

MCUBS MidCity Investment Corporation

The 23rd fiscal period Asset Management Report

July 1, 2017 – December 31, 2017



MCUBS MidCity Investment Corporation

I. ASSET MANAGEMENT REPORT

Outline of asset management operation

1. Operating results and financial position

Fiscal period		19 th	20 th	21 st	22 nd	23 rd
As of /for the six months ended		December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 2017
Operating revenues	(Millions of yen)	6,579	6,824	7,005	8,025	7,610
(Rental business revenues)	(Millions of yen)	(6,468)	(6,697)	(6,897)	(7,360)	(7,472)
Operating expenses	(Millions of yen)	4,072	4,361	4,453	4,875	4,627
(Rental business expenses)	(Millions of yen)	(3,471)	(3,646)	(3,780)	(3,924)	(3,879)
Operating income	(Millions of yen)	2,507	2,462	2,551	3,150	2,983
Ordinary income	(Millions of yen)	1,937	1,889	1,977	2,527	2,400
Net income	(Millions of yen)	1,936	1,888	1,976	2,527	2,405
Total assets	(Millions of yen)	226,099	227,686	225,916	248,821	248,837
(Period-on-period change)	(%)	(29.9)	(0.7)	(-0.8)	(10.1)	(0.0)
Net assets	(Millions of yen)	117,180	117,131	117,220	127,675	127,737
(Period-on-period change)	(%)	(24.6)	(-0.0)	(0.1)	(8.9)	(0.0)
Interest-bearing liabilities	(Millions of yen)	94,350	95,725	94,100	104,975	104,975
Unitholders' capital	(Millions of yen)	115,243	115,243	115,243	125,148	125,148
Number of units issued and outstanding	(Units)	266,025	266,025	266,025	296,625	296,625
Net asset value per unit	(Note 1) (Yen)	440,484	440,304	440,635	86,085	86,127
Total distributions	(Millions of yen)	1,936	1,888	1,976	2,343	2,405
Distribution per unit	(Yen)	7,281	7,100	7,431	7,900	8,110
(Profit distribution per unit)	(Yen)	(7,281)	(7,100)	(7,431)	(7,900)	(8,110)
(Distribution per unit in excess of profit)	(Yen)	(-)	(-)	(-)	(-)	(-)
Ratio of ordinary income to total assets	(Notes 2 and 3) (%)	1.0 (1.9)	0.8 (1.7)	0.9 (1.7)	1.1 (2.1)	1.0 (1.9)
Return on unitholders' equity	(Notes 2 and 4) (%)	1.8 (3.6)	1.6 (3.2)	1.7 (3.3)	2.1 (4.2)	1.9 (3.7)
Ratio of net assets to total assets	(Note 5) (%)	51.8	51.4	51.9	51.3	51.3
(Period-on-period change)	(%)	(-2.2)	(-0.4)	(0.5)	(-0.6)	(0.0)
Ratio of interest-bearing liabilities to total assets	(Note 6) (%)	41.7	42.0	41.7	42.2	42.2
Payout ratio	(Note 7) (%)	100.0	100.0	100.0	92.7	100.0
Additional information:						
Number of investment properties	(Note 8) (Properties)	18	18	18	19	19
Total leasable area	(Note 9) (m ²)	331,034.57	331,015.96	330,999.31	349,595.39	349,515.43
Number of tenants	(Note 10) (Tenants)	309	310	313	394	394
Occupancy ratio	(Note 11) (%)	97.6	98.2	97.7	97.5	97.0
Depreciation	(Millions of yen)	1,251	1,281	1,288	1,279	1,256
Capital expenditures	(Millions of yen)	244	443	733	445	817
Rental net operating income (NOI)	(Note 12) (Millions of yen)	4,249	4,332	4,406	4,715	4,850

Note 1 As the Investment Corporation 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, net asset value per unit in the above table shows pro forma per unit information which has been adjusted to reflect the Unit Split as if it had been effective on January 1, 2017.

Note 2 Figures in parenthesis have been annualized.

Note 3 $\text{Ordinary income} \div \{(\text{Total assets at beginning of period} + \text{Total assets at end of period}) \div 2\} \times 100$

Note 4 $\text{Net income} \div \{(\text{Net assets at beginning of period} + \text{Net assets at end of period}) \div 2\} \times 100$

Note 5 $\text{Net assets at end of period} \div \text{Total assets at end of period} \times 100$

Note 6 $\text{Interest-bearing liabilities at end of period} \div \text{Total assets at end of period} \times 100$

Note 7 $\text{Distribution per unit} \div \text{net income per unit (not adjusted to reflect the Unit Split)} \times 100$

Payout ratio for the 19th and the 22nd fiscal period is calculated using the following formula because new investment units were issued.

$\text{Total distributions (excluding distributions in excess of profit)} \div \text{Net income} \times 100$

Note 8 Number of investment properties does not include investments in Tokumei Kumiai (silent partnership) agreements.

Note 9 "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 10 "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.

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Note 11 "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 12 Operating income from property leasing activities (Rental business revenues – Rental business expenses) + Depreciation + Loss on disposal of property

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, the four properties (total acquisition price: ¥31,330 million; of which, one is an additional acquisition to an existing property) acquired in the previous fiscal period (fiscal period ended June 2017) operated full year, contributing to an increase in profits. As of the end of the fiscal period under review (December 31, 2017), the portfolio of MCUBS MidCity was 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 23rd fiscal period, the Japanese economy continued to recover moderately as GDP for the July to September 2017 period remained positive for seven consecutive quarters against the backdrop of growing exports, steady capital investment, 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 third quarter (July 1 to October 1) of 2017, the land price of intensively used land of major cities in Japan increased in 86 of the 100 districts, remained flat in 14 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 the upward trend 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 23rd fiscal period starting at the TSE REIT index of 1,688 points against the backdrop of the outflow of capital from monthly distributing-type investment trusts to end at 1,662 points at the end of the fiscal period. Furthermore, despite continuous expectation for a rise in interest rates in Europe and the U.S. due to the anticipated policy rate hikes 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 23rd fiscal period, MCUBS MidCity did not acquire or sell any properties, etc.

