

MCUBS MidCity Investment Corporation

The 24th fiscal period Asset Management Report

January 1, 2018 – June 30, 2018



MCUBS MidCity Investment Corporation

I. ASSET MANAGEMENT REPORT

Outline of asset management operation

1. Operating results and financial position

| Fiscal period | | | 20 th | 21 st | 22 nd | 23 rd | 24 th |
|---|-------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| As of /for the six months ended | | | June 30, 2016 | December 31, 2016 | June 30, 2017 | December 31, 2017 | June 30, 2018 |
| Operating revenues | (Millions of yen) | | 6,824 | 7,005 | 8,025 | 7,610 | 7,924 |
| (Rental business revenues) | (Millions of yen) | | (6,697) | (6,897) | (7,360) | (7,472) | (7,788) |
| Operating expenses | (Millions of yen) | | 4,361 | 4,453 | 4,875 | 4,627 | 4,555 |
| (Rental business expenses) | (Millions of yen) | | (3,646) | (3,780) | (3,924) | (3,879) | (3,786) |
| Operating income | (Millions of yen) | | 2,462 | 2,551 | 3,150 | 2,983 | 3,368 |
| Ordinary income | (Millions of yen) | | 1,889 | 1,977 | 2,527 | 2,400 | 2,769 |
| Net income | (Millions of yen) | | 1,888 | 1,976 | 2,527 | 2,405 | 2,767 |
| Total assets | (Millions of yen) | | 227,686 | 225,916 | 248,821 | 248,837 | 272,674 |
| (Period-on-period change) | (%) | | (0.7) | (-0.8) | (10.1) | (0.0) | (9.6) |
| Net assets | (Millions of yen) | | 117,131 | 117,220 | 127,675 | 127,737 | 139,404 |
| (Period-on-period change) | (%) | | (-0.0) | (0.1) | (8.9) | (0.0) | (9.1) |
| Interest-bearing liabilities | (Note 1) | (Millions of yen) | 95,725 | 94,100 | 104,975 | 104,975 | 115,975 |
| Unitholders' capital | | (Millions of yen) | 115,243 | 115,243 | 125,148 | 125,148 | 136,452 |
| Number of units issued and outstanding | | (Units) | 266,025 | 266,025 | 296,625 | 296,625 | 1,643,125 |
| Net asset value per unit | (Note 2) | (Yen) | 440,304 | 440,635 | 86,085 | 86,127 | 84,840 |
| Total distributions | | (Millions of yen) | 1,888 | 1,976 | 2,343 | 2,405 | 2,767 |
| Distribution per unit | | (Yen) | 7,100 | 7,431 | 7,900 | 8,110 | 1,684 |
| (Profit distribution per unit) | | (Yen) | (7,100) | (7,431) | (7,900) | (8,110) | (1,684) |
| (Distribution per unit in excess of profit) | | (Yen) | (-) | (-) | (-) | (-) | (-) |
| Ratio of ordinary income to total assets | (Notes 3 and 4) | (%) | 0.8 (1.7) | 0.9 (1.7) | 1.1 (2.1) | 1.0 (1.9) | 1.1 (2.1) |
| Return on unitholders' equity | (Notes 3 and 5) | (%) | 1.6 (3.2) | 1.7 (3.3) | 2.1 (4.2) | 1.9 (3.7) | 2.1 (4.2) |
| Ratio of net assets to total assets | (Note 6) | (%) | 51.4 | 51.9 | 51.3 | 51.3 | 51.1 |
| (Period-on-period change) | | (%) | (-0.4) | (0.5) | (-0.6) | (0.0) | (-0.2) |
| Ratio of interest-bearing liabilities to total assets | (Note 7) | (%) | 42.0 | 41.7 | 42.2 | 42.2 | 42.5 |
| Payout ratio | (Note 8) | (%) | 100.0 | 100.0 | 92.7 | 100.0 | 100.0 |
| Additional information: | | | | | | | |
| Number of investment properties | (Note 9) | (Properties) | 18 | 18 | 19 | 19 | 22 |
| Total leasable area | (Note 10) | (m ²) | 331,015.96 | 330,999.31 | 349,595.39 | 349,515.43 | 368,099.75 |
| Number of tenants | (Note 11) | (Tenants) | 310 | 313 | 394 | 394 | 413 |
| Occupancy ratio | (Note 12) | (%) | 98.2 | 97.7 | 97.5 | 97.0 | 98.1 |
| Depreciation | | (Millions of yen) | 1,281 | 1,288 | 1,279 | 1,256 | 1,328 |
| Capital expenditures | | (Millions of yen) | 443 | 733 | 445 | 817 | 597 |
| Rental net operating income (NOI) | (Note 13) | (Millions of yen) | 4,332 | 4,406 | 4,715 | 4,850 | 5,330 |

Note 1 "Interest-bearing liabilities" represents the total amount of short-term loans payable, long-term loans payable and investment corporation bonds (including current portion of each liability).

Note 2 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 3 Figures in parenthesis have been annualized using the number of days for each fiscal period.

Note 4 Ordinary income ÷ ((Total assets at beginning of period + Total assets at end of period) ÷ 2) × 100

Note 5 Net income ÷ ((Net assets at beginning of period + Net assets at end of period) ÷ 2) × 100

Note 6 Net assets at end of period ÷ Total assets at end of period × 100

Note 7 Interest-bearing liabilities at end of period ÷ Total assets at end of period × 100

Note 8 Distribution per unit ÷ net income per unit (not adjusted to reflect the Unit Split) × 100

Payout ratio for the 22nd and the 24th fiscal period is calculated using the following formula because new investment units were issued.

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

Payout ratio for the 23rd fiscal period is calculated using actual net income per unit (not adjusted to reflect the Unit Split).

Note 9 Number of investment properties does not include investments in Tokumei Kumiai (silent partnership) agreements.

