

**MCUBS MidCity Investment Corporation**

**The 22nd fiscal period Asset Management Report**

**January 1, 2017 – June 30, 2017**



MCUBS MidCity Investment Corporation

# I. ASSET MANAGEMENT REPORT

## Outline of asset management operation

### 1. Operating results and financial position

Fiscal period		18 <sup>th</sup>	19 <sup>th</sup>	20 <sup>th</sup>	21 <sup>st</sup>	22 <sup>nd</sup>
As of /for the six months ended		June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017
Operating revenues	(Millions of yen)	5,265	6,579	6,824	7,005	8,025
(Rental business revenues)	(Millions of yen)	(5,265)	(6,468)	(6,697)	(6,897)	(7,360)
Operating expenses	(Millions of yen)	3,582	4,072	4,361	4,453	4,875
(Rental business expenses)	(Millions of yen)	(3,122)	(3,471)	(3,646)	(3,780)	(3,924)
Operating income	(Millions of yen)	1,683	2,507	2,462	2,551	3,150
Ordinary income	(Millions of yen)	1,239	1,937	1,889	1,977	2,527
Net income	(Millions of yen)	1,237	1,936	1,888	1,976	2,527
Total assets	(Millions of yen)	174,117	226,099	227,686	225,916	248,821
(Period-on-period change)	(%)	(3.1)	(29.9)	(0.7)	(-0.8)	(10.1)
Net assets	(Millions of yen)	94,045	117,180	117,131	117,220	127,675
(Period-on-period change)	(%)	(2.8)	(24.6)	(-0.0)	(0.1)	(8.9)
Interest-bearing liabilities	(Millions of yen)	67,675	94,350	95,725	94,100	104,975
Unitholders' capital	(Millions of yen)	92,808	115,243	115,243	115,243	125,148
Number of units issued and outstanding	(Units)	192,025	266,025	266,025	266,025	296,625
Net asset value per unit	(Yen)	489,757	440,484	440,304	440,635	430,427
Total distributions	(Millions of yen)	1,237	1,936	1,888	1,976	2,343
Distribution per unit	(Yen)	6,444	7,281	7,100	7,431	7,900
(Profit distribution per unit)	(Yen)	(6,444)	(7,281)	(7,100)	(7,431)	(7,900)
(Distribution per unit in excess of profit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Ratio of ordinary income to total assets	(Notes 1 and 2) (%)	0.7 (1.5)	1.0 (1.9)	0.8 (1.7)	0.9 (1.7)	1.1 (2.1)
Return on unitholders' equity	(Notes 1 and 3) (%)	1.3 (2.7)	1.8 (3.6)	1.6 (3.2)	1.7 (3.3)	2.1 (4.2)
Ratio of net assets to total assets	(Note 4) (%)	54.0	51.8	51.4	51.9	51.3
(Period-on-period change)	(%)	(-0.2)	(-2.2)	(-0.4)	(0.5)	(-0.6)
Ratio of interest-bearing liabilities to total assets	(Note 5) (%)	38.9	41.7	42.0	41.7	42.2
Payout ratio	(Note 6) (%)	100.0	100.0	100.0	100.0	92.7
Additional information:						
Number of investment properties	(Note 11) (Properties)	13	18	18	18	19
Total leasable area	(Note 7) (m <sup>2</sup> )	284,330.63	331,034.57	331,015.96	330,999.31	349,595.39
Number of tenants	(Note 8) (Tenants)	249	309	310	313	394
Occupancy ratio	(Note 9) (%)	98.5	97.6	98.2	97.7	97.5
Depreciation	(Millions of yen)	1,150	1,251	1,281	1,288	1,279
Capital expenditures	(Millions of yen)	394	244	443	733	445
Rental net operating income (NOI)	(Note 10) (Millions of yen)	3,294	4,249	4,332	4,406	4,715

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 22<sup>nd</sup> fiscal period is calculated using the following formula.

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.) For the properties in which the Investment Corporation owns partial share of the trust beneficial interest, the leasable area calculated multiplying the total leasable area of each property by the share of quasi-co-ownership.

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 occupies multiple properties under each agreement, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property, the count is as one tenant. For a pass-through master leased property, the tenant is counted on an end-tenant basis assuming that all of end-tenants have been agreed that the lessee of the pass-through master lease agreement is lessor for them. 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, while acquiring four properties (total acquisition price: ¥31,330 million; of which, one is an additional acquisition of an existing property) with new borrowings and funds procured through issuance of new investment units in February 2017, MCUBS MidCity disposed two properties (total disposition price: ¥10,700 million) located in Osaka metropolitan area as asset replacement.

As of the end of the fiscal period under review (22nd fiscal period: January 1, 2017 to June 30, 2017), the portfolio of MCUBS MidCity comprised of 20 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥238,144 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 the 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 22nd fiscal period, the Japanese economy continued to recover moderately as GDP for the January to March 2017 period remained positive for five consecutive quarters against the backdrop of growing exports and steady capital investment, consumption, etc. The economy is expected to continue to be generally brisk, backed by the continuation of exports and improvement in the employment/income environment due to mild recovery of the global economy going forward.

In the real estate investment market, the transaction price continues to be on an upward trend with more active transactions against the backdrop of favorable fund procurement environment. According to the Ministry of Land, Infrastructure, Transport and Tourism’s Land Value LOOK Report for the first quarter (January 1 to April 1, 2017) of 2017, the land price of intensively used land of major cities in Japan increased in 85 of the 100 districts, remained flat in 15 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, as office demand is increasing against the backdrop of active corporate activities, improvement in vacancy rate and increase of rent level are continuing. Demand for office floors is expected to remain solid although we intend to carefully keep an eye on the impact from a new supply of large-scale buildings in Tokyo.

The J-REIT market remained rather weak from the beginning of the 22nd fiscal period at the TSE REIT index at 1,853 points, ending at 1,694 points following further decline against the background of the outflow of capital from monthly distributing-type investment trusts. Furthermore, despite the expected rise in interest rates in Europe and the U.S. due to the projected interest rate hike in the U.S., etc., the interest rate in Japan is expected to remain at a low level with the continuation of the monetary easing policy by the Bank of Japan. We will continue to pay close attention to the monetary policy and financial market going forward.

(b) Asset management performance

<Investment performance>

During the 22nd fiscal period, as the first move to expand asset size steadily through new acquisition and to improve portfolio quality through asset replacement, MCUBS MidCity acquired two properties (of which, one is an additional acquisition of an existing property) in February 2017 with funds procured from new borrowings. Next, MCUBS MidCity issued new investment units in the same month and acquired one property each in March and April. In all transactions, investments were made selectively through exclusive negotiation, avoiding excessive competition. Three properties, Shibuya Sakuragaoka Square (additional acquisition) (acquisition price: ¥12,130 million), Sasazuka Center Bldg. (acquisition price: ¥8,700 million) and USC Bldg. (acquisition price: ¥5,000 million), are located in the Tokyo metropolitan area, and the other one property, Sendai Capital Tower (acquisition price: ¥5,500 million), is located in Sendai City, Miyagi Prefecture. At the same time, by capturing the favorable timing for disposition, MCUBS MidCity disposed two properties in the Osaka metropolitan area (total disposition price: ¥10,700 million) with unrealized losses in March, 2017, at the total price generating gains from the dispositions.

As a result, MCUBS MidCity's portfolio as of the end of the 22nd fiscal period was comprised of 20 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 96.7% (of which Tokyo metropolitan area accounting for 44.7%, Osaka metropolitan area 50.0% and Nagoya metropolitan area 2.1%) in the three major metropolitan areas and 3.3% in other areas, and are distributed in terms of property type with 86.9% being office buildings and 13.1% 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 as well as 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 22nd 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 of 97.5% was maintained at the end of the fiscal period. In addition, MCUBS MidCity was able to increase the average contracted rent for the portfolio partly due to the rent revision on which MCUBS MidCity is focusing.

