mori Tower	CASBEE for Existing Buildings	Rank S
ARK Mori Building		Rank S
Koraku Mori Building		Rank A
Akasaka Tameike Tower		Rank A
Atago Green Hills MORI Tower		Rank S
ARK Hills South Tower	DBJ Green Building Certification	4 stars
Toranomon Hills Mori Tower	CASBEE for Existing Buildings	Rank S
Holland Hills Mori Tower		Rank S

(Certificates Coverage Ratio)

	Certified Properties	Portfolio Data	Ratio
In acquisition price	343.7 bn yen	368.8 bn yen	93.2%
In leasable floor area	143,592㎡	172,136㎡	83.4%
In number of properties	8 properties	10 properties	80.0%

※ Excluding Laforet Harajuku (Land)

GRESB Green Star Designation

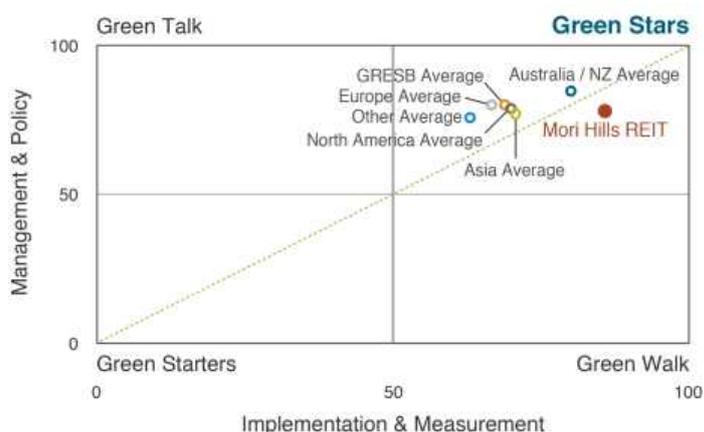


G R E S B
★★★★★ 2019

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

In the 2019 GRESB Assessment, MHR was designed as Green Star for the eighth consecutive year. In addition, MHR received 4 Stars in the GRESB Rating. (Note)

GRESB Four-Quadrant Model Scores by Region



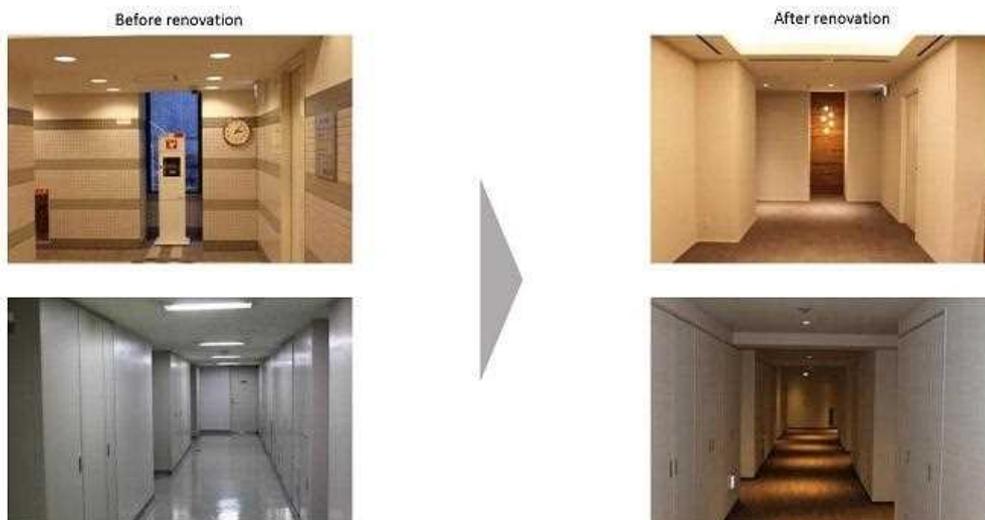
(Source) Prepared by the Asset Manager based on the disclosed data by GRESB.

(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" indicating the highest rank).

Promotion of Energy-conservation

MHR promotes energy-conservation through initiatives such as replacement of LED lighting in common areas and repair work of air-conditioning. MHR also makes active efforts to reduce environmental loads through proper separation and disposal of waste.

(Roppongi View Tower: Renovation of common area with LED lighting)



Collaborating with Tenants

MHR holds an “environmental countermeasure council” once or twice a year depending on the office building. The council generates a report on the efforts to improve sustainability and raises awareness for power saving methods. MHR also promotes environmental initiatives by communicating with tenants. MHR provides “WEB cloud services” as a tool to make tenants’ energy usage visible, and offers helpful measures for tenants’ energy conservation.

In addition to these efforts, MHR is further deepening relationships with tenants by introducing “green leases” which serve to align financial incentives and secure commitments from both parties. MHR is gradually expanding this approach since the introduction of the first green lease in ARK Hills South Tower.

Sustainability Initiatives: 2) Social

Problems concerning human rights and labor have become global issues and, in Japan, the rectification of long working hours and the promotion of women and elderly people have become significant social issues as the labor force shrinks alongside a declining birthrate and aging population.

We believe that employing diverse and excellent human resources and supporting the continued development of their abilities is not just a source of competitiveness for MHR but also the duty of MHR towards its employees. MHR and MIM respects human rights and it is our policy to not discriminate against employees based on their beliefs, religion, age, gender, origin, mental and physical disabilities, etc.

We will work to establish a diversity-oriented working environment where our human resources can be effective. We will introduce multifaceted systems and measures so that each and every employee with diverse lifestyles and values can maximize their abilities and continue their career in a healthy and safe manner as they grow.

Talent Development

In order to realize MIM's company mission ("MIM is dedicated to the creation and development of major metropolitan cities and MIM will provide investment opportunities in high-quality urban assets to investors both in Japan and overseas as a leading professional in the real estate investment fund business."), MIM believes that it is essential to attract and retain a diverse and capable workforce and to continuously support their career growth and self-development.

To cultivate human resources with flexible thinking and high ethical standards together with a high degree of expertise, mainly in real estate and finance, MHR introduces essential knowledge and skills through on-the-job-training (OJT) and conventional training to improve staff effectiveness, to clarify company issues and to constantly improve management methods. MHR conducts a semi-annual staff assessment program - "Personnel Assessment and Feedback" as a core component of our talent development strategy. MHR also subsidizes the expense for acquiring licenses and qualifications by public and private organizations necessary for work to improve employees' skills as professionals in the real estate fund business.

(Qualifications held by employees as of the end of February 2020)

- ARES Certified Master: 8
- Real Estate Appraiser: 2
- Real Estate Transaction Agent: 8
- Certified Building Administrator: 2
- Certified Public Accountant: 3
- Chartered Member of Securities Analysts Association of Japan: 1

Employee Stock Ownership Plan (ESOP)

MHR established the "ESOP" by aligning interests of MHR's investors and MIM's employees aiming to improve unitholders' value over the medium to long term, and to improve welfare benefits for MIM's employees.

Promoting Women's Participation

MHR is aiming for a workplace environment where each employee can fully demonstrate their individuality and abilities and MHR is working on creating a pleasant working environment for women. A child-care leave system and flexible working hours are provided and MHR promotes active use of a short-time work system and paid holidays.

Tenant Satisfaction Surveys

MHR conducts “tenant satisfaction surveys” once every two years in office buildings and once a year in most residential properties.

The survey content starts with general matters such as location and image to matters related to facilities and other hard aspects as well as soft aspects such as management systems. The thoughts of the tenants are used as a reference in our property management.

Local Communities

MHR aims to foster a rich environment for the local community through various communication activities. In MHR’s properties such as Roppongi Hills and ARK Hills, events and activities are held like the “Hills Marche” and “Hills Machi-Iku Project” in which local people can participate.



All Japanese Listed Companies' Website Ranking

Nikko Investor Relations Co., Ltd. announces a valuation of websites of all listed companies by investigating the degree of information disclosure based on objective evaluation items from its unique perspective.

MHR’s website has received “Total Ranking: The Best Site” for the fifth consecutive year.