Note 10 "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 11 "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 agreed that the lessee of the pass-through master lease agreement is lessor for them. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 12 "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 13 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 (24th fiscal period: January 1, 2018 to June 30, 2018), MCUBS MidCity acquired four properties (total acquisition price: ¥23,205 million; of which, one is an additional acquisition to an existing property) with funds procured through issuance of new investment units in February 2018 and new borrowings. As of the end of the fiscal period under review (June 30, 2018), the portfolio of MCUBS MidCity was comprised of 23 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥261,349 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 24th fiscal period, GDP for the January to March 2018 period saw negative growth for the first time in nine quarters against the backdrop of sluggish personal consumption, decline in housing investment and other factors. However, as most view this was a temporary economic slowdown caused by special factors such as a decrease in purchase due to price hike of perishable food and dairy items and unusual weather, 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 ongoing more active transactions against the backdrop of favorable fund procurement environment. According to the Ministry of Land, Infrastructure, Transport and Tourism's Land Value LOOK Report for the first quarter (January 1 to April 1) of 2018, the land price of intensively used land of major cities in Japan increased in 91 of the 100 districts, remained flat in 9 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, improvement in vacancy rate and the upward trend of rent level are continuing. Although we intend to carefully keep an eye on the impact from new supply of large-scale buildings in Tokyo, there are many buildings scheduled for completion with tenants informally contracted as well as needs for floor expansion and relocation due to improvement in corporate earnings, increase in the number of employees, improvement in working environment, etc. Therefore, demand for office floors is expected to remain solid and it is unlikely that there will be any significant negative turn in the supply-demand situation.

The J-REIT market remained strong from the beginning of the 24th fiscal period starting at the TSE REIT index of 1,665 points against the backdrop of J-REIT's favorable fundamentals as well as low and stable long-term interest rate environment to end at 1,764 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 loose monetary 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 24th fiscal period, in order to portfolio management enhancement aiming for continuous growth as a new growth stage, MCUBS MidCity newly acquired a total of four properties (Yoshiyasu Kanda Bldg. (acquisition price: ¥4,000 million) and USC Bldg. (additional acquisition) (acquisition price: ¥5,800 million) in February 2018; and TOYOTA MOBILITY SERVICE Bldg. (former name: SSP Bldg.) (acquisition price: ¥9,200 million) and M-City Akasaka 1-chome Bldg. (acquisition price: ¥4,205 million) in March) with proceeds from issuance of new investment units in February 2018 combined with funds procured from new borrowings. Among them, TOYOTA MOBILITY SERVICE Bldg. was acquired through exclusive negotiation based on CRE proposal ^(Note)utilizing the sponsor network, and USC Bldg. (additional acquisition) was acquired through exclusive negotiation by exercising preferential negotiation rights, utilizing the pipeline. In applying various acquisition methods like this, MCUBS MidCity has avoided excessive acquisition competition even under the heated real estate transaction market.

As a result, MCUBS MidCity's portfolio as of the end of the 24th fiscal period was comprised of 23 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 97.0% (of which Tokyo metropolitan area accounting for 49.6%, Osaka metropolitan area 45.5% and Nagoya metropolitan

area 1.9%) in the three major metropolitan areas and 3.0% in other areas, and are distributed in terms of property type with 88.1% being office buildings and 11.9% being others.

(Note) “CRE proposal” indicates a proposal of optimal and efficient management of corporate real estate (CRE) properties, with an aim to maximize a corporate value from a viewpoint of business strategy.

<Performance of management of portfolio assets>

MCUBS MidCity has closely worked 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. Furthermore, it has strived to maintain and enhance occupancy rates and rents by 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 24th fiscal period, amid 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 tenant exits, a high occupancy rate of 98.1%, surpassing that at the end of the previous fiscal period (97.0%), was maintained at the end of the fiscal period under review, as a result of the aforementioned measures.

(3) Overview of fund procurement

(a) Issuance of new investment units

During the 24th fiscal period, MCUBS MidCity implemented additional issuance of new investment units through public offering with the payment date on February 15, 2018 (152,000 units) and through third-party allotment with the payment date of March 9, 2018 (8,000 units), to partly fund the new acquisition of four properties (total acquisition price: ¥23,205 million; of which, one property being an additional acquisition to an existing property) made in February and March 2018. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 1,643,125 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 24th fiscal period, MCUBS MidCity newly borrowed ¥11,000 million on February 28, 2018 to partly fund the new acquisition of four properties made in February and March 2018. In addition, MCUBS MidCity issued unsecured investment corporation bonds (10-year: ¥2,000 million) in May 2018 for the third consecutive year. Out of ¥11,000 million borrowed in February 2018, early repayment was made for ¥2,000 million on May 31, 2018 using the funds procured from issuance of investment corporation bonds. As a result of these efforts, MCUBS MidCity has realized further strengthening of its financial base through diversification of fund procurement means, as well as reduction of financial costs and extension of terms of interest-bearing liabilities.

As of the end of the 24th fiscal period, MCUBS MidCity had a balance of borrowings from 19 financial institutions in the amount of ¥107,975 million and had a balance of investment corporation bonds in the amount of ¥8,000 million. The ratio of interest-bearing liabilities to total assets stands at 42.5%, 100.0% of loans payable are long-term loans payable (including current portion of long-term loans payable) and 77.5% of loans payable are applied to fixed interest rates (including those for which interest rates have been fixed via interest rate swap agreements).

In the 24th fiscal period, MCUBS MidCity newly acquired a rating from Japan Credit Rating Agency, Ltd. (JCR) on April 9, 2018. The following is the status of MCUBS MidCity's issuer ratings as of the end of the 24th fiscal period.

| Credit rating agency | Issuer rating | Rating outlook |
|---|---------------|----------------|
| Japan Credit Rating Agency, Ltd. (JCR) | A+ | Positive |
| 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 ¥7,924 million, operating income of ¥3,368 million, ordinary income of ¥2,769 million and net income of ¥2,767 million in its performance for the 24th 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 ¥1,684.

3. Changes in unitholders' capital

For the six months ended June 30, 2018, the Investment Corporation raised funds totaling of ¥11,304 million with issuance of 152,000 investment units through public offering in February 2018 and 8,000 investment units through allocation of investment units to a third party in March 2018. 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 |
| January 1, 2018 | Unit Split | 1,186,500 | 1,483,125 | — | 125,148 | Note 9 |
| February 15, 2018 | Public offering | 152,000 | 1,635,125 | 10,738 | 135,887 | Note 10 |
| March 9, 2018 | Allocation of investment units to a third party | 8,000 | 1,643,125 | 565 | 136,452 | Note 11 |

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.

Note 10 New investment units were issued at a price of ¥73,125 per unit (subscription price of ¥70,650 per unit) through a public offering in order to raise funds for acquiring new property.

Note 11 New investment units were issued at a price of ¥70,650 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on February 15, 2018.

