

MCUBS MidCity Investment Corporation

The 20th fiscal period Asset Management Report

January 1, 2016 – June 30, 2016



ASSET MANAGEMENT REPORT

Outline of asset management operation

1. Operating results and financial position

Fiscal period			16 th	17 th	18 th	19 th	20 th
As of /for the six months ended			June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016
Operating revenues	(Millions of yen)		5,157	5,173	5,265	6,579	6,824
(Rental business revenues)	(Millions of yen)		(5,157)	(5,173)	(5,265)	(6,468)	(6,697)
Operating expenses	(Millions of yen)		3,543	3,634	3,582	4,072	4,361
(Rental business expenses)	(Millions of yen)		(3,023)	(3,123)	(3,122)	(3,471)	(3,646)
Operating income	(Millions of yen)		1,614	1,538	1,683	2,507	2,462
Ordinary income	(Millions of yen)		1,161	1,087	1,239	1,937	1,889
Net income	(Millions of yen)		1,160	1,093	1,237	1,936	1,888
Total assets	(Millions of yen)		168,762	168,823	174,117	226,099	227,686
(Period-on-period change)	(%)		(-0.1)	(0.0)	(3.1)	(29.9)	(0.7)
Net assets	(Millions of yen)		91,532	91,466	94,045	117,180	117,131
(Period-on-period change)	(%)		(-0.0)	(-0.1)	(2.8)	(24.6)	(-0.0)
Interest-bearing liabilities	(Millions of yen)		65,425	65,300	67,675	94,350	95,725
Unitholders' capital	(Millions of yen)		90,372	90,372	92,808	115,243	115,243
Number of units issued and outstanding	(Units)		183,625	183,625	192,025	266,025	266,025
Net asset value per unit	(Yen)		498,477	498,116	489,757	440,484	440,304
Total distributions	(Millions of yen)		1,160	1,094	1,237	1,936	1,888
Distribution per unit	(Yen)		6,318	5,958	6,444	7,281	7,100
(Profit distribution per unit)	(Yen)		(6,318)	(5,958)	(6,444)	(7,281)	(7,100)
(Distribution per unit in excess of profit)	(Yen)		(—)	(—)	(—)	(—)	(—)
Ratio of ordinary income to total assets	(Notes 1 and 2)	(%)	0.7 (1.4)	0.6 (1.3)	0.7 (1.5)	1.0 (1.9)	0.8 (1.7)
Return on unitholders' equity	(Notes 1 and 3)	(%)	1.3 (2.6)	1.2 (2.4)	1.3 (2.7)	1.8 (3.6)	1.6 (3.2)
Ratio of net assets to total assets	(Note 4)	(%)	54.2	54.2	54.0	51.8	51.4
(Period-on-period change)		(%)	(0.0)	(-0.0)	(-0.2)	(-2.2)	(-0.4)
Ratio of interest-bearing liabilities to total assets	(Note 5)	(%)	38.8	38.7	38.9	41.7	42.0
Payout ratio	(Note 6)	(%)	100.0	100.0	100.0	100.0	100.0
Additional information:							
Number of investment properties	(Note 11)	(Properties)	12	12	13	18	18
Total leasable area	(Note 7)	(m ²)	277,516.98	277,516.98	284,330.63	331,034.57	331,015.96
Number of tenants	(Note 8)	(Tenants)	235	244	249	309	310
Occupancy ratio	(Note 9)	(%)	98.0	97.7	98.5	97.6	98.2
Depreciation	(Millions of yen)		1,127	1,133	1,150	1,251	1,281
Capital expenditures	(Millions of yen)		418	514	394	244	443
Rental net operating income (NOI)	(Note 10)	(Millions of yen)	3,268	3,182	3,294	4,249	4,332

Note 1 Figures in parenthesis have been annualized.

Note 2 Ordinary income ÷ {(Total assets at beginning of period + Total assets at end of period) ÷ 2} × 100

Note 3 Net income ÷ {(Net assets at beginning of period + Net assets at end of period) ÷ 2} × 100

Note 4 Net assets at end of period ÷ Total assets at end of period × 100

Note 5 Interest-bearing liabilities at end of period ÷ Total assets at end of period × 100

Note 6 Payout ratio for the 18th and 19th fiscal periods is calculated using the following formula as new investment units were issued during the period.

Payout ratio = Total distributions (excluding distributions in excess of profit) ÷ Net income × 100

Note 7 "Total leasable area" represents the total leasable floor space as of the end of each fiscal period. (Figures are for leasable units only and exclude the floor space for storage, halls, parking, etc., but include the floor space for common areas and parking, etc. when leased to tenants.)

