

## Translation

# MCUBS MIDCITY INVESTMENT CORPORATION SUMMARY OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2016

August 16, 2016

Name of issuer:	MUCBS MidCity Investment Corporation ("the Investment Corporation")
Stock exchange listing:	Tokyo Stock Exchange
Securities code:	3227
Website:	<a href="http://www.midcity-reit.com/">http://www.midcity-reit.com/</a>
Representative of the Investment Corporation:	Katsura Matsuo, Executive Director
Name of asset manager:	MCUBS MidCity Inc.
Representative of the asset manager:	Katsura Matsuo, President & CEO & Representative Director
Contact:	Naoki Suzuki, Deputy President & Representative Director Tel: (03)5293-4150
Scheduled date for filing of securities report:	September 28, 2016
Scheduled date for distributions payment:	September 16, 2016
Supplementary materials for financial results:	Otherwise prepared
Analyst meeting:	Scheduled

(Amounts of less than one million yen are rounded down)

## 1. Financial results for the six months ended June 30, 2016 (January 1, 2016 to June 30, 2016)

### (1) Operating results

(Percentages show period-on-period changes)

	Operating revenues		Operating income		Ordinary income		Net income	
For the six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2016	6,824	3.7	2,462	(1.8)	1,889	(2.5)	1,888	(2.5)
December 31, 2015	6,579	25.0	2,507	48.9	1,937	56.4	1,936	56.5

	Net income per unit	Return on unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
For the six months ended	Yen	%	%	%
June 30, 2016	7,100	1.6	0.8	27.7
December 31, 2015	7,614	1.8	1.0	29.5

### (2) Distributions

	Distributions (excluding distributions in excess of profit)		Distributions in excess of profit		Payout ratio	Ratio of distributions to net assets
	Per unit	Total	Per unit	Total		
For the six months ended	Yen	Millions of yen	Yen	Millions of yen	%	%
June 30, 2016	7,100	1,888	0	0	100.0	1.6
December 31, 2015	7,281	1,936	0	0	100.0	1.6

Note: Payout ratio for the six months ended December 31, 2015 is calculated by following formula because new investment units were issued.  

$$\text{Payout ratio} = \frac{\text{Total of distributions (excluding distributions in excess of profit)}}{\text{Net income}} \times 100$$

### (3) Financial position

	Total assets	Net assets	Ratio of net assets to total assets	Net asset value per unit
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2016	227,686	117,131	51.4	440,304
December 31, 2015	226,099	117,180	51.8	440,484

#### (4) Cash flows

	Net cash provided by (used in)			Cash and cash equivalents at end of period
	Operating activities	Investing activities	Financing activities	
For the six months ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2016	3,853	(511)	(591)	12,448
December 31, 2015	3,245	(51,916)	47,801	9,697

## 2. Outlook for the six months ending December 31, 2016 (July 1, 2016 to December 31, 2016) and June 30, 2017 (January 1, 2017 to June 30, 2017)

(Percentages show period-on-period changes)

	Operating revenues		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the six months ending								
December 31, 2016	6,974	2.2	2,479	0.7	1,916	1.4	1,915	1.4
June 30, 2017	6,922	(0.8)	2,487	0.3	1,943	1.4	1,942	1.4

	Net income per unit		Distributions per unit (excluding distributions in excess of profit)		Distributions in excess of profit per unit	
	Yen		Yen		Yen	
For the six months ending						
December 31, 2016	7,200		7,200		0	
June 30, 2017	7,300		7,300		0	

### 3. Others

#### (1) Changes in accounting policies and accounting estimates or restatements

Changes in accounting policies due to accounting standards revision: None

Changes in accounting policies due to other reasons: None

Changes in accounting estimates: None

Restatements: None

#### (2) Number of units issued

Number of units issued at end of period (including treasury units):

As of June 30, 2016 266,025 units

As of December 31, 2015 266,025 units

Number of treasury units at end of period:

As of June 30, 2016 0 unit

As of December 31, 2015 0 unit

Note: For the number of unit as a basis of calculation of net income per unit, please refer to per unit information on page 23.

### Forward-looking Statements and Other Notes

Forward-looking statements in this presentation are based on the information currently available and certain assumptions we believe reasonable. Actual results may differ materially from the forward-looking statements in this presentation due to various factors. Furthermore, those statements do not guarantee the amount of future distributions.

For further information and assumptions regarding the forward-looking statements, please refer to “2. Management policy and results of operation, (3) Outlook of next fiscal period, (c) Outlook of business results” on page 9.

## 1. Summary of related corporations of the Investment Corporation

Disclosure is omitted because there are no significant changes from the “Structure of the investment corporation” presented in the most recent yuka shoken hokokusho (securities report) (submitted on March 29, 2016).

## 2. Management policy and results of operation

### (1) Management policy

Disclosure is omitted because there are no significant changes from the “Investment Policy,” “Investment Target” and “Distribution Policy” presented in the most recent yuka shoken hokokusho (securities report) (submitted on March 29, 2016).

### (2) Overview of fiscal period under review

#### (a) Brief background to MCUBS MidCity

MCUBS MidCity Investment Corporation (hereafter “MCUBS MidCity”) was established by MCUBS MidCity Inc. (hereafter, the “Asset Management Company”) on June 1, 2006 under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereafter, the “Investment Trusts Act”), and listed on the Tokyo Stock Exchange, Inc.’s Real Estate Investment Trust Section (Securities Code: 3227) on August 29, 2006.

During the fiscal period under review, 5 properties acquired in August 2015 (total acquisition price: ¥49,269 million, including the acquisition of silent partnership interests backed by Nagoya Lucent Tower (the same shall apply hereinafter.)) and 1 property acquired in December of the same year (acquisition price: ¥2,705 million) have been under operation throughout the period, and have contributed to the increase in revenue.

As of the end of the fiscal period under review (20th fiscal period: January 1, 2016 to June 30, 2016), the portfolio of MCUBS MidCity comprised of 19 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥217,104 million.

MCUBS MidCity conducts asset management under the portfolio building policy of focusing on office properties and investments in the three major metropolitan areas, which are Tokyo metropolitan area (Tokyo, Kanagawa, Chiba and Saitama Prefectures), Osaka metropolitan area (Osaka, Kyoto and Hyogo Prefectures) and Nagoya metropolitan area (Aichi Prefecture) (the same shall apply hereinafter).

#### (b) Investment environment and management performance

##### (i) Investment environment

In the 20th fiscal period, the Japanese economy was overall brisk while employment, income environment and other factors improved, despite being affected by the global economy which has remained unstable since 2015. The global economic situation still faces a sense of uncertainty toward the future that cannot be erased due to factors such as the Brexit result in June 2016. However, the Japanese economy is expected to continue to be generally brisk, backed by the steady employment situation, recovery in real wages, etc.

In the real estate investment market, active trading continues from the previous fiscal period and transaction prices are trending further upward. Active property acquisitions by J-REITs in line with new listings and capital increase through public offerings took place. Transaction activities by private funds, business corporations and overseas investors are also robust, and market cap rates are also on a

declining trend due to expectation of future rise in real estate prices.

According to the Ministry of Land, Infrastructure, Transport and Tourism's Land Price LOOK Report for the first quarter (January 1 to April 1) of 2016, the land price of intensively used land of major cities in Japan increased in 89 of the 99 districts (excluding 1 district in Kumamoto City from the entire 100 districts), remained flat in 10 districts and decreased in none of the districts. Accordingly, the land price trend continues to be on an upward trend.

In the office leasing market, vacancy rates continued to improve, as office demand increased and the bottoming out of rent levels is becoming clearly visible due to improving business sentiment. Demand for office floors is expected to remain solid although there is a need to watch the fluctuation of performance of domestic companies, which is affected by the trend of strong yen.

In addition, interest rate levels lowered significantly due to the introduction of the negative interest rate policy decided at the Bank of Japan's Monetary Policy Meetings held on January 29, 2016. It is expected that the interest rates will remain at this low level for some time.

## (ii) Asset management performance

### <Investment performance>

During the 20th fiscal period, MCUBS MidCity did not acquire or sell any property, etc.