Fluctuation in market price of the investment unit:

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

(Yen)

| Fiscal period | 20 th | 21 st | 22 nd | 23 rd | 24 th |
|---------------------------------|------------------|-------------------|------------------|----------------------------|------------------|
| As of /for the six months ended | June 30, 2016 | December 31, 2016 | June 30, 2017 | December 31, 2017 | June 30, 2018 |
| Highest price | 386,000 | 377,000 | 359,000 | 397,500 Note 1 (76,200) | 85,400 |
| Lowest price | 299,700 | 313,000 | 324,000 | 313,000 Note 1 (75,000) | 73,300 |

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 June 30, 2018 amounted to ¥1,684.

| Fiscal period | | 20 th | 21 st | 22 nd | 23 rd | 24 th |
|--|--------------------|------------------|----------------------|------------------|----------------------|------------------|
| As of /for the six months ended | | June 30, 2016 | December 31, 2016 | June 30, 2017 | December 31, 2017 | June 30, 2018 |
| Retained earnings at end of period | (Thousands of yen) | 1,888,832 | 1,976,966 | 2,527,166 | 2,405,786 | 2,768,133 |
| Retained earnings carried forward | (Thousands of yen) | 55 | 134 | 183,829 | 157 | 1,111 |
| Total cash distributions | (Thousands of yen) | 1,888,777 | 1,976,831 | 2,343,337 | 2,405,628 | 2,767,022 |
| (Cash distribution per unit) | (Yen) | (7,100) | (7,431) | (7,900) | (8,110) | (1,684) |
| Profit distributions | (Thousands of yen) | 1,888,777 | 1,976,831 | 2,343,337 | 2,405,628 | 2,767,022 |
| (Profit distribution per unit) | (Yen) | (7,100) | (7,431) | (7,900) | (8,110) | (1,684) |
| 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 the 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 expected to continue with a moderate rise.

On the other hand, Tokyo metropolitan area's office leasing market is expecting a large volume of supply, mainly of large-scale buildings. However, there are many buildings scheduled for completion with tenants informally contracted and needs for floor expansion and relocation due to improvement in corporate earnings, increase in the number of employees, improvement in working environment, etc. remain 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, and 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 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 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.

<Sustainability>

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

(1) Acquisition of property

The Investment Corporation acquired following property for the six months ending December 31, 2018.

| Name of property | Acquisition price (Millions of yen) (Note) | Acquisition date |
|-----------------------|---|--------------------|
| Yokohama i-land Tower | 22,100 | September 14, 2018 |
| Total | 22,100 | |

Note: "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.

(2) Disposal of properties

The Investment Corporation disposed (or decided to dispose) following properties for the six months ending December 31, 2018 and June 30, 2019.

| Name of property | Disposition price (Millions of yen) (Note) | Disposition date (or scheduled date of disposition) |
|-------------------------|---|--|
| MID REIT Kyobashi Bldg. | 1,700 | September 4, 2018 |
| Matsushita IMP Bldg. | 27,000 | 55% of quasi co-ownership September 5, 2018 45% of quasi co-ownership March 8, 2019 |
| Total | 28,700 | |

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

(3) New debt financing

The Investment Corporation obtained following debt financing for repayment of existing loans payable, or acquiring new property 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. | 3,400 | 10 years | Floating rate (JBA 3-month yen TIBOR) + 0.50% (Note 1), (Note 2) | July 26, 2018 | July 31, 2018 | Unsecured and unguaranteed, lump sum repayment | July 31, 2028 |
| Loan 2 | Aozora Bank, Ltd., Mizuho Trust & Banking Co., Ltd. | 1,500 | 10 years | Fixed rate 1.01880% | | | | |
| Loan 3 | Sumitomo Mitsui Trust Bank, Limited | 2,900 | 8 years | Floating rate (JBA 3-month yen TIBOR) + 0.45% (Note 1), (Note 2) | | | | July 31, 2026 |
| Loan 4 | MUFG Bank, Ltd. | 2,000 | 8 years | Fixed rate 0.77000% | | | | |
| Loan 5 | Resona Bank, Limited | 800 | 8 years | Fixed rate 0.83380% | | | | |
| Loan 6 | The Senshu Ikeda Bank, Ltd. The Nishi-Nippon City Bank, Ltd., The Hyakugo Bank, Ltd. | 1,800 | 7 years | Fixed rate 0.74250% | | | | July 31, 2025 |
| Loan 7 | Sumitomo Mitsui Banking Corporation | 2,900 | 4.5 years | Floating rate (JBA 3-month yen TIBOR) + 0.275% (Note 2) | | | | January 31, 2023 |

| | Lender(s) | Amount outstanding (Millions of yen) | Debt term | Interest rate | Contract date | Borrowing date | Method of borrowing, repayment of principal | Maturity date |
|--------|-------------------|---|-----------|---|-----------------|-----------------------|---|----------------|
| Loan 8 | Mizuho Bank, Ltd. | 6,900 | 0.6 years | Floating rate (JBA 1-month yen TIBOR) + 0.16% (Note 3) | August 20, 2018 | September 12, 2018 | Unsecured and unguaranteed, lump sum repayment | April 30, 2019 |

Note 1: The variable interest rate will be fixed at 0.92250% for Loan 1 and 0.77700% for Loan 3 with the interest-rate swap agreements.

Note 2: The base interest rate applied to the calculation period of Loan 1, 3 and 7 interests to be paid on the interest payment date will be the 3-month Japanese yen TIBOR on a day two business days prior to such interest payment date. If such calculation period is less than three months, the base interest rate will be calculated using the methodology stipulated in the loan agreement.

Note 3: The base interest rate applied to the calculation period of Loan 8 interests to be paid on the interest payment date will be the 1-month Japanese yen TIBOR on a day two business days prior to such interest payment date. If such calculation period is less than one month, the base interest rate will be calculated using the methodology stipulated in the loan agreement.

Outline of the Investment Corporation

1. Investment unit

| Fiscal period | 20 th | 21 st | 22 nd | 23 rd | 24 th |
|--|------------------|-------------------|------------------|-------------------|------------------|
| As of | June 30, 2016 | December 31, 2016 | June 30, 2017 | December 31, 2017 | June 30, 2018 |
| Number of units authorized (Units) | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 10,000,000 |
| Number of units issued and outstanding (Units) | 266,025 | 266,025 | 296,625 | 296,625 | 1,643,125 |
| Unitholders' capital (Millions of yen) | 115,243 | 115,243 | 125,148 | 125,148 | 136,452 |
| Number of unitholders (People) | 11,665 | 11,451 | 12,267 | 11,604 | 12,157 |