As a result, MCUBS MidCity's portfolio as of the end of the 23rd 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 23rd 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. Although there were some large tenants' exits, a high occupancy rate of 97.0%, similar to that at the end of the previous fiscal period (97.5%), was maintained at the end of the fiscal period, as a result of aggressive efforts to attract new tenants such as by making proposals to meet those tenant needs as well as to capture the needs of existing tenants for more space within the same building. In addition, MCUBS MidCity focused on rent revision and was able to extend the contract period and raise the rent through negotiation with the largest tenant during the fiscal period under review.

Furthermore, MCUBS MidCity has worked on cost reduction with an aim to further enhance profitability of the portfolio. Cost reduction efforts such as changing electricity and gas suppliers have begun contributing to profits.

(3) Overview of fund procurement

(a) Issuance of new investment units

During the 23rd fiscal period, MCUBS MidCity has made no fund procurement through additional issuance of new investment units. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 296,625 investment units.

(b) Debt financing

MCUBS MidCity procures funds considering 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 23rd fiscal period, MCUBS MidCity borrowed a total of ¥13,675 million on July 31, 2017, including loans with 10-year terms, the longest bank loan term for MCUBS MidCity, in order to refinance borrowings totaling ¥13,675 million which were due on July 31, 2017. Backed by the lowered interest rates after the introduction of negative interest rates by the Bank of Japan, MCUBS MidCity has realized reduction of financial costs while further diversifying maturity dates, extending borrowing periods and fixing interest rates.

As of the end of the 23rd fiscal period, MCUBS MidCity had a balance of borrowings from 19 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 to 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 23rd 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 ¥7,610 million, operating income of ¥2,983 million, ordinary income of ¥2,400 million and net income of ¥2,405 million in its performance for the 23rd fiscal period.

Concerning distributions, to ensure that distributions of retained earnings would be deductible for tax purposes based on application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, including amendments thereto) (hereafter, the "Act on Special Measures Concerning Taxation"), MCUBS MidCity decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution per unit that are less than ¥1. Accordingly, MCUBS MidCity declared a distribution per unit of ¥8,110.

3. Changes in unitholders' capital

There was no change in unitholders' capital for the six months ended December 31, 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

Note 9 The Investment Corporation implemented a split of its investment units on a five-for-one basis with December 31, 2017 as the record date and January 1, 2018 as the effective date for the unit split. Number of outstanding units of the Investment Corporation after the unit split is 1,483,125 units.

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)				
	19 th December 31, 2015	20 th June 30, 2016	21 st December 31, 2016	22 nd June 30, 2017	23 rd December 31, 2017
As of /for the six months ended					
Highest price	384,000	386,000	377,000	359,000	397,500 Note 1 (76,200)
Lowest price	273,300	299,700	313,000	324,000	313,000 Note 1 (75,000)

Note 1 The Investment Corporation implemented a split of its investment units on a five-for-one basis with December 31, 2017 as the record date and January 1, 2018 as the effective date for the unit split. The market price on or after December 27, 2017 reflects the unit split. The figures in parenthesis show the market price on or after December 27, 2017.

4. Distributions

The Investment Corporation intends to distribute all of unappropriated retained earnings at the end of the period, except for fractional distribution per unit less than one yen, to be treated the distributions as a tax allowable deduction as defined in Article 67-15 of the Special Taxation Measures Act of Japan. As a result, cash distribution per unit for the six months ended December 31, 2017 amounted to ¥8,110.

Fiscal period	19 th	20 th	21 st	22 nd	23 rd
As of /for the six months ended	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 2017
Retained earnings at end of period (Thousands of yen)	1,936,952	1,888,832	1,976,966	2,527,166	2,405,786
Retained earnings carried forward (Thousands of yen)	24	55	134	183,829	157
Total cash distributions (Thousands of yen)	1,936,928	1,888,777	1,976,831	2,343,337	2,405,628
(Cash distribution per unit) (Yen)	(7,281)	(7,100)	(7,431)	(7,900)	(8,110)
Profit distributions (Thousands of yen)	1,936,928	1,888,777	1,976,831	2,343,337	2,405,628
(Profit distribution per unit) (Yen)	(7,281)	(7,100)	(7,431)	(7,900)	(8,110)
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 approximately half of MCUBS MidCity's portfolio assets are located, a 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 satisfaction levels of existing tenants through the provision of comfortable office environments and services and maintaining and improving 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 October and November 2017 (12th survey), "overall building comfort" and "security measures" 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 due to improvement of facilities, implementation of disaster drills, etc. 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 CO₂ 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. are 4-stars 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 was designated as “Green Star,” the highest ranking, in 2017 for the second consecutive year.

(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” as well as other major cities or their equivalent, 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

Unit split

The Investment Corporation 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.

(1) Purpose of the Unit Split

The Investment Corporation 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.

(2) Split method

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

(3) Number of units increased by the Unit Split

- 1) Number of outstanding units of the Investment Corporation before the Unit Split: 296,625 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: 1,483,125 units
- 4) Number of authorized units of the Investment Corporation after the Unit Split: 10,000,000 units

For pro forma 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 13—Per unit information” in “V. Notes to financial information.”

Issuance of new investment units

The Board of Directors of the Investment Corporation, 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 through public offering, unitholders' capital increased to ¥135,887,212,150 and number of investment units issued and outstanding increased to 1,635,125 units on February 15, 2018. The issuance of new investment units through the third-party allotment scheduled 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 per unit
Total offering amount: ¥11,115,000,000
Issue price (amount to be paid in): ¥70,650 per unit
Total amount to be paid in: ¥10,738,800,000
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 per unit
Total amount to be paid in: ¥565,200,000
Payment date: March 9, 2018
Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

There may be cases where there will be no subscription for the investment units offered in the third-party allotment in

whole or in part, and the final number of investment units placed under the third-party allotment may accordingly decrease to that extent due to forfeiture, or such allotment itself may not take place at all.

(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 of properties

The Investment Corporation acquired (or decided to acquire) following properties for the six months ending June 30, 2018.

Name of property	Acquisition price (or planned acquisition price) (Millions of yen) (Note 1)	Acquisition date
Properties acquired:		
USC Bldg. (additional acquisition) (Note2)	5,800	February 16, 2018
Yoshiyasu Kanda Bldg.	4,000	February 16, 2018
Properties to be acquired:		
SSP Bldg.	9,200	Scheduled on March 1, 2018
M-City Akasaka 1-chome Bldg.	4,205	Scheduled on March 1, 2018
Total	23,205	

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 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.