Sustainability Initiatives: 3) Governance

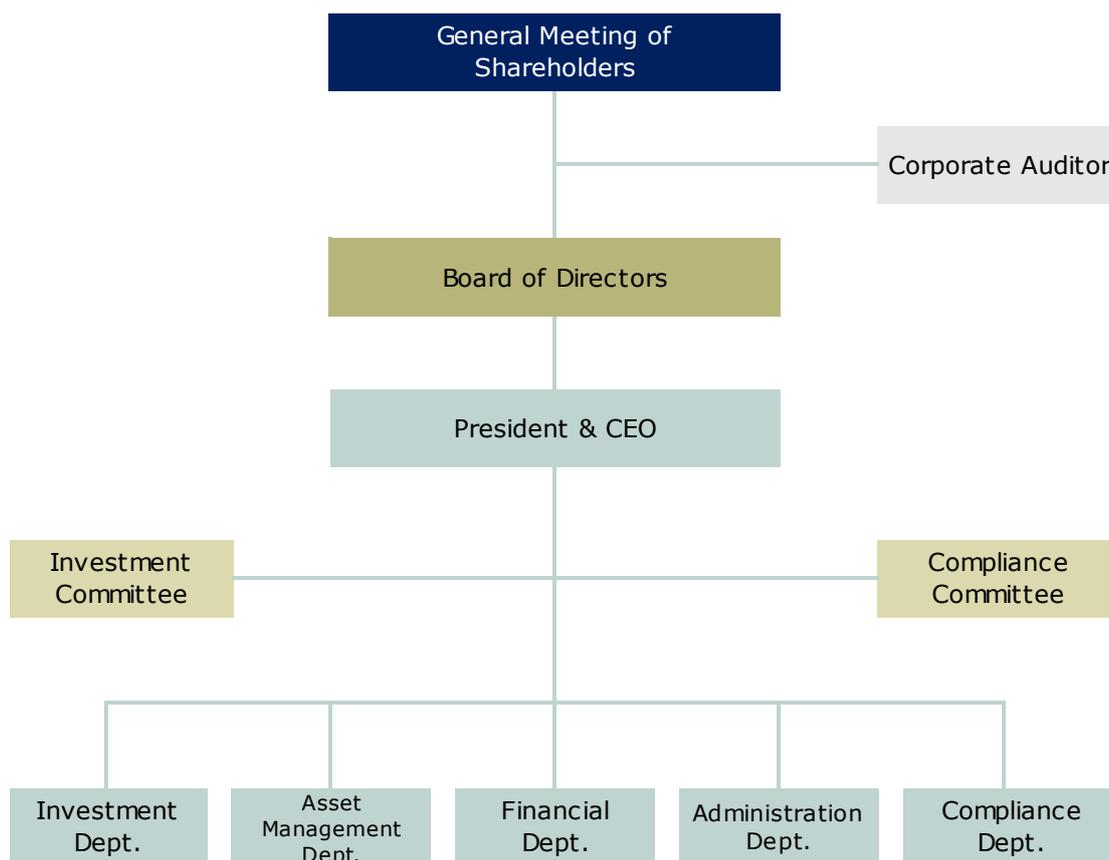
In order to contribute to the realization of a sustainable society, we aim to maximize unitholder value over the medium to long term. We believe that it is absolutely imperative to remain a company that is trusted by society. By firmly acknowledging this belief, MHR and MIM work on building fair and effective corporate governance and strive to enhance internal control through thorough compliance and risk management based on an appropriate compliance and internal control structure.

Corporate Governance

MHR shall have at least one executive director and at least two supervisory directors (or, at least one more than the number of the executive directors), and the board of directors shall be comprised of the executive directors and supervisory directors.

In addition to a general meeting of all unitholders, MHR’s governance structure consists of one executive director, two supervisory directors, the board of directors and an accounting auditor, and entrusts its operation to MIM. MIM is required to perform its business operations in good faith and with due care of a prudent manager for MHR in line with the purpose of the investment management business, and accordingly performs conscientious asset investment and management pertaining to real estate properties based on an appropriate compliance structure and internal control structure in order for MHR to gain high trust from the securities market and investors.

(MIM’s organization)

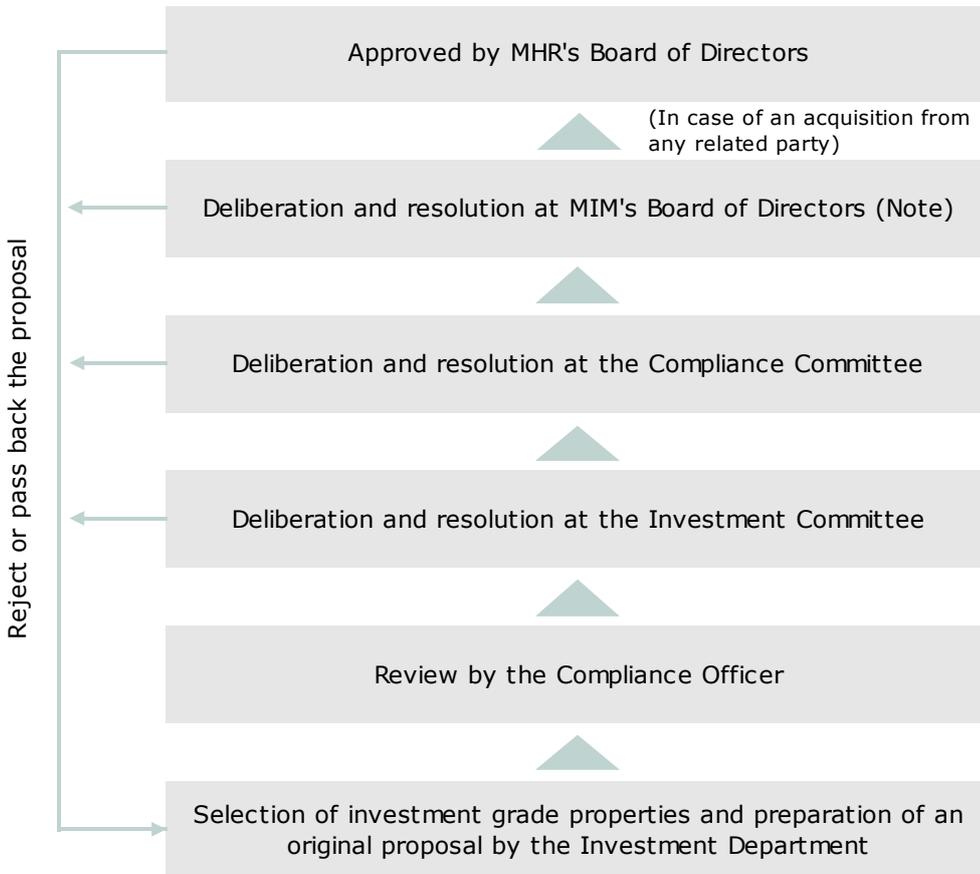


Compliance

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

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

(Process to counter transactions involving conflicts of interest)



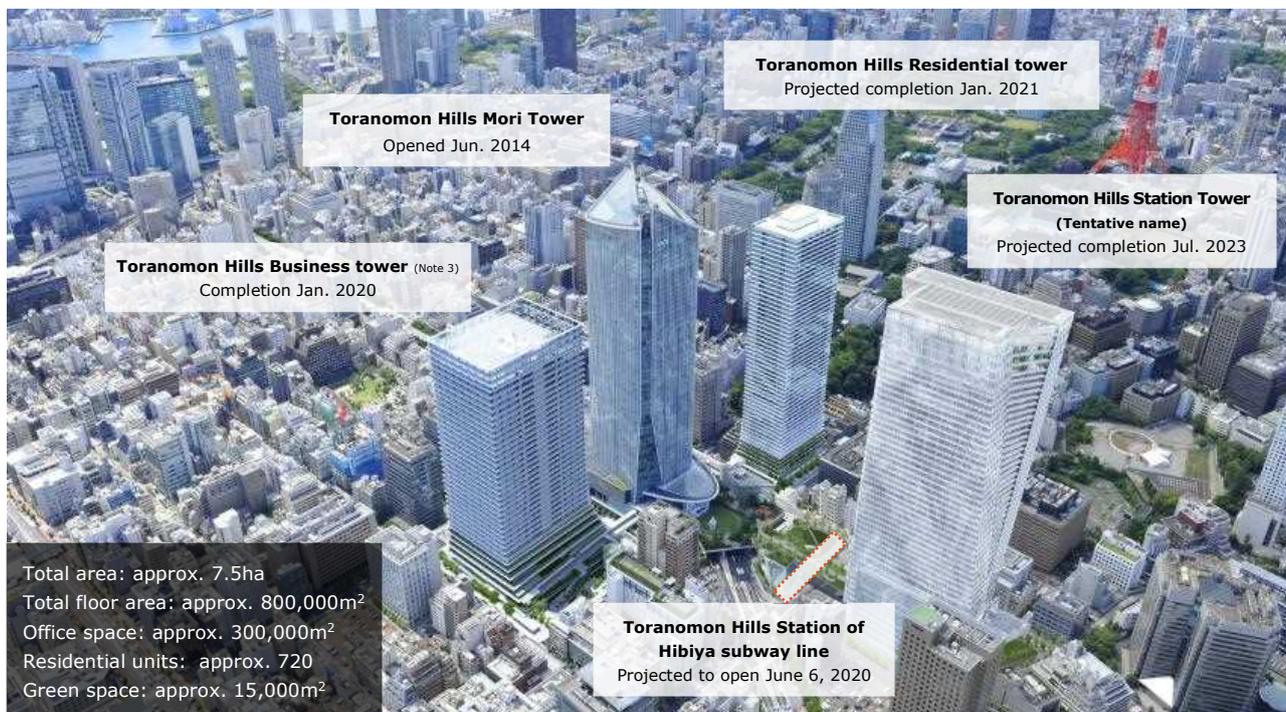
(Note) A director who is classified as a related party officer is not able to participate in the resolution when acquiring an asset from a related party.