2. Unitholders

Major unitholders as of June 30, 2018 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 | 272,813 | 16.60 |
| The Master Trust Bank of Japan, Ltd. Trust Account | 264,946 | 16.12 |
| Trust & Custody Services Bank, Ltd. Trust Account | 87,292 | 5.31 |
| The Nomura Trust and Banking Co., Ltd. Trust Account | 66,978 | 4.07 |
| THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT | 49,914 | 3.03 |
| Kanden Realty & Development Co., Ltd. | 46,000 | 2.79 |
| SIX SIS LTD. | 38,962 | 2.37 |
| STICHTING PENSIOENFONDS METAAL EN TECHNIEK | 35,867 | 2.18 |
| STATE STREET BANK AND TRUST COMPANY 505012 | 29,141 | 1.77 |
| NOMURA BANK (LUXEMBOURG) S. A. | 26,130 | 1.59 |
| Total | 918,043 | 55.87 |

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

3. Officers

Officers, etc. as of June 30, 2018 were as follows:

| Post | Name | Major additional post | Compensation or fee for the six months ended June 30, 2018 (Thousands of yen) |
|----------------------|--------------------|---|--|
| Executive Director | Katsuhiro 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 | — | 16,000 |

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 compensation for the independent auditor includes ¥4,000 thousand fees for non-audit-service which isn't prescribed under Article 2, paragraph 1 of the Certified Public Accountants Act of Japan (Act No.103 of 1948, as amended) and the audit fees for the financial statements prepared in English.

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

4. Name of asset manager and other administrator

Asset manager, custodian and general administrators as of June 30, 2018 were as follows:

| Classification | Name |
|--|--|
| Asset manager | MCUBS MidCity Inc. |
| Custodian | Sumitomo Mitsui Trust Bank, Limited |
| General administrator (regarding book keeping) | Sumitomo Mitsui Trust Bank, Limited |
| General administrator (regarding investor registration and distribution payments to unitholders, etc.) | Mitsubishi UFJ Trust and Banking Corporation |
| General administrator (regarding investment corporation bonds) | Mizuho Bank, Ltd. |

Condition of investment assets

1. Composition of assets

| Classification of assets | Investment category | Investment area | | As of December 31, 2017 | | As of June 30, 2018 | |
|--|--|--------------------------------|----------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
| | | | | Total of net book value | Ratio to total assets | Total of net book value | Ratio to total assets |
| | | | | (Note 1) (Millions of yen) | (Note 2) (%) | (Note 1) (Millions of yen) | (Note 2) (%) |
| Trust beneficial interest in real property | Office Building | Three major metropolitan areas | Tokyo metropolitan area (Note 3) | 82,058 | 33.0 | 105,954 | 38.9 |
| | | | Osaka metropolitan area (Note 3) | 110,457 | 44.4 | 110,081 | 40.4 |
| | | Other areas | | 5,595 | 2.2 | 5,587 | 2.0 |
| | Other | Three major metropolitan areas | Tokyo metropolitan area (Note 3) | 23,839 | 9.6 | 23,724 | 8.7 |
| | | | Osaka metropolitan area (Note 3) | 2,394 | 1.0 | 2,376 | 0.9 |
| | | Other areas | | 2,139 | 0.9 | 2,120 | 0.8 |
| | Sub-total | | | 226,485 | 91.0 | 249,844 | 91.6 |
| | Investments in Tokumei Kumiai agreement (Note 4) | | | 5,085 | 2.0 | 5,085 | 1.9 |
| Bank deposits and other assets | | | 17,266 | 6.9 | 17,744 | 6.5 | |
| Total assets | | | 248,837 | 100.0 | 272,674 | 100.0 | |

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

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

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

Note 4 Investments in Tokumei Kumiai agreement is 40% equity interest of silent partnership with R40 Godo Kaisha whose investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

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

2. Major property

The principal properties (top ten properties in net book value) as of June 30, 2018 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 | 65,985 | 82,304.84 | 80,749.22 | 98.1 | 28.6 | Office |
| AEON MALL Tsudanuma | 23,724 | 101,210.44 | 101,210.44 | 100.0 | 10.0 | Retail facilities |
| Matsushita IMP Bldg. | 22,434 | 37,299.98 | 35,732.90 | 95.8 | 11.9 | Office |
| Cube Kawasaki | 20,460 | 24,494.06 | 24,494.06 | 100.0 | 8.2 | Office |
| Shibuya Sakuragaoka Square | 17,453 | 6,379.66 | 6,379.66 | 100.0 | 4.7 | Office |
| G-Square Shibuya Dogenzaka | 12,217 | 5,010.68 | 5,010.68 | 100.0 | 3.6 | Office |
| USC Bldg. | 11,154 | 12,489.08 | 11,724.28 | 93.9 | 3.1 | Office |
| Kitahama MID Bldg. | 10,327 | 10,189.49 | 10,189.49 | 100.0 | 3.9 | Office |
| TOYOTA MOBILITY SERVICE Bldg. | 9,591 | 6,123.81 | 6,123.81 | 100.0 | (Note 5) | Office |
| Sasazuka Center Bldg. | 9,079 | 8,219.90 | 7,363.33 | 89.6 | 3.3 | Office |
| Total | 202,428 | 293,721.94 | 288,977.87 | 98.4 | — | |

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 AEON MALL Tsudanuma, in which entire buildings are leased) that is leasable as of June 30, 2018.

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 AEON MALL Tsudanuma, in which entire buildings are leased) that is leased under lease agreements valid as of June 30, 2018.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2018 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 “Rental revenues” are excluding other rental business revenues (Utilities, cancellation penalty and other).