Furthermore, MCUBS MidCity has worked on cost reduction with an aim to further enhance profitability of the portfolio. MCUBS MidCity is changing electricity/gas contracts in line with the market deregulation and cost reduction from such efforts has begun contributing to profits.

### (3) Overview of fund procurement

#### (a) Issuance of new investment units

During the 22nd fiscal period, MCUBS MidCity implemented additional issuance of new investment units through public offering with the payment date on February 28, 2017 (29,100 units) and through third-party allotment with the payment date of March 27, 2017 (1,500 units), to partly fund the new acquisition of two properties (total acquisition price: ¥13,700 million) made in March and April 2017. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 296,625 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 LTV at a conservative level, reducing refinancing risks and mitigating interest rate fluctuation risks.

In the 22nd fiscal period, MCUBS MidCity newly borrowed ¥18,000 million on January 31, 2017 to partly fund the new acquisition of two properties made in February 2017. In addition, MCUBS MidCity issued unsecured investment corporation bonds (5-year: ¥1,000 million, 10-year: ¥2,000 million) in May 2017 for the second consecutive year. Out of ¥18,000 million borrowed in January, early repayment was made for a total of ¥10,000 million (¥7,000 on March 31, 2017 using the proceeds from disposition of two properties and ¥3,000 million on May 31, 2017 using the funds procured from issuance of investment corporation bonds). As a result of these efforts, MCUBS MidCity has realized diversification of fund procurement methods and reduction of financial costs.

As of the end of the 22nd fiscal period, MCUBS MidCity had a balance of borrowings from 17 financial institutions in the amount of ¥98,975 million and had a balance of investment corporation bonds in the amount of ¥6,000 million. The ratio of interest-bearing liabilities to total assets stands at 42.2%, 100.0% of loans payable are

long-term loans payable (including current portion of long-term loans payable) and 77.4% 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 22nd fiscal period.

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

(4) Overview of business performance and distributions

As a result of the abovementioned asset management, MCUBS MidCity posted operating revenue of ¥8,025 million, operating income of ¥3,150 million, ordinary income of ¥2,527 million and net income of ¥2,527 million in its performance for the 22nd 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 intends to distribute in excess of 90% of distributable earnings. In accordance with the policy, MCUBS MidCity reserved internally ¥183 million yen as reserve for reduction entry, which is part of gain on sale of Midosuji MID Bldg. disposed in March 2017, under unappropriated retained earnings of ¥2,527 million, and decided to distribute the amount remaining (¥2,343 million) after deducting the reserved amount. As a result, MCUBS MidCity declared a distribution per unit of ¥7,900.

### 3. Changes in unitholders' capital

There was no change in unitholders' capital for the six months ended June 30, 2017. 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
February 28, 2017	Public offering	29,100	295,125	9,419	124,662	Note 7
March 27, 2017	Allocation of investment units to a third party	1,500	296,625	485	125,148	Note 8

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

Note 7 New investment units were issued at a price of ¥335,400 per unit (subscription price of ¥323,704 per unit) through a public offering in order to raise funds for acquiring new real property.

Note 8 New investment units were issued at a price of ¥323,704 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on February 28, 2017

#### 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:

Fiscal period	(Yen)				
	18 <sup>th</sup> June 30, 2015	19 <sup>th</sup> December 31, 2015	20 <sup>th</sup> June 30, 2016	21 <sup>st</sup> December 31, 2016	22 <sup>nd</sup> June 30, 2017
Highest price	390,000	384,000	386,000	377,000	359,000
Lowest price	281,100	273,300	299,700	313,000	324,000

## 4. Distributions

For the six months ended June 30, 2017, the Investment Corporation transferred ¥183 million of unappropriated retained earnings to voluntary reserve for reduction entry and distributed all of the remaining unappropriated retained earnings at the end of the period in accordance with the distribution policy prescribed in the Investment Corporation's articles of incorporation.

As a result, cash distribution per unit for the period amounted to ¥7,900.

Fiscal period	18 <sup>th</sup>	19 <sup>th</sup>	20 <sup>th</sup>	21 <sup>st</sup>	22 <sup>nd</sup>
As of /for the six months ended	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017
Retained earnings at end of period (Thousands of yen)	1,237,489	1,936,952	1,888,832	1,976,966	2,527,166
Retained earnings carried forward (Thousands of yen)	80	24	55	134	183,829
Total cash distributions (Thousands of yen)	1,237,409	1,936,928	1,888,777	1,976,831	2,343,337
(Cash distribution per unit) (Yen)	(6,444)	(7,281)	(7,100)	(7,431)	(7,900)
Profit distributions (Thousands of yen)	1,237,409	1,936,928	1,888,777	1,976,831	2,343,337
(Profit distribution per unit) (Yen)	(6,444)	(7,281)	(7,100)	(7,431)	(7,900)
Unitcapital refunds (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit) (Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from provision for temporary difference adjustment (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit from provision for temporary difference adjustment) (Yen)	(—)	(—)	(—)	(—)	(—)
Unitcapital refunds from deduction of unitcapital under tax rules (Thousands of yen)	—	—	—	—	—
(Unitcapital refund per unit from deduction of unitcapital under tax rules) (Yen)	(—)	(—)	(—)	(—)	(—)

## 5. Management policies and issues

### (1) Internal growth strategy

In Osaka metropolitan area's office leasing market where half of MCUBS MidCity's portfolio assets are located, decrease in new supply amid ongoing strong office demand has made supply/demand balance tight, leading to continuous improvement in vacancy rates. In line with such, improvement in new-contract lease terms and conditions are seen and the market rent is turning to a moderate recovery trend.

On the other hand, Tokyo metropolitan area's office leasing market is expecting a large volume of supply, mainly of large-scale buildings. However, as needs for floor expansion and relocation for expansion are still strong, the vacancy rate is likely to remain stable at a low level to a certain degree against the backdrop of such solid office demand. In addition, the market rent is also expected to remain stable.

Under such circumstances, in view of maintaining and enhancing revenue for the medium and long term, MCUBS



MidCity is, based on the following strategies, 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 multi-tenant buildings in MCUBS MidCity's portfolio since the first fiscal period. Based on the results of the surveys, matters pointed out and requested by tenants, etc., the Asset Management Company instructs property management companies and building management companies, as well as considers and carries out repair and maintenance, value-enhancement and other construction work that fulfills tenant needs.

According to the results of the most recent survey conducted in November 2016 (11th survey), "convenience of building facilities/equipment" of properties in both Tokyo metropolitan area and Osaka metropolitan area has earned higher evaluation than before. This, we believe, is the result of improved tenant satisfaction and convenience due to renovation and renewal of common areas and facilities. The Asset Management Company 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.

At Twin 21 and Matsushita IMP Bldg. located in Osaka Business Park (OBP) enjoying abundant greenery with Osaka Castle Park nearby, PR activities are being implemented with the theme of "comfort" to pursue a favorable place to work from the viewpoint of office workers. MCUBS MidCity has moved forward with revitalization of retail zones at Twin 21 and Matsushita IMP Bldg. in line with the reconstruction and new construction of office buildings in OBP.

<Strategy on leasing to attract new tenants>

As for assets that have relatively large vacant space and scheduled vacant space among MCUBS MidCity's portfolio assets, 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. In addition, MCUBS MidCity has worked to improve competitiveness of properties in view of provision of comfortable office environments by conducting upgrading of facilities and renewal of interiors one after another, as necessary.

Leveraging the strengths of having Mitsubishi Corp.- UBS Realty Group and the Kanden Realty & Development Group as its sponsors, the Asset Management Company conducts market analysis by utilizing tenant information, etc. that property management companies have acquired in closely working 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.