Mori Building's Extensive Property Pipeline

Mori Building's total assets have an estimated value of 2.0 trillion yen and the number of properties under management is 96 buildings. (Note 1)

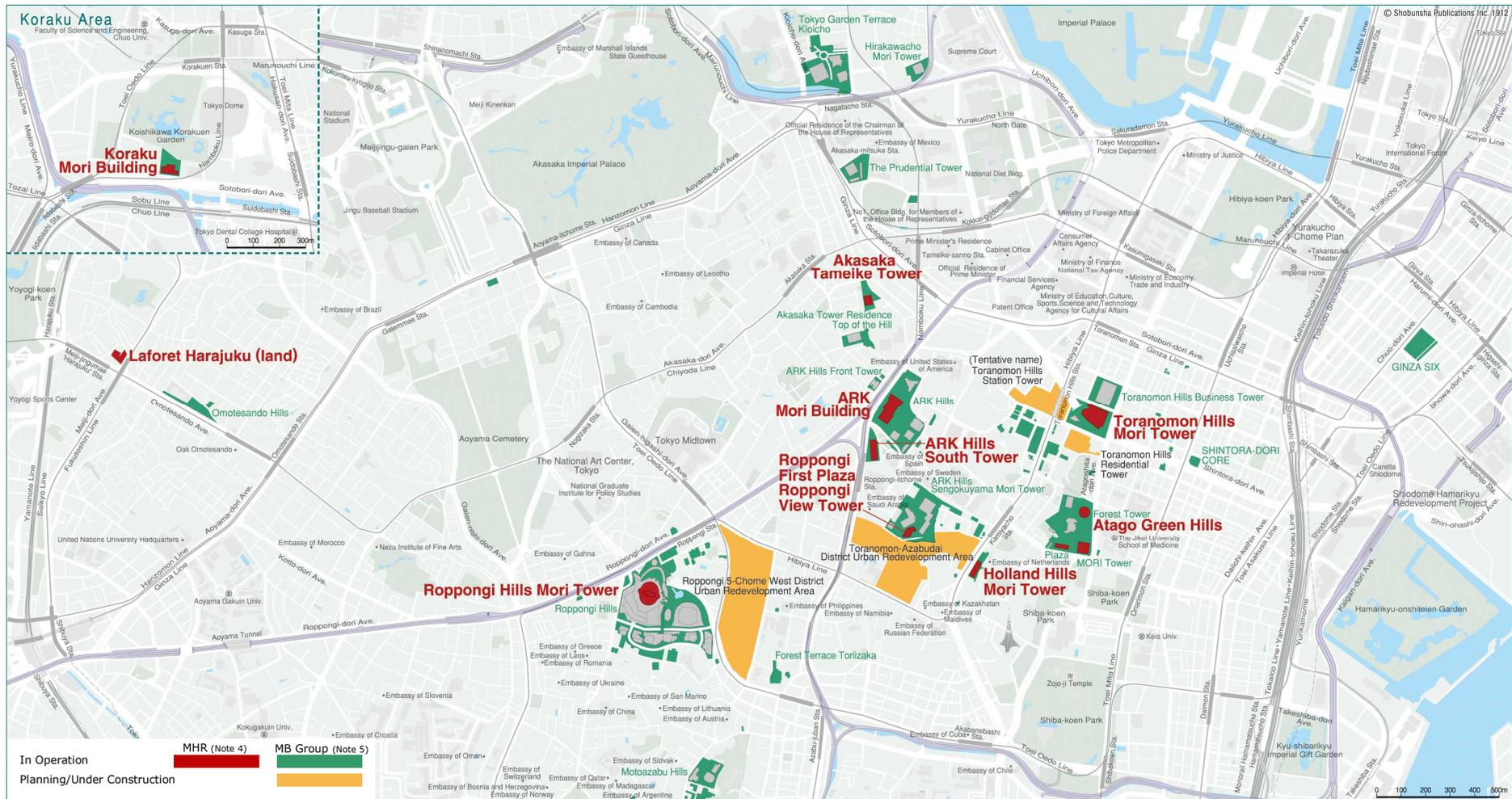
MHR has the "preferential negotiation rights" (Note2) on sales of Mori Building Co., Ltd. properties, which serves as the driving force for external growth.

Recent redevelopment projects in Toranomon Hills area



Toranomon-Azabudai Project (Projected completion March 2023)





(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map/ Mori Building Map/Home Route Support Map 2020."

(Note 1) "Total asset" is as of the end of March 2019 and number of properties under management is as of April 1, 2019.

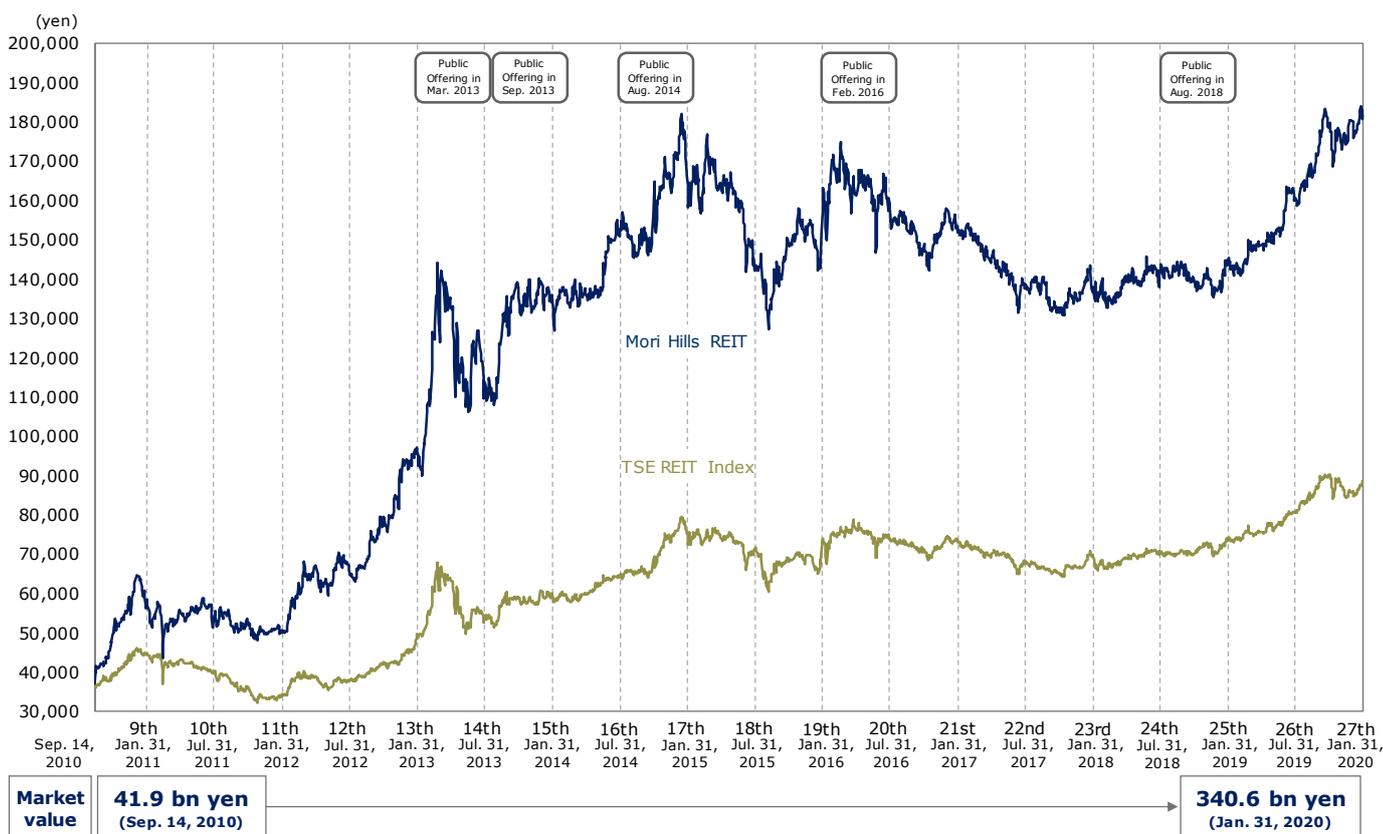
(Note 2) There are some exceptions.

(Note 3) Mori Building participates as a member of the project.