As a result, MCUBS MidCity's portfolio as of the end of the 20th fiscal period was comprised of 19 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 98.9% (of which Tokyo metropolitan area accounting for 37.1%, Osaka metropolitan area 59.6% and Nagoya metropolitan area 2.3%) in the three major metropolitan areas and 1.1% in other areas and are distributed in terms of property type with 85.6% being office buildings and 14.4% being others.

### <Performance of management of portfolio assets>

MCUBS MidCity has strived to maintain and enhance occupancy rates and rents by closely working together with sponsor companies, property management companies and office leasing brokers, creating tenant attraction plans for each property that match the respective location and characteristics and promoting the heightening of tenant satisfaction levels in seeking to attract new tenants and making its relationship of trust with existing tenants even stronger.

In the 20th fiscal period, in an environment showing recovery in office demand continuing on from the previous fiscal period, there were active tenant movements for reasons of integration of offices and improvement of location. Despite some tenant exits, with aggressive attraction of new tenants such as by making proposals to meet the tenant needs and capturing the needs of existing tenants for more space within the same building, a high occupancy rate was maintained, which is 98.2% at the end of the 20th fiscal period and greater than at the end of the previous fiscal period (97.6%). In addition, MCUBS MidCity was able to increase the average unit price of contracted rent for the portfolio.

Furthermore, at the Osaka Business Park (hereafter, "OBP") PR activities are being implemented to enhance the recognition and brand image of the OBP as a business area where "greenery" and "comfort" make it a favorable place to work from the viewpoint of office workers. At Twin 21 and Matsushita IMP Bldg., seasonal flower events and performances were held and got favorable reputations. In addition, MCUBS MidCity has moved forward with concerning revitalization of retail zones at both Buildings in line with the reconstruction and new construction of office buildings in OBP.

(c) Overview of fund procurement

A. Issuance of new investment units

During the 20th fiscal period, MCUBS MidCity has made no fund procurement through additional issuance of new investment units. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 266,025 investment units.

B. Debt financing

MCUBS MidCity procures funds pursuant to its financial policy that considers the maintaining of a balance between fund procurement flexibility and financial stability, including keeping the LTV at a conservative level, reducing refinancing risks and mitigating interest rate fluctuation risks.

In the 20th fiscal period, MCUBS MidCity refinanced borrowings which was due on April 28, 2016 totaling ¥4,300 million. In May 2016, MCUBS MidCity issued unsecured investment corporation bonds (5 year bonds of ¥1,500 million and 10 year bonds of ¥1,500 million) for the first time to diversify its fund procurement methods while achieving the longest debt term (10 years) for MCUBS MidCity. Furthermore, on May 31, 2016, MCUBS MidCity undertook early repayment of ¥1,500 million borrowings borrowed in April 2016 and remaining 0.9 years of its borrowing period by using the proceeds from the issuance of the investment corporation bonds. Backed by the lowered interest rates after the introduction of negative interest rates by the Bank of Japan and changes in the financial market environment, MCUBS MidCity has implemented strategic financial measures and realized reduction of financial costs while further diversifying maturity dates, extending borrowing periods and fixing interest rates.

As of the end of the 20th fiscal period, MCUBS MidCity had a balance of borrowings from 17 financial institutions in the amount of ¥92,725 million and had a balance of investment corporation bonds in the amount of ¥3,000 million. The ratio of interest-bearing liabilities to total assets stands at 42.0%, 100.0% of loans payable are long-term loans payable (including current portion of long-term loans payable) and 62.5% of loans payable are applied fixed interest rates (including those for which interest rates have been fixed via interest rate swap agreements).

The following is the status of MCUBS MidCity's issuer ratings as of the end of the 20th fiscal period.

Credit rating agency	Issuer rating	Rating outlook
Rating and Investment Information, Inc. (R&I)	A-	Positive

(d) Overview of business performance and distributions

As a result of the abovementioned asset management, MCUBS MidCity posted operating revenue of ¥6,824 million, operating income of ¥2,462 million, ordinary income of ¥1,889 million and net income of ¥1,888 million in its performance for the 20th fiscal period.

Concerning distributions, to ensure that distributions of retained earnings would be deductible for tax purposes based on application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, including amendments thereto) (hereafter, the "Act on Special Measures Concerning Taxation"), MCUBS MidCity decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution per unit that are less than ¥1. Accordingly, MCUBS MidCity declared a distribution per unit of ¥7,100.

(3) Outlook of next fiscal period

(a) Future asset management policy and challenges to address

(i) Internal growth strategy

In the Osaka metropolitan area's office leasing market trend, where more than half of MCUBS MidCity's portfolio assets are located, decrease in new supply while office demand remained strong leads to continuous improvement in vacancy rates. With the improvement in new-contract lease terms and conditions at some large-scale buildings, the anticipation for market rent bottoming out has been gradually growing. Though a certain amount of time is still forecasted to be required until there will be full-scale increase in ongoing-contract rent, it is expected to improve gradually.

In the Tokyo metropolitan area's office leasing market, the vacancy rate continues to improve even when there is a new supply. Although a large amount of new supply is expected in the future, vacancy rate is likely to remain stable low level at a certain degree going forward, and a rising trend is expected to continue not only in new-contract rent but also in ongoing-contract rent.

Under such circumstances, in view of maintaining and enhancing revenue for the medium and long term, MCUBS MidCity is working on heightening the tenant satisfaction levels of existing tenants through the provision of comfortable office environments and services to maintain and improve rent revenue and occupancy rates through initiatives for attracting new tenants.

<Strategy on existing tenants to maintain high occupancy rates>

As an initiative for capturing the needs and heightening the satisfaction levels of existing tenants, the Asset Management Company has been conducting surveys of tenant satisfaction levels on the tenants of Twin 21 and other multi-tenant buildings in MCUBS MidCity's portfolio since the first fiscal period. In the latest 10th survey (conducted in December 2015), the survey on tenants of multi-tenant buildings in Tokyo acquired in the previous fiscal period was conducted for the first time. Based on the results of the surveys, it will instruct property management companies and building management companies, as well as consider and carry out repair and maintenance, value-enhancement and other construction work that fulfills tenant needs. It will maintain such initiatives to listen to the "voice of office workers," aiming to enhance satisfaction levels of existing tenants and the value of portfolio assets.

<Strategy on leasing to attract new tenants>

As for G-Square Shibuya Dogenzaka which has relatively large vacant space among the portfolio assets and other portfolio assets as well, aggressive efforts will be continuously made to attract new tenants by making proposals in line with tenant size and needs while taking advantage of excellent location and high specifications of the buildings.

Leveraging the strengths of the network of Mitsubishi Corp. – UBS Realty group and of having as its sponsor the Kanden Realty & Development group that primarily operates in Osaka, the Asset Management Company conducts market analyses by utilizing tenant information, etc. that property management companies have acquired in working closely with the site and, based on the results, will develop strategies for attracting tenants, including value-enhancement plans that lead to increased competitiveness of MCUBS MidCity's portfolio assets in order to facilitate effective attracting of new tenants.

<Enhance property competitiveness>

MCUBS MidCity conducts upgrading of facilities and renewal of interiors one after another in view of provision of comfortable office environments and enhancement of leasing capacity. MCUBS MidCity will also carry out such initiatives as systematic upgrading that reflect the tenant satisfaction survey results, matters pointed out and requested by tenants, etc.

<Address energy saving and CO<sub>2</sub> reduction>

The Asset Management Company strives to respond to the environment and social responsibility based on the “Environment Charter” and “Basic Policy on Responsible Real Estate Investment” formulated in 2015, and appropriately responds to the requests of society via CO<sub>2</sub> reduction efforts, etc.

As of the end of the 20th fiscal period, Twin 21, Matsushita IMP Building, Kitahama MID Building and Higobashi MID Building have been certified by Development Bank of Japan Inc. under DBJ Green Building Certification (system assigning one of five ranks of certification) with the certification rank of “three stars” as “properties with excellent environmental and social awareness.” Moreover, Higobashi MID Building and G-Square Shibuya Dogenzaka, which was acquired during the 19th fiscal period, have received the rank of “A Class” by Comprehensive Assessment System for Building Environmental Efficiency (CASBEE), which is a tool for comprehensive assessment and rating of not only consideration for the environment, such as use of energy-conserving and low-environmental-load resources and materials, but also consideration for the indoor and outdoor built environment and other building quality and performance.