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

Concerning its portfolio, MCUBS MidCity shares the view on sustainability with the Asset Management Company that strives to respond to the environment and social responsibility based on the "Environment Charter" and "Basic

Policy on Responsible Real Estate Investment,” implements environmental and energy saving measures, streamlines energy use, and appropriately responds to environmental consideration and reduction of environmental burden.

In addition, MCUBS MidCity is proactively making efforts in external evaluation and certification systems concerning the environment. In the continuous monitoring under DBJ Green Building certification (five-level certification system) issued by the Development Bank of Japan (DBJ), ratings for Twin 21, Matsushita IMP Bldg., Kitahama MID Bldg. and Higobashi MID Bldg. were upgraded to 4-star in recognition of efforts meeting the needs of the times, such as extensive office facilities and disaster prevention measures. Furthermore, some of MCUBS MidCity’s portfolio assets have received Comprehensive Assessment System for Built Environment Efficiency (CASBEE) certification and Building Housing Energy-efficiency Labeling System (BELS) certification. MCUBS MidCity has also been participating in real estate evaluation of Global Real Estate Sustainability Benchmark (GRESB) since 2016 and has been designated as "Green Star," the highest ranking.

## (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, investment targets also include so-called “government-designated cities” – cities with populations of over 500,000 – as well as other major cities and abroad, outside of 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 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.

## 6. Subsequent events

None

## Outline of the Investment Corporation

### 1. Investment unit

Fiscal period		18 <sup>th</sup>	19 <sup>th</sup>	20 <sup>th</sup>	21 <sup>st</sup>	22 <sup>nd</sup>
As of		June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017
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)	192,025	266,025	266,025	266,025	296,625
Unitholders' capital	(Millions of yen)	92,808	115,243	115,243	115,243	125,148
Number of unitholders	(People)	11,795	12,517	11,665	11,451	12,267

### 2. Unitholders

Major unitholders as of June 30, 2017 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	57,536	19.39
The Master Trust Bank of Japan, Ltd. Trust Account	34,896	11.76
Trust & Custody Services Bank, Ltd. Trust Account	26,172	8.82
The Nomura Trust and Banking Co., Ltd. Trust Account	12,093	4.07
Kanden Realty & Development Co., Ltd.	9,200	3.10
SIX SIS LTD.	8,845	2.98
Mitsubishi Corporation	4,200	1.41
STATE STREET BANK AND TRUST COMPANY 505223	4,162	1.40
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	4,112	1.38
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	3,667	1.23
Total	164,883	55.58

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, 2017 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2017 (Thousands of yen)
Executive Director (Note 1)	Katsuhiko Tsuchiya	M&A Sogo Law Office (Attorney at Law)	(Note 2) 500
	Katsura Matsuo	—	(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) 14,000

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 Katsura Matsuo resigned Executive Director and Katsuhiko Tsuchiya was newly appointed at the 7th General Meeting for Unitholders held on June 2, 2017. There was no compensation for Katsura Matsuo.

Note 3 Toyota Watanabe, 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 7th General Meeting of Unitholders held on June 2, 2017. Also, Yonetaro Ori was appointed as alternate supervisory director for a vacancy of the supervisory director by the 7th General Meeting of Unitholders held on June 2, 2017.

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 ¥4,000 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, 2017 were as follows:

Classification	Name
Asset manager	MCUBS 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
General administrator (regarding investment corporation bonds)	Mizuho Bank, Ltd.

## Condition of investment assets

### 1. Composition of assets

Classification of assets	Investment category	Investment area		As of December 31, 2016		As of June 30, 2017		
				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)	55,396	24.5	82,165	33.0	
			Osaka metropolitan area (Note 3)	121,454	53.8	110,624	44.5	
		Other areas	—	—	5,607	2.3		
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	24,067	10.7	23,954	9.6	
			Osaka metropolitan area (Note 3)	2,431	1.1	2,413	1.0	
		Other areas	2,178	1.0	2,159	0.9		
	Sub-total				205,528	91.0	226,924	91.2
	Investments in Tokumei Kumiai agreement (Note 4)				5,085	2.3	5,085	2.0
Bank deposits and other assets				15,303	6.8	16,811	6.8	
Total assets				225,916	100.0	248,821	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 (top ten properties in net book value) as of June 30, 2017 were as follows:

Name of property	Net book value (Millions of yen)	Leasable area (Note 1) (m <sup>2</sup> )	Leased area (Note 2) (m <sup>2</sup> )	Occupancy ratio (Note 3) (%)	Ratio of rental revenue to total rental revenues (%)	Major use
Twin 21	66,248	82,304.84	80,818.56	98.2	31.0	Office
AEON MALL Tsudanuma	23,954	101,210.44	101,210.44	100.0	9.9	Retail facilities
Matsushita IMP Bldg.	22,525	37,406.94	36,758.72	98.3	14.2	Office
Cube Kawasaki	20,440	24,462.29	22,286.19	91.1	8.4	Office
Shibuya Sakuragaoka Square	17,558	6,379.66	6,379.66	100.0	4.4	Office
G-Square Shibuya Dogenzaka	12,275	5,011.74	5,011.74	100.0	3.5	Office
Kitahama MID Bldg.	10,402	10,189.49	10,057.37	98.7	4.3	Office
Sasazuka Center Bldg.	9,111	8,221.34	6,033.78	73.4	1.7	Office
Sumitomo Fudosan Ueno Bldg. No.6	7,678	6,858.16	6,858.16	100.0	Note 4	Office
Yokohama Creation Square	7,095	12,728.59	11,215.20	88.1	4.3	Office
Total	197,291	294,773.49	286,629.82	97.2	—	

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, 2017.

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, 2017.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2017 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 “Ratio of rental revenue to total rental revenues” of the property is not disclosed because the consent from the tenants has not been obtained.

Note 5 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, 2017 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	8,230	7,678
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	14,500	12,275
			Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	19,600	17,558
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,800	7,095
			Cube Kawasaki	1-14 Nissin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	22,200	20,440
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	3,030	2,815
			Sasazuka Center Bldg.	2-1-6 Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,290	9,111
			USC Bldg. (Note 3)	4-11-38 Toyo, Koto-ku, Tokyo	Trust beneficial interest	5,230	5,190
	Osaka metropolitan area	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	51,700	66,248	
		Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	21,200	22,525	
		MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	1,440	2,091	
		MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,260	3,119	
		Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	9,050	10,402	
		MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,180	3,375	
		Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	3,520	2,861	
Other area		Sendai Capital Tower	4-10-3 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficial interest	6,350	5,607	
Sub total						187,580	198,397
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	27,800	23,954
		Osaka metropolitan area	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,300	2,413
	Other area		Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	3,360	2,159
	Sub total						34,460
Total						222,040	226,924

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, 2017 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 The investment Corporation owns 50 over 108 quasi co-ownership interest of USC Bldg.

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

Operating results of each property for the six months ended December 31, 2016 and June 30, 2017 were as follows:

Investment category	Investment Area		Name of property	For the six months ended							
				December 31, 2016				June 30, 2017			
				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	Sumitomo Fudosan Ueno Bldg. No.6	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)
			G-Square Shibuya Dogenzaka	8	83.4	236,590	3.4	8	100.0	257,146	3.5
			Shibuya Sakuragaoka Square	1	100.0	90,633	1.3	4	100.0	322,596	4.4
			Yokohama Creation Square	39	94.2	340,604	4.9	38	88.1	314,781	4.3
			Cube Kawasaki	9	91.1	614,324	8.9	9	91.1	619,114	8.4
			Higashi-Nihombashi Green Bldg.	8	100.0	88,644	1.3	7	100.0	86,209	1.2
			Sasazuka Center Bldg.	—	—	—	—	7	73.4	128,669	1.7
			USC Bldg. (Note 7)	—	—	—	—	8	100.0	71,372	1.0
	Osaka metropolitan area	Twin 21	106	97.7	2,303,927	33.4	106	98.2	2,280,197	31.0	
		Matsushita IMP Bldg.	60	98.9	1,058,809	15.4	58	98.3	1,048,165	14.2	
		Midosuji MID Bldg. (Note 8)	7	94.7	278,853	4.0	—	—	129,442	1.8	
		MID REIT Kyobashi Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)	
		MID Imabashi Bldg.	19	94.2	86,050	1.2	19	95.2	92,519	1.3	
		MID Midosujikawaramachi Bldg. (Note 8)	13	100.0	62,994	0.9	—	—	31,731	0.4	
		Kitahama MID Bldg.	10	98.7	323,134	4.7	10	98.7	316,562	4.3	
		MID Nishihommachi Bldg.	16	93.7	85,379	1.2	17	97.0	91,304	1.2	
	Higobashi MID Bldg.	10	91.5	116,236	1.7	11	96.5	112,175	1.5		
Other area	Sendai Capital Tower	—	—	—	—	85	98.8	249,099	3.4		
Sub total		309	96.4	—	—	390	96.2	—	—		
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1	100.0	726,013	10.5	1	100.0	726,000	9.9
		Osaka metropolitan area	Konami Sports Club Kyobashi	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
	Other area	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		313	97.7	6,897,186	100.0	394	97.5	7,360,963	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 by the leasable area at the end of each fiscal period. 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 of rental revenues less than one thousand yen are rounded down.

Note 4 Total of the rental revenues includes revenues from Sumitomo Fudosan Ueno Bldg. No.6, 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 The Investment Corporation owns 50 over 108 quasi co-ownership interest of USC Bldg.

Note 8 Midosuji MID Bldg. and MID Midosuji Kawaramachi Bldg. were sold on March 27, 2017.



#### 4. Details of investment securities

The details of investment securities as of June 30, 2017 were as follows:

Name	Classification of assets	Quantity	Net book Value (Thousands of yen)		Fair value (Note 2) (Thousands of yen)		Unrealized gains (or losses) (Thousands of yen)	Remarks
			Per unit	Amount	Per unit	Amount		
Equity interest of TK agreement managed by R40 Godo Kaisha (Note 1)	Investment in Tokumei Kumiai agreement	—	—	5,085,027	—	5,085,027	—	—
Total			—	5,085,027	—	5,085,027	—	

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 Tokumei Kumiai agreement.

#### 5. Details of specified transaction

The details of specified transaction as of June 30, 2017 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	31,100,000	(247,918)
Total		41,400,000	31,100,000	(247,918)

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, 2017 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, 2017	Total of advanced payment
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Enlargement construction of elevator	January 2018 to June 2018	225	—	—
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Repair of elevator	May 2016 to August 2017	190	—	—
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Construction for an office floor	September 2017 to December 2017	120	—	—
Twin 21	Chuo-ku, Osaka-shi	Renewal of escalator	December 2016 to December 2017	53	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of rest room at lower floors	January 2018 to May 2018	47	—	—

### 2. Capital expenditures for the six months ended June 30, 2017

Maintenance expenditures on property for the six months ended June 30, 2017 were totaling to ¥863 million consisting of ¥445 million of capital expenditures stated as below and ¥418 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Twin 21	Chuo-ku, Osaka-shi	Repair of electrical substation equipment	August 1, 2016 to March 21, 2017	74
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Renewal of disaster prevention equipment	February 6, 2017 to June 30, 2017	41
Twin 21	Chuo-ku, Osaka-shi	Renewal of air conditioner	December 2, 2016 to May 21, 2017	35
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Renewal of gondola facility	December 26, 2016 to June 30, 2017	25
Twin 21	Chuo-ku, Osaka-shi	Construction of cold / hot water generator	January 27, 2017 to May 25, 2017	21
Other properties, etc.	—	Other expenditures	—	245
Total				445

### 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.

Fiscal period	(Millions of yen)				
	18 <sup>th</sup>	19 <sup>th</sup>	20 <sup>th</sup>	21 <sup>st</sup>	22 <sup>nd</sup>
As of /for the six months ended	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017
Reserved funds at beginning of period	702	577	781	1,232	1,546
Increase	458	550	801	801	851
Decrease	583	346	350	488	858
Reserved funds at end of period	577	781	1,232	1,546	1,539

## Condition of expenses and liabilities

### 1. Details of asset management expenses

(Thousands of yen)

Fiscal period	21 <sup>st</sup>	22 <sup>nd</sup>
For the six months ended	December 31, 2016	June 30, 2017
(a) Asset management fees	559,474	585,179
(b) Asset custody fees	5,556	5,750
(c) Administrative service fees	32,025	33,002
(d) Directors' compensations	5,700	6,200
(e) Independent auditor fees	10,000	10,000
(f) Other operating expenses	60,010	84,614
Total	672,767	724,745

Note The amount of asset management fees for the six months ended June 30, 2017 does not include ¥313,300 thousand of acquisition fees capitalized as part of the acquisition cost of properties and ¥107,000 thousand of asset management fees relating to sale of property charged to income as other sales expense.

### 2. Loans payable

Loans payable as of June 30, 2017 were as follows:

Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate <sup>(1)</sup> (%)	Maturity date	Repayment method	Use of proceeds	Remarks	
			(Thousands of yen)							
Short-term loans payable	Term loan (6 months) (Note 8)	Mizuho Bank, Ltd.	January 31, 2017	—	—	0.180	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Subtotal			—	—					
Long-term loans payable	Term loan (6 years 11 months) (Notes 4 and 7)	Development Bank of Japan Inc.	August 31, 2010	3,500,000	3,500,000	1.795	July 31, 2017 (Note 5)	(Note 5)	(Note 6)	Unsecured and unguaranteed
	Term loan (5 years) (Notes 2, 3 and 7)	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 (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, 3 and 7)	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
	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	0.557	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

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Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate <sup>(1)</sup>	Maturity date	Repayment method	Use of proceeds	Remarks
			(Thousands of yen)		(%)				
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	0.457	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	2,800,000	0.498	April 30, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Note 2)	Sumitomo Mitsui Banking Corporation Shinkin Central Bank	July 29, 2016	3,700,000	3,700,000	0.367	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Notes 2 and 4)	THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd.	July 29, 2016	2,250,000	2,250,000	0.373	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (3 years 6 months) (Note 4)	Sumitomo Mitsui Trust Bank, Limited	July 29, 2016	2,600,000	2,600,000	0.373	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (4 years 6 months) (Notes 2 and 4)	Mizuho Bank, Ltd. Development Bank of Japan Inc. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	2,500,000	2,500,000	0.451	January 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 4)	Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	2,650,000	2,650,000	0.494	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (8 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation	July 29, 2016	4,700,000	4,700,000	0.735	July 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (5 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc.	January 31, 2017	—	4,000,000	0.647	January 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Term loan (7 years) (Notes 2 and 4)	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc.	January 31, 2017	—	4,000,000	0.809	January 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
	Subtotal		91,100,000	98,975,000					
	Total		91,100,000	98,975,000					

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 is shown as current portion of long-term loans payable in the balance sheets.

Note 8 The Investment Corporation borrowed ¥10,000,000 thousand on January 1, 2017 and repaid ¥7,000,000 thousand on March 31, 2017 and ¥3,000,000 thousand on May 31, 2017 in advance of the maturity date, respectively.