Note 8 "Number of tenants at end of period" 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 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 a single tenant occupies multiple properties, the tenant is counted for each property and subtotaled and totaled. When a master lease agreement is concluded, the count is of the number of end-tenants who are subleasing from the lessee on the master lease agreement based on the assumption that consent of all end-tenants has been obtained for the lessee on the master lease agreement to serve as the lessor. Please note that for the 16th fiscal period and earlier fiscal periods, the count is as one tenant when in a single property, regardless of whether or not the billing of the rent for these units is consolidated, and the count is as one tenant for each property and totaled when in multiple properties. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 9 "Occupancy ratio" is the figure obtained by dividing the total leased area of respective properties at the end of each fiscal period by the total leasable area, and is expressed as a percentage.

Note 10 Operating income from property leasing activities (Rental business revenues – Rental business expenses) + Depreciation + Loss on disposal of property

Note 11 Number of investment properties does not include investments in Tokumei Kumiai (silent partnership) agreements.

2. Outline of asset management operation

(1) 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).

(2) Investment environment and management performance

(a) 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.

(b) 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.

(3) 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

(4) 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. Changes in unitholders' capital

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 real 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 real 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

Fluctuation in market price of the investment unit:

The market price of the investment unit issued by the Investment Corporation listed on Tokyo Stock Exchange REIT Market fluctuated during each fiscal period as follows:

(Yen)

Fiscal period	16 th	17 th	18 th	19 th	20 th
As of /for the six months ended	June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016
Highest price	245,200	310,000	390,000	384,000	386,000
Lowest price	222,000	234,000	281,100	273,300	299,700

4. Distributions

The Investment Corporation intends to distribute all of unappropriated retained earnings at the end of the period, except for fractional distribution per unit less than one yen, to be treated the distributions as a tax allowable deduction as defined in Article 67-15 of the Special Taxation Measures Act of Japan. As a result, cash distribution per unit for the six months ended June 30, 2016 amounted to ¥7,100.

Fiscal period	16 th	17 th	18 th	19 th	20 th
As of /for the six months ended	June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016
Retained earnings at end of period (Thousands of yen)	1,160,263	1,094,046	1,237,489	1,936,952	1,888,832
Retained earnings carried forward (Thousands of yen)	120	9	80	24	55
Total cash distributions (Thousands of yen)	1,160,142	1,094,037	1,237,409	1,936,928	1,888,777
(Cash distribution per unit) (Yen)	(6,318)	(5,958)	(6,444)	(7,281)	(7,100)
Profit distributions (Thousands of yen)	1,160,142	1,094,037	1,237,409	1,936,928	1,888,777
(Profit distribution per unit) (Yen)	(6,318)	(5,958)	(6,444)	(7,281)	(7,100)
Unitcapital refunds (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit) (Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from provision for temporary difference adjustment (Unitcapital refund per unit from provision for temporary difference adjustment) (Thousands of yen)	—	—	—	—	—
(Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from deduction of unitcapital under tax rules (Unitcapital refund per unit from deduction of unitcapital under tax rules) (Thousands of yen)	—	—	—	—	—
(Yen)	(—)	(—)	(—)	(—)	(—)

5. Management policies and issues

(1) 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 CO₂ 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 CO₂ 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.

(2) 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.)

(3) 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.

Outline of the Investment Corporation

1. Investment unit

Fiscal period		16 th	17 th	18 th	19 th	20 th
As of		June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016
Number of units authorized	(Units)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Number of units issued and outstanding	(Units)	183,625	183,625	192,025	266,025	266,025
Unitholders' capital	(Millions of yen)	90,372	90,372	92,808	115,243	115,243
Number of unitholders	(People)	15,745	13,703	11,795	12,517	11,665

2. Unitholders

Major unitholders as of June 30, 2016 were as follows:

Name	Number of units owned (Units)	Ratio of number of units owned to total number of units issued (Note) (%)
Japan Trustee Services Bank, Ltd. Trust Account	59,987	22.54
The Master Trust Bank of Japan, Ltd. Trust Account	31,414	11.80
Trust & Custody Services Bank, Ltd. Trust Account	31,135	11.70
The Nomura Trust and Banking Co., Ltd. Trust Account	11,080	4.16
Kanden Realty & Development Co., Ltd.	9,200	3.45
SIX SIS LTD.	7,604	2.85
STATE STREET BANK AND TRUST COMPANY 505223	4,663	1.75
Mitsubishi Corporation	4,200	1.57
STATE STREET BANK AND TRUST COMPANY 505001	2,855	1.07
The Fukui Bank, Ltd.	2,541	0.95
Total	164,679	61.90

Note Ratio of number of units owned to total number of units issued is calculated by rounding to the nearest second decimal place.