New debt financing

The Investment Corporation decided to obtain following debt financing for acquiring new properties stated above.

	Lender(s)	Amount outstanding (Millions of yen)	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	8 years	Fixed rate (Note 1)	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	7 years	Fixed rate (Note 1)				February 28, 2025
Loan 3	Aozora Bank, Ltd., The Nishi-Nippon City Bank, Ltd., The Bank of Fukuoka, Ltd.	2,700	7 years	Fixed rate (Note 1)				February 28, 2023
Loan 4	Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	2,400	5 years	Floating rate (JBA 3-month yen TIBOR) + 0.30%				February 28, 2019
Loan 5	Mizuho Bank, Ltd.	2,000	1 year	Floating rate (JBA 1-month yen TIBOR) + 0.17%				

Note 1: Interest rates applied to Loan 1, 2 and 3 will be determined based on the loan agreements and notified before borrowing date.

Outline of the Investment Corporation

1. Investment unit

Fiscal period	19 th	20 th	21 st	22 nd	23 rd
As of	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 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)	266,025	266,025	266,025	296,625	296,625
Unitholders' capital (Millions of yen)	115,243	115,243	115,243	125,148	125,148
Number of unitholders (People)	12,517	11,665	11,451	12,267	11,604

2. Unitholders

Major unitholders as of December 31, 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	55,856	18.83
The Master Trust Bank of Japan, Ltd. Trust Account	42,175	14.21
Trust & Custody Services Bank, Ltd. Trust Account	17,078	5.75
The Nomura Trust and Banking Co., Ltd. Trust Account	12,892	4.34
Kanden Realty & Development Co., Ltd.	9,200	3.10
SIX SIS LTD.	8,255	2.78
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	6,624	2.23
STATE STREET BANK AND TRUST COMPANY 505012	5,321	1.79
Mitsubishi Corporation	4,200	1.41
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	3,861	1.30
Total	165,462	55.78

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 December 31, 2017 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2017 (Thousands of yen)
Executive Director	Katsuhiko Tsuchiya	M&A Sogo Law Office (Attorney at Law)	3,000
Supervisory Director	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	—	10,000

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 Executive Director and 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 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 3 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.

4. Name of asset manager and other administrator

Asset manager, custodian and general administrators as of December 31, 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 June 30, 2017		As of December 31, 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)	82,165	33.0	82,058	33.0	
			Osaka metropolitan area (Note 3)	110,624	44.5	110,457	44.4	
		Other areas	5,607	2.3	5,595	2.2		
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	23,954	9.6	23,839	9.6	
			Osaka metropolitan area (Note 3)	2,413	1.0	2,394	1.0	
		Other areas	2,159	0.9	2,139	0.9		
	Sub-total			226,924	91.2	226,485	91.0	
	Investments in Tokumei Kumiai agreement (Note 4)			5,085	2.0	5,085	2.0	
Bank deposits and other assets			16,811	6.8	17,266	6.9		
Total assets			248,821	100.0	248,837	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 December 31, 2017 were as follows:

Name of property	Net book value (Millions of yen)	Leasable area (Note 1) (m ²)	Leased area (Note 2) (m ²)	Occupancy ratio (Note 3) (%)	Ratio of rental revenue to total rental revenues (Note 4) (%)	Major use
Twin 21	66,131	82,304.84	80,477.00	97.8	30.6	Office
AEON MALL Tsudanuma	23,839	101,210.44	101,210.44	100.0	10.4	Retail facilities
Matsushita IMP Bldg.	22,573	37,299.95	32,347.84	86.7	13.2	Office
Cube Kawasaki	20,474	24,494.06	24,494.06	100.0	8.2	Office
Shibuya Sakuragaoka Square	17,506	6,379.66	6,379.66	100.0	4.9	Office
G-Square Shibuya Dogenzaka	12,246	5,011.74	5,011.74	100.0	4.0	Office
Kitahama MID Bldg.	10,365	10,189.49	10,189.49	100.0	3.9	Office
Sasazuka Center Bldg.	9,095	8,219.90	7,032.47	85.6	3.1	Office
Sumitomo Fudosan Ueno Bldg. No.6	7,647	6,858.16	6,858.16	100.0	Note 5	Office
Yokohama Creation Square	7,075	12,720.94	11,118.25	87.4	4.2	Office
Total	196,955	294,689.18	285,119.11	96.8	—	

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 December 31, 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 December 31, 2017.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of December 31, 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 Other rental business revenues (Utilities, cancellation penalty and other) which were included in “Rental revenues” until the six months ended June 30, 2017 are excluded from the six months ended December 31, 2017.

Note 5 “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 6 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 December 31, 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	8,300	7,647
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	14,500	12,246
			Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	19,500	17,506
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,960	7,075
			Cube Kawasaki	1-14 Nissin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	22,300	20,474
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	3,030	2,838
			Sasazuka Center Bldg.	2-1-6 Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,290	9,095
			USC Bldg. (Note 3)	4-11-38 Toyo, Koto-ku, Tokyo	Trust beneficial interest	5,230	5,175
	Osaka metropolitan area	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	54,500	66,131	
		Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	21,700	22,573	
		MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	1,460	2,076	
		MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,330	3,114	
		Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	9,290	10,365	
		MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,180	3,356	
		Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	3,620	2,839	
Other area		Sendai Capital Tower	4-10-3 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficial interest	6,510	5,595	
Sub total						191,700	198,111
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	28,400	23,839
		Osaka metropolitan area	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,380	2,394
	Other area		Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	3,420	2,139
	Sub total						35,200
Total						226,900	226,485

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 December 31, 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 June 30, 2017 and December 31, 2017 were as follows:

Investment category	Investment Area		Name of property	For the six months ended							
				June 30, 2017				December 31, 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	100.0	231,856	3.4	8	100.0	280,691	4.0
			Shibuya Sakuragaoka Square	4	100.0	302,306	4.4	4	100.0	343,195	4.9
			Yokohama Creation Square	38	88.1	294,053	4.3	39	87.4	294,408	4.2
			Cube Kawasaki	9	91.1	570,177	8.4	10	100.0	573,827	8.2
			Higashi-Nihombashi Green Bldg.	7	100.0	77,546	1.1	7	100.0	71,485	1.0
			Sasazuka Center Bldg.	7	73.4	110,352	1.6	8	85.6	218,380	3.1
			USC Bldg. (Note 7)	8	100.0	64,986	1.0	8	100.0	138,090	2.0
	Osaka metropolitan area	Twin 21	106	98.2	2,117,716	31.0	105	97.8	2,130,688	30.6	
		Matsushita IMP Bldg.	58	98.3	956,909	14.0	55	86.7	917,688	13.2	
		Midosuji MID Bldg. (Note 8)	—	—	116,260	1.7	—	—	—	—	
		MID REIT Kyobashi Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)	
		MID Imabashi Bldg.	19	95.2	85,576	1.3	21	100.0	89,074	1.3	
		MID Midosujikawaramachi Bldg. (Note 8)	—	—	28,644	0.4	—	—	—	—	
		Kitahama MID Bldg.	10	98.7	278,211	4.1	11	100.0	274,560	3.9	
MID Nishihommachi Bldg.		17	97.0	81,596	1.2	18	100.0	74,551	1.1		
Higobashi MID Bldg.	11	96.5	101,133	1.5	11	96.5	105,667	1.5			
Other area		Sendai Capital Tower	85	98.8	205,758	3.0	82	95.2	245,562	3.5	
Sub total				390	96.2	—	—	390	95.6	—	—
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1	100.0	726,000	10.6	1	100.0	726,000	10.4
		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				394	97.5	6,825,340	100.0	394	97.0	6,962,607	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 Other rental business revenues (Utilities, cancellation penalty and other) which were included in "Rental revenues" until the six months ended June 30, 2017 are excluded from the six months ended December 31, 2017. "Rental revenues" for the six months ended June 30, 2017 in the above table are restated excluding other rental business revenues. "Rental revenues" including other rental business revenues for the six months ended June 30, 2017 were as follows:

Sumitomo Fudosan Ueno Bldg. No.6 (Note 6), G-Square Shibuya Dogenzaka ¥257,146 thousand, Shibuya Sakuragaoka Square ¥322,596 thousand, Yokohama Creation Square ¥314,781 thousand, Cube Kawasaki ¥619,114 thousand, Higashi-Nihombashi Green Bldg. ¥86,209 thousand, Sasazuka Center Bldg. ¥128,669 thousand, USC Bldg. ¥71,372 thousand, Twin 21 ¥2,280,197 thousand, Matsushita IMP Bldg. ¥1,048,165 thousand, Midosuji MID Bldg. ¥129,442 thousand, MID REIT Kyobashi Bldg. (Note 6), MID Imabashi Bldg. ¥92,519 thousand, MID Midosujikawaramachi Bldg. ¥31,731 thousand, Kitahama MID Bldg. ¥316,562 thousand, MID Nishihommachi Bldg. ¥91,304 thousand, Higobashi MID Bldg. ¥112,175 thousand, Sendai Capital Tower ¥249,099 thousand, AEON MALL Tsudanuma ¥726,000 thousand, Konami Sports Club Kyobashi (Note 6), Dormy Inn Hakata Gion (Note 6), Total ¥7,360,963 thousand

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- 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.
- Note 9 Amounts of rental revenues less than one thousand yen are rounded down.

4. Details of investment securities

The details of investment securities as of December 31, 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 December 31, 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)	31,100,000	26,300,000	(188,276)
Total		31,100,000	26,300,000	(188,276)

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 December 31, 2017 was as below. The amounts of estimated cost shown in the below table can be 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 December 31, 2017	Total of advanced payment
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Enlargement construction of elevator	January 2018 to June 2018	225	—	—
Sendai Capital Tower	Aoba-ku, Sendai-shi	Repair of outer wall	September 2018 to November 2018	150	—	—
Twin 21	Chuo-ku, Osaka-shi	LED lighting equipment	August 2017, to January 2018	134	—	—
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Construction for an office floor	February 2018 to April 2018	113	—	—
Twin 21	Chuo-ku, Osaka-shi	Renewal of air conditioning system	April 2018 to September 2018	62	—	—

2. Capital expenditures for the six months ended December 31, 2017

Maintenance expenditures on property for the six months ended December 31, 2017 were totaling to ¥1,184 million consisting of ¥817 million of capital expenditures stated as below and ¥367 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Renewal of elevator	May 2017 to August 2017	192
Twin 21	Chuo-ku, Osaka-shi	Renewal of escalator	December 2016 to December 2017	54
Matsushita IMP Bldg.	Chuo-ku, Osaka-shi	Renewal of elevator	March 2017 to December 2017	43
Twin 21	Chuo-ku, Osaka-shi	Repair of rest room at lower floors	September 2017 to December 2017	37
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Repair of Shared part of a Building	October 2017 to December 2017	32
Other properties, etc.	—	Other expenditures	—	456
Total				817

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)				
	19 th	20 th	21 st	22 nd	23 rd
As of /for the six months ended	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 2017
Reserved funds at beginning of period	577	781	1,232	1,546	1,539
Increase	550	801	801	851	817
Decrease	346	350	488	858	775
Reserved funds at end of period	781	1,232	1,546	1,539	1,581

Condition of expenses and liabilities

1. Details of asset management expenses

(Thousands of yen)

Fiscal period	22 nd	23 rd
For the six months ended	June 30, 2017	December 31, 2017
(a) Asset management fees	585,179	624,301
(b) Asset custody fees	5,750	5,706
(c) Administrative service fees	33,002	33,861
(d) Directors' compensations	6,200	8,700
(e) Independent auditor fees	10,000	10,000
(f) Other operating expenses	84,614	66,052
Total	724,745	748,622

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 December 31, 2017 were as follows:

Classification	Name of lender	Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾ (%)	Maturity date	Repayment method	Use of proceeds	Remarks
			(Thousands of yen)						
Long-term loans payable	Development Bank of Japan Inc.	August 31, 2010	3,375,000	—	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) July 31, 2012	4,300,000	—	1.141 (Note 3)	July 31, 2017	Lump sum	(Note 6)	Unsecured and unguaranteed
	Development Bank of Japan Inc.	July 31, 2012	1,700,000	1,700,000	1.524 (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) July 31, 2013	4,800,000	4,800,000 (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) July 31, 2013	1,800,000	1,800,000	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) July 31, 2014	6,000,000	—	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) July 31, 2014	4,000,000	4,000,000	0.962 (Note 3)	July 31, 2019	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. The Hiroshima Bank, Ltd. Sony Bank Incorporated	(Note 2) July 31, 2014	2,000,000	2,000,000	1.240 (Note 3)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd. Aozora Bank, Ltd.	(Note 2) July 31, 2014	1,800,000	1,800,000	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) July 31, 2015	9,500,000	9,500,000	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) July 31, 2015	4,500,000	4,500,000	1.034 (Note 3)	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	July 31, 2015	1,000,000	1,000,000	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	(Note 2) July 31, 2015	10,500,000	10,500,000 (Note 7)	0.461	July 31, 2018	Lump sum	(Note 6)	Unsecured and unguaranteed

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Classification	Borrowing date	Beginning balance	Ending balance	Average interest rate ⁽¹⁾	Maturity date	Repayment method	Use of proceeds	Remarks
		(Thousands of yen)		(%)				
Name of lender								
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. Mizuho Bank, Ltd.								
Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation Aozora Bank, Ltd. (Note 2) 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 (Note 3)	July 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Development Bank of Japan Inc.	July 31, 2015	1,200,000	1,200,000	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.	July 31, 2015	2,200,000	2,200,000	1.202 (Note 3)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Development Bank of Japan Inc.	July 31, 2015	800,000	800,000	1.233 (Note 4)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd.	July 31, 2015	500,000	500,000	1.384 (Note 3)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Development Bank of Japan Inc.	July 31, 2015	500,000	500,000	1.400 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited (Note 2) Sumitomo Mitsui Banking Corporation	April 28, 2016	2,800,000	2,800,000	0.498 (Note 3)	April 30, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Sumitomo Mitsui Banking Corporation Shinkin Central Bank (Note 2)	July 29, 2016	3,700,000	3,700,000	0.371	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
THE NISHI-NIPPON CITY BANK, LTD. The Hyakugo Bank, Ltd. (Note 2)	July 29, 2016	2,250,000	2,250,000	0.373 (Note 4)	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Sumitomo Mitsui Trust Bank, Limited	July 29, 2016	2,600,000	2,600,000	0.373 (Note 4)	January 31, 2020	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Development Bank of Japan Inc. (Note 2) Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	2,500,000	2,500,000	0.451 (Note 4)	January 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Development Bank of Japan Inc. Aozora Bank, Ltd. (Note 2) Mitsubishi UFJ Trust and Banking Corporation The Senshu Ikeda Bank, Ltd.	July 29, 2016	2,650,000	2,650,000	0.494 (Note 4)	July 31, 2021	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Development Bank of Japan Inc. (Note 2) Aozora Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation	July 29, 2016	4,700,000	4,700,000	0.735 (Note 4)	July 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited (Note 2) The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc.	January 31, 2017	4,000,000	4,000,000	0.647 (Note 4)	January 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited (Note 2) The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc.	January 31, 2017	4,000,000	4,000,000	0.809 (Note 4)	January 31, 2024	Lump sum	(Note 6)	Unsecured and unguaranteed
Shinkin Central Bank The Senshu Ikeda Bank, Ltd. (Note 2)	July 31, 2017	—	1,900,000	0.680 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Sumitomo Mitsui Banking Corporation	July 31, 2017	—	1,000,000	0.688 (Note 4)	July 31, 2023	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Development Bank of Japan Inc. (Note 2)	July 31, 2017	—	3,975,000	0.856 (Note 4)	July 31, 2025	Lump sum	(Note 6)	Unsecured and unguaranteed
Mizuho Bank, Ltd. Development Bank of Japan Inc. (Note 2) Aozora Bank, Ltd.	July 31, 2017	—	3,900,000	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. (Note 2) Nippon Life Insurance Company	July 31, 2017	—	2,900,000	0.524 (Note 4)	July 31, 2022	Lump sum	(Note 6)	Unsecured and unguaranteed
Subtotal		98,975,000	98,975,000					
Total		98,975,000	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.

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- Note 5 The principal was 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) was 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.

3. Investment corporation bonds

Investment corporation bonds as of December 31, 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 st 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 nd 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 rd Unsecured Investment Corporation Bond	May 29, 2017	1,000,000	1,000,000	0.260	May 27, 2022	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
The 4 th Unsecured Investment Corporation Bond	May 29, 2017	2,000,000	2,000,000	0.670	May 28, 2027	Lump sum	Repayment of outstanding loans payable	Unsecured and unguaranteed
Total		6,000,000	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.

None

2. Transactions of other assets

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

3. Research for specified assets value, etc.

(1) Property

None

(2) Asset backed securities

None

(3) Other transaction

None

4. Transactions with interested parties

(1) Outline of transactions

None

(2) Amounts of fees paid and other expenses

There were no fees to interested parties for the six months ended December 31, 2017. For other expenses, the Investment Corporation paid ¥340,743 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

There was no execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended December 31, 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	
	June 30, 2017	December 31, 2017
ASSETS		
Current assets:		
Cash and bank deposits	9,911,529	11,031,348
Cash and bank deposits in trust	5,535,252	5,246,810
Rental receivables	258,623	164,686
Income taxes receivable	20,976	27,354
Consumption tax refundable	333,562	—
Prepaid expenses	47,211	42,853
Deferred tax assets	14	13
Other	28,069	55,996
Total current assets	16,135,240	16,569,063
Noncurrent assets:		
Property, plant and equipment:		
Buildings in trust, at cost (Note 2)	77,291,095	78,072,237
Less: Accumulated depreciation	(20,605,424)	(21,837,494)
Buildings in trust, net	56,685,671	56,234,742
Structures in trust, at cost	130,240	137,960
Less: Accumulated depreciation	(28,239)	(31,563)
Structures in trust, net	102,000	106,397
Machinery and equipment in trust, at cost	7,916	7,916
Less: Accumulated depreciation	(2,695)	(3,016)
Machinery and equipment in trust, net	5,220	4,900
Tools, furniture and fixtures in trust, at cost (Note 2)	556,596	585,010
Less: Accumulated depreciation	(401,781)	(422,896)
Tools, furniture and fixtures in trust, net	154,814	162,113
Land in trust	169,977,198	169,977,118
Construction in progress in trust	5,663	4,043
Total net property, plant and equipment	226,930,569	226,489,315
Intangible assets:		
Software	4,020	3,515
Trademark right	160	95
Total intangible assets	4,180	3,611
Investments and other assets:		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	522,181	573,319
Total investments and other assets	5,617,208	5,668,347
Total noncurrent assets	232,551,959	232,161,274
Deferred assets:		
Investment corporation bonds issuance costs	57,596	53,156
Investment unit issuance costs	77,023	53,593
Total deferred assets	134,619	106,750
TOTAL ASSETS	248,821,819	248,837,087