(ii) External growth strategy

MCUBS MidCity strives to improve the risk-return profile of its portfolio via acquiring assets under management in view of mitigating risks of fluctuations in revenue with the effects of diversifying its portfolio of assets under management, etc. Upon acquisition, MCUBS MidCity aims to realize external growth by utilizing the property sourcing capacity of its sponsors, proactively leveraging the pipeline support.

As for the targeted investment region, MCUBS MidCity examines acquisitions of assets under management with a focus on office properties in the three major metropolitan areas. In addition, from the standpoint of securing more opportunities for property acquisition and diversified investment, its investment targets also include so-called “government-designated cities” – cities with populations of over 500,000 – as well as other major cities and abroad, excluding the three major metropolitan areas. Furthermore, as for the investment target in terms of property type, although MCUBS MidCity invests primarily in office properties, from the standpoint of securing more opportunities for property acquisition and diversified investment, MCUBS MidCity's investment targets also include real estate other than office properties. (However, it states that no new investment shall be made as to retail properties and industrial properties.)

(iii) Financial strategy

Ongoing efforts will be made at keeping the LTV at a conservative level, stable fund procurement, diversifying maturity dates for interest-bearing liabilities and promoting the addition of lending financial institutions with the goal of maintaining financial stability. In addition, measures will be taken to hedge against interest rate fluctuation risks by fixing interest rates depending on interest rate trends.

(b) Important matters subsequent to the end of the fiscal period

Not applicable.

(c) Outlook of business results

MCUBS MidCity expects the following business results for its 21st Fiscal Period (July 1, 2016 to December 31, 2016). For the assumptions underlying the forecast of business results, please refer to the “Assumptions Regarding Business Results Forecasts for the 21st Fiscal Period (July 1, 2016 to December 31, 2016) and the 22nd Fiscal Period (January 1, 2017 to June 30, 2017)” below.

Operating revenue	¥6,974 million
Operating income	¥2,479 million
Ordinary income	¥1,916 million
Net income	¥1,915 million
Distribution per unit	¥7,200
Distribution in excess of earnings per unit	¥0

In addition, assuming that the “Assumptions Regarding Business Results Forecasts for the 21st Fiscal Period (July 1, 2016 to December 31, 2016) and the 22nd Fiscal Period (January 1, 2017 to June 30, 2017)” remain unchanged, MCUBS MidCity expects the following business results forecasts for its 22nd Fiscal Period (January 1, 2017 to June 30, 2017).

Operating revenue	¥6,922 million
Operating income	¥2,487 million
Ordinary income	¥1,943 million
Net income	¥1,942 million
Distribution per unit	¥7,300
Distribution in excess of earnings per unit	¥0

[Note] The business results forecasts presented herein are current expectations calculated based on certain assumptions. Accordingly, actual operating revenue, operating income, ordinary income, net income and distribution per unit may differ from the forecasts due to changes in the conditions. Moreover, the forecasts should not be construed as a guarantee of distribution amounts.



Assumptions regarding business results forecasts  
for the 21st fiscal period (July 1, 2016 to December 31, 2016) and the  
22nd fiscal period (January 1, 2017 to June 30, 2017)

Item	Assumptions
Distribution per unit	<ul style="list-style-type: none"> <li>• Distribution per unit is calculated assuming the cash distribution policy set forth in the Articles of Incorporation of MCUBS MidCity.</li> <li>• Distribution per unit could change due to various factors, including changes in assets under management, fluctuations in rent income associated with tenant changes, etc., incurrence of unexpected repairs, fluctuations in interest rates, and the issuance of additional investment units.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Assumes no changes will be made to laws, the tax system, accounting standards, listing regulations, rules of The Investment Trusts Association, Japan, etc. affecting the aforementioned forecasts.</li> <li>• Assumes there will be no major and unforeseen changes in general economic trends, real estate market conditions, etc.</li> </ul>
Assets under management	<ul style="list-style-type: none"> <li>• Assumes there will be no changes (new property acquisition, sale of existing property, etc.) in MCUBS MidCity's assets under management until the end of the 22nd fiscal period from a total of 19 properties (including acquisition of silent partnership interests) owned as at August 16, 2016.</li> <li>• The assets under management may vary due to changes in the property portfolio and other factors in real situation.</li> </ul>
Operating revenue	<ul style="list-style-type: none"> <li>• Rent revenue (rent revenue – real estate) is calculated based on lease agreements effective as at August 16, 2016 with due consideration given to such factors as the market environment, the characteristics and market competitiveness of individual properties, status of individual tenants.</li> <li>• Operating revenue is calculated assuming there are no tenant defaults or non-payments of rent by tenants.</li> <li>• Dividend income from silent partnership interests is calculated by reflecting expected occupancy rate of real estate which backs cash flows.</li> </ul>
Operating expenses	<ul style="list-style-type: none"> <li>• Of the expenses related to rent business, which constitute a principal component of operating expenses, expenses other than depreciation are calculated based on historical data and reflecting seasonal and other factors that may cause fluctuations in expenses.</li> <li>• Property management fees in the amount of ¥835 million are expected for the 21st fiscal period and ¥827 million are expected for the 22nd fiscal period.</li> <li>• Utilities expenses in the amount of ¥678 million are expected for the 21st fiscal period and ¥638 million are expected for the 22nd fiscal period.</li> <li>• Property taxes, etc. in the amount of ¥646 million are expected for the 21st fiscal period and ¥646 million are expected for the 22nd fiscal period.</li> <li>• The amount expected to be necessary for building repair expenses in the respective fiscal period is recorded as expenses. MCUBS MidCity expects repair expenses for the 21st fiscal period will be ¥227 million less than the 20th fiscal period to amount to ¥12 million, and for the 22nd fiscal period will be ¥252 million. Furthermore, please note that actual repair expenses may differ significantly from the forecasted amounts due to various reasons, including repair expenses possibly arising from damages, etc. to buildings due to unexpected causes.</li> <li>• Depreciation is calculated based on the straight-line method inclusive of associated costs and future additional capital expenditures. MCUBS MidCity estimates ¥1,289 million for the 21st fiscal period and ¥1,252 million for the 22nd fiscal period.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>• Interest expenses of ¥403 million are expected for the 21st fiscal period and ¥391 million are expected for the 22nd fiscal period.</li> <li>• Borrowing related expenses of ¥142 million are expected for the 21st fiscal period and ¥136 million are expected for the 22nd fiscal period.</li> </ul>
Interest-bearing liabilities	<ul style="list-style-type: none"> <li>• Assumes the balance of interest-bearing liabilities outstanding will be ¥94,100 million at the end of the 21st fiscal period and ¥93,975 million at the end of the 22nd fiscal period.</li> <li>• Assumes the scheduled repayments in the 21st fiscal period of ¥125 million (due for repayment on July 29, 2016) and ¥19,900 million (due for repayment on July 29, 2016) was refinanced for ¥18,400 million financing on July 29, 2016 and a part of funds from the 1st and 2nd Unsecured Investment Corporation Bonds issued on May 23, 2016.</li> <li>• Assumes the scheduled repayment in the 22nd fiscal period of ¥125 million (due for repayment on January 31, 2017) will be repaid using cash reserves.</li> </ul>
Total number of investment units issued and outstanding	<ul style="list-style-type: none"> <li>• Assumes the number of investment units issued and outstanding will be the 266,025 units as at June 30, 2016 and no additional investment units will be issued through to June 30, 2017.</li> </ul>
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> <li>• Assumes there will be no cash distributions in excess of earnings (distributions in excess of earnings per unit).</li> </ul>