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

(Note 5) Properties are developed, owned, managed and planned for development by Mori Building Group as of April 1, 2020 and there are no properties anticipated to be acquired

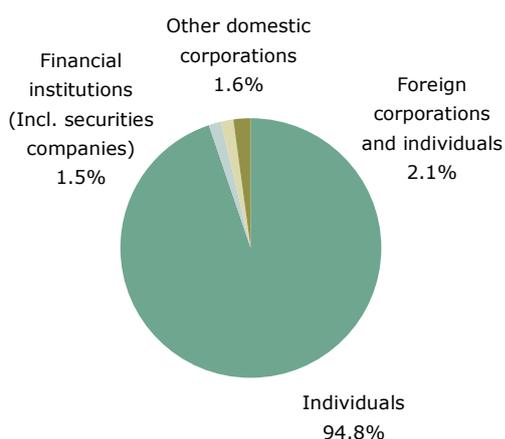
Unit Price Performance



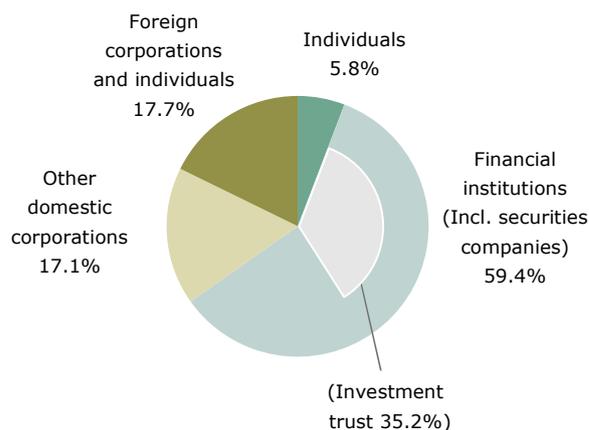
(Note) TSE REIT Index is adjusted as of the 8th period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

Unitholders Breakdown (as of January 31, 2020)

<Number of unitholders>



<Number of investment units>



Risk Factors

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

Property and Business Risks

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

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

Management and Governance Risks

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

Taxation Risks

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

Legal and Regulatory Risks

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

financing.

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

Disclaimer

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

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

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

Independent Auditor's Report

The Board of Directors
Mori Hills REIT Investment Corporation

We have audited the accompanying financial statements of Mori Hills REIT Investment Corporation, which comprise the balance sheet as of January 31, 2020, and the statements of income and retained earnings, changes in net assets, cash distributions, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mori Hills REIT Investment Corporation as of January 31, 2020, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

April 23, 2020
Tokyo, Japan

FINANCIAL STATEMENTS

BALANCE SHEET

(Unit: thousands of yen)

	As of	
	January 31, 2020	July 31, 2019
Assets		
Current assets		
Cash and deposits	5,646,194	3,923,970
Cash and deposits in trust	5,461,338	6,295,543
Operating accounts receivable	332,778	370,512
Prepaid expenses	435,169	431,886
Derivatives	89	—
Total current assets	11,875,571	11,021,912
Noncurrent assets		
Property, plant and equipment		
Land	22,074,160	22,074,160
Buildings in trust	82,047,156	81,918,977
Accumulated depreciation	(17,114,483)	(16,124,966)
Buildings in trust, net	64,932,672	65,794,010
Structures in trust	924,038	921,547
Accumulated depreciation	(316,756)	(308,260)
Structures in trust, net	607,282	613,287
Machinery and equipment in trust	913,334	910,898
Accumulated depreciation	(285,559)	(263,302)
Machinery and equipment in trust, net	627,775	647,596
Tools, furniture and fixtures in trust	253,299	237,085
Accumulated depreciation	(158,080)	(144,267)
Tools, furniture and fixtures in trust, net	95,219	92,818
Land in trust	260,234,866	260,234,866
Construction in progress in trust	3,237	1,949
Total property, plant and equipment	348,575,213	349,458,688
Intangible assets		
Leasehold rights in trust	30,650,962	30,650,962
Other intangible assets in trust	0	372
Total intangible assets	30,650,962	30,651,335
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	1,002,323	1,013,172
Deferred tax assets	36	44
Derivatives	19,359	—
Total investments and other assets	1,031,720	1,023,217
Total noncurrent assets	380,257,896	381,133,241
Deferred assets		
Investment corporation bonds issuance cost	63,647	73,556
Investment unit issuance cost	20,856	27,808
Total deferred assets	84,503	101,365
Total assets	392,217,971	392,256,519

(Unit: thousands of yen)

	As of	
	January 31, 2020	July 31, 2019
Liabilities		
Current liabilities		
Operating accounts payable	215,675	216,835
Current portion of investment corporation bonds	8,500,000	5,000,000
Current portion of long-term loans payable	13,022,000	22,922,000
Accounts payable – other	31,581	14,250
Accrued expenses	345,287	333,025
Income taxes payable	1,331	1,445
Accrued consumption taxes	216,732	484,072
Advances received	1,224,521	1,222,824
Deposits received	29,158	70,122
Derivatives liabilities	92	787
Other	83	–
Total current liabilities	23,586,464	30,265,364
Noncurrent liabilities		
Investment corporation bonds	13,500,000	17,000,000
Long-term loans payable	144,200,000	134,300,000
Lease and guarantee deposits in trust	14,727,643	14,570,283
Derivatives liabilities	743,940	784,044
Total noncurrent liabilities	173,171,584	166,654,327
Total liabilities	196,758,048	196,919,691
Net assets		
Unitholders' equity		
Unitholders' capital	190,460,106	190,460,106
Deduction from unitholders' capital		
Allowance for temporary difference adjustments (Note10)	(468,740)	(174,371)
Total deduction from unitholders' capital	(468,740)	(174,371)
Unitholders' capital, net	189,991,366	190,285,734
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	291,944	291,944
Total voluntary retained earnings	291,944	291,944
Unappropriated retained earnings	5,901,196	5,543,979
Total surplus	6,193,140	5,835,924
Total unitholders' equity	196,184,506	196,121,658
Valuation and translation adjustments		
Deferred gains or losses on hedges	(724,583)	(784,831)
Total valuation and translation adjustments	(724,583)	(784,831)
Total net assets (Note10)	195,459,922	195,336,827
Total liabilities and net assets	392,217,971	392,256,519

STATEMENT OF INCOME AND RETAINED EARNINGS

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2020	July 31, 2019
Operating revenue		
Rent revenues (Note14)	9,377,544	9,323,944
Other operating revenues (Note14)	253,917	237,931
Total operating revenue	9,631,462	9,561,876
Operating expenses		
Expenses related to properties (Note14)	3,224,074	3,225,332
Asset management fee	266,704	260,906
Directors' compensation	4,200	4,200
Asset custody fee	9,806	9,863
Administrative service fees	18,799	19,861
Other operating expenses (Note14)	81,473	69,767
Total operating expenses	3,605,057	3,589,931
Operating income	6,026,404	5,971,944
Non-operating income		
Interest income	44	58
Gain on forfeiture of unclaimed dividends	1,035	979
Interest on refund	—	947
Total non-operating income	1,079	1,985
Non-operating expenses		
Interest expenses	377,420	375,336
Interest expenses on investment corporation bonds	67,755	68,555
Amortization of investment corporation bonds issuance cost	9,909	10,193
Borrowing expenses	155,732	164,678
Amortization of investment unit issuance cost	6,952	6,952
Other	1,885	1,930
Total non-operating expenses	619,654	627,646
Ordinary income	5,407,830	5,346,284
Income before income taxes	5,407,830	5,346,284
Income taxes-current	1,338	1,454
Income taxes-deferred	7	(1)
Total income taxes	1,346	1,453
Net income	5,406,483	5,344,831
Retained earnings brought forward	494,712	199,148
Unappropriated retained earnings (undisposed loss)	5,901,196	5,543,979

STATEMENT OF CHANGES IN NET ASSETS

For the six months ended January 31, 2020

(Unit: thousands of yen)

	Unitholders' equity					
	Unitholders' capital			Surplus		
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net	Voluntary retained earnings	
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital		Reserve for reduction entry	Total voluntary retained earnings
Balance at August 1, 2019	190,460,106	(174,371)	(174,371)	190,285,734	291,944	291,944
Change during the period						
Dividends from surplus						
Dividends in excess of earnings from allowance for temporary difference adjustments		(294,368)	(294,368)	(294,368)		
Net income						
Net changes of items other than unitholders' equity						
Total changes of items during the period	—	(294,368)	(294,368)	(294,368)	—	—
Balance at January 31, 2020	190,460,106	(468,740)	(468,740)	189,991,366	291,944	291,944

	Unitholders' equity			Valuation and translation adjustments		Total net assets
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Unappropriated retained earnings	Total surplus				
Balance at August 1, 2019	5,543,979	5,835,924	196,121,658	(784,831)	(784,831)	195,336,827
Change during the period						
Dividends from surplus	(5,049,267)	(5,049,267)	(5,049,267)			(5,049,267)
Dividends in excess of earnings from allowance for temporary difference adjustments			(294,368)			(294,368)
Net income	5,406,483	5,406,483	5,406,483			5,406,483
Net changes of items other than unitholders' equity				60,247	60,247	60,247
Total changes of items during the period	357,216	357,216	62,847	60,247	60,247	123,095
Balance at January 31, 2020	5,901,196	6,193,140	196,184,506	(724,583)	(724,583)	195,459,922

For the six months ended July 31, 2019

(Unit: thousands of yen)

	Unitholders' equity					
	Unitholders' capital			Surplus		
	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net	Voluntary retained earnings	
		Allowance for temporary difference adjustments	Total deduction from unitholders' capital		Reserve for reduction entry	Total voluntary retained earnings
Balance at February 1, 2019	190,460,106	—	—	190,460,106	291,944	291,944
Change during the period						
Dividends from surplus						
Dividends in excess of earnings from allowance for temporary difference adjustments		(174,371)	(174,371)	(174,371)		
Net income						
Net changes of items other than unitholders' equity						
Total changes of items during the period	—	(174,371)	(174,371)	(174,371)	—	—
Balance at July 31, 2019	190,460,106	(174,371)	(174,371)	190,285,734	291,944	291,944

