



MCUBS MidCity Investment Corporation

Financial Statements

For the six months ended
December 31, 2017 and June 30, 2017

Together with Independent
Auditors' Report

KPMG AZSA LLC
June 2018

Independent Auditor's Report

To the Board of Directors of
MCUBS MidCity Investment Corporation:

We have audited the accompanying financial statements of MCUBS MidCity Investment Corporation (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at December 31, 2017 and June 30, 2017, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for the six months ended December 31, 2017 and June 30, 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MCUBS MidCity Investment Corporation as at December 31, 2017 and June 30, 2017, and their financial performance and cash flows for the six months ended December 31, 2017 and June 30, 2017 in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 23 to the financial statements that describes MCUBS MidCity Investment Corporation's subsequent unit split, subsequent issuance of new investment units, subsequent acquisitions of properties and the execution of new debt financing. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the six months ended December 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the financial statements.

KPMG AZSA LLC

June 15, 2018
Tokyo, Japan

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of June 30, 2017 and December 31, 2017

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash and bank deposits (Notes 3 and 18).....	¥ 9,911	¥ 11,031	\$ 97,619
Cash and bank deposits in trust (Notes 3 and 18).....	5,535	5,246	46,424
Rental receivables.....	258	164	1,451
Income taxes receivable.....	20	27	238
Consumption tax refundable.....	333	—	—
Prepaid expenses.....	47	42	371
Deferred tax assets (Note 16).....	0	0	0
Other.....	28	55	486
Total current assets	16,135	16,569	146,628
Noncurrent assets:			
Property and equipment, at cost (Notes 5 and 7):			
Buildings in trust (Note 4)	77,291	78,072	690,902
Structures in trust.....	130	137	1,212
Machinery and equipment in trust.....	7	7	61
Tools, furniture and fixtures in trust (Note 4).....	556	585	5,176
Land in trust.....	169,977	169,977	1,504,221
Construction in progress in trust	5	4	35
Total property and equipment	247,968	248,784	2,201,628
Less: Accumulated depreciation	21,038	22,294	197,292
Total net property and equipment	226,930	226,489	2,004,327
Intangible assets (Note 6):			
Software.....	4	3	26
Trademark right	0	0	0
Total intangible assets	4	3	26
Investments and other assets:			
Investment securities (Note 8)	5,085	5,085	45,000
Lease and guarantee deposits.....	10	10	88
Long-term prepaid expenses	522	573	5,070
Total investments and other assets	5,617	5,668	50,159
Total noncurrent assets	232,551	232,161	2,054,522
Deferred charges:			
Investment corporation bonds issuance costs	57	53	469
Investment unit issuance costs	77	53	469
Total deferred charges	134	106	938
TOTAL ASSETS	¥ 248,821	¥ 248,837	\$ 2,202,097

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of June 30, 2017 and December 31, 2017

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
LIABILITIES			
Current liabilities:			
Operating accounts payable	¥ 606	¥ 508	\$ 4,495
Current portion of long-term loans payable (Notes 9 and 18)	13,675	15,300	135,398
Accounts payable.....	1,051	815	7,212
Accrued expenses	139	132	1,168
Distribution payable.....	7	8	70
Consumption taxes payable	—	305	2,699
Advances received	1,092	1,084	9,592
Other.....	615	376	3,327
Total current liabilities.....	17,188	18,533	164,008
Noncurrent liabilities:			
Investment corporation bonds – unsecured (Notes 11 and 18)	6,000	6,000	53,097
Long-term loans payable (Notes 9 and 18)	85,300	83,675	740,486
Tenant leasehold and security deposits (Note 18)	12,299	12,726	112,619
Tenant leasehold and security deposits in trust (Note 18)	358	164	1,451
Total noncurrent liabilities.....	103,958	102,565	907,654
TOTAL LIABILITIES	121,146	121,099	1,071,672
NET ASSETS (Note 12)			
Unitholders' equity:			
Unitholders' capital, 2,000,000 units authorized; 296,625 units as of June30, 2017 and December 31, 2017 issued and outstanding.....	125,148	125,148	1,107,504
Surplus:			
Voluntary reserve			
Reserve for reduction entry of property.....	—	183	1,619
Total voluntary reserve	—	183	1,619
Retained earnings	2,527	2,405	21,283
Total surplus	2,527	2,589	22,911
Total unitholders' equity	127,675	127,737	1,130,415
TOTAL NET ASSETS	127,675	127,737	1,130,415
TOTAL LIABILITIES AND NET ASSETS.....	¥ 248,821	¥ 248,837	\$ 2,202,097

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the six months ended June 30, 2017 and December 31, 2017

	For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Operating revenues			
Rent revenues—real estate (Note 14).....	¥ 6,825	¥ 6,962	\$ 61,610
Other rental business revenues (Note 14).....	535	510	4,513
Dividends income	107	138	1,221
Gain on sales of property and equipment (Note 15).....	557	—	—
Total operating revenues	8,025	7,610	67,345
Operating expenses			
Expenses related to rental business (Note 14)	3,924	3,879	34,327
Loss on sales of property and equipment (Note 15)	225	—	—
Asset management fees.....	585	624	5,522
Asset custody fees.....	5	5	44
Administrative service fees.....	33	33	292
Directors' compensations.....	6	8	70
Other.....	94	76	672
Total operating expenses	4,875	4,627	40,946
Operating income	3,150	2,983	26,398
Non-operating income			
Interest income.....	0	0	0
Reversal of distribution payable.....	1	1	8
Interest on refund.....	0	1	8
Other.....	—	0	0
Total non-operating income	1	2	17
Non-operating expenses			
Interest expenses	409	399	3,530
Interest expenses on investment corporation bonds	10	16	141
Borrowing related expenses	141	139	1,230
Amortization of investment corporation bonds issuance costs	3	4	35
Amortization of investment unit issuance costs	20	23	203
Other.....	39	0	0
Total non-operating expenses	623	584	5,168
Ordinary income	2,527	2,400	21,238
Extraordinary gain			
Gain on donation of noncurrent assets	—	5	44
Total extraordinary gain	—	5	44
Income before income taxes	2,527	2,406	21,292
Income taxes (Note 16):			
Current.....	0	0	0
Deferred.....	0	0	0
Total income taxes	0	0	0
Net income	2,527	2,405	21,283
Retained earnings brought forward	0	0	0
Unappropriated retained earnings (Note 13)	¥ 2,527	¥ 2,405	\$ 21,283