### 3. Financial information

#### (1) Balance sheets

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits	4,629,691	7,526,363
Cash and bank deposits in trust	8,262,102	8,121,692
Rental receivables	162,048	171,147
Income taxes receivable	43,592	25,156
Consumption tax refundable	246,345	—
Prepaid expenses	42,697	36,411
Deferred tax assets	14	14
<b>Total current assets</b>	<b>13,386,491</b>	<b>15,880,785</b>
<b>Noncurrent assets:</b>		
<b>Property, plant and equipment:</b>		
Buildings in trust, at cost (Note 1)	72,816,769	73,232,515
Less: Accumulated depreciation	(18,139,999)	(19,378,133)
Buildings in trust, net	54,676,770	53,854,382
Structures in trust, at cost	119,205	119,205
Less: Accumulated depreciation	(24,228)	(26,244)
Structures in trust, net	94,976	92,960
Machinery and equipment in trust, at cost	7,916	7,916
Less: Accumulated depreciation	(1,719)	(2,047)
Machinery and equipment in trust, net	6,196	5,869
Tools, furniture and fixtures in trust, at cost	547,875	558,806
Less: Accumulated depreciation	(356,523)	(380,829)
Tools, furniture and fixtures in trust, net	191,351	177,977
Land in trust	151,954,124	151,954,124
Construction in progress in trust	4,298	4,298
<b>Total net property, plant and equipment</b>	<b>206,927,718</b>	<b>206,089,612</b>
<b>Intangible assets:</b>		
Software	310	4,655
Trademark right	352	288
<b>Total intangible assets</b>	<b>663</b>	<b>4,944</b>
<b>Investments and other assets:</b>		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	616,627	525,731
<b>Total investments and other assets</b>	<b>5,711,654</b>	<b>5,620,758</b>
<b>Total noncurrent assets</b>	<b>212,640,036</b>	<b>211,715,315</b>
<b>Deferred assets:</b>		
Investment corporation bonds issuance costs	—	31,190
Investment unit issuance costs	73,457	58,890
<b>Total deferred assets</b>	<b>73,457</b>	<b>90,080</b>
<b>TOTAL ASSETS</b>	<b>226,099,985</b>	<b>227,686,181</b>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Operating accounts payable	365,639	447,356
Short-term loans payable	4,300,000	—
Current portion of long-term loans payable	20,150,000	20,150,000
Accounts payable – other	886,858	879,486
Accrued expenses	143,141	140,647
Distribution payable	6,964	8,343
Consumption taxes payable	—	283,571
Advances received	951,470	986,615
Other	519,136	469,220
<b>Total current liabilities</b>	<b>27,323,210</b>	<b>23,365,240</b>
<b>Noncurrent liabilities:</b>		
Investment corporation bonds – unsecured	—	3,000,000
Long-term loans payable	69,900,000	72,575,000
Tenant leasehold and security deposits	8,323,810	8,411,330
Tenant leasehold and security deposits in trust	3,372,942	3,202,707
<b>Total noncurrent liabilities</b>	<b>81,596,753</b>	<b>87,189,038</b>
<b>TOTAL LIABILITIES</b>	<b>108,919,963</b>	<b>110,554,279</b>
<b>NET ASSETS</b>		
<b>Unitholders' equity:</b>		
Unitholders' capital	115,243,069	115,243,069
Surplus:		
Retained earnings	1,936,952	1,888,832
Total surplus	1,936,952	1,888,832
<b>Total unitholders' equity</b>	<b>117,180,022</b>	<b>117,131,902</b>
<b>TOTAL NET ASSETS (Note 2)</b>	<b>117,180,022</b>	<b>117,131,902</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>226,099,985</b>	<b>227,686,181</b>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

## (2) Statements of income and retained earnings

(Thousands of yen)

	<b>For the six months ended</b>	
	<b>December 31, 2015</b>	<b>June 30, 2016</b>
<b>Operating revenue</b>		
Rent revenue—real estate (Note 3)	5,987,786	6,229,038
Other rental business revenue (Note 3)	480,911	468,390
Dividends income	111,040	126,698
Total operating revenue	<u>6,579,738</u>	<u>6,824,128</u>
<b>Operating expenses</b>		
Expenses related to rental business	3,471,541	3,646,498
Asset management fees	450,229	551,658
Asset custody fee	10,629	10,834
Administrative service fees	50,176	54,264
Directors' compensations	5,700	5,700
Other	84,037	92,202
Total operating expenses	<u>4,072,313</u>	<u>4,361,157</u>
<b>Operating income</b>	<u>2,507,424</u>	<u>2,462,970</u>
<b>Non-operating income</b>		
Interest income	1,631	1,264
Reversal of distribution payable	691	881
Interest on refund	473	282
Total non-operating income	<u>2,796</u>	<u>2,428</u>
<b>Non-operating expenses</b>		
Interest expenses	439,425	438,576
Interest expenses on investment corporation bonds	—	1,843
Borrowing related expenses	114,947	118,551
Amortization of investment corporation bonds issuance costs	—	763
Amortization of investment unit issuance costs	12,590	14,566
Other	5,373	1,379
Total non-operating expenses	<u>572,337</u>	<u>575,681</u>
<b>Ordinary income</b>	<u>1,937,883</u>	<u>1,889,716</u>
<b>Extraordinary income</b>		
Subsidy income	—	7,279
Total extraordinary income	<u>—</u>	<u>7,279</u>
<b>Extraordinary losses</b>		
Reduction entry of property	—	7,279
Total extraordinary losses	<u>—</u>	<u>7,279</u>
<b>Income before income taxes</b>	<u>1,937,883</u>	<u>1,889,716</u>
<b>Income taxes</b>		
Current	1,000	908
Deferred	11	(0)
Total income taxes	<u>1,011</u>	<u>908</u>
<b>Net income</b>	<u>1,936,871</u>	<u>1,888,808</u>
<b>Retained earnings brought forward</b>	80	24
<b>Unappropriated retained earnings</b>	1,936,952	1,888,832

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

## (3) Statements of changes in net assets

(Thousands of yen)

**For the six months ended December 31, 2015**

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 2)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
<b>Balance as of July 1, 2015</b>	92,808,193	1,237,489	1,237,489	94,045,683	94,045,683
<u>Changes during the period</u>					
Issuance of new investment units	22,434,876	—	—	22,434,876	22,434,876
Dividends from surplus	—	(1,237,409)	(1,237,409)	(1,237,409)	(1,237,409)
Net income	—	1,936,871	1,936,871	1,936,871	1,936,871
<u>Total changes during the period</u>	22,434,876	699,462	699,462	23,134,338	23,134,338
<b>Balance as of December 31, 2015</b>	115,243,069	1,936,952	1,936,952	117,180,022	117,180,022

**For the six months ended June 30, 2016**

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 2)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
<b>Balance as of January 1, 2016</b>	115,243,069	1,936,952	1,936,952	117,180,022	117,180,022
<u>Changes during the period</u>					
Dividends from surplus	—	(1,936,928)	(1,936,928)	(1,936,928)	(1,936,928)
Net income	—	1,888,808	1,888,808	1,888,808	1,888,808
<u>Total changes during the period</u>	—	(48,119)	(48,119)	(48,119)	(48,119)
<b>Balance as of June 30, 2016</b>	115,243,069	1,888,832	1,888,832	117,131,902	117,131,902

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

## (4) Statements of cash distributions

(Yen)

	For the six months ended	
	December 31, 2015	June 30, 2016
Unappropriated retained earnings	1,936,952,363	1,888,832,945
Cash distribution declared	1,936,928,025	1,888,777,500
(Cash distribution declared per unit)	(7,281)	(7,100)
Retained earnings carried forward	24,338	55,445

Note:

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Investment Corporation's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15 of the Special Taxation Measures Act of Japan and Article 39-32-3 of the Ordinance for Enforcement of the Special Taxation Measures Act for the fiscal period, cash distributions declared for the six months ended December 31, 2015 and June 30, 2016 were ¥1,936,928,025 and ¥1,888,777,500, respectively, which were all of retained earnings at the end of each period except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 4.