3. Officers

Officers, etc. as of June 30, 2016 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2016 (Thousands of yen)
Executive Director (Note 1)	Katsura Matsuo	President & CEO & Representative Director of MCUBS MidCity Inc.	(Note 2) —
Supervisory Director (Note 1)	Haruo Kitamura	Chief of KITAMURA & CO. (Certified public accountant)	2,850
	Osamu Ito	Partner of UNITED FUSO LAW OFFICE (Attorney at Law)	2,850
Independent auditor	KPMG AZSA LLC	—	(Note 5) 11,700

Note 1 There is no investment unit of the Investment Corporation held by the Executive Director nor the Supervisory Directors in their own name or that of others. Although Supervisory Directors may have additional post in other company than listed above, there is no conflict of interests between those companies including listed above and the Investment Corporation.

Note 2 There was no compensation for the Executive Director.

Note 3 Naoki Suzuki, Deputy President & Representative Director of MCUBS MidCity Inc. (the Asset Manager of the Investment Corporation), was appointed as alternate executive director for a vacancy of the executive director by the 6th General Meeting of Unitholders held on June 16, 2015. Also, Yonetaro Ori was appointed as alternate supervisory director for a vacancy of the supervisory director by the 6th General Meeting of Unitholders held on June 16, 2015.

Note 4 The Investment Corporation shall dismiss independent auditor in accordance with the Act on Investment Trusts and Investment Corporation of Japan, if necessary, considering audit quality, fees or other various factors.

Note 5 The compensation for the independent auditor includes ¥1,700 thousand fees for non-audit-service prescribed under Article 2, paragraph 1 of the Certified Public Accountants Act of Japan (Act No.103 of 1948, as amended).

4. Name of asset manager and other administrator

Asset manager, custodian and general administrators as of June 30, 2016 were as follows:

Classification	Name
Asset manager	MUCBS MidCity Investment Corporation
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (regarding book keeping)	Sumitomo Mitsui Trust Bank, Limited
General administrator (regarding investor registration and distribution payments to unitholders, etc.)	Mitsubishi UFJ Trust and Banking Corporation

Condition of investment assets

1. Composition of assets

Classification of assets	Investment category	Investment area	As of December 31, 2015		As of June 30, 2016		
			Total of net book value (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)	Total of net book value (Note 1) (Millions of yen)	Ratio to total assets (Note 2) (%)	
Trust beneficial interest in real property	Office Building	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	55,428	24.5	55,400	24.3
			Osaka metropolitan area (Note 3)	122,526	54.2	121,855	53.5
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	24,297	10.7	24,182	10.6
			Osaka metropolitan area (Note 3)	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 4)			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	

Note 1 Amounts less than one million yen are rounded down.

Note 2 "Ratio to total assets" is calculated by rounding to the nearest first decimal place.

Note 3 The Tokyo metropolitan area consists of Tokyo, Kanagawa, Chiba and Saitama prefectures; the Osaka metropolitan area consists of Osaka, Kyoto and Hyogo prefectures.

Note 4 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 5 Construction in progress in trust is included in "Bank deposits and other assets".

2. Major property

The principal properties as of June 30, 2016 were as follows:

Name of property	Net book value (Millions of yen)	Leasable area (Note 1) (m ²)	Leased area (Note 2) (m ²)	Occupancy ratio (Note 3) (%)	Ratio of rental revenue to total rental revenues (%)	Major use
Sumitomo Fudosan Ueno Bldg. No.6	7,736	6,858.16	6,858.16	100.0	(Note 5)	Office
G-Square Shibuya Dogenzaka	12,312	5,013.55	3,985.40	79.5	2.9	Office
Shibuya Sakuragaoka Square (land with leasehold interest)	5,058	1,200.08	1,200.08	100.0	1.4	Office
Yokohama Creation Square	7,143	12,747.19	11,776.65	92.4	4.7	Office
Cube Kawasaki	20,335	24,462.29	24,462.29	100.0	8.8	Office
Higashi-Nihombashi Green Bldg.	2,814	3,256.64	3,256.64	100.0	1.3	Office
Twin 21 (Note 4)	66,766	82,313.73	80,686.35	98.0	33.7	Office
Matsushita IMP Bldg.	22,681	37,406.94	36,495.01	97.6	15.2	Office
Midosuji MID Bldg.	8,434	10,461.32	10,331.80	98.8	4.3	Office
MID REIT Kyobashi Bldg.	2,114	4,833.88	4,833.88	100.0	(Note 5)	Office
MID Imabashi Bldg.	3,158	4,277.64	3,660.03	85.6	1.3	Office
MID Midosujikawaramachi Bldg.	1,922	3,110.49	3,110.49	100.0	0.8	Office
Kitahama MID Bldg.	10,477	10,189.49	10,189.49	100.0	4.8	Office
MID Nishihommachi Bldg.	3,395	3,877.38	3,475.30	89.6	1.2	Office
Higobashi MID Bldg.	2,904	4,655.57	4,422.68	95.0	1.8	Office
AEON MALL Tsudanuma	24,182	101,210.44	101,210.44	100.0	10.8	Retail facilities
Konami Sports Club Kyobashi	2,448	9,586.26	9,586.26	100.0	(Note 5)	Retail facilities
Dormy Inn Hakata Gion	2,198	5,554.91	5,554.91	100.0	(Note 5)	Hotel
Total	206,085	331,015.96	325,095.86	98.2	100.0	

Note 1 “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 2 “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 3 “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 4 Including the trust beneficiary interest of Twin 21 (partial ownership of leased land).