	Unitholders' equity			Valuation and translation adjustments		
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
	Unappropriated retained earnings	Total surplus				
Balance at February 1, 2019	5,315,914	5,607,858	196,067,964	(489,295)	(489,295)	195,578,668
Change during the period						
Dividends from surplus	(5,116,765)	(5,116,765)	(5,116,765)			(5,116,765)
Dividends in excess of earnings from allowance for temporary difference adjustments			(174,371)			(174,371)
Net income	5,344,831	5,344,831	5,344,831			5,344,831
Net changes of items other than unitholders' equity				(295,535)	(295,535)	(295,535)
Total changes of items during the period	228,065	228,065	53,694	(295,535)	(295,535)	(241,841)
Balance at July 31, 2019	5,543,979	5,835,924	196,121,658	(784,831)	(784,831)	195,336,827



STATEMENT OF CASH DISTRIBUTIONS

(Unit: yen)

	For the six months ended January 31, 2020	For the six months ended July 31, 2019
I. Unappropriated retained earnings	5,901,196,611	5,543,979,968
II. Addition of dividends in excess of earnings	—	294,368,720
Allowance for temporary difference adjustments	—	294,368,720
III. Capitalization	60,247,403	—
Reversal of allowance for temporary difference adjustments	60,247,403	—
IV. Amount of Dividends	5,405,509,680	5,343,636,000
Amount of dividends per unit	2,883	2,850
Dividends of earnings	5,405,509,680	5,049,267,280
Dividends of earnings per unit	2,883	2,693
Allowance for temporary difference adjustments	—	294,368,720
Dividends in excess of earnings per unit (allowance for temporary difference adjustments)	—	157
V. Retained earnings carried forward	435,439,528	494,712,688



	For the six months ended January 31, 2020	For the six months ended July 31, 2019
Method of calculating the amount of dividends	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act. Based on such policy, the Company decided to pay out dividends of earnings (5,405,509,680 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units), out of the amount obtained by subtracting the reversal of allowance for temporary difference adjustments (as defined in Article 2, Paragraph 2, Item 30 of the Ordinance on Accountings of Investment Corporations) from the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>As a result, the Company declared dividends per unit of 2,883 yen.</p>	<p>Pursuant to the terms of the distribution policy set forth in Article 37 (1) of the Company's Articles of Incorporation, the amount of dividends shall be in excess of an amount equivalent to 90% of the Company's earnings available for dividends as defined in Article 67-15 of the Special Taxation Measures Law, but not in excess of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act. Based on such policy, the Company decided to pay out dividends of earnings (5,049,267,280 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) out of the amount of earnings as defined in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>In addition, pursuant to the terms of the distribution policy set forth in Article 37 (2) of the Company's Articles of Incorporation, the Company decided to pay out dividends attributable to allowance for temporary difference adjustments (294,368,720 yen), which is the integral multiple of the total number of investment units issued and outstanding (1,874,960 units) in due consideration of the impact of the items of deduction from net assets (as defined in Article 2, Paragraph 2, Item 30 (b) of the Ordinance on Accountings of Investment Corporations) on dividends.</p> <p>As a result, the Company declared dividends per unit of 2,850 yen.</p>

STATEMENT OF CASH FLOWS

(Unit: thousands of yen)

For the six months ended

	January 31, 2020	July 31, 2019
Net cash provided by (used in) operating activities		
Income before income taxes	5,407,830	5,346,284
Depreciation and amortization	1,034,455	1,058,120
Amortization of investment corporation bonds issuance cost	9,909	10,193
Amortization of investment unit issuance cost	6,952	6,952
Interest income	(44)	(58)
Gain on forfeiture of unclaimed dividends	(1,035)	(979)
Interest expenses	445,175	443,892
Decrease (increase) in operating accounts receivable	40,505	48,795
Decrease (increase) in consumption taxes receivable	—	230,911
Increase (decrease) in operating accounts payable	13,282	(64,833)
Increase (decrease) in accounts payable – other	16,600	2,636
Increase (decrease) in accrued expenses	12,285	15,761
Increase (decrease) in accrued consumption taxes	(267,340)	484,076
Increase (decrease) in advances received	1,697	(4,105)
Increase (decrease) in deposits received	(40,964)	41,463
Decrease (increase) in prepaid expenses	(3,283)	(5,212)
Decrease (increase) in long-term prepaid expenses	10,848	(15,308)
Other, net	83	15
Subtotal	6,686,957	7,598,606
Interest income received	44	58
Interest expenses paid	(445,198)	(449,279)
Income taxes paid	(1,452)	(1,430)
Net cash provided by (used in) operating activities	6,240,351	7,147,955
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(205,905)	(620,364)
Repayments of lease and guarantee deposits in trust	(26,233)	(66,699)
Proceeds from lease and guarantee deposits in trust	221,677	241,984
Net cash provided by (used in) investing activities	(10,461)	(445,080)
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	15,900,000	12,000,000
Repayments of long-term loans payable	(15,900,000)	(12,000,000)
Redemption of investment corporation bonds	—	(3,000,000)
Cash dividends paid	(5,341,870)	(5,289,514)
Net cash provided by (used in) financing activities	(5,341,870)	(8,289,514)
Net increase (decrease) in cash and cash equivalents	888,019	(1,586,638)
Cash and cash equivalents at beginning of the period	10,219,514	11,806,152
Cash and cash equivalents at end of the period (Note18)	11,107,533	10,219,514

NOTES TO FINANCIAL STATEMENTS

For the six months ended January 31, 2020 and July 31, 2019

1. ORGANIZATION

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

The Company’s real estate portfolio as of January 31, 2020 was comprised of 11 properties under management with a total leasable floor area of 174,699.12m². The Company has already invested 390,690 million yen (based on acquisition price) into this portfolio. The occupancy rate as of January 31, 2020 was 99.2%.

2. BASIS OF PRESENTATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(2) Intangible assets (including assets in trust)

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

(3) Long-term prepaid expenses

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

(4) Investment corporation bonds issuance cost

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

(5) Investment unit issuance cost

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

(6) Revenue recognition

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

(7) Accounting for property taxes

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

Registered owners of properties in Japan as of January 1 are responsible for paying property taxes for the calendar year based on assessments by local governments. Therefore, registered owners who sold properties to the Company were liable for property taxes for the calendar year, including the period from the date of the acquisition by the Company until the end of the year. The Company reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate. The amount equivalent to property taxes included in the cost of acquisition of real estate was none for the period ended January 31, 2020 and period ended July 31, 2019, respectively.

(8) Hedge accounting approach

(a) Hedge accounting approach

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

(b) Hedging instruments and hedged items

Hedging instruments: Interest rate swap transactions

Hedged items: Borrowing interest rates

(c) Hedging policy

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

(d) Method for assessing the effectiveness of hedging

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

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

(9) Cash and cash equivalents

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

(10) Accounting for trust beneficial interest in real estate

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

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

(a) Cash and deposits in trust

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

(c) Lease and guarantee deposits in trust

(11) Consumption taxes

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

4. ACCOUNTING STANDARDS NOT YET APPLIED

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 in IASB and Topic 606 in FASB) in May 2014. Given the situation where IFRS 15 will be applied from fiscal years beginning on or after January 1, 2018 and that Topic 606 will be applied from fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance.

The basic policy of the ASBJ when it developed the accounting standards for revenue recognition was to specify the accounting standards, incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining compatibility with IFRS 15. The basic policy also stipulates that if there is an item to which consideration should be given, such as practices that have been conducted thus far in Japan, alternative treatments will be added to the extent to which comparability is not impaired.

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The level of the impact on the financial statements of applying the “Accounting Standard for Revenue Recognition” and its guidance is currently under evaluation.

- “Accounting Standard for Fair Value Measurement” (Accounting Standards Board of Japan (ASBJ) Statement No. 30 issued on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31 issued on July 4, 2019)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have established detailed guidance regarding fair value measurement (IFRS 13 “Fair Value Measurement” in IFRS and Topic 820 “Fair Value Measurement” in FASB). The ASBJ repeatedly considered the guidance regarding fair value of financial instruments and disclosure in order to improve the comparability with such international accounting standards, and issued the Accounting Standard for Fair Value Measurement and the Implementation Guidance on Accounting Standard for Fair Value Measurement.

(2) Scheduled date of application

The accounting standards will be applied from the beginning of the fiscal period ending January 31, 2022.

(3) Impact of applying the accounting standards

The level of the impact on the financial statements of applying the “Accounting Standard for Fair Value Measurement” and its guidance is currently under evaluation.



5. ADDITIONAL INFORMATION

Notes on Provision and Reversal of Allowance for Temporary Difference Adjustments

For the six months ended January 31, 2020

(1) Reason for reversal, and related asset, etc. and amount of reversal

(Unit: thousands of yen)

Related asset, etc.	Reason for reversal	Reversal of allowance for temporary difference adjustments
Deferred gains or losses on hedges	Changes in fair value of derivative transactions	60,247

(2) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.