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

(Thousands of yen)

	As of	
	June 30, 2017	December 31, 2017
LIABILITIES		
Current liabilities:		
Operating accounts payable	606,408	508,467
Current portion of long-term loans payable	13,675,000	15,300,000
Accounts payable – other	1,051,686	815,868
Accrued expenses	139,178	132,505
Distribution payable	7,901	8,941
Consumption taxes payable	—	305,930
Advances received	1,092,407	1,084,994
Other	615,506	376,715
Total current liabilities	17,188,088	18,533,424
Noncurrent liabilities:		
Investment corporation bonds – unsecured	6,000,000	6,000,000
Long-term loans payable	85,300,000	83,675,000
Tenant leasehold and security deposits	12,299,221	12,726,537
Tenant leasehold and security deposits in trust	358,930	164,268
Total noncurrent liabilities	103,958,152	102,565,806
TOTAL LIABILITIES	121,146,240	121,099,230
NET ASSETS		
Unitholders' equity:		
Unitholders' capital	125,148,412	125,148,412
Surplus:		
Voluntary reserve		
Reserve for reduction entry of property	—	183,659
Total voluntary reserve	—	183,659
Retained earnings	2,527,166	2,405,786
Total surplus	2,527,166	2,589,445
Total unitholders' equity	127,675,578	127,737,857
TOTAL NET ASSETS (Note 4)	127,675,578	127,737,857
TOTAL LIABILITIES AND NET ASSETS	248,821,819	248,837,087

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	
	June 30, 2017	December 31, 2017
Operating revenue		
Rent revenue—real estate (Note 5)	6,825,340	6,962,607
Other rental business revenue (Note 5)	535,622	510,054
Dividends income	107,087	138,202
Gain on sales of property (Note 6)	557,469	—
Total operating revenue	8,025,520	7,610,864
Operating expenses		
Expenses related to rental business (Note 5)	3,924,768	3,879,165
Loss on sales of property (Note 6)	225,860	—
Asset management fees	585,179	624,301
Asset custody fee	5,750	5,706
Administrative service fees	33,002	33,861
Directors' compensations	6,200	8,700
Other	94,614	76,052
Total operating expenses	4,875,374	4,627,787
Operating income	3,150,146	2,983,076
Non-operating income		
Interest income	70	82
Reversal of distribution payable	1,041	1,097
Interest on refund	21	1,027
Other	—	0
Total non-operating income	1,133	2,208
Non-operating expenses		
Interest expenses	409,147	399,572
Interest expenses on investment corporation bonds	10,071	16,533
Borrowing related expenses	141,243	139,445
Amortization of investment corporation bonds issuance costs	3,006	4,439
Amortization of investment unit issuance costs	20,475	23,429
Other	39,400	928
Total non-operating expenses	623,344	584,349
Ordinary income	2,527,934	2,400,936
Extraordinary income		
Gain on donation of noncurrent assets	—	5,559
Total extraordinary income	—	5,559
Income before income taxes	2,527,934	2,406,495
Income taxes		
Current	900	878
Deferred	1	1
Total income taxes	902	879
Net income	2,527,032	2,405,616
Retained earnings brought forward	134	169
Unappropriated retained earnings	2,527,166	2,405,786

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 June 30, 2017

	Unitholders' equity				
	Unitholders' capital (Note 4)	Surplus		Total unitholders' equity	Total net assets
		Retained earnings	Total surplus		
Balance as of January 1, 2017	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
Balance as of June 30, 2017	125,148,412	2,527,166	2,527,166	127,675,578	127,675,578

For the six months ended December 31, 2017

	Unitholders' equity								
	Unitholders' capital (Note 4)	Surplus					Total unitholders' equity	Total net assets	
		Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity			Total net assets
		Reserve for reduction entry of property	Total voluntary reserve						
Balance as of July 1, 2017	125,148,412	—	—	2,527,166	2,527,166	127,675,578	127,675,578		
<u>Changes during the period</u>									
Provision of reserve for reduction entry of property	—	183,659	183,659	(183,659)	—	—	—		
Dividends from surplus	—	—	—	(2,343,337)	(2,343,337)	(2,343,337)	(2,343,337)		
Net income	—	—	—	2,405,616	2,405,616	2,405,616	2,405,616		
<u>Total changes during the period</u>	—	183,659	183,659	(121,380)	62,278	62,278	62,278		
Balance as of December 31, 2017	125,148,412	183,659	183,659	2,405,786	2,589,445	127,737,857	127,737,857		

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.

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. No taxes on property, plant and equipment were capitalized for the six months period ended for December 31, 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)	
	For the six months ended	
	June 30, 2017	December 31, 2017
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)	
	For the six months ended	
	June 30, 2017	December 31, 2017
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	
	June 30, 2017	December 31, 2017
Authorized	2,000,000 units	2,000,000 units
Issued and outstanding	296,625 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 June 30, 2017 and December 31, 2017 consist of the following:

	(Thousands of yen)	
	For the six months ended	
	June 30, 2017	December 31, 2017
Rental business revenue:		
Rent revenue—real estate:		
Rental revenue	5,549,522	5,630,178
Common area charges	1,070,569	1,124,484
Other	205,247	207,943
Total rent revenue—real estate	6,825,340	6,962,607
Other rental business revenue:		
Utilities	446,270	454,228
Cancellation penalty	—	9,222
Other	89,351	46,604
Total other rental business revenue	535,622	510,054
Total rental business revenue	7,360,963	7,472,662
Expenses related to rental business:		
Property management fees	868,352	851,615
Utilities	629,206	719,493
Property-related taxes	644,725	594,895
Insurance	11,218	11,094
Repair and maintenance	418,944	367,361
Depreciation	1,279,622	1,256,830
Other	72,697	77,874
Total expenses related to rental business	3,924,768	3,879,165
Operating income from property leasing activities	3,436,194	3,593,496

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)

There was no gain or loss on sales of property for the six months ended December 31, 2017.