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
For the six months ended June 30, 2017 and December 31, 2017

	Unitholders' equity							Total net assets
	Surplus						Total unitholders' equity	
	Unitholders' capital	Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity		
	Reserve for reduction entry of property	Total voluntary reserve	(in millions of yen)					
Balance as of December 31, 2016	¥ 115,243	¥ —	¥ —	¥ 1,976	¥ 1,976	¥ 117,220	¥ 117,220	
<u>Changes during the period</u>								
Issuance of new investment units.....	9,905	—	—	—	—	9,905	9,905	
Dividends from surplus.....	—	—	—	(1,976)	(1,976)	(1,976)	(1,976)	
Net income.....	—	—	—	2,527	2,527	2,527	2,527	
<u>Total changes during the period</u>	9,905	—	—	550	550	10,455	10,455	
Balance as of June 30, 2017	¥ 125,148	¥ —	¥ —	¥ 2,527	¥ 2,527	¥ 127,675	¥ 127,675	
<u>Changes during the period</u>								
Provision of reserve for reduction entry of property	—	183	183	(183)	—	—	—	
Dividends from surplus.....	—	—	—	(2,343)	(2,343)	(2,343)	(2,343)	
Net income.....	—	—	—	2,405	2,405	2,405	2,405	
<u>Total changes during the period</u>	—	183	183	(121)	62	62	62	
Balance as of December 31, 2017	¥ 125,148	¥ 183	¥ 183	¥ 2,405	¥ 2,589	¥ 127,737	¥ 127,737	

	Unitholders' equity							Total net assets
	Surplus						Total unitholders' equity	
	Unitholders' capital	Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity		
	Reserve for reduction entry of property	Total voluntary reserve	(in thousands of U.S. dollars)					
Balance as of June 30, 2017	\$ 1,107,504	\$ —	\$ —	\$ 22,362	\$ 22,362	\$ 1,129,867	\$ 1,129,867	
<u>Changes during the period</u>								
Provision of reserve for reduction entry of property	—	1,619	1,619	(1,619)	—	—	—	
Dividends from surplus.....	—	—	—	(20,734)	(20,734)	(20,734)	(20,734)	
Net income.....	—	—	—	21,283	21,283	21,283	21,283	
<u>Total changes during the period</u>	—	1,619	1,619	(1,070)	548	548	548	
Balance as of December 31, 2017	\$ 1,107,504	\$ 1,619	\$ 1,619	\$ 21,283	\$ 22,911	\$ 1,130,415	\$ 1,130,415	

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2017 and December 31, 2017

	For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes.....	¥ 2,527	¥ 2,406	\$ 21,292
Depreciation and amortization	1,279	1,256	11,115
Amortization of long-term prepaid expenses.....	102	96	849
Amortization of investment unit issuance costs.....	20	23	203
Amortization of investment corporation bonds issuance costs ..	3	4	35
Interest income.....	(0)	(0)	(0)
Interest expenses	419	416	3,681
Gain on donation of noncurrent assets.....	—	(5)	(44)
Changes in assets and liabilities:			
Decrease (increase) in operating accounts receivable	(105)	93	823
Decrease (increase) in consumption taxes refundable.....	(333)	333	2,946
Increase (decrease) in consumption taxes payable.....	(39)	305	2,699
Increase (decrease) in operating accounts payable.....	214	(97)	(858)
Increase (decrease) in accounts payable.....	36	(284)	(2,513)
Increase (decrease) in advances received.....	105	(7)	(61)
Decrease (increase) in prepaid expenses.....	(1)	4	35
Payments of long-term prepaid expenses	(70)	(147)	(1,300)
Decrease in property and equipment in trust due to disposition	10,256	—	—
Other, net.....	(34)	24	212
Subtotal.....	14,379	4,423	39,141
Interest income received.....	0	0	0
Interest expenses paid.....	(404)	(422)	(3,734)
Income taxes paid.....	0	(7)	(61)
Net cash provided by operating activities	13,974	3,993	35,336
Cash flows from investing activities:			
Purchases of property and equipment in trust.....	(32,849)	(761)	(6,734)
Purchases of intangible assets	(0)	—	—
Proceeds from tenant leasehold and security deposits	4,725	628	5,557
Proceeds from tenant leasehold and security deposits in trust ...	1,519	2	17
Payments of tenant leasehold and security deposits	(632)	(493)	(4,362)
Payments of tenant leasehold and security deposits in trust	(4,438)	(197)	(1,743)
Proceeds from restricted bank deposits in trust	3,059	0	0
Payments for restricted bank deposits in trust	—	(0)	(0)
Net cash used in investing activities	(28,617)	(821)	(7,265)
Cash flows from financing activities:			
Increase in short-term loans payable	10,000	—	—
Repayments of short-term loans payable.....	(10,000)	—	—
Proceeds from long-term loans payable.....	8,000	13,675	121,017
Repayments of long-term loans payable.....	(125)	(13,675)	(121,017)
Proceeds from investment corporation bonds – unsecured.....	2,968	—	—
Proceeds from issuance of investment units.....	9,852	—	—
Dividends paid	(1,977)	(2,341)	(20,716)
Net cash provided by (used in) financing activities	18,718	(2,341)	(20,716)
Net change in cash and cash equivalents.....	4,075	831	7,353
Cash and cash equivalents at the beginning of period.....	11,207	15,282	135,238
Cash and cash equivalents at the end of period (Note 3).....	¥ 15,282	¥ 16,113	\$ 142,592

The accompanying notes are an integral part of these financial statements.

MCUBS MIDCITY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the six months ended June 30, 2017 and December 31, 2017

Note 1 — Organization

MCUBS MidCity Investment Corporation (the “Company”), a real estate investment corporation, with initial capital of ¥100 million, was incorporated on June 1, 2006, under the Act on Investment Trusts and Investment Corporations of Japan (the “Investment Trust Act”) and listed on the J-REIT section of the Tokyo Stock Exchange on August 29, 2006.

The Company is externally managed by a registered asset management company, MCUBS MidCity Inc. (the “Asset Manager”). The Asset Manager is currently owned by Mitsubishi Corp. - UBS Realty Inc. and Kanden Realty & Development Co., Ltd.