## (5) Statements of cash flows

(Thousands of yen)

	For the six months ended	
	December 31, 2015	June 30, 2016
<b>Net cash provided by (used in) operating activities:</b>		
Income before income taxes	1,937,883	1,889,716
Depreciation and amortization	1,251,891	1,281,377
Amortization of long-term prepaid expenses	105,199	109,039
Amortization of investment unit issuance costs	12,590	14,566
Amortization of investment corporation bonds issuance costs	—	763
Interest income	(1,631)	(1,264)
Interest expenses	439,425	438,576
Subsidy income	—	(7,279)
Reduction entry of property	—	7,279
Changes in assets and liabilities:		
Increase in operating accounts receivable	(36,929)	(9,099)
Decrease (increase) in consumption taxes refundable	(113,799)	246,345
Increase in consumption taxes payable	—	283,571
Increase in operating accounts payable	17,854	81,716
Increase in advances received	231,853	35,144
Decrease (increase) in prepaid expenses	(19,242)	6,285
Payments of long-term prepaid expenses	(416,880)	(18,144)
Other, net	286,170	(82,686)
Subtotal	<u>3,694,385</u>	<u>4,275,912</u>
Interest income received	1,631	1,264
Interest expenses paid	(404,761)	(441,070)
Income taxes paid	(45,877)	—
Income taxes refund	—	17,527
Net cash provided by operating activities	<u>3,245,378</u>	<u>3,853,632</u>
<b>Net cash provided by (used in) investing activities:</b>		
Purchases of property, plant and equipment in trust	(47,925,619)	(471,780)
Purchase of investment securities	(5,085,027)	—
Proceeds from tenant leasehold and security deposits	1,192,820	326,787
Proceeds from tenant leasehold and security deposits in trust	1,858,798	203,961
Payments of tenant leasehold and security deposits	(253,833)	(190,705)
Payments of tenant leasehold and security deposits in trust	(1,245,512)	(374,195)
Proceeds from restricted bank deposits in trust	955	47,408
Payments for restricted bank deposits in trust	(459,023)	(52,757)
Net cash used in investing activities	<u>(51,916,442)</u>	<u>(511,282)</u>
<b>Net cash provided by (used in) financing activities:</b>		
Increase in short-term loans payable	1,800,000	1,500,000
Repayments of short-term loans payable	—	(5,800,000)
Proceeds from long-term loans payable	40,000,000	2,800,000
Repayments of long-term loans payable	(15,125,000)	(125,000)
Proceeds from investment corporation bonds – unsecured	—	2,968,229
Proceeds from issuance of investment units	22,363,721	—
Dividends paid	(1,237,605)	(1,934,667)
Net cash provided (used) by financing activities	<u>47,801,115</u>	<u>(591,438)</u>
<b>Net change in cash and cash equivalents</b>	<u>(869,948)</u>	<u>2,750,912</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>10,567,901</u>	<u>9,697,953</u>
<b>Cash and cash equivalents at end of period (Note 4)</b>	<u>9,697,953</u>	<u>12,448,865</u>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

(6) Note relating to going concern assumption

Nothing to be noted.

(7) Summary of significant accounting policies

**(a) Securities**

Non-marketable securities held as available-for-sale are stated at cost determined by the moving average method. Investments in Tokumei Kumiai (silent partnership) agreements are accounted for by using the equity method of accounting.

**(b) Property, plant and equipment**

Property, plant and equipment is recorded at cost. Depreciation of property, plant and equipment, except for land, is calculated on a straight-line basis over the estimated useful lives of the assets as stated below:

Buildings .....	2-65 years
Structures.....	10-50 years
Machinery and equipment .....	11 years
Tools, furniture and fixtures .....	3-15 years

**(c) Intangible assets**

Intangible assets are amortized on a straight-line basis. The estimated useful life of software is five years.

**(d) Long-term prepaid expenses**

Long-term prepaid expenses are amortized on a straight-line basis.

**(e) Investment unit issuance costs**

Investment unit issuance costs are capitalized and amortized on a straight-line basis over three years.

**(f) Investment corporation bonds issuance costs**

Investment corporation bonds issuance costs are capitalized and amortized on a straight-line basis over the maturity period of the investment corporation bonds.

**(g) Taxes on property, plant and equipment**

Property, plant and equipment are annually subject to various taxes, such as property taxes and urban planning taxes. An owner of a property is registered in the record maintained by the local government in each jurisdiction, and such taxes are imposed on the owner registered in the record as of January 1 of each year based on the assessment made by the local government.

Under the above tax rules, a seller of a property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes calculated from the acquisition date to the end of the calendar year is capitalized as a cost of the property in accordance with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). In subsequent calendar years, half of such taxes on property, plant and equipment for

each calendar year are charged as operating expenses in each fiscal period.

Taxes on property, plant and equipment capitalized as part of the acquisition cost of properties amounted to ¥95,079 thousand for the six months ended December 31, 2015. No taxes on property, plant and equipment were capitalized for the six months period ended for June 30, 2016.

***(h) Hedge accounting***

In accordance with the Investment Corporation's risk management policy and its internal rules, the Investment Corporation uses derivative instruments for the purpose of hedging risks that are prescribed in the Investment Corporation's articles of incorporation. The Investment Corporation hedges fluctuations in interest rates of loans payable through the use of interest rate swaps as hedging instruments and applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under such interest swap contracts can be recognized and added to or reduced from any interest earned or incurred on the hedged asset or liability, as appropriate, and the fair value of the interest rate swap is not required to be evaluated separately. An assessment of hedge effectiveness is not performed when the interest rate swaps meet the specific criteria required for such special treatment.

***(i) Cash and cash equivalents***

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid and readily convertible to cash, have a low risk of price fluctuation, and mature within three months from the date of acquisition.

***(j) Accounting treatment of trust beneficiary interests in real estate trusts***

For the trust beneficiary interests in real estate trusts, which are commonly utilized to obtain ownership in investment properties in Japan and through which the Investment Corporation holds all of its real estate, all assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant balance sheet and income statement accounts of the Investment Corporation in proportion to the percentage interest that such trust beneficiary interest represents. Certain material accounts with respect to assets and liabilities in trust are presented separately from other accounts in the balance sheet of the Investment Corporation.

***(k) Consumption taxes***

Consumption taxes withheld and consumption taxes paid are not included in the statement of income and retained earnings. The consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld are included in current assets and the excess of amounts withheld over payments are included in current liabilities as the case may be.



(8) Notes to financial information

**Note 1 – Reduction entry for property**

Acquisition costs of certain properties in trust were reduced by government subsidies received or insurance income. The accumulated amounts of such reduction were as follows:

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
Reduction entry by:		
Government subsidies received		
Buildings in trust	4,864	4,864
Tools, furniture and fixtures in trust	—	7,279
Insurance income		
Buildings in trust	68,700	68,700

**Note 2 – Unitholders' equity**

(1) Number of units

	As of	
	December 31, 2015	June 30, 2016
Authorized	2,000,000 units	2,000,000 units
Issued and outstanding	266,025 units	266,025 units

(2) The Investment Corporation is required to maintain net assets of at least ¥50,000 thousand as required by Article 67-4 of the Act on Investment Trusts and Investment Corporations of Japan.

### Note 3 – Rental business revenue and expenses

Revenue and expenses related to property rental business for the six months ended December 31, 2015 and June 30, 2016 consist of the following:

(Thousands of yen)

	For the six months ended	
	December 31, 2015	June 30, 2016
<b>Rental business revenue:</b>		
Rent revenue—real estate:		
Rental revenue	4,885,294	5,082,289
Common area charges	928,151	966,992
Other	174,340	179,756
Total rent revenue—real estate	5,987,786	6,229,038
Other rental business revenue:		
Utilities	441,425	431,643
Cancellation penalty	4,879	548
Other	34,606	36,199
Total other rental business revenue	480,911	468,390
Total rental business revenue	6,468,698	6,697,429
<b>Expenses related to rental business:</b>		
Property management fees	802,451	830,936
Utilities	680,696	634,147
Property-related taxes	508,921	578,081
Insurance	13,299	10,707
Repair and maintenance	159,470	239,843
Depreciation	1,251,891	1,281,377
Other	54,810	71,404
Total expenses related to rental business	3,471,541	3,646,498
<b>Operating income from property leasing activities</b>	2,997,156	3,050,931

### Note 4 – Cash and cash equivalents

Cash and cash equivalents shown in the statement of cash flows consist of the following balance sheet items:

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
Cash and bank deposits	4,629,691	7,526,363
Cash and bank deposits in trust	8,262,102	8,121,692
Restricted bank deposits in trust <sup>(1)</sup>	(3,193,840)	(3,199,189)
Cash and cash equivalents	9,697,953	12,448,865

Note:

- (1) The usage of the bank deposits in trust is restricted to repayments of tenant leasehold and security deposits.