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 June 30, 2018 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 | 7,614 |
| | | | G-Square Shibuya Dogenzaka | 2-11-1 Dogenzaka, Shibuya-ku, Tokyo | Trust beneficial interest | 14,600 | 12,217 |
| | | | Shibuya Sakuragaoka Square | 31-15, Sakuragaokacho, Shibuya-ku, Tokyo | Trust beneficial interest | 19,400 | 17,453 |
| | | | Yokohama Creation Square | 5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa | Trust beneficial interest | 7,960 | 7,057 |
| | | | Cube Kawasaki | 1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa | Trust beneficial interest | 22,500 | 20,460 |
| | | | Higashi-Nihombashi Green Bldg. | 2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo | Trust beneficial interest | 3,070 | 2,848 |
| | | | Sasazuka Center Bldg. | 2-1-6 Sasazuka, Shibuya-ku, Tokyo | Trust beneficial interest | 9,290 | 9,079 |
| | | | USC Bldg. | 4-11-38 Toyo, Koto-ku, Tokyo | Trust beneficial interest | 11,400 | 11,154 |
| | | | Yoshiyasu Kanda Bldg. | 2-1-15, Iwamotocho, Chiyoda-ku, Tokyo | Trust beneficial interest | 4,270 | 4,200 |
| | | | TOYOTA MOBILITY SERVICE Bldg. | 2-12-4, Nihombashi Hamacho, Chuo-ku, Tokyo | Trust beneficial interest | 10,200 | 9,591 |
| | | | M-City Akasaka 1-chome Bldg. | 1-11-28, Akasaka, Minato-ku, Tokyo | Trust beneficial interest | 4,300 | 4,276 |
| | | Osaka metropolitan area | Twin 21 | 2-1-61 Shiromi, Chuo-ku, Osaka-shi | Trust beneficial interest | 55,800 | 65,985 |
| | | | Matsushita IMP Bldg. | 1-3-7 Shiromi, Chuo-ku, Osaka-shi | Trust beneficial interest | 22,300 | 22,434 |
| | | | MID REIT Kyobashi Bldg. | 1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi | Trust beneficial interest | 1,460 | 2,063 |
| | | | MID Imabashi Bldg. | 2-3-16 Imabashi, Chuo-ku, Osaka-shi | Trust beneficial interest | 2,340 | 3,096 |
| | | | Kitahama MID Bldg. | 1-6-7 Doshomachi, Chuo-ku, Osaka-shi | Trust beneficial interest | 9,520 | 10,327 |
| | | | MID Nishihommachi Bldg. | 1-6-1 Awaza, Nishi-ku, Osaka-shi | Trust beneficial interest | 2,240 | 3,356 |
| | | | Higobashi MID Bldg. | 1-5-16 Edobori, Nishi-ku, Osaka-shi | Trust beneficial interest | 3,770 | 2,817 |
| | | Other area | | Sendai Capital Tower | 4-10-3 Chuo, Aoba-ku, Sendai-shi, Miyagi | Trust beneficial interest | 6,570 |
| | Sub total | | | | | 219,290 | 221,623 |
| Other | Three major metropolitan areas | Tokyo metropolitan area | AEON MALL Tsudanuma | 1-23-1 Tsudanuma, Narashino-shi, Chiba | Trust beneficial interest | 28,500 | 23,724 |
| | | Osaka metropolitan area | Konami Sports Club Kyobashi | 1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi | Trust beneficial interest | 3,400 | 2,376 |
| | Other area | | Dormy Inn Hakata Gion | 1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka | Trust beneficial interest | 3,410 | 2,120 |
| | Sub total | | | | | 35,310 | 28,220 |
| Total | | | | | | 254,600 | 249,844 |

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

Note 2 "Appraisal value at end of period" shows the value as of June 30, 2018 appraised by the real estate appraiser (JLL Morii Valuation & Advisory, K.K., 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 Amounts less than one million yen are rounded down.

Operating results of each property for the six months ended December 31, 2017 and June 30, 2018 were as follows:

| Investment category | Investment Area | | Name of property | For the six months ended | | | | | | | |
|---------------------|--------------------------------|-------------------------|----------------------------------|-------------------------------|------------------------------------|--|---|-------------------------------|------------------------------------|--|---|
| | | | | December 31, 2017 | | | | June 30, 2018 | | | |
| | | | | 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 | 280,691 | 4.0 | 7 | 100.0 | 263,850 | 3.6 |
| | | | Shibuya Sakuragaoka Square | 4 | 100.0 | 343,195 | 4.9 | 4 | 100.0 | 344,172 | 4.7 |
| | | | Yokohama Creation Square | 39 | 87.4 | 294,408 | 4.2 | 39 | 91.8 | 287,763 | 4.0 |
| | | | Cube Kawasaki | 10 | 100.0 | 573,827 | 8.2 | 10 | 100.0 | 594,812 | 8.2 |
| | | | Higashi-Nihombashi Green Bldg. | 7 | 100.0 | 71,485 | 1.0 | 6 | 90.5 | 78,814 | 1.1 |
| | | | Sasazuka Center Bldg. | 8 | 85.6 | 218,380 | 3.1 | 8 | 89.6 | 238,643 | 3.3 |
| | | | USC Bldg. (Note 7) | 8 | 100.0 | 138,090 | 2.0 | 9 | 93.9 | 224,265 | 3.1 |
| | | | Yoshiyasu Kanda Bldg. | — | — | — | — | 6 | 100.0 | 75,485 | 1.0 |
| | | | TOYOTA MOBILITY SERVICE Bldg. | — | — | — | — | 1 | 100.0 | (Note 6) | (Note 6) |
| | | | M-City Akasaka 1-chome Bldg. | — | — | — | — | 12 | 100.0 | 55,251 | 0.8 |
| | Osaka metropolitan area | Twin 21 | 105 | 97.8 | 2,130,688 | 30.6 | 106 | 98.1 | 2,078,356 | 28.6 | |
| | | Matsushita IMP Bldg. | 55 | 86.7 | 917,688 | 13.2 | 57 | 95.8 | 865,891 | 11.9 | |
| | | MID REIT Kyobashi Bldg. | 1 | 100.0 | (Note 6) | (Note 6) | 1 | 100.0 | (Note 6) | (Note 6) | |
| | | MID Imabashi Bldg. | 21 | 100.0 | 89,074 | 1.3 | 21 | 100.0 | 91,019 | 1.3 | |
| | | Kitahama MID Bldg. | 11 | 100.0 | 274,560 | 3.9 | 11 | 100.0 | 280,946 | 3.9 | |
| | | MID Nishihommachi Bldg. | 18 | 100.0 | 74,551 | 1.1 | 17 | 97.4 | 78,424 | 1.1 | |
| | | Higobashi MID Bldg. | 11 | 96.5 | 105,667 | 1.5 | 12 | 100.0 | 109,131 | 1.5 | |
| | Other area | | Sendai Capital Tower | 82 | 95.2 | 245,562 | 3.5 | 80 | 93.5 | 243,734 | 3.4 |
| | Sub total | | | 390 | 95.6 | — | — | 409 | 97.2 | — | — |
| Other | Three major metropolitan areas | Tokyo metropolitan area | AEON MALL Tsudanuma | 1 | 100.0 | 726,000 | 10.4 | 1 | 100.0 | 726,000 | 10.0 |
| | | 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 | 97.0 | 6,962,607 | 100.0 | 413 | 98.1 | 7,258,435 | 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 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 agreed that the lessee of the pass-through master lease agreement is lessor for them. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 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 “Rental revenues” are excluding other rental business revenues (Utilities, cancellation penalty and other).

Note 4 Total of the rental revenues includes revenues from Sumitomo Fudosan Ueno Bldg. No.6, TOYOTA MOBILITY SERVICE Bldg., MID REIT Kyobashi Bldg., Konami Sports Club Kyobashi and Dormy Inn Hakata Gion.