Note 5 “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 6 In addition to properties stated above table, the Investment Corporation invests in 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 7 Amounts less than one million yen are rounded down. Percentages are rounded to the nearest first decimal place.

3. Details of property

The details of investment properties held by the Investment Corporation as of June 30, 2016 were as follows:

Investment category	Investment Area		Name of property	Location (Note 1)	Form of ownership	Appraisal value at end of period (Note 2) (Millions of yen)	Net book value (Millions of yen)
Office Building	Three major metropolitan areas	Tokyo metropolitan area	Sumitomo Fudosan Ueno Bldg. No.6	5-24-8, Higashiueno, Taito-ku, Tokyo	Trust beneficial interest	7,830	7,736
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	13,900	12,312
			Shibuya Sakuragaoka Square (land with leasehold interest)	109-7 and other, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	5,240	5,058
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,600	7,143
			Cube Kawasaki	1-14 Nissin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	21,400	20,335
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	2,910	2,814
		Osaka metropolitan area	Twin 21 (Note 3)	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	48,700	66,766
			Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	19,300	22,681
			Midosuji MID Bldg.	4-3-2 Minamisenba, Chuo-ku, Osaka-shi	Trust beneficial interest	7,280	8,434
			MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	1,400	2,114
			MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,180	3,158
			MID Midosujikawaramachi Bldg.	4-3-7 Kawaramachi, Chuo-ku, Osaka-shi	Trust beneficial interest	1,490	1,922
			Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	8,670	10,477
			MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,160	3,395
			Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	3,450	2,904
Sub total						153,510	177,256
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	27,500	24,182
		Osaka metropolitan area	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,260	2,448
	Other area	Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	3,260	2,198	
	Sub total						34,020
Total						187,530	206,085

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

Note 2 "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 3 Including the trust beneficiary interest of Twin 21 (partial ownership of leased land).

Note 4 Amounts less than one million yen are rounded down.

Operating results of each property for the six months ended December 31, 2015 and June 30, 2016 were as follows:

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

Note 5 "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 6 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 7 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 8 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. The leasable area of the property refers to space indicated in the lease agreement valid as of December 31, 2015.

4. Details of investment securities

The details of investment securities as of June 30, 2016 were as follows:

Name	Classification of assets	Quantity	Net book Value (Thousands of yen)		Fair value (Note1) (Thousands of yen)		Unrealized gains (or losses) (Thousands of yen)	Remarks
			Per unit	Amount	Per unit	Amount		
Equity interest of Tokumei Kumiai (silent partnership) agreement backed by the trust beneficiary interest for co-ownership interest of Nagoya Lucent Tower	Investment in Tokumei Kumiai agreement	—	—	5,085,027	—	5,085,027	—	—
Total			—	5,085,027	—	5,085,027	—	

Note 1 Fair value represents net book value of the equity interest of Tokumei Kumiai agreement.

5. Details of specified transaction

The details of specified transaction as of June 30, 2016 were as follows:

Classification	Transaction	Notional contract amount (Thousands of yen)		Fair value (Note 1) (Thousands of yen)
			Over 1 year	
Over-the-counter	Interest rate swaps (Floating-rate to fixed-rate interest)	41,400,000	41,400,000	(537,150)
Total		41,400,000	41,400,000	(537,150)

Note 1 The fair value is estimated by the counterparty to the interest rate swaps contracts using market interest rates and other assumptions.

6. Other assets

Real property and trust beneficial interests in real property are included the above tables in “3. Details of property.”

7. Investment assets by country or area

There is no investment asset other than Japan.

Capital expenditures for property

1. Schedule of capital expenditures

The significant plan for capital expenditures on property maintenance as of June 30, 2016 was as below. The amounts of estimated cost shown in the below table are including expenses which will be charged to income.

Name of property	Location	Purpose	Scheduled term for construction or maintenance	Estimated cost (Millions of yen)		
				Total	Payment for the six months ended June 30, 2016	Total of advanced payment
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Repair of elevator	May 2015 to November 2016	251	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of electrical substation equipment	August 2016 to March 2017	89	—	—
Twin 21	Chuo-ku, Osaka-shi	Renewal of air-cooling chiller	August 2016 to December 2016	78	—	—
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Repair of elevator	March 2016 to December 2016	78	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of rest room at lower floors	January 2017 to May 2017	75	—	—

2. Capital expenditures for the six months ended June 30, 2016

Maintenance expenditures on property for the six months ended June 30, 2016 were totaling to ¥683 million consisting of ¥443 million of capital expenditures stated as below and ¥239 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Renewal of cooling tower	October 15, 2015 to March 31, 2016	93
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Renewal of elevator	March 1, 2016 to June 24, 2016	84
Twin 21	Chuo-ku, Osaka-shi	Repair of electrical substation equipment	December 1, 2015 to March 20, 2016	64
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioner	February 22, 2016 to March 27, 2016	32
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Repair of air conditioner	June 3, 2016 to June 30, 2016	21
Other properties, etc.	—	Other expenditures	—	147
Total				443

3. Reserved funds for long-term maintenance plan

The Investment Corporation had reserved funds as below to appropriate for future expenditures on maintenance based on a long-term maintenance plan.