## Note 5 – Leases

### (a) Lease rental revenues

The Investment Corporation leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of December 31, 2015 and June 30, 2016 scheduled to be received are summarized as follows:

	(Thousands of yen)	
	As of	
	December 31, 2015	June 30, 2016
Due within one year	2,872,348	2,983,473
Due after one year	5,608,333	4,565,908
Total	8,480,681	7,549,382

### (b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of December 31, 2015 and June 30, 2016 are as follows:

	(Thousands of yen)	
	As of	
	December 31, 2015	June 30, 2016
Due within one year	6,036	6,036
Due after one year	25,653	22,635
Total	31,689	28,671

## Note 6 – Financial instruments

### (a) Qualitative information for financial instruments

#### (i) Policy for financial instrument transactions

The Investment Corporation raises funds through loans payable or the issuance of investment corporation bond for the acquisition of real estate properties, expenditures on property maintenance, payment of distributions, maintaining necessary working capital funds and/or repayment of existing debt. The investment corporation bond, however, has not been issued as of December 31, 2015.

#### (ii) Nature and extent of risks arising from financial instruments and risk management

The funds raised through loans payable are mainly used to acquire real estate properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable and tenant leasehold and security deposits are managed by decentralizing maturity date of loans payable and maintaining liquidity with preparing plans for funds.

Although loans payable with floating interest rates are subject to fluctuations in market interest rates, a certain portion of loans payable with floating interest rates is hedged by interest rate swaps. The Investment Corporation manages interest fluctuation risk by adjusting a ratio of floating rate debt to the total of loans payable in response to the current financial market condition

#### (iii) Supplemental information on fair value of financial instruments

The fair value of financial instruments is based on quoted market prices, if available. When quoted market prices are not available, fair value is estimated by using valuation techniques which contain various assumptions. If other valuation models or assumptions were used, the estimated fair value may differ.

**(b) Quantitative information for financial instruments**

The following table shows the carrying amounts, fair value and valuation differences of financial instruments for which fair value is available as of December 31, 2015 and June 30, 2016.

(Thousands of yen)

	As of					
	December 31, 2015			June 30, 2016		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	4,629,691	4,629,691	—	7,526,363	7,526,363	—
(2) Cash and bank deposits in trust	8,262,102	8,262,102	—	8,121,692	8,121,692	—
<b>Total assets</b>	<b>12,891,793</b>	<b>12,891,793</b>	<b>—</b>	<b>15,648,055</b>	<b>15,648,055</b>	<b>—</b>
(3) Short-term loans payable	4,300,000	4,300,000	—	—	—	—
(4) Current portion of long-term loans payable	20,150,000	20,175,693	25,693	20,150,000	20,154,779	4,779
(5) Investment corporation bonds – unsecured	—	—	—	3,000,000	3,024,600	24,600
(6) Long-term loans payable	69,900,000	70,429,216	529,216	72,575,000	73,657,253	1,082,253
<b>Total liabilities</b>	<b>94,350,000</b>	<b>94,904,909</b>	<b>554,909</b>	<b>95,725,000</b>	<b>96,836,633</b>	<b>1,111,633</b>
(7) Derivatives instruments	—	—	—	—	—	—

Note (i): The methods and assumption used to estimate fair value are as follows:

(1) Cash and bank deposits and (2) Cash and bank deposits in trust

Because of their short maturities, the carrying amounts approximate their fair value.

(3) Short-term loans payable, (4) Current portion of long-term loans payable and (6) Long-term loans payable

Loans payable with floating interest rates changing within a short term period are stated at their carrying amounts as their carrying amounts approximate their fair values. The fair value of loans payable with fixed interest rates is determined based on the present value of contractual cash flows (when loans payable with floating interest rates are hedged by interest rate swaps which qualify for hedge accounting and meet special criteria, contractual cash flows in conjunction with the hedging interest rate swaps) discounted at current market interest rates which would be applicable to new loans payable under the same conditions and terms.

(5) Investment corporation bonds – unsecured

The fair value is the quoted price provided by financial market information provider.

(7) Derivative instruments

Please refer to “Note 7 - Derivative instruments.”

Note (ii): Financial instruments for which fair value is difficult to determine are as follows:

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	8,323,810	8,411,330
Tenant leasehold and security deposits in trust	3,372,942	3,202,707

The investment securities (equity interests in silent partner ship) are not traded in markets, and it is difficult to estimate reasonable fair value. Also, the above carrying amounts of tenant leasehold and security deposits are not publicly traded, and it is difficult to determine their fair value based on estimated future cash flows because the repayment dates of those deposits are not certain. Therefore, these financial instruments are not included in the above quantitative information.

Note (iii): Cash flows schedule of financial assets after the balance sheet date

(Thousands of yen)

As of December 31, 2015	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	4,629,691	-	-	-	-	-
Cash and bank deposits in trust	8,262,102	-	-	-	-	-
<b>Total</b>	<b>12,891,793</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Thousands of yen)

As of June 30, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	7,526,363	-	-	-	-	-
Cash and bank deposits in trust	8,121,692	-	-	-	-	-
<b>Total</b>	<b>15,648,055</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note (iv): Cash flows schedule of interest-bearing financial liabilities after the balance sheet date

(Thousands of yen)

As of December 31, 2015	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	4,300,000	-	-	-	-	-
Long-term loans payable	20,150,000	13,800,000	15,300,000	15,200,000	14,300,000	11,300,000

(Thousands of yen)

As of June 30, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	20,150,000	13,675,000	15,300,000	15,200,000	17,100,000	11,300,000
Investment corporation bonds – unsecured	-	-	-	-	1,500,000	1,500,000

## Note 7 – Derivative instruments

Derivative instruments are used only for hedging purpose and are subject to hedge accounting as following tables show.

As of December 31, 2015

(Thousands of yen)

Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps (Note 1)	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	38,600,000	38,600,000	Note 1	-

As of June 30, 2016

(Thousands of yen)

Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps (Note 1)	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	41,400,000	41,400,000	Note 1	-

Note:

- (1) As disclosed in “(7) Summary of significant accounting policies (h) Hedge accounting”, the Investment Corporation applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under swap contracts, and not the fair value of the derivative, can be determined separately from the hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instruments and the long-term loans payable as the hedged items is calculated together as one and disclosed as such under Note (i) in “Note 6 - Financial instruments (b) Quantitative information for financial instruments”.

## Note 8 – Related-party transactions

The following tables show related-party transactions for the six months ended December 31, 2015 and June 30, 2016.

For the six months ended December 31, 2015:

(Thousands of yen)

Type of related-party	Name	Business or occupation	Voting interest in the Company	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts <sup>(2)</sup>	Balance sheet account	Amounts <sup>(2)</sup>
Executive officer and relatives	Katsura Matsuo	Executive Director of the Investment Corporation President & CEO & Representative Director of the Asset Manager	—	Payment of asset management fee to the Asset Manager <sup>(1)</sup>	969,978 (Note 3)	Accounts payable - other	515,461

For the six months ended June 30, 2016:

(Thousands of yen)

Type of related-party	Name	Business or occupation	Voting interest in the Company	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts <sup>(2)</sup>	Balance sheet account	Amounts <sup>(2)</sup>
Executive officer and relatives	Katsura Matsuo	Executive Director of the Investment Corporation President & CEO & Representative Director of the Asset Manager	—	Payment of asset management fee to the Asset Manager <sup>(1)</sup>	551,658	Accounts payable - other	595,791

Notes:

- (1) The terms and conditions of payment of the asset management fee have been based on the Investment Corporation’s articles of incorporation.  
(2) The transaction amounts exclude consumption taxes and the balance amounts include those taxes.  
(3) Payments of the asset management fee for the six months ended December 31, 2015 include acquisition fee capitalized as part of the acquisition cost of properties amounted to ¥519,749 thousand.