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

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

Note 7 The Investment Corporation acquired approximately 54% of co-quasi ownership in USC Bldg. on February 16, 2018 and has owned 100% of trust beneficial interest in the property.

Note 8 Amounts of rental revenues less than one thousand yen are rounded down.

4. Details of investment securities

The details of investment securities as of June 30, 2018 were as follows:

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

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

Note 2 “Fair value” represents net book value of the equity interest of Tokumei Kumiai agreement.

5. Details of specified transaction

The details of specified transaction as of June 30, 2018 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 | (139,837) |
| Total | | 31,100,000 | 26,300,000 | (139,837) |

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

6. Other assets

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

7. Investment assets by country or area

There is no investment asset other than Japan.

Capital expenditures for property

1. Schedule of capital expenditures

The significant plan for capital expenditures on property maintenance as of June 30, 2018 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 June 30, 2018 | Total of advanced payment |
| Sendai Capital Tower | Aoba-ku, Sendai-shi | Renewal of entrance | March 2019 to June 2019 | 150 | — | — |
| Twin 21 | Chuo-ku, Osaka-shi | Renewal of drainage pipe | May 2018 to December 2018 | 78 | — | — |
| Twin 21 | Chuo-ku, Osaka-shi | Repair of air conditioner | June 2018 to February 2019 | 62 | — | — |
| Twin 21 | Chuo-ku, Osaka-shi | Repair of air conditioner | October 2018 to May 2019 | 58 | — | — |
| Twin 21 | Chuo-ku, Osaka-shi | Renewal of escalator | December 2017 to November 2018 | 53 | — | — |

2. Capital expenditures for the six months ended June 30, 2018

Maintenance expenditures on property for the six months ended June 30, 2018 were totaling to ¥815 million consisting of ¥597 million of capital expenditures stated as below and ¥217 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 | Construction for an office floor | February 2018 to May 2018 | 114 |
| Twin 21 | Chuo-ku, Osaka-shi | LED lighting equipment | August 2017 to January 2018 | 86 (Note) |
| Twin 21 | Chuo-ku, Osaka-shi | Repair of rest room at lower floors | April 2018 to June 2018 | 45 |
| Twin 21 | Chuo-ku, Osaka-shi | Repair of air conditioning system at lower floors | October 2017 to March 2018 | 43 |
| Twin 21 | Chuo-ku, Osaka-shi | Repair of electrical substation equipment | July 2017 to March 2018 | 39 |
| Other properties, etc. | — | Other capital expenditures | — | 267 |
| Total | | | | 597 |

Note The Investment Corporation received ¥50 million of subsidy for the construction. The capital expenditure represents the amount capitalized after reduction entry of property by the subsidy from total construction costs amounting to ¥136 million

3. Reserved funds for long-term maintenance plan

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

| (Millions of yen) | | | | | |
|---------------------------------------|------------------|-------------------|------------------|-------------------|------------------|
| Fiscal period | 20 th | 21 st | 22 nd | 23 rd | 24 th |
| As of /for the six months ended | June 30, 2016 | December 31, 2016 | June 30, 2017 | December 31, 2017 | June 30, 2018 |
| Reserved funds at beginning of period | 781 | 1,232 | 1,546 | 1,539 | 1,581 |
| Increase | 801 | 801 | 851 | 817 | 298 |
| Decrease | 350 | 488 | 858 | 775 | 1,490 |
| Reserved funds at end of period | 1,232 | 1,546 | 1,539 | 1,581 | 389 |

Condition of expenses and liabilities

1. Details of asset management expenses

(Thousands of yen)

| Fiscal period | 23 rd | 24 th |
|---------------------------------|-------------------|------------------|
| For the six months ended | December 31, 2017 | June 30, 2018 |
| (a) Asset management fees | 624,301 | 643,427 |
| (b) Asset custody fees | 5,706 | 5,862 |
| (c) Administrative service fees | 33,861 | 36,945 |
| (d) Directors' compensations | 8,700 | 8,700 |
| (e) Independent auditor fees | 10,000 | 12,000 |
| (f) Other operating expenses | 66,052 | 61,970 |
| Total | 748,622 | 768,906 |

Note The amount of asset management fees for the six months ended June 30, 2018 does not include ¥232,050 thousand of asset management fees related to acquisition capitalized as part of the acquisition cost of properties.

2. Loans payable

Please refer to “Note 9—Loans Payable” in the accompanying financial statements.

3. Investment corporation bonds

Please refer to “Note 11—Investment Corporation Bonds” in the accompanying financial statements.

4. Short-term investment corporation bonds

None

5. Investment unit warrants

None

Condition of investment transactions

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

(Millions of yen)

| Name of real property, etc. | Acquisition | | Disposal | | | |
|-------------------------------|---------------------|---------------------------|------------------|-----------------|----------------|-------------------------|
| | Date of acquisition | Acquisition cost (Note 1) | Date of disposal | Disposal amount | Net book value | Gain (loss) on disposal |
| USC Bldg. (Note 2) | February 16, 2018 | 5,800 | — | — | — | — |
| Yoshiyasu Kanda Bldg. | February 16, 2018 | 4,000 | — | — | — | — |
| TOYOTA MOBILITY SERVICE Bldg. | March 1, 2018 | 9,200 | — | — | — | — |
| M-City Akasaka 1-chome Bldg. | March 1, 2018 | 4,205 | — | — | — | — |
| Total | — | 23,205 | — | — | — | — |

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

Note 2 The Investment Corporation acquired approximately 54% of co-quasi ownership in USC Bldg. and has owned 100% of trust beneficial interest in the property.