For the six months ended July 31, 2019

(1) Reason for provision, and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Allowance for temporary difference adjustments
Deferred gains or losses on hedges	Incurrence of loss on valuation of interest swaps	294,368

(2) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.



6. PROPERTY AND EQUIPMENT

For the six months ended January 31, 2020

(Unit: thousands of yen)

Type of asset	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Accumulated depreciation/Amortization		Net balance at end of the period	Remarks	
					Accumulated depreciation	Amortization			
Property, plant and equipment	Land	22,074,160	—	—	22,074,160	—	—	22,074,160	—
	Buildings in trust	81,918,977	128,178	—	82,047,156	17,114,483	989,516	64,932,672	—
	Structures in trust	921,547	2,490	—	924,038	316,756	8,495	607,282	—
	Machinery and equipment in trust	910,898	2,436	—	913,334	285,559	22,256	627,775	—
	Tools, furniture and fixtures in trust	237,085	16,213	—	253,299	158,080	13,813	95,219	—
	Land in trust	260,234,866	—	—	260,234,866	—	—	260,234,866	—
	Construction in progress in trust	1,949	1,288	—	3,237	—	—	3,237	—
Subtotal	366,299,485	150,607	—	366,450,092	17,874,879	1,034,082	348,575,213		
Intangible assets	Leasehold rights in trust	30,650,962	—	—	30,650,962	—	—	30,650,962	—
	Other intangible assets in trust	11,952	—	—	11,952	11,952	372	0	—
	Subtotal	30,662,915	—	—	30,662,915	11,952	372	30,650,962	
Total	396,962,401	150,607	—	397,113,008	17,886,831	1,034,455	379,226,176		

7. SHORT-TERM LOANS PAYABLE

For the six months ended January 31, 2020

Not applicable.

8. INVESTMENT CORPORATION BONDS

For the six months ended January 31, 2020

(Unit: thousands of yen)

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

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

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

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Investment corporation bonds	8,500,000	2,000,000	—	—	2,000,000



9. LONG-TERM LOANS PAYABLE

For the six months ended January 31, 2020

(1) Current portion of long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd.	1,100,000	—	1,100,000	—	0.4434%	Nov. 29, 2019	(Note 2)	Unsecured/ Unguaranteed
	1,100,000	—	1,100,000	—	0.4434%	Nov. 29, 2019		
	574,000	—	—	574,000	0.4000%	May 29, 2020		
	574,000	—	—	574,000	0.4000%	May 29, 2020		
	834,000	—	—	834,000	0.3760%	May 29, 2020		
	834,000	—	—	834,000	0.3760%	May 29, 2020		
	—	1,200,000	—	1,200,000	0.6242%	Nov. 30, 2020		
	—	1,200,000	—	1,200,000	0.6242%	Nov. 30, 2020		
Mizuho Bank, Ltd.	1,100,000	—	1,100,000	—	0.4434%	Nov. 29, 2019		
	574,000	—	—	574,000	0.4000%	May 29, 2020		
	834,000	—	—	834,000	0.3760%	May 29, 2020		
	—	1,200,000	—	1,200,000	0.6242%	Nov. 30, 2020		
Sumitomo Mitsui Banking Corporation	1,600,000	—	1,600,000	—	0.4434%	Nov. 29, 2019		
	300,000	—	—	300,000	0.4000%	May 29, 2020		
	834,000	—	—	834,000	0.3760%	May 29, 2020		
	—	1,440,000	—	1,440,000	0.6242%	Nov. 30, 2020		
Sumitomo Mitsui Trust Bank, Ltd.	1,000,000	—	1,000,000	—	0.4434%	Nov. 29, 2019		
	834,000	—	—	834,000	0.3760%	May 29, 2020		
	—	960,000	—	960,000	0.6242%	Nov. 30, 2020		
Resona Bank, Ltd.	2,500,000	—	2,500,000	—	0.3155%	Aug. 30, 2019		
	830,000	—	—	830,000	0.3760%	May 29, 2020		
The Bank of Fukuoka, Ltd.	2,000,000	—	2,000,000	—	0.4434%	Nov. 29, 2019		
Development Bank of Japan Inc.	2,000,000	—	2,000,000	—	0.4434%	Nov. 29, 2019		
Aozora Bank, Ltd.	2,000,000	—	2,000,000	—	0.3155%	Aug. 30, 2019		
Shinsei Bank, Ltd.	900,000	—	900,000	—	0.4434%	Nov. 29, 2019		
The Norinchukin Bank	600,000	—	600,000	—	0.4434%	Nov. 29, 2019		
Total	22,922,000	6,000,000	15,900,000	13,022,000				

(2) Long-term loans payable

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
MUFG Bank, Ltd.	1,200,000	—	1,200,000	—	0.6242%	Nov. 30, 2020	(Note 2)	Unsecured/ Unguaranteed
	1,200,000	—	1,200,000	—	0.6242%	Nov. 30, 2020		
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.4980%	Nov. 30, 2022		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	1,500,000	—	—	1,500,000	0.3290%	Mar. 31, 2023		
	1,500,000	—	—	1,500,000	0.4100%	Mar. 29, 2024		
	600,000	—	—	600,000	0.4100%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025		
	4,700,000	—	—	4,700,000	0.4065%	Aug. 31, 2027		
	5,000,000	—	—	5,000,000	0.4345%	Feb. 29, 2028		
3,904,000	—	—	3,904,000	0.2969%	Nov. 30, 2028			
—	2,200,000	—	2,200,000	0.2182%	Nov. 30, 2026			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Mizuho Bank, Ltd	1,200,000	—	1,200,000	—	0.6242%	Nov. 30, 2020	(Note 2)	Unsecured/ Unguaranteed
	1,300,000	—	—	1,300,000	0.7535%	Nov. 30, 2021		
	1,369,000	—	—	1,369,000	0.5730%	May 31, 2021		
	1,369,000	—	—	1,369,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	—	—	600,000	0.4100%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025		
	1,100,000	—	—	1,100,000	0.5775%	Jul. 31, 2029		
	2,700,000	—	—	2,700,000	0.6030%	Feb. 28, 2030		
	3,000,000	—	—	3,000,000	0.1850%	May 23, 2022		
	3,000,000	—	—	3,000,000	0.4260%	Aug. 30, 2024		
	1,400,000	—	—	1,400,000	0.4219%	Aug. 31, 2029		
	1,952,000	—	—	1,952,000	0.4219%	May 31, 2029		
	—	1,000,000	—	1,000,000	0.2029%	Aug. 29, 2025		
—	1,100,000	—	1,100,000	0.2932%	May 31, 2027			
Sumitomo Mitsui Banking Corporation	1,440,000	—	1,440,000	—	0.6242%	Nov. 30, 2020	(Note 2)	Unsecured/ Unguaranteed
	1,560,000	—	—	1,560,000	0.7535%	Nov. 30, 2021		
	1,099,000	—	—	1,099,000	0.5730%	May 31, 2021		
	1,098,000	—	—	1,098,000	0.7020%	May 31, 2022		
	1,500,000	—	—	1,500,000	0.4932%	Aug. 31, 2021		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.4980%	Nov. 30, 2022		
	2,200,000	—	—	2,200,000	0.3290%	Mar. 31, 2023		
	800,000	—	—	800,000	0.4100%	Mar. 29, 2024		
	1,100,000	—	—	1,100,000	0.4673%	Jul. 31, 2025		
	2,650,000	—	—	2,650,000	0.5460%	Feb. 27, 2026		
	3,600,000	—	—	3,600,000	0.5640%	Aug. 31, 2026		
	1,144,000	—	—	1,144,000	0.4009%	Nov. 30, 2027		
—	1,600,000	—	1,600,000	0.4132%	May 31, 2028			

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Sumitomo Mitsui Trust Bank, Ltd.	960,000	—	960,000	—	0.6242%	Nov. 30, 2020	(Note 2)	Unsecured/ Unguaranteed
	1,040,000	—	—	1,040,000	0.7535%	Nov. 30, 2021		
	1,294,000	—	—	1,294,000	0.5730%	May 31, 2021		
	1,295,000	—	—	1,295,000	0.7020%	May 31, 2022		
	500,000	—	—	500,000	0.6529%	Aug. 31, 2023		
	1,600,000	—	—	1,600,000	0.6155%	Nov. 30, 2023		
	600,000	—	—	600,000	0.4100%	Mar. 29, 2024		
	2,400,000	—	—	2,400,000	0.5040%	Mar. 31, 2025		
	1,000,000	—	—	1,000,000	0.5150%	Jul. 31, 2026		
	2,000,000	—	—	2,000,000	0.4770%	Jul. 31, 2028		
	2,600,000	—	—	2,600,000	0.5830%	Feb. 26, 2027		
	2,400,000	—	—	2,400,000	0.3315%	Aug. 31, 2023		
	1,400,000	—	—	1,400,000	0.6670%	Aug. 31, 2027		
	—	1,000,000	—	1,000,000	0.2182%	Nov. 29, 2024		
The Bank of Fukuoka, Ltd.	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.5150%	Jul. 31, 2026		
	500,000	—	—	500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.3760%	Aug. 30, 2024		
	2,000,000	—	—	2,000,000	0.1714%	May 29, 2026		
	—	2,000,000	—	2,000,000	0.2682%	Nov. 30, 2028		
The Norinchukin Bank	1,000,000	—	—	1,000,000	0.3290%	Mar. 31, 2023	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.3735%	Jul. 31, 2024		
	600,000	—	—	600,000	0.4893%	Nov. 29, 2024		
	1,300,000	—	—	1,300,000	0.4260%	Aug. 30, 2024		
	3,000,000	—	—	3,000,000	0.2714%	May 29, 2026		
	—	600,000	—	600,000	0.2932%	May 29, 2026		
Development Bank of Japan Inc.	1,700,000	—	—	1,700,000	0.7963%	Mar. 27, 2023	(Note 2)	Unsecured/ Unguaranteed
	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024		
	750,000	—	—	750,000	0.6430%	Feb. 26, 2027		
	500,000	—	—	500,000	0.6670%	Aug. 31, 2027		
	—	2,000,000	—	2,000,000	0.4182%	Nov. 30, 2028		