## Note 9 – Fair value of investment and rental property

The Investment Corporation has mainly office buildings as investment and rental properties which are located in Tokyo and Osaka metropolitan areas or other areas in Japan. The following table shows the net book value and the fair value of the investment and rental properties in aggregate for the six months ended December 31, 2015 and June 30, 2016.

(Thousands of yen)

	As of / For the six months ended	
	December 31, 2015	June 30, 2016
<b>Net book value</b>		
Balance at the beginning of the period	160,197,655	206,923,420
Net increase (decrease) during the period <sup>(1)</sup>	46,725,764	(838,106)
Balance at the end of the period	206,923,420	206,085,313
<b>Fair value<sup>(2)</sup></b>	183,420,000	187,530,000

Notes:

- (1) For the six months ended December 31, 2015:  
Changes in the net book value are mainly due to acquisition of trust beneficiary interest in G-Square Shibuya Dogenzaka, Shibuya Sakuragaoka Square (land with leasehold interest), Yokohama Creation Square, Cube Kawasaki and Higashi-Nihombashi Green Building totaling ¥47,732,963 thousand offset by depreciation.
- For the six months ended June 30, 2016:  
Changes in the net book value are mainly due to capital expenditures offset by depreciation.
- (2) Fair value has been determined based on the appraisal value provided by independent real estate appraisers.

For rental revenues and expenses for the six months ended December 31, 2015 and June 30, 2016, please refer to “Note 3 – Rental business revenue and expenses.”

## Note 10 – Segment information

Segment information for the six months ended December 31, 2015 and June 30, 2016 is as follows:

### (a) Operating segment information

Disclosure is omitted as the Investment Corporation is comprised of a single reportable segment engaged in the property rental business.

### (b) Enterprise-wide disclosures

#### (i) Information about products and services

Disclosure is not required as revenues from external customers for the single segment are in excess of 90% of total revenues.

#### (ii) Information about geographic areas

##### Revenues from overseas customers:

Disclosure is not required as revenues from external customers attributable to Japan are in excess of 90% of total revenues.

##### Tangible fixed assets:

Disclosure is not required as tangible fixed assets located in Japan are in excess of 90% of total tangible fixed assets.

### (c) Information about major customers

(Thousands of yen)

Name of customer	Revenues for the six months ended		Relating segment
	December 31, 2015	June 30, 2016	
Panasonic Corporation	925,719	925,350	Property rental business
AEON Retail Co., Ltd.	726,000	726,000	Property rental business

### Note 11 – Per unit information

The net asset value per unit as of December 31, 2015 and June 30, 2016 was ¥440,484 and ¥440,304, respectively. Net income per unit for the six months ended December 31, 2015 and June 30, 2016 was ¥7,614 and ¥7,100, respectively.

Net income per unit is calculated by dividing the net income attributable to unitholders by the weighted average number of units outstanding during the six-month period. The Investment Corporation has no potentially dilutive units.

A basis of calculation of net income per unit is as follows:

	(Thousands of yen)	
	<b>For the six months ended</b>	
	<b>December 31, 2015</b>	<b>June 30, 2016</b>
Net income	1,936,871	1,888,808
Effect of dilutive units	—	—
Net income attributable to unitholders	1,936,871	1,888,808
Adjusted weighted-average number of units outstanding for the period	254,351 units	266,025 units

### Note 12 – Subsequent events

None

### Note 13 – Investment securities

Notes relating to investment securities are omitted as the investment securities (equity interests in silent partnership) are not traded in markets, and it is difficult to estimate reasonable fair value.

### Note 14 – Omission of disclosure

Note relating to income taxes, retirement benefits and asset retirement obligations are omitted as immaterial.

## Note 15 – Changes in unit issued and outstanding

There was no change in unitholders' capital for the six months ended June 30, 2016. The outline of changes in unitholders' capital for the previous periods was as follows:

Date	Capital transaction	Number of units issued and outstanding		Unitholders' capital (Millions of yen)		Note
		Increase	Balance	Increase	Balance	
June 1, 2006	Private placement for incorporation	200	200	100	100	Note 1
August 28, 2006	Public offering	180,000	180,200	88,587	88,687	Note 2
September 26, 2006	Allocation of investment units to a third party	3,425	183,625	1,685	90,372	Note 3
April 22, 2015	Allocation of investment units to a third party	8,400	192,025	2,435	92,808	Note 4
July 29, 2015	Public offering	70,000	262,025	21,222	114,030	Note 5
August 17, 2015	Allocation of investment units to a third party	4,000	266,025	1,212	115,243	Note 6

Note 1 The Investment Corporation was incorporated through private placement at a price of ¥500,000 per unit.

Note 2 New investment units were issued at a price of ¥510,000 per unit (subscription price of ¥492,150 per unit) through a public offering in order to raise funds for acquiring new property.

Note 3 New investment units were issued at a price of ¥492,150 per unit through the allocation of investment units to Nomura Securities Co., Ltd. in connection with the public offering on August 28, 2006.

Note 4 New investment units were issued at a price of ¥289,950 per unit through the allocation of investment units to Mitsubishi Corporation and UBS AG.

Note 5 New investment units were issued at a price of ¥313,462 per unit (subscription price of ¥303,174 per unit) through a public offering in order to raise funds for acquiring new property.

Note 6 New investment units were issued at a price of ¥303,174 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on July 29, 2015.



## 4. Changes in officers

### (1) Officers of the Investment Corporation

None

### (2) Officers of the Asset Manager

None

## 5. Additional information

### (1) Composition of assets

Classification of assets	Investment category	Investment area	December 31, 2015		As of June 30, 2016	
			Total of net book value (Millions of yen)	Ratio to total assets (Note 1) (%)	Total of net book value (Millions of yen)	Ratio to total assets (Note 1) (%)
Trust beneficial interest in real property	Office Building	Three major metropolitan areas				
		Tokyo metropolitan area (Note 2)	55,428	24.5	55,400	24.3
		Osaka metropolitan area (Note 2)	122,526	54.2	121,855	53.5
	Other	Three major metropolitan areas				
		Tokyo metropolitan area (Note 2)	24,297	10.7	24,182	10.6
		Osaka metropolitan area (Note 2)	2,452	1.1	2,448	1.1
	Other areas	2,217	1.0	2,198	1.0	
Sub-total			206,923	91.5	206,085	90.5
Investments in Tokumei Kumiai agreement (Note 3)			5,085	2.2	5,085	2.2
Bank deposits and other assets			14,091	6.2	16,515	7.3
Total assets			226,099	100.0	227,686	100.0
Total liabilities			108,919	48.2	110,554	48.6
Total net assets			117,180	51.8	117,131	51.4

Note 1 “Ratio to total assets” is calculated by rounding to the nearest first decimal place.

Note 2 The Tokyo metropolitan area consists of Tokyo, Kanagawa, Chiba and Saitama prefectures; the Osaka metropolitan area consists of Osaka, Kyoto and Hyogo prefectures.

Note 3 Investments in Tokumei Kumiai agreement is 40% equity interest of silent partnership with R40 Godo Kaisha whose investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

Note 4 Construction in progress in trust is included in “Bank deposits and other assets”.

### (2) Investment assets

#### (a) Investment securities

The investment in Tokumei Kumiai (“TK”) agreement as of June 30, 2016 was as follows:

Name	Classification of assets	Quantity	Net book value (Millions of yen)		Fair value (Note2) (Millions of yen)		Ratio to total assets (Note 3) (%)
			Per unit	Amount	Per unit	Amount	
Equity interest of TK agreement managed by R40 Godo Kaisha (Note 1)	Investments in Tokumei Kumiai agreement	—	—	5,085	—	5,085	2.2

Note 1 The investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

Note 2 Fair value represents net book value of the equity interest of TK agreement.

Note 3 “Ratio to total assets” is calculated by rounding to the nearest first decimal place.