The Company was formed to invest primarily in office properties in Japan. The Company raised ¥88,587 million through an initial public offering of 180,000 investment units on August 28, 2006 and acquired trust beneficiary interest in entrusted real estate (trust beneficiary interest in real estate) for nine properties on August 31, 2006 for an aggregate purchase price of ¥146 billion by utilizing net proceeds from the initial public offering and loans payable from banks.

The total assets managed by the Company at the end of the 23rd fiscal period (December 31, 2017) amounted to ¥238.1 billion (US\$2,107 million) (the total acquisition price of 20 properties).

Note 2 — Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company maintains its accounts and records in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Investment Trust Act, the Companies Act of Japan, the Financial Instruments and Exchange Act, and other related regulations, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a translation of the financial statements of the Company, which were prepared in accordance with Japanese GAAP and filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act. In preparing the accompanying financial statements, certain information in the notes has been added to the financial statements issued domestically for the convenience of the readers outside Japan.

The financial statements are not intended to present the financial position and the results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company’s fiscal period is a six-month period which ends at the end of June and December of each year.

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥113.00 = US\$1, the effective rate of exchange prevailing at December 31, 2017. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended December 31, 2017 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

Amounts less than ¥1 million and US\$ 1 thousand have been rounded down.

The Company does not prepare consolidated financial statements as it has no subsidiaries.

(b) Cash and Cash Equivalents

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

(c) Property and Equipment (Including Trust Assets)

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

	<u>For the six months ended</u> <u>December 31, 2017</u>
Buildings.....	2-65 years
Structures	2-50 years
Machinery and equipment.....	11 years
Tools, furniture and fixtures	2-15 years

(d) Intangible assets

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

(e) Long-term Prepaid Expenses

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

(f) Accounting Treatment of Trust Beneficiary Interests in Real Estate Trusts

For trust beneficiary interests in real estate trusts, which are commonly utilized to obtain ownership in investment properties in Japan and through which the Company 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 Company 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 sheets of the Company.

(g) Accounting Treatment of Investments in Tokumei Kumiai

Investments in Tokumei Kumiai (“TK”), which are presented as investment securities in the balance sheets, are accounted for using the equity method of accounting. Under the equity method, the initial and additional subsequent investments in a TK are recorded at cost and the carrying amount at the balance sheet date is adjusted for the Company’s share of the undistributed earnings or losses and distributions received from the TK.

(h) Hedge Accounting

In accordance with the Company’s risk management policy and its internal rules, the Company uses derivative instruments for the purpose of hedging risks that are prescribed in the Company’s articles of incorporation. The Company 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 rate swap contracts can be recognized and added to or deducted from any interest earned or incurred on the hedged asset or liability, as appropriate, and the fair value of the interest rate swaps 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) 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.

(j) Investment Unit Issuance Costs

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

(k) Income Taxes

Deferred tax assets and liabilities are computed based on the temporary differences between the financial statement and income tax basis of assets and liabilities using the applicable statutory tax rate.

(l) Consumption Taxes

Consumption taxes withheld and consumption taxes paid are not included in the statements 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.

(m) Taxes on Property and Equipment

Property 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 Japanese GAAP. In subsequent calendar years, half of such taxes on property and equipment for each calendar year are charged as operating expenses in each fiscal period.

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

(n) Revenue Recognition

Revenues from the leasing of properties includes fixed rental revenues, variable rental revenues, sales-based rental revenues, recoveries of utility charges and other miscellaneous income, which are all recognized in a pattern appropriate for each revenue stream.

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents shown in the statements of cash flows consist of the following balance sheet items.

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 9,911	¥ 11,031	\$ 97,619
Cash and bank deposits in trust	5,535	5,246	46,424
Restricted bank deposits in trust ⁽¹⁾	(164)	(164)	(1,451)
Cash and cash equivalents	¥ 15,282	¥ 16,113	\$ 142,592

Note:

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

Note 4 – Reduction Entry of Property

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

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Reduction entry by:			
Government subsidies received			
Buildings in trust.....	¥ 4	¥ 4	\$ 35
Tools, furniture and fixtures in trust.....	7	7	61
Insurance income			
Buildings in trust.....	68	68	601

Note 5 – Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended June 30, 2017 and December 31, 2017, respectively.

For the six months ended June 30, 2017:

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance			
	(in millions of yen)						
Buildings in trust.....	¥ 73,954	¥ 6,560	¥ 3,224	¥ 77,291	¥ 26,605	¥ 1,255	¥ 56,685
Structures in trust.....	119	15	4	130	28	2	102
Machinery and equipment in trust.....	7	—	—	7	2	0	5
Tools, furniture and fixtures in trust.....	567	18	28	556	401	20	154
Land in trust.....	151,954	26,335	8,312	169,977	—	—	169,977
Construction in progress in trust...	4	2	1	5	—	—	5
Total.....	¥ 226,607	¥ 32,932	¥ 11,571	¥ 247,968	¥ 21,038	¥ 1,279	¥ 226,930

For the six months ended December 31, 2017:

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance			
	(in millions of yen)						
Buildings in trust.....	¥ 77,291	¥ 781	¥ 0	¥ 78,072	¥ 21,837	¥ 1,232	¥ 56,234
Structures in trust.....	130	7	0	137	31	3	106
Machinery and equipment in trust.....	7	—	—	7	3	0	4
Tools, furniture and fixtures in trust.....	556	28	—	585	422	21	162
Land in trust.....	169,977	—	0	169,977	—	—	169,977
Construction in progress in trust...	5	—	1	4	—	—	4
Total.....	¥ 247,968	¥ 817	¥ 1	¥ 248,784	¥ 22,294	¥ 1,256	¥ 226,489

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance			
	(in thousands of U.S. dollars)						
Buildings in trust.....	\$ 683,991	\$ 6,911	\$ 0	\$ 690,902	\$ 193,247	\$ 10,902	\$ 497,646
Structures in trust.....	1,150	61	0	1,212	274	26	938
Machinery and equipment in trust.....	61	—	—	61	26	0	35
Tools, furniture and fixtures in trust.....	4,920	247	—	5,176	3,734	185	1,433
Land in trust.....	1,504,221	—	0	1,504,221	—	—	1,504,221
Construction in progress in trust...	44	—	8	35	—	—	35
Total.....	\$ 2,194,407	\$ 7,230	\$ 8	\$ 2,201,628	\$ 197,292	\$ 11,115	\$ 2,004,327

Note 6 – Intangible Assets

The following tables show the summary of movement in intangible assets for the six months ended June 30, 2017 and December 31, 2017, respectively.