(Unit: thousands of yen)

Lender	Balance at beginning of the period	Amount of increase during the period	Amount of decrease during the period	Balance at end of the period	Average interest rate (Note 1)	Repayment date	Use of funds	Remarks
Resona Bank, Ltd.	800,000	—	—	800,000	0.3290%	Mar. 31, 2023	(Note 2)	Unsecured/ Unguaranteed
	500,000	—	—	500,000	0.6130%	Jul. 30, 2027		
	500,000	—	—	500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.4805%	Aug. 31, 2028		
	—	2,500,000	—	2,500,000	0.3232%	Aug. 31, 2029		
Shinsei Bank, Ltd.	1,500,000	—	—	1,500,000	0.6155%	Nov. 30, 2023		
	500,000	—	—	500,000	0.3290%	Mar. 31, 2023		
	500,000	—	—	500,000	0.5400%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.5200%	Aug. 29, 2025		
	—	900,000	—	900,000	0.3682%	Nov. 30, 2027		
Mizuho Trust & Banking Co., Ltd.	500,000	—	—	500,000	0.3290%	Mar. 31, 2023		
	500,000	—	—	500,000	0.5775%	Jul. 31, 2029		
	1,500,000	—	—	1,500,000	0.4700%	Aug. 29, 2025		
	1,300,000	—	—	1,300,000	0.4700%	Aug. 29, 2025		
The Nishi-Nippon City Bank, Ltd.	1,000,000	—	—	1,000,000	0.4893%	Nov. 29, 2024		
	500,000	—	—	500,000	0.5400%	Aug. 29, 2025		
	800,000	—	—	800,000	0.2570%	Aug. 31, 2022		
Aozora Bank, Ltd.	1,000,000	—	—	1,000,000	0.4100%	Mar. 29, 2024		
The Hiroshima Bank, Ltd.	1,000,000	—	—	1,000,000	0.3290%	Mar. 31, 2023		
The Oita Bank, Ltd.	1,000,000	—	—	1,000,000	0.2300%	Nov. 30, 2022		
Shinkin Central Bank	1,000,000	—	—	1,000,000	0.1795%	Sep. 30, 2022		
Chugoku Bank Ltd.	—	1,000,000	—	1,000,000	0.2185%	Aug. 31, 2026		
Total	134,300,000	15,900,000	6,000,000	144,200,000				

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

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

(Note 3) The repayment schedule of long-term loans payable (excluding the current portion of long-term loans payable) due within 5 years after the balance sheet date is as follows.

(Unit: thousands of yen)

	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years
Long-term loans payable	19,000,000	15,500,000	20,400,000	15,800,000

**10. NET ASSETS**

(1) Minimum net assets

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

(2) Allowance for temporary difference adjustments

For the six months ended January 31, 2020

(a) Reason for provision or reversal and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Initial amount	Balance at beginning of the period	Allowance set aside during period	Reversal during period	Balance at the end of the period	Reason for reversal
Deferred gains or losses on hedges	Loss on valuation of interest swaps	468,740	174,371	294,368	—	468,740	—

(b) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.

For the six months ended July 31, 2019

(a) Reason for provision or reversal and related asset, etc. and amount of provision

(Unit: thousands of yen)

Related asset, etc.	Reason for provision	Initial amount	Balance at beginning of the period	Allowance set aside during period	Reversal during period	Balance at the end of the period	Reason for reversal
Deferred gains or losses on hedges	Loss on valuation of interest swaps	174,371	—	174,371	—	174,371	—

(b) Specific method of reversal

Deferred gains or losses on hedges

Reversal in line with changes in fair value of derivative transactions that are the hedging instruments is planned.

11. INCOME TAXES

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

(Unit: thousands of yen)

	As of	
	January 31, 2020	July 31, 2019
Deferred tax assets		
Accrued enterprise tax excluded from expenses	36	44
Deferred gains or losses on hedges	234,072	246,907
Subtotal deferred tax assets	234,109	246,952
Valuation allowance	(234,072)	(246,907)
Total deferred tax assets	36	44
Net deferred tax assets	36	44

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

	As of	
	January 31, 2020	July 31, 2019
Statutory tax rate	31.51%	31.51%
[Adjustments]		
Deductible cash distributions	(31.50%)	(31.49%)
Others	0.01%	0.01%
Effective tax rate	0.02%	0.03%

12. PER UNIT INFORMATION

	For the six months ended	
	January 31, 2020	July 31, 2019
Net assets per unit (yen)	104,247	104,181
Net income per unit (yen)	2,883	2,850

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

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

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

	For the six months ended	
	January 31, 2020	July 31, 2019
Net income (thousands of yen)	5,406,483	5,344,831
Amounts not attributable to common unitholders (thousands of yen)	—	—
Net income attributable to common investment units (thousands of yen)	5,406,483	5,344,831
Average number of investment units during the period (units)	1,874,960	1,874,960

13. RELATED PARTY TRANSACTIONS

(1) Parent company and major corporate unitholders

For the six months ended January 31, 2020

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	79,500,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Leasing of properties (Note 2) (Note 5)	6,090,006	Operating accounts receivable	730
									Advances received	1,094,371
									Lease and guarantee deposits in trust	9,790,142
							Payment of property operation and management fees (Note 6)	243,327 (Note 3)	Prepaid expenses	3,254
									Operating accounts payable	53,112
Deposit of lease and guarantee (Note 4) (Note 7)	—	Lease and guarantee deposits in trust	53,886							

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

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

(Note 3) The amount includes fees (4,175 thousand yen) that are not charged to expenses but recognized as assets.

(Note 4) Roppongi View Tower

[Transaction terms and conditions and related policies]

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

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

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

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Other related company	Mori Building Co., Ltd.	Minato-ku, Tokyo	67,000,000	Real estate business	15.0% directly held by related party	Leasing and management of real estate	Leasing of properties (Note 2) (Note 5)	6,092,668	Operating accounts receivable	902
									Advances received	1,091,980
									Lease and guarantee deposits in trust	9,790,142
							Payment of property operation and management fees (Note 6)	251,629 (Note 3)	Prepaid expenses	2,963
									Operating accounts payable	44,777
									Payment of other operating expenses (Note 7)	1,277
Deposit of lease and guarantee (Note 4) (Note 8)	—	Lease and guarantee deposits in trust	53,886							

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

(Note 2) Roppongi Hills Mori Tower, ARK Mori Building, Atago Green Hills, Toranomon Hills Mori Tower, a portion of Koraku Mori Building, a portion of ARK Hills South Tower, a portion of Roppongi First Plaza and a portion of Roppongi View Tower

(Note 3) The amount includes fees (15,258 thousand yen) that are not charged to expenses but recognized as assets.

(Note 4) Roppongi View Tower

[Transaction terms and conditions and related policies]

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

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

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

(Note 8) The Company engages in transactions by conducting adequate procedures in line with the Related Parties Transaction Guidelines stipulated by the Company's Asset Manager and compliance regulations, after having comprehensively considered the market situation and other factors.



HILLS REIT

(2) Subsidiaries and affiliates

For the six months ended January 31, 2020

Not applicable.

For the six months ended July 31, 2019

Not applicable.