### 3. Investment corporation bonds

Investment corporation bonds as of June 30, 2017 were as follows:

Name of bonds	Issuance date	Balance as of		Interest rate (%)	Maturity date	Repayment method	Use of proceeds	Remarks
		Beginning balance (Thousands of yen)	Ending balance (Thousands of yen)					
The 1 <sup>st</sup> Unsecured Investment Corporation Bond	May 23, 2016	1,500,000	1,500,000	0.340	May 21, 2021	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 2 <sup>nd</sup> Unsecured Investment Corporation Bond	May 23, 2016	1,500,000	1,500,000	0.810	May 22, 2026	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 3 <sup>rd</sup> Unsecured Investment Corporation Bond	May 29, 2017	—	1,000,000	0.260	May 27, 2022	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 4 <sup>th</sup> Unsecured Investment Corporation Bond	May 29, 2017	—	2,000,000	0.670	May 28, 2027	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
Total		3,000,000	6,000,000					

### 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.

(Millions of yen)

Name of real property, etc.	Acquisition		Disposal			
	Date of acquisition	Acquisition cost (Note 1)	Date of disposal	Disposal amount	Net book value	Gain (loss) on disposal (Note 2)
Sendai Capital Tower	February 1, 2017	5,500	—	—	—	—
Shibuya Sakuragaoka Square (Note 3)	February 1, 2017	12,130	—	—	—	—
Sasazuka Center Bldg.	March 22, 2017	8,700	—	—	—	—
USC Bldg. (Note 4)	April 6, 2017	5,000	—	—	—	—
Midosuji MID Bldg.	—	—	March 27, 2017	9,000	8,351	557
MID Midosuji Kawaramachi Bldg.	—	—	March 27, 2017	1,700	1,905	(225)
<b>Total</b>	—	<b>31,330</b>	—	<b>10,700</b>	<b>10,256</b>	<b>331</b>

Note 1 “Acquisition cost” or “Disposal amount” indicates contracted amount of property in purchase/disposal agreement excluding related expenses (brokerage fee, taxes, etc.).

Note 2 “Gain (loss) on disposal” is calculated by deducting net book value of each property and other sales expenses from disposal amount.

Note 3 The Investment Corporation acquired additionally 60% quasi co-ownership interest of the land with leasehold interest and the building of Shibuya Sakuragaoka Square.

Note 4 The Investment Corporation owns 50 over 108 quasi co-ownership interest of USC Bldg.

### 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

(Millions of yen)

Acquisition/Disposal	Form of ownership	Name of property	Date of acquisition/disposal	Acquisition cost/Disposal amount (Note 1)	Appraisal Value (Note 2)	Appraiser	Date of appraisal
Acquisition	Trust beneficial interest	Sendai Capital Tower	February 1, 2017	5,500	6,220	Tanizawa Sōgō Appraisal Co., Ltd.	December 1, 2016
	Trust beneficial interest	Shibuya Sakuragaoka Square	February 1, 2017	12,130	13,000	Daiwa Real Estate Appraisal Co., Ltd.	December 1, 2016
	Trust beneficial interest	Sasazuka Center Bldg.	March 22, 2017	8,700	9,160	Daiwa Real Estate Appraisal Co., Ltd.	January 1, 2017
	Trust beneficial interest	USC Bldg.	April 6, 2017	5,000	5,190	Tanizawa Sōgō Appraisal Co., Ltd.	January 1, 2017
	Total				31,330	33,570	
Disposal	Trust beneficial interest	Midosuji MID Bldg.	March 27, 2017	9,000	7,310	Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2016
	Trust beneficial interest	MID Midosuji Kawaramachi Bldg.	March 27, 2017	1,700	1,490	Tanizawa Sōgō Appraisal Co., Ltd.	December 31, 2016
	Total				10,700	8,800	

Note 1 “Acquisition cost / Disposal amount” indicates contracted amount of property in purchase/disposal agreement excluding related expenses (brokerage fee, taxes, etc.).

Note 2 As an amendment of Article 201 of the Act on Investments Trusts and Investment Corporation of Japan had been effective on November 24, 2011, the Investment Corporation obtains

appraisal value of the specified assets prescribed under Article 201, Paragraph 1, the Act on Investments Trusts and Investment Corporation of Japan (land or building, leasehold rights and superficies of land as well as trust beneficiary interest only consist of these assets (limited to interest held by a single investor) by real estate appraiser (but not interested party) when the specified asset is acquired or disposed. The appraisal value above is based on "Paragraph 3 – Appraisal of Securitized Real Estate" of the Real Estate Appraisal Standards of Japan.

(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, 2017. For other expenses, the Investment Corporation paid ¥327,784 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

The 7th General Meeting for Unitholders was held on June 2, 2017 and following matters were resolved at the meeting.

Resolution proposal	Summary
Partial amendment of the Articles of Incorporation	<p>Following amendments were resolved as proposal.</p> <p>(1) New establishment or amendment of provisions relating to the revision of the Act on Investment Trusts and Investment Corporations:</p> <p>a. A provision is being newly established to specify that a general meeting of unitholders of the Investment Corporation shall be convened on March 4, 2019 and thereafter without delay, and subsequently on March 4 and thereafter without delay every two years, and from time to time when it is deemed necessary.</p> <p>b. A provision stipulating that, when convening a general meeting of unitholders, a public notice of its convocation shall be made at least two months prior to the date of the general meeting of unitholders, and a written notice or electronic notice pursuant to the law and regulations shall be sent to each unitholder at least two weeks prior to the said date; and a provision stipulating that a general meeting of unitholders to be held within 25 months after the most recent general meeting of unitholders shall not require such public notice, are being newly established.</p> <p>c. In order to specify that the terms of office of executive directors and supervisory directors may be extended or shortened to the extent permitted by laws and regulations with a resolution of the general meeting of unitholders, amendments are being made.</p> <p>(2) As requirements for an investment corporation to apply for special taxation measures have been changed as a result of the revision of the Ordinance for Enforcement of the Act on Special Measures Concerning Taxation, provisions that are no longer necessary are being deleted.</p> <p>(3) In order to clarify that the Investment Corporation shall be able to invest in shares, etc. of corporations holding overseas real estate, a provision is being newly established to stipulate that the Investment Corporation may acquire outstanding shares or investments of corporations holding overseas real estate in excess of proportion as prescribed in the Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations</p> <p>(4) As for the Investment Corporation's distribution policy, amendments in regard to the definition of earnings are being made to the same item in accordance with the Investment Trust Act.</p> <p>(5) As a result of revisions to the Ordinance on Accountings of Investment Corporations and the Act on Special Measures Concerning Taxation, etc., measures to solve the difference in the accounting and taxation treatments at investment corporations (the discrepancy between taxation and accounting) have been taken. In light of this, amendments are being made.</p> <p>(6) Amendments are being made to clarify the requirements for the Investment Corporation to make cash distribution in excess of profits defined in the Investment Trusts Act.</p> <p>(7) In order to review the payment date of asset management fees to the asset management company to which the Investment Corporation entrusts management of its assets for leveling of cash flow, amendments are being made to the relevant provision.</p> <p>(8) In order to clarify that the cost related to issuance of investment corporation bonds and allotment of new investment unit subscription rights without contribution shall be paid by the Investment Corporation, amendments are being made to the relevant provision.</p>

Appointment of one executive director	Katsuhiko Tsuchiya was appointed as proposal.
Appointment of one alternate executive director	Toyota Watanabe was appointed as proposal.
Appointment of two supervisory directors	Haruo Kitamura and Osamu Ito were appointed as proposal.
Appointment of one alternate supervisory director	Yonetaro Ori was appointed as proposal.

Execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended June 30, 2017 was as follows:

Approval day	Item	Summary
February 14, 2017	Underwriting agreements of new investment units in connection with public offering	In connection with the public offering of new investment units, the Board of Directors of the Investment Corporation approved entering into the underwriting agreements with Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., Nomura Securities Co., Ltd., Mizuho Securities Co., Ltd. and UBS Securities Japan Co., Ltd..
April 21, 2017	Appointment of general administrators regarding investment corporation bonds	In connection with the issuance of the third investment corporation bonds and fourth investment corporation bonds, the Board of Directors of Investment Corporation appointed Mizuho Securities Co., Ltd., SMBC Nikko Securities Inc. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. as underwriter, and Mizuho Bank, Ltd. as financial agency and other general administrator regarding the investment corporation bonds.
June 30, 2017	Modification of asset management agreement	Provisions relating to payment date of asset management fees are modified according to resolution of the 7th General Meeting for Unitholders held on June 2, 2017.