Note 7 – Income taxes

Deferred tax assets consist of the following:

	(Thousands of yen)	
	As of	
	June 30, 2017	December 31, 2017
Deferred tax assets:		
Enterprise tax payable	14	13
Total	14	13

Net deferred tax assets	14	13
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A reconciliation of the Investment Corporation’s effective tax rates and statutory tax rates is as follows:

	For the six months ended	
	June 30, 2017	December 31, 2017
Statutory tax rates	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 rates	0.04%	0.04%

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 June 30, 2017 and December 31, 2017.

(Thousands of yen)

	As of					
	June 30, 2017			December 31, 2017		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	9,911,529	9,911,529	—	11,031,348	11,031,348	—
(2) Cash and bank deposits in trust	5,535,252	5,535,252	—	5,246,810	5,246,810	—
Total assets	15,446,781	15,446,781	—	16,278,159	16,278,159	—
(3) Current portion of long-term loans payable	13,675,000	13,703,617	28,617	15,300,000	15,369,334	69,334
(4) Investment corporation bonds – unsecured	6,000,000	5,976,950	(23,050)	6,000,000	6,000,550	550
(5) Long-term loans payable	85,300,000	85,933,573	633,573	83,675,000	84,390,589	715,589
Total liabilities	104,975,000	105,614,141	639,141	104,975,000	105,760,474	785,474
(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 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)	-

As of December 31, 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	31,100,000	26,300,000	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	
	June 30, 2017	December 31, 2017
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	12,299,221	12,726,537
Tenant leasehold and security deposits in trust	358,930	164,268

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 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	-	-	-	-	-
Total	15,446,781	-	-	-	-	-

(Thousands of yen)						
As of December 31, 2017	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	11,031,348	-	-	-	-	-
Cash and bank deposits in trust	5,246,810	-	-	-	-	-
Total	16,278,159	-	-	-	-	-

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

(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

(Thousands of yen)						
As of December 31, 2017	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	15,300,000	15,200,000	22,850,000	14,250,000	9,900,000	21,475,000
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 June 30, 2017 and December 31, 2017.

	(Thousands of yen)	
	As of / For the six months ended	
	June 30, 2017	December 31, 2017
Net book value		
Balance at the beginning of the period	205,528,279	226,924,906
Net increase (decrease) during the period ⁽¹⁾	21,396,626	(439,634)
Balance at the end of the period	226,924,906	226,485,272
Fair value⁽²⁾	222,040,000	226,900,000

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
		(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)

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 5 – Rental business revenue and expenses.”

Note 11 – Restriction on Asset Management

None

Note 12 – Related-party transactions

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	Long-term prepaid expenses	22,554

For the six months ended December 31, 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)	4,911	Advances received	814
						Rental receivables	69
						Tenant leasehold and security deposits	9,055
Interested party	Lawson, Inc.	Franchise chain development of convenience store	—	Rental business revenue (Note 1)	8,716	Advances received	1,295
						Rental receivables	18
						Tenant leasehold and security deposits	31,424
Interested party	Kanden Realty & Development Co., Ltd.	Real estate business	3.10	Rental business revenue (Note 1)	5,233	Advances received	878
						Rental receivables	44
						Tenant leasehold and security deposits	4,880
Interested party	The Kansai Electric Power Company, Incorporated	Electric power	—	Rental business revenue (Note 1)	70,944	Advances received	9,362
						Rental receivables	770
				Utilities	340,743	Tenant leasehold and security deposits	104,029
						Operating accounts payable	54,287
Custodian	Sumitomo Mitsui Trust Bank, Limited	Banking	—	Administrative service fees	31,818	Accounts payable – other	34,363
				Asset custody fee	7,550	Accounts payable – other	895
				Interest expenses	52,190	Accrued expenses	16,429
				Borrowing related expenses	8,843	Accrued expenses	455
Long-term prepaid expenses	49,095						

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 Investment Corporation 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 pro forma per unit information which has been adjusted to reflect the Unit Split as if it had been effective on January 1, 2017.

(Yen)

	For the six months ended	
	June 30, 2017	December 31, 2017
Pro forma net asset value per unit	86,085	86,127
Pro forma net income per unit	1,763	1,621

The pro forma 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 Investment Corporation has no potentially dilutive units.

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

(Thousands of yen)

	For the six months ended	
	June 30, 2017	December 31, 2017
Net income	2,527,032	2,405,616
Amount not attributable to common unitholders	—	—
Net income attributable to common unitholders	2,527,032	2,405,616
Adjusted weighted-average number of units outstanding for the period	1,432,979 units	1,483,125 units

Note 14 – Subsequent events

For the six months ended June 30, 2017:

None

For the six months ended December 31, 2017:

Unit split

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

(1) Purpose of the Unit Split

The Investment Corporation 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.

(2) Split method

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

(3) Number of units increased by the Unit Split

- 1)Number of outstanding units of the Investment Corporation before the Unit Split: 296,625 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: 1,483,125 units
- 4)Number of authorized units of the Investment Corporation after the Unit Split: 10,000,000 units

For Pro forma 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 13 – Per unit information.”

Issuance of new investment units

The Board of Directors of the Investment Corporation, 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 through public offering, unitholders' capital increased to ¥135,887,212,150 and number of investment units issued and outstanding increased to 1,635,125 units on February 15, 2018. The issuance of new investment units through the third-party allotment scheduled 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 per unit
 Total offering amount: ¥11,115,000,000
 Issue price (amount to be paid in): ¥70,650 per unit
 Total amount to be paid in: ¥10,738,800,000
 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 per unit
 Total amount to be paid in: ¥565,200,000
 Payment date: March 9, 2018
 Allottee: Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

There may be cases where there will be no subscription for the investment units offered in the third-party allotment in whole or in part, and the final number of investment units placed under the third-party allotment may accordingly decrease to that extent due to forfeiture, or such allotment itself may not take place at all.