(3) Subsidiaries of parent company

For the six months ended January 31, 2020

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Subsidiary of other related company	Mori Building Investment Management Co., Ltd.	Minato-ku, Tokyo	200,000	Real estate, trust beneficiary right and other financial asset management operations	None	Outsourcing of asset management Concurrent post of directors	Payment of management fees (Note 2) (Note 3)	266,704	Accrued expenses	293,374

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

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

[Transaction terms and conditions and related policies]

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

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Subsidiary of other related company	Mori Building Investment Management Co., Ltd.	Minato-ku, Tokyo	200,000	Real estate, trust beneficiary right and other financial asset management operations	None	Outsourcing of asset management Concurrent post of directors	Payment of management fees (Note 2) (Note 3)	260,906	Accrued expenses	281,779

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

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

[Transaction terms and conditions and related policies]

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



(4) Directors and major individual unitholders

For the six months ended January 31, 2020

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business or position	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Directors and their close relatives	Hideyuki Isobe	—	—	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	None	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	Payment of management fees to Mori Building Investment Management Co., Ltd. (Note 2) (Note 3)	266,704	Accrued expenses	293,374

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

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

[Transaction terms and conditions and related policies]

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

For the six months ended July 31, 2019

Type	Name	Location	Capital stock or investments in capital (thousands of yen)	Description of business or position	Percentage of voting rights held in (by) related party	Relationship with related party	Description of transaction	Amount of transaction (thousands of yen) (Note 1)	Account item	Balance at end of the period (thousands of yen)
Directors and their close relatives	Hideyuki Isobe	—	—	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	None	Executive Director of the Company, and President & CEO of Mori Building Investment Management Co., Ltd.	Payment of management fees to Mori Building Investment Management Co., Ltd. (Note 2) (Note 3)	260,906	Accrued expenses	281,779

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

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

[Transaction terms and conditions and related policies]

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

14. BREAKDOWN OF PROPERTY-RELATED REVENUE AND EXPENSES

Breakdown of property operating income

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2020	July 31, 2019
A. Property operating revenue		
Rent revenues		
Rent and common area revenue	9,371,565	9,318,188
Other rent revenue	5,979	5,756
Other operating revenues		
Parking revenue	57,844	59,861
Utilities and other revenue	194,906	175,152
Cancellation penalty	1,166	2,917
Total property operating revenue	9,631,462	9,561,876
B. Property operating expenses		
Expenses related to properties		
Property management fees	1,104,176	1,082,549
Property taxes	705,466	659,480
Utilities	152,625	142,229
Maintenance and repairs	60,700	117,152
Insurance premium	17,503	17,180
Custodian fees	6,703	5,950
Depreciation and amortization	1,034,455	1,057,798
Rent expenses	127,661	126,872
Other lease business expenses	14,781	16,118
Total property operating expenses	3,224,074	3,225,332
C. Property operating income [A – B]	6,407,387	6,336,544

Transactions with major unitholders

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2020	July 31, 2019
From operating transactions		
Rent revenues	6,087,720	6,090,222
Other operating revenues	2,286	2,446
Expenses related to properties	239,152	236,370
Other operating expenses	—	1,277

15. UNITHOLDERS' EQUITY

	For the six months ended	
	January 31, 2020	July 31, 2019
Total number of investment units authorized and total number of investment units issued and outstanding		
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	1,874,960 units	1,874,960 units

16. FINANCIAL INSTRUMENTS

(1) Policy for financial instruments

(a) Policy for holding financial instruments

The Company makes use of various financial instruments in order to invest surplus funds efficiently. In addition, concerning fund procurement, the Company adopts a policy of undertaking such fund raising primarily through the issuance of investment units, the borrowing of funds and the issuance of investment corporation bonds. The Company limits derivative transactions to those that are entered into for the purpose of hedging the risk of future fluctuations in interest rates on loans payable, and does not engage in speculative transactions.

(b) Description of financial instruments and associated risks, and risk management structure

Deposits used for investing the Company's surplus funds are exposed to credit risks, for example, the failure of the financial institutions that are holding the deposits, but the Company limits the risks by diversifying financial institutions.

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

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

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

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

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

(2) Fair value of financial instruments

The following are the carrying amount, fair value and the difference between them of financial instruments as of January 31, 2020.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	5,646,194	5,646,194	—
(b) Cash and deposits in trust	5,461,338	5,461,338	—
Total	11,107,533	11,107,533	—
(c) Current portion of investment corporation bonds	8,500,000	8,512,200	12,200
(d) Current portion of long-term loans payable	13,022,000	13,042,636	20,636
(e) Investment corporation bonds	13,500,000	13,592,690	92,690
(f) Long-term loans payable	144,200,000	144,340,492	140,492
Total	179,222,000	179,488,018	266,018
Derivative transactions (Note 1)	(724,583)	(724,583)	—

The following are the carrying amount, fair value and the difference between them of financial instruments as of July 31, 2019.

	(Unit: thousands of yen)		
	Carrying amount	Fair value	Difference
(a) Cash and deposits	3,923,970	3,923,970	—
(b) Cash and deposits in trust	6,295,543	6,295,543	—
Total	10,219,514	10,219,514	—
(c) Current portion of investment corporation bonds	5,000,000	5,022,700	22,700
(d) Current portion of long-term loans payable	22,922,000	22,922,000	—
(e) Investment corporation bonds	17,000,000	17,210,380	210,380
(f) Long-term loans payable	134,300,000	134,574,414	274,414
Total	179,222,000	179,729,494	507,494
Derivative transactions (Note 1)	(784,831)	(784,831)	—

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

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

Assets

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

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

Liabilities

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

The fair value of these is based on market prices.

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

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

Derivative transactions

Please refer to “Derivative transactions” below.

(Note 3) Redemption of monetary claims scheduled to be due after the balance sheet date (as of January 31, 2020)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	5,646,194	—	—	—	—	—
Cash and deposits in trust	5,461,338	—	—	—	—	—
Total	11,107,533	—	—	—	—	—

Redemption of monetary claims scheduled to be due after the balance sheet date (as of July 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Cash and deposits	3,923,970	—	—	—	—	—
Cash and deposits in trust	6,295,543	—	—	—	—	—
Total	10,219,514	—	—	—	—	—

(Note 4) Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of January 31, 2020)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	8,500,000	2,000,000	—	—	2,000,000	9,500,000
Long-term loans payable	13,022,000	19,000,000	15,500,000	20,400,000	15,800,000	73,500,000
Total	21,522,000	21,000,000	15,500,000	20,400,000	17,800,000	83,000,000

Investment corporation bonds and long-term loans payable scheduled to be due after the balance sheet date (as of July 31, 2019)

(Unit: thousands of yen)

	Due within 1 year	Due after 1 year, but within 2 years	Due after 2 years, but within 3 years	Due after 3 years, but within 4 years	Due after 4 years, but within 5 years	Due after 5 years
Investment corporation bonds	5,000,000	5,500,000	—	—	—	11,500,000
Long-term loans payable	22,922,000	12,500,000	22,000,000	15,200,000	18,800,000	65,800,000
Total	27,922,000	18,000,000	22,000,000	15,200,000	18,800,000	77,300,000

17. DERIVATIVE TRANSACTIONS

(1) Transactions for which hedge accounting is not applied

As of January 31, 2020

Not applicable

As of July 31, 2019

Not applicable

(2) Transactions for which hedge accounting is applied

As of January 31, 2020

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

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	85,866,000	78,844,000	(724,583)	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	43,500,000	37,500,000	*	—

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

As of July 31, 2019

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

(Unit: thousands of yen)

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount		Fair value	Method of calculating the fair value
				Due after 1 year		
Principle method	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	89,122,000	70,700,000	(784,831)	Based on the quoted price obtained from counterparty financial institutions.
Special treatment for interest rate swaps	Interest rate swap transactions Floating receivable; Fixed payable	Long-term loans payable	43,500,000	43,500,000	*	—

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

18. CASH AND CASH EQUIVALENTS

Relationship between cash and cash equivalents at end of the period in the statement of cash flows and cash and deposits stated in the balance sheet

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2020	July 31, 2019
Cash and deposits	5,646,194	3,923,970
Cash and deposits in trust	5,461,338	6,295,543
Cash and cash equivalents	11,107,533	10,219,514

19. LEASES

Operating lease transactions (as lessor)

Future minimum rent revenues under existing non-cancelable lease agreements

(Unit: thousands of yen)

	As of	
	January 31, 2020	July 31, 2019
Due within 1 year	4,561,306	4,295,643
Due after 1 year	12,851,440	12,741,853
Total	17,412,746	17,037,496

20. INVESTMENT AND RENTAL PROPERTIES

The Company owns real estate (primarily office buildings and residential and retail properties) available for lease in Tokyo. The following are the carrying amount, amount of increase (decrease) during the period and fair value at end of the period for these investment and rental properties.

(Unit: thousands of yen)

	For the six months ended	
	January 31, 2020	July 31, 2019
Carrying amount		
Balance at beginning of the period	380,110,024	380,532,037
Amount of increase (decrease) during the period	(883,847)	(422,012)
Balance at end of the period	379,226,176	380,110,024
Fair value at end of the period	456,730,000	442,950,000

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

(Note 2) Of the decrease during the period ended January 31, 2020 and period ended July 31, 2019, the decrease is primarily attributable to depreciation and amortization.

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

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

21. SEGMENT AND RELATED INFORMATION

[Segment Information]

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

[Related Information]

For the six months ended January 31, 2020

(1) Information about each product and service

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

(2) Information about each geographical area

(a) Operating revenue

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

(b) Property, plant and equipment

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

(3) Information about each major tenant

(Unit: thousands of yen)

Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	6,090,006	Real estate leasing business

For the six months ended July 31, 2019

(1) Information about each product and service

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

(2) Information about each geographical area

(a) Operating revenue

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

(b) Property, plant and equipment

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

(3) Information about each major tenant

(Unit: thousands of yen)

Name of tenant	Operating revenue	Related segment
Mori Building Co., Ltd.	6,092,668	Real estate leasing business

22. SUBSEQUENT EVENTS

Not applicable.