For the six months ended June 30, 2017:

	At cost				Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease	Ending balance (in millions of yen)			
Software	¥ 5	¥ 0	¥ –	¥ 6	¥ 2	¥ 0	¥ 4
Trademark right	1	–	–	1	1	0	0
Total	¥ 7	¥ 0	¥ –	¥ 7	¥ 3	¥ 0	¥ 4

For the six months ended December 31, 2017:

	At cost				Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease	Ending balance (in millions of yen)			
Software	¥ 6	¥ –	¥ –	¥ 6	¥ 2	¥ 0	¥ 3
Trademark right	1	–	–	1	1	0	0
Total	¥ 7	¥ –	¥ –	¥ 7	¥ 3	¥ 0	¥ 3

	At cost				Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease	Ending balance (in thousands of U.S. dollars)			
Software	\$ 53	\$ –	\$ –	\$ 53	\$ 17	\$ 0	\$ 26
Trademark right	8	–	–	8	8	0	0
Total	\$ 61	\$ –	\$ –	\$ 61	\$ 26	\$ 0	\$ 26

Note 7 – Fair Value of Investment and Rental Properties

The following table shows the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended June 30, 2017 and December 31, 2017.

	As of / For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of the period	¥ 205,528	¥ 226,924	\$ 2,008,176
Net increase (decrease) during the period ⁽¹⁾	21,396	(439)	(3,884)
Balance at the end of the period	¥ 226,924	¥ 226,485	\$ 2,004,292
Fair value⁽²⁾	222,040	226,900	2,007,964

Notes:

(1) 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 (in millions of yen)
Acquisitions:	
Shibuya Sakuragaoka Square (additional acquisition)	¥ 12,545
Sasazuka Center Bldg.	9,124
Sendai Capital Tower	5,622
USC Bldg.	5,197
Disposition:	
Midosuji MID Bldg.	(8,351)
MID Midosujikawaramachi Bldg.	(1,905)

For the six months ended December 31, 2017:

Changes in the net book value are mainly due to capital expenditures offset by depreciation.

(2) Fair value has been determined based on the appraisal value provided by independent real estate appraisers.

For rental revenues and expenses for the six months ended June 30, 2017 and December 31, 2017, please refer to “Note 14 - Rental Business Revenues and Expenses.”

Note 8 – Investments in Tokumei Kumiai

The Company invests in real estate properties by entering into TK agreements as a Tokumei Kumiai investor (“TK investor”) with Japanese special purpose companies known as Tokumei Kumiai operators (“TK operators”), which are the property holding entities. Such TK transactions are a common method of investing and holding real estate properties in Japan. The relationship between the TK operators and the TK investors is governed by TK agreements, whereby the TK investors provide funds to the TK operators in return for the prorated portion of the income derived from the investments in properties held by the TK operators. Information on investments in TK as of June 30, 2017 and December 31, 2017 was as follows:

As of June 30, 2017:

Name of TK operator	Carrying amounts	The value of TK ⁽¹⁾	Unrealized gains (or losses)
	(in millions of yen)		
R40 Godo Kaisha ⁽²⁾	¥ 5,085	¥ 5,085	¥ —
Total	¥ 5,085	¥ 5,085	¥ —

As of December 31, 2017:

Name of TK operator	Carrying amounts	The value of TK ⁽¹⁾	Unrealized gains (or losses)	Carrying amounts	The value of TK ⁽¹⁾	Unrealized gains (or losses)
	(in millions of yen)			(in thousands of U.S. dollars)		
R40 Godo Kaisha ⁽²⁾	¥ 5,085	¥ 5,085	¥ —	\$ 45,000	\$ 45,000	\$ —
Total	¥ 5,085	¥ 5,085	¥ —	\$ 45,000	\$ 45,000	\$ —

Note:

- (1) The value of TK represents carrying amounts because it is too difficult to estimate fair value based on reasonable future cash flow.
- (2) 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 9 – Loans Payable

The following tables show the details of loans payable for the six months ended December 31, 2017.

For the six months ended December 31, 2017:

Classification	Name of lender ^(b)	Beginning balance			Ending balance			Average interest rate ⁽¹⁾ (%)	Maturity date	Repayment method	Use of proceeds	Remarks		
		Balance	Increase	Decrease	Balance	Increase	Decrease							
		(in millions of yen)			(in thousands of U.S. dollars)									
Long-term loans payable	Development Bank of Japan Inc.	¥ 3,375	¥ –	¥ 3,375	¥ –	\$ 29,867	\$ –	\$ 29,867	1.795 (Note 4)	July 31, 2017 (Note 5)	(Note 5)	(Note 6)	Unsecured and unguaranteed	
	Sumitomo Mitsui Trust Bank, Limited Aozora Bank, Ltd. (Note 2)	4,300	–	4,300	–	38,053	–	38,053	1.141 (Note 3)	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed	
	Development Bank of Japan Inc.	1,700	–	–	1,700	15,044	–	–	15,044 (Note 4)	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed	
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. (Note 2)	4,800	–	–	4,800 (Note 7)	42,477	–	–	42,477 (Note 7)	1.297 (Note 3)	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc. THE MINATO BANK, LTD. (Note 2)	1,800	–	–	1,800	15,929	–	–	15,929 (Note 4)	1.709 (Note 4)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Shinkin Central Bank The Senshu Ikeda Bank, Ltd. (Note 2)	6,000	–	6,000	–	53,097	–	53,097	–	0.707 (Note 3)	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Resona Bank, Limited (Note 2)	4,000	–	–	4,000	35,398	–	–	35,398	0.962 (Note 3)	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. The Hiroshima Bank, Ltd. (Note 2) Sony Bank Incorporated	2,000	–	–	2,000	17,699	–	–	17,699	1.240 (Note 3)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Aozora Bank, Ltd. (Note 2)	1,800	–	–	1,800	15,929	–	–	15,929	1.478 (Note 4)	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	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. (Note 2)	9,500	–	–	9,500	84,070	–	–	84,070	0.561	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd. (Note 2)	4,500	–	–	4,500	39,823	–	–	39,823	1.034 (Note 3)	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	1,000	–	–	1,000	8,849	–	–	8,849	1.384 (Note 3)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
	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. (Note 2)	10,500	–	–	10,500 (Note 7)	92,920	–	–	92,920 (Note 7)	0.461	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed
	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. (Note 2)	9,300	–	–	9,300	82,300	–	–	82,300	0.865 (Note 3)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc.	1,200	–	–	1,200	10,619	–	–	10,619	0.908 (Note 4)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Aozora Bank, Ltd. (Note 2) The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Trust & Banking Co., Ltd.	2,200	–	–	2,200	19,469	–	–	19,469	1.202 (Note 3)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc.	800	–	–	800	7,079	–	–	7,079	1.233 (Note 4)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	500	–	–	500	4,424	–	–	4,424	1.384 (Note 3)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc.	500	–	–	500	4,424	–	–	4,424	1.400 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation (Note 2)	2,800	–	–	2,800	24,778	–	–	24,778	0.498 (Note 3)	April 30, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed

Classification	Name of lender ⁽⁸⁾	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate ⁽¹⁾	Maturity date	Repayment method	Use of proceeds	Remarks
		(in millions of yen)				(in thousands of U.S. dollars)				(%)				
Long-term loans payable	Sumitomo Mitsui Banking Corporation Shinkin Central Bank (Note 2)	3,700	—	—	3,700	32,743	—	—	32,743	0.371 (Note 4)	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd. (Note 2)	2,250	—	—	2,250	19,911	—	—	19,911	0.373 (Note 4)	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Sumitomo Mitsui Trust Bank, Limited	2,600	—	—	2,600	23,008	—	—	23,008	0.373 (Note 4)	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Development Bank of Japan Inc. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd. (Note 2)	2,500	—	—	2,500	22,123	—	—	22,123	0.451 (Note 4)	January 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd. (Note 2)	2,650	—	—	2,650	23,451	—	—	23,451	0.494 (Note 4)	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Development Bank of Japan Inc. Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation (Note 2)	4,700	—	—	4,700	41,592	—	—	41,592	0.735 (Note 4)	July 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. (Note 2)	4,000	—	—	4,000	35,398	—	—	35,398	0.647 (Note 4)	January 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. (Note 2)	4,000	—	—	4,000	35,398	—	—	35,398	0.809 (Note 4)	January 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
	Shinkin Central Bank The Senshu Ikeda Bank, Ltd. (Note 2)	—	1,900	—	1,900	—	16,814	—	16,814	0.680 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
	Sumitomo Mitsui Banking Corporation	—	1,000	—	1,000	—	8,849	—	8,849	0.688 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Development Bank of Japan Inc. (Note 2)	—	3,975	—	3,975	—	35,176	—	35,176	0.856 (Note 4)	July 31, 2025	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Development Bank of Japan Inc. Aozora Bank, Ltd. (Note 2)	—	3,900	—	3,900	—	34,513	—	34,513	1.040 (Note 4)	July 31, 2027	Lump sum	(Note 6)	Unsecured and unguaranteed
	Sumitomo Mitsui Trust Bank, Limited Tokio Marine & Nichido Fire Insurance Co., Ltd. Nippon Life Insurance Company (Note 2)	—	2,900	—	2,900	—	25,663	—	25,663	0.524 (Note 4)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
	Subtotal	98,975	13,675	13,675	98,975	875,884	121,017	121,017	875,884					
	Total	¥ 98,975	¥ 13,675	¥ 13,675	¥ 98,975	\$ 875,884	\$ 121,017	\$ 121,017	\$ 875,884					

Notes:

- 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.
- These term loans are syndication loan.
- These term loans are hedged by interest rate swaps.
- Interest rates of these term loans are fixed rate.
- The principal was repaid on the end of January and July of each year from January 31, 2011 at an amount of ¥125 million (US\$1,106 thousand), and the remaining balance (¥3,375 million (US\$29,867 thousand)) was repaid on July 31, 2017.
- The use of proceeds was acquisition of trust beneficiary interest in real estate, etc.
- Current portion of these term loans is shown as current portion of long-term loans payable in the balance sheets.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its name to MUFG Bank, Ltd. on April 1, 2018

Annual repayments of long-term loans payable scheduled for next five years after each balance sheet date were as follows:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year.....	¥ 13,675	¥ 15,300	\$ 135,398
1-2 years.....	15,300	15,200	134,513
2-3 years.....	23,750	22,850	202,212
3-4 years.....	19,600	14,250	126,106
4-5 years.....	12,950	9,900	87,610

Note 10 – Commitment line

As of June 30, 2017 and December 31, 2017, the Company 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:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Total amount of committed lines of credit	¥ 15,000	¥ 15,000	\$ 132,743
Borrowings drawn down	—	—	—
Unused committed lines of credit	¥ 15,000	¥ 15,000	\$ 132,743

Note 11 – Investment Corporation Bonds

The details of the unsecured investment corporation bonds issued and outstanding as of June 30, 2017 and December 31, 2017 were as follows:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
¥1.5 billion of 5-year bonds, issued on May 23, 2016, maturing on May 21, 2021 with a coupon of 0.340%	¥ 1,500	¥ 1,500	\$ 13,274
¥1.5 billion of 10-year bonds, issued on May 23, 2016, maturing on May 22, 2026 with a coupon of 0.810%	1,500	1,500	13,274
¥1 billion of 5-year bonds, issued on May 29, 2017, maturing on May 27, 2022 with a coupon of 0.260%	1,000	1,000	8,849
¥2 billion of 10-year bonds, issued on May 29, 2017, maturing on May 28, 2027 with a coupon of 0.670%	2,000	2,000	17,699
Total	¥ 6,000	¥ 6,000	\$ 53,097

Annual repayments on the investment corporation bonds scheduled for next five years after each balance sheet date were as follows:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year	¥ —	¥ —	\$ —
1-2 years	—	—	—
2-3 years	—	—	—
3-4 years	1,500	1,500	13,274
4-5 years	1,000	1,000	8,849

Note 12 – Net Assets

The Company issues only non-par value units in accordance with the Investment Trust Act, and the entire amount of the issue price of new units is allocated to unitholders' capital within net assets. The Company is required to maintain net assets of at least ¥50 million (US\$442 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of units issued and outstanding were 296,625 units as of June 30, 2017 and December 31, 2017, respectively.