(Millions of yen)

Fiscal period	16 th	17 th	18 th	19 th	20 th
As of /for the six months ended	June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016
Reserved funds at beginning of period	659	580	702	577	781
Increase	428	440	458	550	801
Decrease	507	317	583	346	350
Reserved funds at end of period	580	702	577	781	1,232

Condition of expenses and liabilities

1. Details of asset management expenses

(Thousands of yen)

Fiscal period	19 th	20 th
For the six months ended	December 31, 2015	June 30, 2016
(a) Asset management fees	450,229	551,658
(b) Asset custody fees	10,629	10,834
(c) Administrative service fees	50,176	54,264
(d) Directors' compensations	5,700	5,700
(e) Independent auditor fees	10,000	10,000
(f) Other operating expenses	74,037	82,202
Total	600,772	714,659

Note 1 The asset management fees above do not include acquisition fees capitalized as part of the acquisition cost of properties amounted to ¥519,749 thousand for the six months ended December 31, 2015.

2. Loans payable

Loans payable as of June 30, 2016 were as follows:

Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾ (%)	Maturity date	Repayment method	Use of proceeds	Remarks	
			(Thousands of yen)							
Short-term loans payable	Revolving credit loan (1 year)	Mizuho Bank, Ltd.	April 30, 2015	2,500,000	—	0.731	April 28, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Revolving credit loan (9 months)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	August 6, 2015	1,800,000	—	0.548	April 28, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Subtotal			4,300,000	—					
Long-term loans payable	Term loan (6 years 11 months) (Notes 4 and 7)	Development Bank of Japan Inc.	August 31, 2010	3,750,000	3,625,000	1.795	July 31, 2017 (Note 5)	(Note 5)	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2, 4 and 7)	Mizuho Bank, Ltd. Development Bank of Japan Inc.	July 29, 2011	4,000,000	4,000,000	1.364	July 31, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2 and 3)	Sumitomo Mitsui Trust Bank, Limited Aozora Bank, Ltd.	July 31, 2012	4,300,000	4,300,000	1.141	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (7 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2012	1,700,000	1,700,000	1.524	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (3 years) (Notes 2 and 7)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd. THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd.	July 31, 2013	15,900,000	15,900,000	0.773	July 29, 2016	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd.	July 31, 2013	4,800,000	4,800,000	1.297	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (7 years) (Notes 2 and 4)	Development Bank of Japan Inc. THE MINATO BANK, LTD.	July 31, 2013	1,800,000	1,800,000	1.709	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (3 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd.	July 31, 2014	6,000,000	6,000,000	0.707	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Resona Bank, Limited	July 31, 2014	4,000,000	4,000,000	0.962	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Term loan (6 years) (Notes 2 and 3)	Mizuho Bank, Ltd. The Hiroshima Bank, Ltd. Sony Bank Incorporated	July 31, 2014	2,000,000	2,000,000	1.240	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Aozora Bank, Ltd.	July 31, 2014	1,800,000	1,800,000	1.478	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed	

Classification		Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾	Maturity date	Repayment method	Use of proceeds	Remarks
Name of lender			(Thousands of yen)		(%)				
Term loan (4 years) (Note 2)	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd. The Nanto Bank, Ltd.	July 31, 2015	9,500,000	9,500,000	0.633	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (6 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 31, 2015	4,500,000	4,500,000	1.034	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Note 3)	Mizuho Bank, Ltd.	July 31, 2015	1,000,000	1,000,000	1.384	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years) (Note 2)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. THE NISHI-NIPPON CITY BANK, LTD. Mizuho Trust & Banking Co., Ltd. The Hyakugo Bank, Ltd.	July 31, 2015	10,500,000	10,500,000	0.533	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Trust & Banking Co., Ltd.	July 31, 2015	9,300,000	9,300,000	0.865	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	1,200,000	1,200,000	0.908	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Aozora Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Trust & Banking Co., Ltd.	July 31, 2015	2,200,000	2,200,000	1.202	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	800,000	800,000	1.233	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Note 3)	Mizuho Bank, Ltd.	July 31, 2015	500,000	500,000	1.384	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Note 4)	Development Bank of Japan Inc.	July 31, 2015	500,000	500,000	1.400	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 3)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	April 28, 2016	—	2,800,000	0.498	April 30, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Subtotal			90,050,000	92,725,000					
Total			94,350,000	92,725,000					

Note 1 The average interest rate indicates a weighted average of interest rate for each six-month period, rounded to the third decimal place. The average interest rates of loans payable which were hedged by interest rate swaps are calculated adjusting the effect of the interest rate swaps.