## 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, 2016	June 30, 2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits	6,562,889	9,911,529
Cash and bank deposits in trust	7,867,449	5,535,252
Rental receivables	152,962	258,623
Income taxes receivable	21,207	20,976
Consumption tax refundable	—	333,562
Prepaid expenses	45,574	47,211
Deferred tax assets	15	14
Other	7,417	28,069
<b>Total current assets</b>	<b>14,657,517</b>	<b>16,135,240</b>
<b>Noncurrent assets:</b>		
<b>Property, plant and equipment:</b>		
Buildings in trust, at cost (Note 2)	73,954,970	77,291,095
Less: Accumulated depreciation	(20,640,675)	(20,605,424)
Buildings in trust, net	53,314,295	56,685,671
Structures in trust, at cost	119,205	130,240
Less: Accumulated depreciation	(28,260)	(28,239)
Structures in trust, net	90,945	102,000
Machinery and equipment in trust, at cost	7,916	7,916
Less: Accumulated depreciation	(2,375)	(2,695)
Machinery and equipment in trust, net	5,541	5,220
Tools, furniture and fixtures in trust, at cost (Note 2)	567,171	556,596
Less: Accumulated depreciation	(403,798)	(401,781)
Tools, furniture and fixtures in trust, net	163,372	154,814
Land in trust	151,954,124	169,977,198
Construction in progress in trust	4,298	5,663
<b>Total net property, plant and equipment</b>	<b>205,532,578</b>	<b>226,930,569</b>
<b>Intangible assets:</b>		
Software	4,182	4,020
Trademark right	224	160
<b>Total intangible assets</b>	<b>4,406</b>	<b>4,180</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	554,128	522,181
<b>Total investments and other assets</b>	<b>5,649,156</b>	<b>5,617,208</b>
<b>Total noncurrent assets</b>	<b>211,186,141</b>	<b>232,551,959</b>
<b>Deferred assets:</b>		
Investment corporation bonds issuance costs	28,900	57,596
Investment unit issuance costs	44,323	77,023
<b>Total deferred assets</b>	<b>73,223</b>	<b>134,619</b>
<b>TOTAL ASSETS</b>	<b>225,916,881</b>	<b>248,821,819</b>

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

(Thousands of yen)

	As of	
	December 31, 2016	June 30, 2017
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Operating accounts payable	392,099	606,408
Current portion of long-term loans payable	13,800,000	13,675,000
Accounts payable – other	930,239	1,051,686
Accrued expenses	124,458	139,178
Distribution payable	9,547	7,901
Consumption taxes payable	39,956	–
Advances received	986,557	1,092,407
Other	621,955	615,506
<b>Total current liabilities</b>	<b>16,904,815</b>	<b>17,188,088</b>
<b>Noncurrent liabilities:</b>		
Investment corporation bonds – unsecured	3,000,000	6,000,000
Long-term loans payable	77,300,000	85,300,000
Tenant leasehold and security deposits	8,245,717	12,299,221
Tenant leasehold and security deposits in trust	3,246,312	358,930
<b>Total noncurrent liabilities</b>	<b>91,792,030</b>	<b>103,958,152</b>
<b>TOTAL LIABILITIES</b>	<b>108,696,845</b>	<b>121,146,240</b>
<b>NET ASSETS</b>		
<b>Unitholders' equity:</b>		
Unitholders' capital	115,243,069	125,148,412
Surplus:		
Retained earnings	1,976,966	2,527,166
Total surplus	1,976,966	2,527,166
<b>Total unitholders' equity</b>	<b>117,220,036</b>	<b>127,675,578</b>
<b>TOTAL NET ASSETS (Note 4)</b>	<b>117,220,036</b>	<b>127,675,578</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>225,916,881</b>	<b>248,821,819</b>

*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, 2016	June 30, 2017
<b>Operating revenue</b>		
Rent revenue—real estate (Note 5)	6,388,006	6,825,340
Other rental business revenue (Note 5)	509,180	535,622
Dividends income	108,319	107,087
Gain on sales of property (Note 6)	—	557,469
Total operating revenue	7,005,506	8,025,520
<b>Operating expenses</b>		
Expenses related to rental business (Note 5)	3,780,925	3,924,768
Loss on sales of property (Note 6)	—	225,860
Asset management fees	559,474	585,179
Asset custody fee	5,556	5,750
Administrative service fees	32,025	33,002
Directors' compensations	5,700	6,200
Other	70,010	94,614
Total operating expenses	4,453,693	4,875,374
<b>Operating income</b>	2,551,813	3,150,146
<b>Non-operating income</b>		
Interest income	78	70
Reversal of distribution payable	279	1,041
Interest on refund	17	21
Total non-operating income	375	1,133
<b>Non-operating expenses</b>		
Interest expenses	394,632	409,147
Interest expenses on investment corporation bonds	8,624	10,071
Borrowing related expenses	152,875	141,243
Amortization of investment corporation bonds issuance costs	2,290	3,006
Amortization of investment unit issuance costs	14,566	20,475
Other	1,364	39,400
Total non-operating expenses	574,355	623,344
<b>Ordinary income</b>	1,977,833	2,527,934
<b>Income before income taxes</b>	1,977,833	2,527,934
<b>Income taxes</b>		
Current	923	900
Deferred	(0)	1
Total income taxes	922	902
<b>Net income</b>	1,976,910	2,527,032
<b>Retained earnings brought forward</b>	55	134
<b>Unappropriated retained earnings</b>	1,976,966	2,527,166

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, 2016

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
<b>Balance as of July 1, 2016</b>	115,243,069	1,888,832	1,888,832	117,131,902	117,131,902
<u>Changes during the period</u>					
Dividends from surplus	—	(1,888,777)	(1,888,777)	(1,888,777)	(1,888,777)
Net income	—	1,976,910	1,976,910	1,976,910	1,976,910
<u>Total changes during the period</u>	—	88,133	88,133	88,133	88,133
<b>Balance as of December 31, 2016</b>	115,243,069	1,976,966	1,976,966	117,220,036	117,220,036

### For the six months ended June 30, 2017

	Unitholders' equity				Total net assets
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	
		Retained earnings	Total surplus		
<b>Balance as of January 1, 2017</b>	115,243,069	1,976,966	1,976,966	117,220,036	117,220,036
<u>Changes during the period</u>					
Issuance of new investment units	9,905,342	—	—	9,905,342	9,905,342
Dividends from surplus	—	(1,976,831)	(1,976,831)	(1,976,831)	(1,976,831)
Net income	—	2,527,032	2,527,032	2,527,032	2,527,032
<u>Total changes during the period</u>	9,905,342	550,200	550,200	10,455,542	10,455,542
<b>Balance as of June 30, 2017</b>	125,148,412	2,527,166	2,527,166	127,675,578	127,675,578

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 .....	2-50 years
Machinery and equipment in trust.....	11 years
Tools, furniture and fixtures in trust.....	2-15 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.

No taxes on property, plant and equipment were capitalized for the six months ended for December 31, 2016. Taxes on property, plant and equipment capitalized as part of the acquisition cost of properties amounted to ¥136,330 thousand for the six months ended June 30, 2017.