2. Transactions of other assets

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

3. Research for specified assets value, etc.

(1) Property

(Millions of yen)

| Acquisition/ Disposal | Form of ownership | Name of property | Date of acquisition/disposal | Acquisition cost/ Disposal amount (Note 1) | Appraisal Value (Note 2) | Appraiser | Date of appraisal |
|--------------------------|---------------------------|-------------------------------|------------------------------|--|-----------------------------|---------------------------------------|-------------------|
| Acquisition | Trust beneficial interest | USC Bldg. | February 16, 2018 | 5,800 | 6,070 (Note 3) | Tanizawa Sōgō Appraisal Co., Ltd. | December 1, 2017 |
| | Trust beneficial interest | Yoshiyasu Kanda Bldg. | February 16, 2018 | 4,000 | 4,260 | Daiwa Real Estate Appraisal Co., Ltd. | December 1, 2017 |
| | Trust beneficial interest | TOYOTA MOBILITY SERVICE Bldg. | March 1, 2018 | 9,200 | 10,200 | Daiwa Real Estate Appraisal Co., Ltd. | December 1, 2017 |
| | Trust beneficial interest | M-City Akasaka 1-chome Bldg. | March 1, 2018 | 4,205 | 4,280 | Japan Real Estate Institute | December 1, 2017 |
| | Total | | | 23,205 | 24,810 | — | — |

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

Note 2 As an amendment of Article 201 of the Act on Investments Trusts and Investment Corporation of Japan had been effective on November 24, 2011, the Investment Corporation obtains appraisal value of the specified assets prescribed under Article 201, Paragraph 1, the Act on Investments Trusts and Investment Corporation of Japan (land or building, leasehold rights and superficies of land as well as trust beneficiary interest only consist of these assets (limited to interest held by a single investor) by real estate appraiser (but not interested party) when the specified asset is acquired or disposed. The appraisal value above is based on “Paragraph 3 – Appraisal of Securitized Real Estate” of the Real Estate Appraisal Standards of Japan.

Note 3 The appraisal value of USC Bldg. represents the amount equivalent to approximately 54% additional acquisition of co-quasi ownership in the property.

(2) Asset backed securities

None

(3) Other transaction

None

4. Transactions with interested parties

(1) Outline of transactions

None

(2) Amounts of fees paid and other expenses

There were no fees to interested parties for the six months ended June 30, 2018. For other expenses, the Investment Corporation paid ¥306,067 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 financial statements.

2. Changes in depreciation method

None

3. Changes in valuation method of real property

None

Other information

1. Notice

The Board of Directors Meeting

Execution or modification of significant agreement approved by the Board of Directors of the Investment Corporation for the six months ended June 30, 2018 was as follows:

| Approval day | Item | Summary |
|------------------|--|--|
| January 29, 2018 | Underwriting agreements of new investment units | In connection with the public offering of new investment units, the Board of Directors of the Investment Corporation approved entering into the underwriting agreements with Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., Nomura Securities Co., Ltd. and Mizuho Securities Co., Ltd. as joint lead managers. |
| April 26, 2018 | Appointment of general administrators regarding investment corporation bonds | In connection with the issuance of the 5th investment corporation bonds, the Board of Directors of Investment Corporation appointed Mizuho Securities Co., Ltd., SMBC Nikko Securities Inc. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. as underwriter, and Mizuho Bank, Ltd. as financial agency and other general administrator regarding the investment corporation bonds. |

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.



Independent Auditor's Report

To the Board of Directors of
MCUBS MidCity Investment Corporation:

We have audited the accompanying financial statements of MCUBS MidCity Investment Corporation (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at June 30, 2018 and December 31, 2017, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for the six months ended June 30, 2018 and December 31, 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MCUBS MidCity Investment Corporation as at as at June 30, 2018 and December 31, 2017, and their financial performance and cash flows for the six months ended June 30, 2018 and December 31, 2017 in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 22 to the financial statements, which states the acquisition of property, the disposal of properties and the new debt financing.

Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the six months ended June 30, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the financial statements.

KPMG AZSA LLC

September 14, 2018
Tokyo, Japan

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of December 31, 2017 and June 30, 2018

| | As of | | |
|---|----------------------|------------------|-----------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and bank deposits (Notes 3 and 17) | ¥ 11,031 | ¥ 11,789 | \$ 106,649 |
| Cash and bank deposits in trust (Notes 3 and 17) | 5,246 | 4,729 | 42,780 |
| Rental receivables..... | 164 | 174 | 1,574 |
| Income taxes receivable..... | 27 | 26 | 235 |
| Consumption tax refundable..... | — | 251 | 2,270 |
| Prepaid expenses | 42 | 37 | 334 |
| Deferred tax assets (Note 15) | 0 | 0 | 0 |
| Other | 55 | — | — |
| Total current assets | 16,569 | 17,008 | 153,862 |
| Noncurrent assets: | | | |
| Property and equipment, at cost (Notes 5 and 7): | | | |
| Buildings in trust (Note 4) | 78,072 | 82,352 | 744,997 |
| Structures in trust..... | 137 | 139 | 1,257 |
| Machinery and equipment in trust | 7 | 7 | 63 |
| Tools, furniture and fixtures in trust (Note 4) | 585 | 635 | 5,744 |
| Land in trust | 169,977 | 190,332 | 1,721,838 |
| Construction in progress in trust..... | 4 | 14 | 126 |
| Total property and equipment..... | 248,784 | 273,482 | 2,474,054 |
| Less: Accumulated depreciation | 22,294 | 23,623 | 213,705 |
| Total net property and equipment..... | 226,489 | 249,859 | 2,260,349 |
| Intangible assets (Note 6): | | | |
| Software | 3 | 3 | 27 |
| Trademark right | 0 | 0 | 0 |
| Total intangible assets..... | 3 | 3 | 27 |
| Investments and other assets: | | | |
| Investment securities (Note 8 and 17) | 5,085 | 5,085 | 46,001 |
| Lease and guarantee deposits..... | 10 | 10 | 90 |
| Long-term prepaid expenses..... | 573 | 560 | 5,066 |
| Total investments and other assets..... | 5,668 | 5,655 | 51,157 |
| Total noncurrent assets | 232,161 | 255,518 | 2,311,543 |
| Deferred charges: | | | |
| Investment corporation bonds issuance costs | 53 | 67 | 606 |
| Investment unit issuance costs..... | 53 | 79 | 714 |
| Total deferred charges | 106 | 146 | 1,320 |
| TOTAL ASSETS..... | ¥ 248,837 | ¥ 272,674 | \$ 2,466,745 |