Note 13 – Appropriation of Retained Earnings

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Company's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in the Special Taxation Measures Act of Japan for the fiscal period, the Company generally intends to distribute all of distributable profit except for fractional distribution per investment unit less than one yen as regular distributions to unitholders with respect to its fiscal periods.

The following table shows the appropriation of retained earnings for the six months ended June 30, 2017 and December 31, 2017, respectively.

	For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Unappropriated retained earnings	¥ 2,527	¥ 2,405	\$ 21,283
Cash distribution declared	(2,343)	(2,405)	(21,283)
Provision of reserve for reduction entry of property	(183)	—	—
Retained earnings carried forward	¥ 0	¥ 0	\$ 0

For the year ended June 30, 2017, the Company transferred ¥183 million, a portion of gain on sales of property and equipment, to reserve for reduction entry of property from unappropriated retained earnings of ¥2,527 million at the end of the period.

Cash distributions per investment unit were ¥7,900 and ¥8,110 (US\$71) for the six months ended June 30, 2017 and December 31, 2017, respectively.

Note 14 – Rental Business Revenues and Expenses

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

	For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Rental business revenues:			
Rent revenues—real estate:			
Rental revenues	¥ 5,549	¥ 5,630	\$ 49,823
Common area charges	1,070	1,124	9,946
Parking lots	205	207	1,831
Total rent revenues—real estate.....	6,825	6,962	61,610
Other rental business revenues:			
Utilities.....	446	454	4,017
Cancellation penalty.....	—	9	79
Other	89	46	407
Total other rental business revenues	535	510	4,513
Total rental business revenues	¥ 7,360	¥ 7,472	\$ 66,123
Expenses related to rental business:			
Property management fees	¥ 868	¥ 851	\$ 7,530
Utilities.....	629	719	6,362
Property-related taxes.....	644	594	5,256
Insurance.....	11	11	97
Repair and maintenance	418	367	3,247
Depreciation.....	1,279	1,256	11,115
Other	72	77	681
Total expenses related to rental business	¥ 3,924	¥ 3,879	\$ 34,327
Operating income from property leasing activities.....	¥ 3,436	¥ 3,593	\$ 31,796

Note 15 – Analysis of Gain or Loss on Sales of Property and Equipment

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

	MID	
	Midosuji MID Bldg. (in millions of yen)	Midosujikawaramachi Bldg.
Sale of property and equipment.....	¥ 9,000	¥ 1,700
Cost of property and equipment.....	(8,351)	(1,905)
Other sales expenses.....	(91)	(20)
Gain (loss) on sales of property and equipment, net.....	¥ 557	¥ (225)

Note 16 – Income Taxes

The Company is subject to corporate income taxes in Japan. The Company may deduct from its taxable income the amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Act of Japan. Under this act, the Company must meet a number of tax requirements, including a requirement to distribute in excess of 90% of distributable profit for the fiscal period in order to be able to deduct such amounts. If the Company does not satisfy all of the requirements, the entire taxable income of the Company will be subject to regular corporate income taxes in Japan.

The Company has a policy of making distributions in excess of 90% of its distributable profit for the fiscal period to qualify for conditions set forth in the Special Taxation Measures Act of Japan to achieve a deduction of distributions for income tax purpose and it distributes approximately 100% of distributable profit. Hence, the Company has treated the distributions as a tax allowable deduction as defined in the Special Taxation Measures Act of Japan.

A reconciliation of the Company's effective tax rates and statutory tax rates are as follows:

	For the six months ended	
	June 30, 2017	December 31, 2017
	(Rate)	
Statutory tax rate.....	31.74%	31.74%
Deductible cash distributions.....	(29.42)	(31.73)
Provision of reserve for reduction entry.....	(2.30)	—
Other	0.02	0.03
Effective tax rate.....	0.04%	0.04%

Deferred tax assets consist of the following:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Deferred tax assets:			
Current:			
Enterprise tax payable	¥ 0	¥ 0	\$ 0
<i>Total</i>	0	0	0
Net deferred tax assets	¥ 0	¥ 0	\$ 0

Note 17 – Leases

(a) Lease Rental Revenues

The Company leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of June 30, 2017 and December 31, 2017 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 3,457	¥ 4,107	\$ 36,345
Due after one year	5,502	10,996	97,309
Total	¥ 8,959	¥ 15,103	\$ 133,654

(b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of June 30, 2017 and December 31, 2017 are as follows:

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 6	¥ 6	\$ 53
Due after one year	16	13	115
Total	¥ 22	¥ 19	\$ 168

Note 18 – Financial Instruments

(a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

The Company raises funds through loans payable or the issuance of investment corporation bond for the acquisition of real estate properties, expenditures on property maintenance, payment of distributions, maintaining necessary working capital funds and/or repayment of existing debt.

Derivative instruments are used only for hedging purposes and not for speculation. Surplus funds are managed carefully through investment in financial instruments taking into account liquidity and safety.

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

The funds raised through loans payable are mainly used to acquire real estate properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable, tenant leasehold, security deposits and investment corporation bond are managed by decentralizing maturity date of loans payable and investment corporation bond 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 Company 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 June 30, 2017 and December 31, 2017.

	As of								
	June 30, 2017			December 31, 2017			December 31, 2017		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
	(in millions of yen)						(in thousands of U.S. dollars)		
Assets:									
(1) Cash and bank deposits.....	¥ 9,911	¥ 9,911	¥ —	¥ 11,031	¥ 11,031	¥ —	\$ 97,619	\$ 97,619	\$ —
(2) Cash and bank deposits in trust.....	5,535	5,535	—	5,246	5,246	—	46,424	46,424	—
Total assets.....	¥ 15,446	¥ 15,446	¥ —	¥ 16,278	¥ 16,278	¥ —	\$ 144,053	\$ 144,053	\$ —
Liabilities:									
(1) Current portion of long-term loans payable.....	¥ 13,675	¥ 13,703	¥ 28	¥ 15,300	¥ 15,369	¥ 69	\$ 135,398	\$ 136,008	\$ 610
(2) Investment corporation bonds – unsecured.....	6,000	5,976	(23)	6,000	6,000	0	53,097	53,097	0
(3) Long-term loans payable.....	85,300	85,933	633	83,675	84,390	715	740,486	746,814	6,327
Total liabilities.....	¥ 104,975	¥ 105,614	¥ 639	¥ 104,975	¥ 105,760	¥ 785	\$ 928,982	\$ 935,929	\$ 6,946
Derivative instruments.....	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —

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

Assets

- (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.