Note 2 These term loans are syndication loan.

Note 3 These term loans are hedged by interest rate swaps.

Note 4 Interest rates of these term loans are fixed rate.

Note 5 The principal is repaid on the end of January and July of each year from January 31, 2011 at an amount of ¥125,000 thousand, and the remaining balance (¥3,375,000 thousand) is repaid on July 31, 2017.

Note 6 The use of proceeds was acquisition of trust beneficiary interest in real estate, etc.

Note 7 Current portion of these term loans totaling to ¥250,000 thousand is shown as current portion of long-term loans payable in the balance sheets.

3. Investment corporation bonds

Name of bonds	Issuance date	Balance as of		Interest rate (%)	Maturity date	Repayment method	Use of proceeds	Remarks
		December 31, 2015 (Thousands of yen)	June 30, 2016 (Thousands of yen)					
The 1 st Unsecured Investment Corporation Bond	May 23, 2016	—	1,500,000	0.340	May 21, 2021	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 2 nd Unsecured Investment Corporation Bond	May 23, 2016	—	1,500,000	0.810	May 22, 2026	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
Total		—	3,000,000					

4. Short-term investment corporation bonds

None

5. Investment unit warrants

None

Condition of investment transactions

1. Transactions of property and asset-backed securities, etc.

None

2. Transactions of other assets

Other assets than property or asset-backed securities, etc. are bank deposits and bank deposits in trust.

3. Research for specified assets value, etc.

(1) Property

None

(2) Asset backed securities

None

(3) Other transaction

None

4. Transactions with interested parties

(1) Outline of transactions

None

(2) Amounts of fees paid and other expenses

There were no fees to interested parties for the six months ended June 30, 2016. For other expenses, the Investment Corporation paid ¥371,092 thousand of utilities to The Kansai Electric Power Company, Incorporated during the period.

5. Transactions with asset manager relating to other business than asset management

None

Financial information

1. Financial position and operating results

Please refer to the accompanying balance sheets, statements of income and retained earnings, statement of changes in net assets, notes to financial information and statements of cash distributions.

2. Changes in depreciation method

None

3. Changes in valuation method of real property

None

Other information

1. Notice

Execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended June 30, 2016 was as follows:

Approval day	Item	Summary
April 19, 2016	Appointment of general administrators associated with the issuance of investment corporation bonds	In connection with the issuance of The 1st Unsecured Investment Corporation Bond and The 2nd Unsecured Investment Corporation Bond, the Board of Directors of the Investment Corporation approved appointments of Mizuho Securities Co., Ltd. and SMBC Nikko Securities Inc. as underwriters and Mizuho Bank, Ltd. as general administrator regarding investment corporation bonds registration as well as fiscal agent, issuing agent and payment agent.

2. Investment trust beneficiary interest of the Investment Corporation

None

3. Overseas real estate investment corporation and property held by the corporation

None

4. Other

Figures less than unit indicated in each statement have been rounded down for amounts and rounded for ratio unless otherwise indicated in this presentation. As a result, the total shown in this presentation do not necessarily agree to the sum of the individual items.

II. Balance sheets

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
ASSETS		
Current assets:		
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
Total current assets	13,386,491	15,880,785
Noncurrent assets:		
Property, plant and equipment:		
Buildings in trust, at cost (Note 2)	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 (Note 2)	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
Total net property, plant and equipment	206,927,718	206,089,612
Intangible assets:		
Software	310	4,655
Trademark right	352	288
Total intangible assets	663	4,944
Investments and other assets:		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	616,627	525,731
Total investments and other assets	5,711,654	5,620,758
Total noncurrent assets	212,640,036	211,715,315
Deferred assets:		
Investment corporation bonds issuance costs	—	31,190
Investment unit issuance costs	73,457	58,890
Total deferred assets	73,457	90,080
TOTAL ASSETS	226,099,985	227,686,181

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
LIABILITIES		
Current liabilities:		
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
Total current liabilities	27,323,210	23,365,240
Noncurrent liabilities:		
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
Total noncurrent liabilities	81,596,753	87,189,038
TOTAL LIABILITIES	108,919,963	110,554,279
NET ASSETS		
Unitholders' equity:		
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
Total unitholders' equity	117,180,022	117,131,902
TOTAL NET ASSETS (Note 3)	117,180,022	117,131,902
TOTAL LIABILITIES AND NET ASSETS	226,099,985	227,686,181