***(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)	
	<b>For the six months ended</b>	
	<b>December 31, 2016</b>	<b>June 30, 2017</b>
Reduction entry by:		
Government subsidies received		
Buildings in trust	4,864	4,864
Tools, furniture and fixtures in trust	7,279	7,279
Insurance income		
Buildings in trust	68,700	68,700

## Note 3 – Commitment lines

The Investment Corporation entered into committed lines of credit with Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd as follows:

	(Thousands of yen)	
	<b>For the six months ended</b>	
	<b>December 31, 2016</b>	<b>June 30, 2017</b>
Total amount of committed lines of credit	15,000,000	15,000,000
Borrowing drawn down	—	—
Unused committed lines of credit	15,000,000	15,000,000

## Note 4 – Unitholders' equity

### (1) Number of units

	As of	
	<b>December 31, 2016</b>	<b>June 30, 2017</b>
Authorized	2,000,000 units	2,000,000 units
Issued and outstanding	266,025 units	296,625 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 5 – Rental business revenue and expenses

Revenue and expenses related to property rental business for the six months ended December 31, 2016 and June 30, 2017 consist of the following:

	(Thousands of yen)	
	For the six months ended	
	December 31, 2016	June 30, 2017
<b>Rental business revenue:</b>		
Rent revenue—real estate:		
Rental revenue	5,211,634	5,549,522
Common area charges	986,678	1,070,569
Other	189,694	205,247
Total rent revenue—real estate	6,388,006	6,825,340
Other rental business revenue:		
Utilities	452,686	446,270
Cancellation penalty	13,539	—
Other	42,954	89,351
Total other rental business revenue	509,180	535,622
Total rental business revenue	6,897,186	7,360,963
<b>Expenses related to rental business:</b>		
Property management fees	833,056	868,352
Utilities	686,059	629,206
Property-related taxes	647,248	644,725
Insurance	10,876	11,218
Repair and maintenance	235,800	418,944
Depreciation	1,288,489	1,279,622
Loss on disposal of property	1,824	—
Other	77,570	72,697
Total expenses related to rental business	3,780,925	3,924,768
<b>Operating income from property leasing activities</b>	<b>3,116,261</b>	<b>3,436,194</b>

## Note 6 – Gain or loss on sales of property

Analysis of gain or loss on sales of property for the six months ended June 30, 2017 is as follows:

	(Thousands of yen)	
	For the six months ended June 30, 2017	
	Midosuji MID Bldg.	MID Midosujikawaramachi Bldg.
Sale of property	9,000,000	1,700,000
Cost of property	8,351,018	1,905,668
Other sales expenses	91,511	20,191
Gain (loss) on sales of property, net	557,469	(225,860)

## Note 7 – Income taxes

Deferred tax assets consist of the following:

	(Thousands of yen)	
	As of	
	December 31, 2016	June 30, 2017
Deferred tax assets:		
Enterprise tax payable	15	14
Total	15	14
Net deferred tax assets	15	14

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

	<b>For the six months ended</b>	
	<b>December 31, 2016</b>	<b>June 30, 2017</b>
Statutory tax rates	31.74%	31.74%
Deductible cash distributions	(31.72)	(29.42)
Provision of reserve for reduction entry	—	(2.30)
Other	0.03	0.02
Effective tax rates	<u>0.05%</u>	<u>0.04%</u>

## Note 8 – Leases

None

## Note 9 – 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, 2016 and June 30, 2017.

(Thousands of yen)

	As of					
	December 31, 2016			June 30, 2017		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	6,562,889	6,562,889	—	9,911,529	9,911,529	—
(2) Cash and bank deposits in trust	7,867,449	7,867,449	—	5,535,252	5,535,252	—
Total assets	14,430,339	14,430,339	—	15,446,781	15,446,781	—
(3) Current portion of long-term loans payable	13,800,000	13,872,255	72,255	13,675,000	13,703,617	28,617
(4) Investment corporation bonds – unsecured	3,000,000	2,977,050	(22,950)	6,000,000	5,976,950	(23,050)
(5) Long-term loans payable	77,300,000	78,028,898	728,898	85,300,000	85,933,573	633,573
Total liabilities	94,100,000	94,878,203	778,203	104,975,000	105,614,141	639,141
(6) 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) Current portion of long-term loans payable and (5) 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.

*(4) Investment corporation bonds – unsecured*

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

*(6) Derivative instruments*

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

As of December 31, 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	31,100,000	Note (a)	-

As of June 30, 2017 (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	31,100,000	Note (a)	-

Note:

- (a) As disclosed in “Note 1 - 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 instrument and the long-term loans payable as the hedged item is calculated together as one. Please refer to above footnote (“Liabilities, (3) 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, 2016	June 30, 2017
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	8,245,717	12,299,221
Tenant leasehold and security deposits in trust	3,246,312	358,930

The investment securities (equity interests in silent partnership) 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, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	6,562,889	-	-	-	-	-
Cash and bank deposits in trust	7,867,449	-	-	-	-	-
<b>Total</b>	<b>14,430,339</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(Thousands of yen)						
As of June 30, 2017	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	9,911,529	-	-	-	-	-
Cash and bank deposits in trust	5,535,252	-	-	-	-	-
<b>Total</b>	<b>15,446,781</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, 2016	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	13,800,000	15,300,000	15,200,000	22,850,000	14,250,000	9,700,000
Investment corporation bonds – unsecured	-	-	-	-	1,500,000	1,500,000

(Thousands of yen)						
As of June 30, 2017	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	13,675,000	15,300,000	23,750,000	19,600,000	12,950,000	13,700,000
Investment corporation bonds – unsecured	-	-	-	1,500,000	1,000,000	3,500,000

## Note 10 – 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, 2016 and June 30, 2017.

	(Thousands of yen)	
	<b>As of / For the six months ended</b>	
	<b>December 31, 2016</b>	<b>June 30, 2017</b>
<b>Net book value</b>		
Balance at the beginning of the period	206,085,313	205,528,279
Net increase (decrease) during the period <sup>(1)</sup>	(557,034)	21,396,626
Balance at the end of the period	<b>205,528,279</b>	<b>226,924,906</b>
<b>Fair value<sup>(2)</sup></b>	<b>190,470,000</b>	<b>222,040,000</b>

Notes:

(1) For the six months ended December 31, 2016:  
Changes in the net book value are mainly due to capital expenditures offset by depreciation.

For the six months ended June 30, 2017:  
Changes in the net book value are mainly due to increase by the following acquisitions or other capital expenditures and decrease by the following disposition or depreciation.

		Increase (decrease) in net book value
		(Thousands of yen)
Acquisitions:	Shibuya Sakuragaoka Square (additional acquisition)	12,545,105
	Sasazuka Center Bldg.	9,124,855
	Sendai Capital Tower	5,622,900
	USC Bldg.	5,197,310
Disposition:	Midosuji MID Bldg.	(8,351,018)
	MID Midosujikawaramachi Bldg.	(1,905,668)

(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, 2016 and June 30, 2017, please refer to “Note 5 – Rental business revenue and expenses.”

## Note 11 – Restriction on Asset Management

None

**Note 12 – Related-party transactions**

*For the six months ended December 31, 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)	10,263	Advances received	1,725
						Rental receivables	120
						Tenant leasehold and security deposits	19,513
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,709	Advances received	1,295
						Rental receivables	17
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd.	Real estate business	3.46	Rental business revenue (Note 1)	6,015	Advances received	878
						Rental receivables	453
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	71,486	Advances received	9,362
						Rental receivables	799
				Utilities	387,786	Tenant leasehold and security deposits	104,029
						Operating accounts payable	61,405
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	29,984	Accounts payable – other	32,383
				Asset custody fee	7,653	Accounts payable – other	1,057
				Interest expenses	59,814	Accrued expenses	17,305
				Borrowing related expenses	5,960	Prepaid expenses	27,922

*For the six months ended June 30, 2017:*

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)	5,905	Advances received	814
						Rental receivables	71
						Tenant leasehold and security deposits	9,055
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,708	Advances received	1,295
						Rental receivables	19
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd.	Real estate business	3.10	Rental business revenue (Note 1)	6,163	Advances received	878
						Rental receivables	238
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	70,896	Advances received	9,362
						Rental receivables	714
				Utilities	327,784	Tenant leasehold and security deposits	104,029
						Operating accounts payable	60,078
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	31,627	Accounts payable – other	34,157
				Asset custody fee	8,682	Accounts payable – other	895
				Interest expenses	92,388	Accrued expenses	20,250
				Borrowing related expenses	6,666	Prepaid expenses	22,554

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.