Liabilities

- (1) Current portion of long-term loans payable and (3) 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.

- (2) Investment corporation bonds – unsecured

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

Derivative instruments

Please refer to “Note 19 - Derivative Instruments” for further information.

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

	As of		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Investment securities.....	¥ 5,085	¥ 5,085	\$ 45,000
Tenant leasehold and security deposits.....	12,299	12,726	112,619
Tenant leasehold and security deposits in trust.....	358	164	1,451

The investment securities (equity interests in Tokumei Kumiai) are not traded in markets, and it is too difficult to estimate reasonable fair value. Also, it is difficult to determine fair values of tenant leasehold and security deposits 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 flow schedule of financial assets after the balance sheet date

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in millions of yen)					
As of June 30, 2017:						
Cash and bank deposits.....	¥ 9,911	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust.....	5,535	—	—	—	—	—
Total.....	¥ 15,446	¥ —	¥ —	¥ —	¥ —	¥ —
As of December 31, 2017:						
Cash and bank deposits.....	¥ 11,031	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust.....	5,246	—	—	—	—	—
Total.....	¥ 16,278	¥ —	¥ —	¥ —	¥ —	¥ —
	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of U.S. dollars)					
As of December 31, 2017:						
Cash and bank deposits.....	\$ 97,619	\$ —	\$ —	\$ —	\$ —	\$ —
Cash and bank deposits in trust.....	46,424	—	—	—	—	—
Total.....	\$ 144,053	\$ —	\$ —	\$ —	\$ —	\$ —

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

	<u>Up to 1 year</u>		<u>1-2 years</u>		<u>2-3 years</u>		<u>3-4 years</u>		<u>4-5 years</u>		<u>Over 5 years</u>	
	<u>(in millions of yen)</u>											
<i>As of June 30, 2017:</i>												
Long-term loans payable.....	¥	13,675	¥	15,300	¥	23,750	¥	19,600	¥	12,950	¥	13,700
Investment corporation bonds – unsecured		–		–		–		1,500		1,000		3,500
<i>As of December 31, 2017:</i>												
Long-term loans payable.....	¥	15,300	¥	15,200	¥	22,850	¥	14,250	¥	9,900	¥	21,475
Investment corporation bonds – unsecured		–		–		–		1,500		1,000		3,500

	<u>Up to 1 year</u>		<u>1-2 years</u>		<u>2-3 years</u>		<u>3-4 years</u>		<u>4-5 years</u>		<u>Over 5 years</u>	
	<u>(in thousands of U.S. dollars)</u>											
<i>As of December 31, 2017:</i>												
Long-term loans payable.....	\$	135,398	\$	134,513	\$	202,212	\$	126,106	\$	87,610	\$	190,044
Investment corporation bonds – unsecured		–		–		–		13,274		8,849		30,973

Note 19 – Derivative Instruments

Information on derivative transactions undertaken by the Company as of June 30, 2017 and December 31, 2017 was as follows. Derivative instruments are used only for hedging purposes and subject to hedge accounting.

For the six months ended June 30, 2017:

<u>Method of hedge accounting</u>	<u>Type of derivatives</u>	<u>Hedged item</u>	<u>Notional amounts⁽²⁾</u>		<u>Fair value⁽¹⁾⁽³⁾</u>
			<u>Total</u>	<u>Over 1 year</u>	
<u>(in millions of yen)</u>					
Special treatment for hedge accounting of interest rate swaps ⁽¹⁾	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 41,400	¥ 31,100	¥ –
Total			¥ 41,400	¥ 31,100	¥ –

For the six months ended December 31, 2017:

<u>Method of hedge accounting</u>	<u>Type of derivatives</u>	<u>Hedged item</u>	<u>Notional amounts⁽²⁾</u>		<u>Fair value⁽¹⁾⁽³⁾</u>	<u>Notional amounts⁽²⁾</u>		<u>Fair value⁽¹⁾⁽³⁾</u>
			<u>Total</u>	<u>Over 1 year</u>		<u>Total</u>	<u>Over 1 year</u>	
<u>(in thousands of U.S. dollars)</u>								
Special treatment for hedge accounting of interest rate swaps ⁽¹⁾	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 31,100	¥ 26,300	¥ –	\$ 275,221	\$ 232,743	\$ –
Total			¥ 31,100	¥ 26,300	¥ –	\$ 275,221	\$ 232,743	\$ –

Notes:

- As disclosed in “Note 2 Summary of Significant Accounting Policies (h) Hedge Accounting”, the Company 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 hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instruments and the long-term loans payable as hedged items is calculated together as one and disclosed as such under Note (i) in “Note 18 Financial Instruments (b) Quantitative Information for financial instruments”.
- The notional amounts do not represent the market risk exposure associated with the derivative instruments.
- The fair value is estimated by the counterparty to the interest rate swaps contracts using market interest rates and other assumptions.

Note 20 – Related-Party Transactions

The following tables show related-party transactions for the six months ended June 30, 2017.

For the six months ended June 30, 2017:

Type of related-party	Name	Business or occupation	Voting interest in the Company	Transactions for the period		Balance at end of the period	
				Type of transaction	Amounts ⁽²⁾ (in millions of yen)	Balance sheet account	Amounts ⁽²⁾ (in millions of yen)
Executive officer and relatives	Katsura Matsuo	Executive officer of the Company President & CEO & Representative Director of the Asset Manager ⁽³⁾	—	Payment of asset management fee to the Asset Manager ⁽¹⁾	¥ 420 ⁽⁴⁾	—	—

Notes:

- (1) The terms and conditions of payment of the asset management fee have been based on the Company's articles of incorporation.
- (2) The transaction amounts exclude consumption taxes and the balance amounts include those taxes.
- (3) Katsura Matsuo resigned from President & CEO & Representative Director of the Asset Manager on June 1, 2017 and Executive officer of the Investment Corporation on June 2, 2017.
- (4) Payments of the asset management fee for the six months ended June 30, 2017 are comprised of ¥107 million of asset management fees relating to sale of property charged to income as other sales expenses and ¥313 million of acquisition fees capitalized as part of the acquisition cost of properties.