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

III. Statements of income and retained earnings

(Thousands of yen)

	For the six months ended	
	December 31, 2015	June 30, 2016
Operating revenue		
Rent revenue—real estate (Note 4)	5,987,786	6,229,038
Other rental business revenue (Note 4)	480,911	468,390
Dividends income	111,040	126,698
Total operating revenue	<u>6,579,738</u>	<u>6,824,128</u>
Operating expenses		
Expenses related to rental business (Note 2)	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>
Operating income	<u>2,507,424</u>	<u>2,462,970</u>
Non-operating income		
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>
Non-operating expenses		
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>
Ordinary income	<u>1,937,883</u>	<u>1,889,716</u>
Extraordinary income		
Subsidy income	—	7,279
Total extraordinary income	<u>—</u>	<u>7,279</u>
Extraordinary losses		
Reduction entry of property	—	7,279
Total extraordinary losses	<u>—</u>	<u>7,279</u>
Income before income taxes	<u>1,937,883</u>	<u>1,889,716</u>
Income taxes		
Current	1,000	908
Deferred	11	(0)
Total income taxes	<u>1,011</u>	<u>908</u>
Net income	<u>1,936,871</u>	<u>1,888,808</u>
Retained earnings brought forward	80	24
Unappropriated retained earnings	1,936,952	1,888,832

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

IV. Statements of changes in net assets

(Thousands of yen)

For the six months ended December 31, 2015

	Unitholders' equity				
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	Total net assets
		Retained earnings	Total surplus		
Balance as of July 1, 2015	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
Balance as of December 31, 2015	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				
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	Total net assets
		Retained earnings	Total surplus		
Balance as of January 1, 2016	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)
Balance as of June 30, 2016	115,243,069	1,888,832	1,888,832	117,131,902	117,131,902

The accompanying notes in "V. Notes to financial information" are an integral part of these statements.

V. Notes to financial information

Note 1 – 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 in trust.....	2-65 years
Structures in trust.....	10-50 years
Machinery and equipment in trust.....	11 years
Tools, furniture and fixtures in trust.....	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 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) 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.

(j) 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.

Note 2 – Reduction entry for property

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

	(Thousands of yen)	
	For the six months ended	
	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 3 – 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 4 – 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
Rental business revenue:		
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
Expenses related to rental business:		
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
Operating income from property leasing activities	2,997,156	3,050,931

Note 5 – Income taxes

Deferred tax assets consist of the following:

(Thousands of yen)

	As of	
	December 31, 2015	June 30, 2016
Deferred tax assets:		
Enterprise tax payable	14	14
Total	14	14
Net deferred tax assets	14	14

A reconciliation of the Investment Corporation's effective tax rates and statutory tax rates is as follows:

	For the six months ended	
	December 31, 2015	June 30, 2016
Statutory tax rates	32.31%	32.31%
Deductible cash distributions	(32.29)	(32.29)
Other	0.03	0.03
Effective tax rates	0.05%	0.05%

On March 29, 2016, the Japanese government announced two acts to partially amend the Income Tax Act (Act No.15 of 2016) and the Local Tax Act (Act No.13 of 2016) which resulted in changes in the statutory tax rate from fiscal periods beginning on or after April 1, 2016. As a consequence of the effects of these Acts, the statutory tax rate will change from 32.31% to 31.74% for temporary differences which will reverse in the six months ending December 31,2016. The effects of this change in the statutory tax rate are immaterial for the Investment Corporation.

Note 6 – Leases

None

Note 7 – 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 bonds 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.

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

The funds raised through loans payable or the issuance of investment corporation bonds are mainly used to acquire real estate properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable, investment corporation bonds and tenant leasehold and security deposits are managed by decentralizing maturity date of loans payable or investment corporation bonds 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	—
Total assets	12,891,793	12,891,793	—	15,648,055	15,648,055	—
(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
Total liabilities	94,350,000	94,904,909	554,909	95,725,000	96,836,633	1,111,633
(7) Derivative 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*

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	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	38,600,000	38,600,000	Note (a)	-

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	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	41,400,000	41,400,000	Note (a)	-

Note:

- (a) As disclosed in “Note 2 - Summary of significant accounting policies (g) 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 instrument and the long-term loans payable as the hedged item is calculated together

as one. Please refer to above footnote (“Liabilities, (3) Short-term loans payable, (4) Current portion of long-term loans payable and (5) Long-term loans payable”).

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	-	-	-	-	-
Total	12,891,793	-	-	-	-	-

(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	-	-	-	-	-
Total	15,648,055	-	-	-	-	-

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 8 – 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
Net book value		
Balance at the beginning of the period	160,197,655	206,923,420
Net increase (decrease) during the period ⁽¹⁾	46,725,764	(838,106)
Balance at the end of the period	206,923,420	206,085,313
Fair value⁽²⁾	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 5 – Rental business revenue and expenses.”