### Note 13 – Per unit information

The net asset value per unit as of December 31, 2016 and June 30, 2017 was ¥440,635 and ¥430,427, respectively. Net income per unit for the six months ended December 31, 2016 and June 30, 2017 was ¥7,431 and ¥8,817, 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, 2016</b>	<b>June 30, 2017</b>
Net income	1,976,910	2,527,032
Amount not attributable to common unitholders	—	—
Net income attributable to common unitholders	1,976,910	2,527,032
Adjusted weighted-average number of units outstanding for the period	266,025 units	286,596 units

### Note 14 – Subsequent events

#### For the six months ended December 31, 2016:

#### *Issuance of new investment units*

The Board of Directors of the Investment Corporation, at its meeting held on February 14, 2017, resolved to issue new investment units as follows. The offering price per unit or other conditions will be otherwise resolved at the end of February 2017.

#### *(a) Issuance of new investment units through public offering*

Number of new investment units to be issued: 29,100 units

#### *(b) Issuance of new investment units through third-party allotment*

Number of new investment units to be issued: 1,500 units

Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

#### *(c) Use of proceeds*

The Investment Corporation used the net proceeds from the issuance of new investment units through the public offering for acquiring additional specified assets. Net proceeds from the third-party allotment will appropriate for acquisition of specified assets in the future.

#### *Acquisition and disposition of properties*

The Investment Corporation acquired (or decided to acquire) following properties for the six months ending June 30, 2017.

Name of property	Acquisition price (or planned acquisition price) (Millions of yen) (Note 1)	Acquisition date
<b>Properties acquired:</b>		
Shibuya Sakuragaoka Square (additional acquisition) (Note2)	¥12,130	February 1, 2017
Sendai Capital Tower	¥5,500	February 1, 2017
<b>Properties to be acquired:</b>		
Sasazuka Center Building	¥8,700	Scheduled on March 22, 2017
USC Building (Note 3)	¥5,000	Scheduled on April 6, 2017
<b>Total</b>	<b>¥31,330</b>	

Note 1: "Acquisition price (or planned acquisition price)" indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

Note 2: The Investment Corporation already invests 40% quasi co-ownership interest of Shibuya Sakuragaoka Square (land with leasehold interest), and then has owned all the land and building of this property by the additional acquisition of 60% quasi co-ownership interest of the land with leasehold interest and the building of this property.

Note 3: The investment Corporation will acquire 50 over 108 quasi co-ownership interest of the building and land of USC Building.

The Investment Corporation decided to dispose following properties for the six months ending June 30, 2017.

Name of property	Planned disposition price (Millions of yen) (Note 1)	Scheduled date of disposition
Midosuji MID Bldg.	¥9,000	March 27, 2017
MID Midosuji Kawaramachi Bldg	¥1,700	March 27, 2017
<b>Total</b>	<b>¥10,700</b>	

Note 1: "Planned disposition price" indicates the sale price (excluding various acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of respective trust beneficiary interest stated in the trust beneficiary interest transfer agreement.

### ***New debt financing***

The Investment Corporation obtained following debt financing for acquiring new properties stated above.

	Lender(s)	Amount outstanding	Debt term	Interest rate	Contract date	Borrowing date	Method of borrowing, repayment of principal	Maturity date
Loan 1	Mizuho Bank, Ltd.	¥10,000 million	0.5 years	Floating rate (JBA 1-month yen TIBOR) + 0.150%				July 31, 2017
Loan 2	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Development Bank of Japan, Inc. The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥4,000 million	5 years	Fixed rate 0.64691%	January 26, 2017	January 31, 2017	Unsecured and unguaranteed, lump sum repayment	January 31, 2022
Loan 3	Same as above	¥4,000 million	7 years	Fixed rate 0.80938%				January 31, 2024

### ***For the six months ended June 30, 2017:***

None



## VI. Statements of cash distributions

(Yen)

	For the six months ended	
	December 31, 2016	June 30, 2017
Unappropriated retained earnings	1,976,966,422	2,527,166,823
Cash distribution declared	1,976,831,775	2,343,337,500
<i>(Cash distribution declared per unit)</i>	<i>(7,431)</i>	<i>(7,900)</i>
Voluntary reserve		
Provision of reserve for reduction entry	—	183,659,375
Retained earnings carried forward	134,647	169,948

Note:

For the six months ended December 31, 2016

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, 2016 were ¥1,976,831,775 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.

For the six months ended June 30, 2017

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, the Investment Corporation transferred a portion of unappropriated retained earnings calculated based on Article 65-7 of the Special Taxation Measures Act of Japan to reserve for reduction entry and declared a total of ¥2,343,337,500 for cash distributions which is all of the remaining unappropriated retained earnings 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.

**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, 2017 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, 2016	June 30, 2017
<b>Net cash provided by (used in) operating activities:</b>		
Income before income taxes	1,977,833	2,527,934
Depreciation and amortization	1,288,489	1,279,622
Amortization of long-term prepaid expenses	100,943	102,742
Amortization of investment unit issuance costs	14,566	20,475
Amortization of investment corporation bonds issuance costs	2,290	3,006
Interest income	(78)	(70)
Interest expenses	394,632	419,219
Loss on disposal of property	1,824	—
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	18,184	(105,661)
Decrease in consumption taxes refundable	—	(333,562)
Increase (decrease) in consumption taxes payable	(243,614)	(39,956)
Increase (decrease) in operating accounts payable	(55,257)	214,308
Increase (decrease) in advances received	(57)	105,850
Decrease (increase) in prepaid expenses	(9,162)	(1,636)
Payments of long-term prepaid expenses	(129,340)	(70,794)
Decrease in property, plant and equipment in trust due to disposition	—	10,256,686
Other, net	54,414	1,807
Subtotal	3,415,668	14,379,970
Interest income received	78	70
Interest expenses paid	(410,821)	(404,499)
Income taxes paid	—	(648)
Income taxes refund	3,043	—
Net cash provided by operating activities	3,007,968	13,974,892
<b>Net cash provided by (used in) investing activities:</b>		
Purchases of property, plant and equipment in trust	(720,634)	(32,849,528)
Purchases of intangible assets	—	(317)
Proceeds from tenant leasehold and security deposits	209,795	4,725,260
Proceeds from tenant leasehold and security deposits in trust	285,525	1,519,138
Payments of tenant leasehold and security deposits	(277,848)	(632,817)
Payments of tenant leasehold and security deposits in trust	(210,228)	(4,438,212)
Proceeds from restricted bank deposits in trust	433	3,059,051
Payments for restricted bank deposits in trust	(24,546)	—
Net cash used in investing activities	(737,504)	(28,617,425)
<b>Net cash provided by (used in) financing activities:</b>		
Increase in short-term loans payable	—	10,000,000
Repayments of short-term loans payable	—	(10,000,000)
Proceeds from long-term loans payable	18,400,000	8,000,000
Repayments of long-term loans payable	(20,025,000)	(125,000)
Proceeds from investment corporation bonds – unsecured	—	2,968,297
Proceeds from issuance of investment units	—	9,852,167
Dividends paid	(1,887,293)	(1,977,437)
Net cash provided by (used in) financing activities	(3,512,293)	18,718,027
<b>Net change in cash and cash equivalents</b>	(1,241,829)	4,075,493
<b>Cash and cash equivalents at beginning of period</b>	12,448,865	11,207,036
<b>Cash and cash equivalents at end of period <sup>(i)</sup></b>	11,207,036	15,282,529

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, 2016	June 30, 2017
Cash and bank deposits	6,562,889	9,911,529
Cash and bank deposits in trust	7,867,449	5,535,252
Restricted bank deposits in trust <sup>(1)</sup>	(3,223,303)	(164,254)
Cash and cash equivalents	11,207,036	15,282,529

Note:

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