For the six months ended December 31, 2017:

Not applicable.

Note 21 – Per Unit Information

The Company executed a five-for-one unit split (the "Unit Split") with December 31, 2017 as the record date and January 1, 2018 as the effective date for the Unit Split. Following table shows per unit information which has been adjusted to reflect the Unit Split as if it had been effective on January 1, 2017.

	As of / For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(Yen)		(U.S. dollars)
Net asset value per unit.....	¥ 86,085	¥ 86,127	\$ 762
Net income per unit	1,763	1,621	14

The net income per unit is calculated by dividing the net income attributable to unitholders by the adjusted weighted average number of units outstanding during the six-month period as if the Unit Split had been effective on January 1, 2017. The Company has no dilutive units.

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

	For the six months ended		
	June 30, 2017	December 31, 2017	December 31, 2017
	(in millions of yen)		(in thousands of U.S. dollars)
Net income	¥ 2,527	¥ 2,405	\$ 21,283
Amount not attributable to common unitholders	—	—	—
Net income attributable to common unitholders	2,527	2,405	21,283
Weighted average number of units	1,432,979 units	1,483,125 units	

Note 22 – Segment Information

Segment information for the six months ended June 30, 2017 and December 31, 2017 is as follows:

(a) Operating Segment Information

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

(b) Enterprise-wide Disclosures

(i) Information about Products and Services

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

(ii) Information about Geographic Areas

Revenues from Overseas Customers:

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

Tangible Fixed Assets:

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

(c) Information about Major Customers

Name of Customer	Revenues for the six months ended			Related Segment
	June 30, 2017	December 31, 2017	December 31, 2017	
	(in millions of yen)		(in thousands of U.S. dollars)	
Panasonic Corporation.....	¥ 923	¥ 977	\$ 8,646	Property rental business
AEON Retail Co., Ltd.	726	726	6,424	Property rental business

Note 23 – Subsequent events

(1) Unit split

The Company executed the Unit Split with December 31, 2017 as the record date and January 1, 2018 as the effective date for the Unit Split.

(a) Purpose of the Unit Split

The Company executed the Unit Split as part of unitholders value improvement with the intention of expanding investors and improving liquidity of investment units through improvement of an investment environment by reducing the market price per investment with the Unit Split, considering development of the Nippon Individual Savings Account program, etc.

(b) Split method

Each unit owned by unitholders listed in the final unitholders register on December 31, 2017 was split into five units.

(c) Number of units increased by the Unit Split

- 1) Number of outstanding units of the Investment Corporation before the Unit Split: 296,925 units
- 2) Number of units increased by the Unit Split: 1,186,500 units
- 3) Number of outstanding units of the Investment Corporation after the Unit Split: 1,483,425 units
- 4) Number of authorized units of the Investment Corporation after the Unit Split: 10,000,000 units

For per unit information which has been adjusted to reflect the Unit Split as if it had been effective on January 1, 2017, please refer to “Note 21 – Per unit information.”

(2) Issuance of new investment units

The Board of Directors of the Company, at its meeting held on January 29, 2018 and February 7, 2018, resolved to issue new investment units as follows. As a result of the Issuance of new investment units, unitholders' capital increased to ¥136,452 million (US\$1,207,539 thousand) and number of investment units issued and outstanding increased to 1,643,125 units on March 9, 2018.

(a) Issuance of new investment units through public offering:

Number of new investment units to be issued: 152,000 units
Offer price: ¥73,125 (US\$647) per unit
Total offering amount: ¥11,115 million (US\$98,362 thousand)
Issue price (amount to be paid in): ¥70,650 (US\$625) per unit
Total amount to be paid in: ¥10,738 million (US\$95,026 thousand)
Payment date: February 15, 2018

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

Number of new investment units to be issued: 8,000 units
Issue price (amount to be paid in): ¥70,650 (US\$625) per unit
Total amount to be paid in: ¥565 million (US\$5,000 thousand)
Payment date: March 9, 2018
Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

(c) Use of proceeds

The Company 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.

(3) Acquisition of properties

The Company acquired following properties for the six months ending June 30, 2018.

Name of property	Acquisition price (Note 1)		Acquisition date
	(in millions of yen)	(in thousands of U.S. dollars)	
USC Bldg. (additional acquisition) (Note2)	¥ 5,800	\$ 51,327	February 16, 2018
Yoshiyasu Kanda Bldg.	4,000	35,398	February 16, 2018
SSP Bldg.	9,200	81,415	March 1, 2018
M-City Akasaka 1-chome Bldg.	4,205	37,212	March 1, 2018
Total	¥ 23,205	\$ 205,353	

Note 1: "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 Company already invests approximately 54% quasi co-ownership interest of USC Bldg., and then has owned all the land and building of this property by the additional acquisition of approximately 46% quasi co-ownership interest of the land with leasehold interest and the building of this property.

(4) New debt financing

The Company 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. Development Bank of Japan, Inc.	¥2,700 million (US\$23,893 thousand)	8 years	Fixed rate 0.80000%	January 29, 2018	February 28, 2018	Unsecured and unguaranteed, lump sum repayment	February 27, 2026
Loan 2	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥1,200 million (US\$10,619 thousand)	7 years	Fixed rate 0.64000%				February 28, 2025
Loan 3	Aozora Bank, Ltd., The Nishi-Nippon City Bank, Ltd., The Bank of Fukuoka, Ltd.	¥2,700 million (US\$23,893 thousand)	7 years	Fixed rate 0.71880%				February 28, 2023
Loan 4	Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	¥2,400 million (US\$21,238 thousand)	5 years	Floating rate (JBA 3-month yen TIBOR) + 0.30%				February 28, 2019
Loan 5	Mizuho Bank, Ltd.	¥2,000 million (US\$17,699 thousand)	1 years	Floating rate (JBA 1-month yen TIBOR) + 0.17%				