Note 9 – Restriction on Asset Management

None

Note 10 – Related-party transactions

For the six months ended December 31, 2015:

Type of related-party	Company name	Business	Voting interest in the Investment Corporation (%)	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts (Note 2) (Thousands of yen)	Balance sheet account	Amounts (Note 2) (Thousands of yen)
Interested party	Godo Kaisha Dogenzaka 211	SPC	—	Acquisition of property	12,220,000	—	—
Interested party	Godo Kaisha Sakuragaoka 31	SPC	—	Acquisition of property	5,000,000	—	—
Interested party	Godo Kaisha TCTS06	SPC	—	Acquisition of property	7,080,000	—	—
Interested party	Mitsubishi Corporation Fashion Co., Ltd	Clothing manufacture	—	Rental business revenue (Note 1)	10,480	Advances received	1,725
						Rental receivables	129
						Tenant leasehold and security deposits	10,458
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,732	Advances received	1,295
						Rental receivables	19
						Tenant leasehold and security deposits	31,424
Interested party	MID Urban Development Co., Ltd.	Real estate business	3.46	Rental business revenue (Note 1)	5,381	Advances received	878
						Rental receivables	61
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	71,042	Rental receivables	802
						Advances received	9,362
						Tenant leasehold and security deposits	104,029
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	53,223	Accounts payable—other	57,480
				Asset custody fee	12,765	—	—
				Interest expenses	61,462	Accrued expenses	20,329
				Borrowing related expenses	5,654	Prepaid expenses	27,032

For the six months ended June 30, 2016:

Type of related-party	Company name	Business	Voting interest in the Investment Corporation (%)	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts (Note 2) (Thousands of yen)	Balance sheet account	Amounts (Note 2) (Thousands of yen)
Interested party	Mitsubishi Corporation Fashion Co., Ltd	Clothing manufacture	—	Rental business revenue (Note 1)	10,297	Advances received	1,725
						Rental receivables	107
						Tenant leasehold and security deposits	10,458
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,708	Advances received	1,295
						Rental receivables	15
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd. (Note 4)	Real estate business	3.46	Rental business revenue (Note 1)	5,236	Advances received	878
						Rental receivables	89
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	71,331	Rental receivables	952
						Advances received	9,362
						Tenant leasehold and security deposits	104,029
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	58,951	Accounts payable—other	63,667
				Asset custody fee	16,920	Accounts payable—other	2,429
				Interest expenses	59,908	Accrued expenses	19,122
				Borrowing related expenses	6,321	Prepaid expenses	24,478

Notes:

- (1) Rental business revenue consists of rental revenue, common area charges, parking revenue, utilities, facility usage fee, etc.
- (2) The transaction amounts exclude consumption taxes and the balance amounts include those taxes.
- (3) The terms and conditions are decided based on third party transactions.
- (4) MID Urban Development Co., Ltd. merged with Kanden Fudosan Co., Ltd. on April 1, 2016 and the company name changed to Kanden Realty & Development Co., Ltd.

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)	
	For the six months ended	
	December 31, 2015	June 30, 2016
Net income	1,936,871	1,888,808
Amount not attributable to common unitholders	—	—
Net income attributable to common 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

VI. 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
<i>(Cash distribution declared per unit)</i>	<i>(7,281)</i>	<i>(7,100)</i>
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 2.

Note

Accompanying English financial information, comprising of balance sheets, statements of income and retained earnings, statements of changes in net assets, notes to financial information and statements of cash distributions, have been translated from the Japanese financial statements of the Investment Corporation prepared in accordance with the Act on Investment Trusts and Investment Corporations of Japan.

Under Article 130 of the Act on Investment Trusts and Investment Corporations of Japan, the Japanese financial statements for the six months ended June 30, 2016 have been audited by KPMG AZSA LLC, in accordance with auditing standards generally accepted in Japan. But, English translation of the Japanese language report of independent auditors is not attached herein because the accompanying English translation of balance sheets, statements of income and retained earnings, statement of changes in net assets, notes to financial information and statements of cash distributions are unaudited.

VII. Statements of cash flows (additional information)

(Thousands of yen)

	For the six months ended	
	December 31, 2015	June 30, 2016
Net cash provided by (used in) operating activities:		
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	3,694,385	4,275,912
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	3,245,378	3,853,632
Net cash provided by (used in) investing activities:		
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	(51,916,442)	(511,282)
Net cash provided by (used in) financing activities:		
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 by (used in) financing activities	47,801,115	(591,438)
Net change in cash and cash equivalents	(869,948)	2,750,912
Cash and cash equivalents at beginning of period	10,567,901	9,697,953
Cash and cash equivalents at end of period⁽ⁱ⁾	9,697,953	12,448,865

Note:

- (i) 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. Cash and cash equivalents shown in the statements 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 ⁽¹⁾	(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.