(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 of properties

The Investment Corporation acquired (or decided to acquire) following properties for the six months ending June 30, 2018.

Name of property	Acquisition price (or planned acquisition price) (Millions of yen) (Note 1)	Acquisition date
Properties acquired:		
USC Bldg. (additional acquisition) (Note2)	5,800	February 16, 2018
Yoshiyasu Kanda Bldg.	4,000	February 16, 2018
Properties to be acquired:		
SSP Bldg.	9,200	Scheduled on March 1, 2018
M-City Akasaka 1-chome Bldg.	4,205	Scheduled on March 1, 2018
Total	23,205	

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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 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.

New debt financing

The Investment Corporation decided to obtain following debt financing for acquiring new properties stated above.

	Lender(s)	Amount outstanding (Millions of yen)	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	8 years	Fixed rate (Note 1)	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	7 years	Fixed rate (Note 1)				February 28, 2025
Loan 3	Aozora Bank, Ltd., The Nishi-Nippon City Bank, Ltd., The Bank of Fukuoka, Ltd.	2,700	7 years	Fixed rate (Note 1)				February 28, 2023
Loan 4	Sumitomo Mitsui Trust Bank, Limited Sumitomo Mitsui Banking Corporation	2,400	5 years	Floating rate (JBA 3-month yen TIBOR) + 0.30%				February 28, 2019
Loan 5	Mizuho Bank, Ltd.	2,000	1 year	Floating rate (JBA 1-month yen TIBOR) + 0.17%				

Note 1: Interest rates applied to Loan 1, 2 and 3 will be determined based on the loan agreements and notified before borrowing date.

VI. Statements of cash distributions

(Yen)

	For the six months ended	
	June 30, 2017	December 31, 2017
Unappropriated retained earnings	2,527,166,823	2,405,786,142
Cash distribution declared	2,343,337,500	2,405,628,750
<i>(Cash distribution declared per unit)</i>	<i>(7,900)</i>	<i>(8,110)</i>
Voluntary reserve		
Provision of reserve for reduction entry	183,659,375	—
Retained earnings carried forward	169,948	157,392

Note:

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.

For the six months ended December 31, 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, cash distributions declared for the six months ended December 31, 2017 were ¥2,405,628,750 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.

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 December 31, 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	
	June 30, 2017	December 31, 2017
Net cash provided by (used in) operating activities:		
Income before income taxes	2,527,934	2,406,495
Depreciation and amortization	1,279,622	1,256,830
Amortization of long-term prepaid expenses	102,742	96,184
Amortization of investment unit issuance costs	20,475	23,429
Amortization of investment corporation bonds issuance costs	3,006	4,439
Interest income	(70)	(82)
Interest expenses	419,219	416,106
Gain on donation of noncurrent assets	—	(5,559)
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	(105,661)	93,937
Decrease (increase) in consumption taxes refundable	(333,562)	333,562
Increase (decrease) in consumption taxes payable	(39,956)	305,930
Increase (decrease) in operating accounts payable	214,308	(97,940)
Increase (decrease) in accounts payable—other	36,675	(284,180)
Increase (decrease) in advances received	105,850	(7,413)
Decrease (increase) in prepaid expenses	(1,636)	4,358
Payments of long-term prepaid expenses	(70,794)	(147,322)
Decrease in property, plant and equipment in trust due to disposition	10,256,686	—
Other, net	(34,868)	24,882
Subtotal	14,379,970	4,423,657
Interest income received	70	82
Interest expenses paid	(404,499)	(422,778)
Income taxes paid	(648)	(7,256)
Net cash provided by operating activities	13,974,892	3,993,704
Net cash provided by (used in) investing activities:		
Purchases of property, plant and equipment in trust	(32,849,528)	(761,653)
Purchases of intangible assets	(317)	—
Proceeds from tenant leasehold and security deposits	4,725,260	628,443
Proceeds from tenant leasehold and security deposits in trust	1,519,138	2,392
Payments of tenant leasehold and security deposits	(632,817)	(493,256)
Payments of tenant leasehold and security deposits in trust	(4,438,212)	(197,054)
Proceeds from restricted bank deposits in trust	3,059,051	29
Payments for restricted bank deposits in trust	—	(46)
Net cash used in investing activities	(28,617,425)	(821,144)
Net cash provided by (used in) financing activities:		
Increase in short-term loans payable	10,000,000	—
Repayments of short-term loans payable	(10,000,000)	—
Proceeds from long-term loans payable	8,000,000	13,675,000
Repayments of long-term loans payable	(125,000)	(13,675,000)
Proceeds from investment corporation bonds – unsecured	2,968,297	—
Proceeds from issuance of investment units	9,852,167	—
Dividends paid	(1,977,437)	(2,341,199)
Net cash provided by (used in) financing activities	18,718,027	(2,341,199)
Net change in cash and cash equivalents	4,075,493	831,360
Cash and cash equivalents at beginning of period	11,207,036	15,282,529
Cash and cash equivalents at end of period ⁽ⁱ⁾	15,282,529	16,113,890

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:

	As of	
	June 30, 2017	December 31, 2017
Cash and bank deposits	9,911,529	11,031,348
Cash and bank deposits in trust	5,535,252	5,246,810
Restricted bank deposits in trust ⁽¹⁾	(164,251)	(164,268)
Cash and cash equivalents	15,282,529	16,113,890

Note:

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

Change in presentation in the statements of cash flows

“Increase (decrease) in accounts payable—other” in the net cash provided by operating activities which was included in “Other, net” until the six months ended June 30, 2017, is classified and stated as a separate item from the six months ended December 31, 2017 due to the increase of significance of the amount.

As a result, “Other, net” amounting to ¥1,807 thousand in the net cash provided by operating activities for the six months ended June 30, 2017 was reclassified to “Increase (decrease) in accounts payable—other” amounting to ¥36,675 thousand and “Other, net” amounting to (¥34,868) thousand.