*(b) Properties in trust*

The investment properties in the form of trust beneficiary interests held by the Investment Corporation as of June 30, 2016 were as follows:

Investment category	Investment area		Property Number	Name of property	Location (Note 1)	Form of ownership	Net book value (Note 2) (Millions of yen)	Appraisal value at end of period (Note 3) (Millions of yen)	Leasable area (Note 4) (m <sup>2</sup> )	Leased area (Note 5) (m <sup>2</sup> )	Occupancy ratio (Note 6) (%)		
Office Building	Tokyo metropolitan area		OT-1	Sumitomo Fudosan Ueno Bldg. No.6	5-24-8, Higashiueno, Taito-ku, Tokyo	Trust beneficial interest	7,736	7,830	6,858.16	6,858.16	100.0		
			OT-2	G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	12,312	13,900	5,013.55	3,985.40	79.5		
			OT-3	Shibuya Sakuragaoka Square (land with leasehold interest) (Note 7)	109-7 and other, Sakuragaokacho, Shibuya-ku, Tokyo (Note 8)	Trust beneficial interest	5,058	5,240	1,200.08	1,200.08	100.0		
			OT-4	Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,143	7,600	12,747.19	11,776.65	92.4		
			OT-5	Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	20,335	21,400	24,462.29	24,462.29	100.0		
			OT-6	Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	2,814	2,910	3,256.64	3,256.64	100.0		
			Osaka metropolitan area		OO-1	Twin 21 (Note 9)	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	66,766	48,700	82,313.72	80,686.35	98.0
					OO-2	Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	22,681	19,300	37,406.94	36,495.01	97.6
					OO-3	Midosuji MID Bldg.	4-3-2 Minamisenba, Chuo-ku, Osaka-shi	Trust beneficial interest	8,434	7,280	10,461.32	10,331.80	98.8
					OO-4	MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	2,114	1,400	4,833.88	4,833.88	100.0
					OO-5	MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	3,158	2,180	4,277.65	3,660.03	85.6
					OO-6	MID Midosujikawaramachi Bldg.	4-3-7 Kawaramachi, Chuo-ku, Osaka-shi	Trust beneficial interest	1,922	1,490	3,110.49	3,110.49	100.0
	OO-7	Kitahama MID Bldg.			1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	10,477	8,670	10,189.49	10,189.49	100.0		
	OO-8	MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	3,395	2,160	3,877.38	3,475.30	89.6				
	OO-9	Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	2,904	3,450	4,655.57	4,422.68	95.0				
	Sub total							177,256	153,510	214,664.35	208,744.25	97.2	
	Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	24,182	27,500	101,210.44	101,210.44	100.0	
			Osaka metropolitan area	RO-1	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	2,448	3,260	9,586.26	9,586.26	100.0	
		Other area	HF-1	Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	2,198	3,260	5,554.91	5,554.91	100.0		
Sub total							28,828	34,020	116,351.61	116,351.61	100.0		
Total							206,085	187,530	331,015.96	325,095.86	98.2		

Note 1 "Location" means the location indicated in the residence indication (if not available, in the land registry book).

Note 2 "Net book value" is calculated by subtracting accumulated depreciation from the original acquisition cost (including relating expenses) of each property.

Note 3 "Appraisal value at end of period" shows the value as of June 30, 2016 appraised by the real estate appraiser (Morii Appraisal & Investment Consulting, Inc., Tanizawa Sōgō Appraisal Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and Japan Real Estate Institute) in accordance with the methods and standard of assets valuation as stipulated in the Articles of Incorporation of the Investment Corporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

Note 4 "Leasable area" refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leasable as of June 30, 2016.

Note 5 "Leased area" refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leased under lease agreements valid as of June 30, 2016.

Note 6 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2016 by the leasable area. In addition, the figures in the "Total" rows are presented as percentages that are obtained by dividing the sum of the leased area of each property group by the sum of the group's leasable area.

Note 7 The Investment Corporation owns 40% of the trust beneficial interest in Shibuya Sakuragaoka Square (land with leasehold interest). The leasable area of the property shows 0.3% of the total leasable area as the share of quasi-co-ownership.

Note 8 The location of Shibuya Sakuragaoka Square (land with leasehold interest) is based on the land registry book.

Note 9 Including the trust beneficiary interest of Twin 21 (partial ownership of leased land).

Note 10 Amounts less than one million yen are rounded down.

*(c) Operation results of properties*

Operating results of each property held by the Investment Corporation as of June 30, 2016 were as follows:

Investment category	Investment area	Property Number	Name of property	For the six months ended									
				December 31, 2015				June 30, 2016					
				Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)	Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)		
Office Building	Three major metropolitan areas	Tokyo metropolitan area	OT-1	Sumitomo Fudosan Ueno Bldg. No.6	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)	
			OT-2	G-Square Shibuya Dogenzaka (Note 7)	7	80.1	181,417	2.8	8	79.5	191,997	2.9	
			OT-3	Shibuya Sakuragaoka Square (land with leasehold interest) (Note7)	1	100.0	74,553	1.2	1	100.0	90,633	1.4	
			OT-4	Yokohama Creation Square (Note7)	36	88.8	257,938	4.0	37	92.4	317,836	4.7	
			OT-5	Cube Kawasaki (Note 8)	8	94.7	516,744	8.0	9	100.0	589,248	8.8	
			OT-6	Higashi-Nihombashi Green Bldg. (Note 9)	8	100.0	5,016	0.1	8	100.0	85,440	1.3	
		Osaka metropolitan area	OO-1	Twin 21	109	97.6	2,257,102	34.9	107	98.0	2,255,041	33.7	
			OO-2	Matsushita IMP Bldg.	60	97.7	1,007,324	15.6	59	97.6	1,015,718	15.2	
			OO-3	Midosuji MID Bldg.	8	98.8	289,031	4.5	8	98.8	285,206	4.3	
			OO-4	MID REIT Kyobashi Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)	
			OO-5	MID Imabashi Bldg.	17	89.7	94,532	1.5	16	85.6	85,097	1.3	
			OO-6	MID Midosujikawaramachi Bldg.	12	87.6	51,604	0.8	13	100.0	55,946	0.8	
	Other area	OO-7	Kitahama MID Bldg.	11	100.0	318,456	4.9	11	100.0	319,304	4.8		
		OO-8	MID Nishihommachi Bldg.	14	85.4	80,649	1.2	15	89.6	77,428	1.2		
		OO-9	Higobashi MID Bldg.	11	100.0	123,440	1.9	11	95.0	118,199	1.8		
	Sub total				305	96.3	—	—	306	97.2	—	—	
	Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1	100.0	726,000	11.2	1	100.0	726,000	10.8
			Osaka metropolitan area	RO-1	Konami Sports Club Kyobashi	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
		Other area	HF-1	Dormy Inn Hakata Gion	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)	
Sub total				4	100.0	—	—	4	100.0	—	—		
Total (Note 6)				309	97.6	6,468,698	100.0	310	98.2	6,697,429	100.0		

Note 1 "Number of tenants" represents the number of tenants based on lease agreements that are valid at the end of each fiscal period. (Figures are for leased units only and exclude the tenants who rent only the floor space for storage, halls, parking, etc.). When a single tenant occupies multiple properties, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property and the billing of the rent for these units is consolidated, the count is as one tenant. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 2 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2016 by the leasable area. In addition, the figures in the "Subtotal" and the "Total" rows are presented as percentages that are obtained by dividing the sum of the leased area of each property group by the sum of the group's leasable area and rounded to the first decimal place.

Note 3 Amounts less than one thousand yen are rounded down.

Note 4 Total of rental revenues includes Sumitomo Fudosan Ueno Bldg., MID REIT Kyobashi Bldg., Konami Sports Club Kyobashi and Dormy Inn Hakata Gion.

Note 5 "Ratio of rental revenue to total rental revenues" is rounded to the nearest first decimal place.

Note 6 "Rental revenues" and "Ratio of rental revenue to total rental revenues" of the properties are not disclosed because the consent from the tenants has not been obtained.

Note 7 G-Square Shibuya Dogenzaka, Shibuya Sakuragaoka Square (land with leasehold interest) and Yokohama Creation Square were acquired on August 3, 2015. The Number of operation days for the six months ended December 31, 2015 from the acquisition date was 151 days.

Note 8 Cube Kawasaki was acquired on August 7, 2015. The Number of operation days for the six months ended December 31, 2015 from the acquisition date was 147 days.

Note 9 Higashi-Nihombashi Green Bldg. was acquired on December 21, 2015. The Number of operation days for the six months ended December 31, 2015 from the acquisition was 11 days.