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

MCUBS MIDCITY INVESTMENT CORPORATION
BALANCE SHEETS
As of December 31, 2017 and June 30, 2018

| | As of | | |
|---|----------------------|------------------|-----------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Operating accounts payable..... | ¥ 508 | ¥ 412 | \$ 3,727 |
| Current portion of long-term loans payable (Notes 9 and 17) | 15,300 | 15,300 | 138,411 |
| Accounts payable | 815 | 766 | 6,929 |
| Accrued expenses | 132 | 149 | 1,347 |
| Distribution payable | 8 | 11 | 99 |
| Consumption taxes payable | 305 | — | — |
| Advances received..... | 1,084 | 1,227 | 11,100 |
| Other | 376 | 1,005 | 9,091 |
| Total current liabilities | 18,533 | 18,873 | 170,734 |
| Noncurrent liabilities: | | | |
| Investment corporation bonds – unsecured (Notes 11 and 17) | 6,000 | 8,000 | 72,371 |
| Long-term loans payable (Notes 9 and 17)..... | 83,675 | 92,675 | 838,384 |
| Tenant leasehold and security deposits (Note 17)..... | 12,726 | 13,721 | 124,127 |
| Tenant leasehold and security deposits in trust (Note 17)..... | 164 | — | — |
| Total noncurrent liabilities | 102,565 | 114,396 | 1,034,883 |
| TOTAL LIABILITIES | 121,099 | 133,269 | 1,205,617 |
| NET ASSETS (Note 12) | | | |
| Unitholders' equity: | | | |
| Unitholders' capital, 2,000,000 units authorized; 296,625 units as of December 31, 2017 issued and outstanding 10,000,000 units authorized; 1,643,125 units as of June 30, 2018 issued and outstanding..... | 125,148 | 136,452 | 1,234,412 |
| Surplus: | | | |
| Voluntary reserve | | | |
| Reserve for reduction entry of property | 183 | 183 | 1,655 |
| Total voluntary reserve..... | 183 | 183 | 1,655 |
| Retained earnings..... | 2,405 | 2,768 | 25,040 |
| Total surplus..... | 2,589 | 2,951 | 26,696 |
| Total unitholders' equity..... | 127,737 | 139,404 | 1,261,118 |
| TOTAL NET ASSETS | 127,737 | 139,404 | 1,261,118 |
| TOTAL LIABILITIES AND NET ASSETS | ¥ 248,837 | ¥ 272,674 | \$ 2,466,745 |

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

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the six months ended December 31, 2017 and June 30, 2018

| | For the six months ended | | |
|---|--------------------------|----------------|--------------------------------|
| | December 31, | June 30, | June 30, |
| | 2017 | 2018 | 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Operating revenues | | | |
| Rent revenues—real estate (Note 14) | ¥ 6,962 | ¥ 7,258 | \$ 65,659 |
| Other rental business revenues (Note 14) | 510 | 530 | 4,794 |
| Dividends income | 138 | 135 | 1,221 |
| Total operating revenues | <u>7,610</u> | <u>7,924</u> | <u>71,684</u> |
| Operating expenses | | | |
| Expenses related to rental business (Note 14) | 3,879 | 3,786 | 34,250 |
| Asset management fees | 624 | 643 | 5,816 |
| Asset custody fees | 5 | 5 | 45 |
| Administrative service fees | 33 | 36 | 325 |
| Directors' compensations | 8 | 8 | 72 |
| Other | 76 | 73 | 660 |
| Total operating expenses | <u>4,627</u> | <u>4,555</u> | <u>41,206</u> |
| Operating income | <u>2,983</u> | <u>3,368</u> | <u>30,468</u> |
| Non-operating income | | | |
| Interest income | 0 | 0 | 0 |
| Reversal of distribution payable | 1 | 0 | 0 |
| Interest on refund | 1 | 0 | 0 |
| Other | 0 | 0 | 0 |
| Total non-operating income | <u>2</u> | <u>0</u> | <u>0</u> |
| Non-operating expenses | | | |
| Interest expenses | 399 | 410 | 3,709 |
| Interest expenses on investment corporation bonds | 16 | 17 | 153 |
| Borrowing related expenses | 139 | 137 | 1,239 |
| Amortization of investment corporation bonds issuance costs | 4 | 4 | 36 |
| Amortization of investment unit issuance costs | 23 | 28 | 253 |
| Other | 0 | 0 | 0 |
| Total non-operating expenses | <u>584</u> | <u>599</u> | <u>5,418</u> |
| Ordinary income | <u>2,400</u> | <u>2,769</u> | <u>25,049</u> |
| Extraordinary gain | | | |
| Subsidy income | — | 50 | 452 |
| Gain on donation of noncurrent assets | 5 | — | — |
| Total extraordinary gain | <u>5</u> | <u>50</u> | <u>452</u> |
| Extraordinary loss | | | |
| Reduction entry for property | — | 50 | 452 |
| Total extraordinary loss | <u>—</u> | <u>50</u> | <u>452</u> |
| Income before income taxes | <u>2,406</u> | <u>2,769</u> | <u>25,049</u> |
| Income taxes (Note 15): | | | |
| Current | 0 | 1 | 9 |
| Deferred | 0 | (0) | (0) |
| Total income taxes | <u>0</u> | <u>1</u> | <u>9</u> |
| Net income | <u>2,405</u> | <u>2,767</u> | <u>25,031</u> |
| Retained earnings brought forward | <u>0</u> | <u>0</u> | <u>0</u> |
| Unappropriated retained earnings (Note 13) | <u>¥ 2,405</u> | <u>¥ 2,768</u> | <u>\$ 25,040</u> |

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

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS
For the six months ended December 31, 2017 and June 30, 2018

| | Unitholders' equity | | | | | | |
|--|----------------------|---|-------------------------|---|---------------|---------------------------|------------------|
| | Surplus | | | | | | |
| | | Voluntary reserve | | | | | |
| | Unitholders' capital | Reserve for reduction entry of property | Total voluntary reserve | Retained earnings (in millions of yen) | Total surplus | Total unitholders' equity | Total net assets |
| Balance as of June 30, 2017 | ¥ 125,148 | ¥ — | ¥ — | ¥ 2,527 | ¥ 2,527 | ¥ 127,675 | ¥ 127,675 |
| <u>Changes during the period</u> | | | | | | | |
| Provision of reserve for reduction entry of property | — | 183 | 183 | (183) | — | — | — |
| Dividends from surplus..... | — | — | — | (2,343) | (2,343) | (2,343) | (2,343) |
| Net income | — | — | — | 2,405 | 2,405 | 2,405 | 2,405 |
| Total changes during the period..... | — | 183 | 183 | (121) | 62 | 62 | 62 |
| Balance as of December 31, 2017 | ¥ 125,148 | ¥ 183 | ¥ 183 | ¥ 2,405 | ¥ 2,589 | ¥ 127,737 | ¥ 127,737 |
| <u>Changes during the period</u> | | | | | | | |
| Issuance of new investment units | 11,304 | — | — | — | — | 11,304 | 11,304 |
| Dividends from surplus..... | — | — | — | (2,405) | (2,405) | (2,405) | (2,405) |
| Net income | — | — | — | 2,767 | 2,767 | 2,767 | 2,767 |
| Total changes during the period..... | 11,304 | — | — | 362 | 362 | 11,666 | 11,666 |
| Balance as of June 30, 2018 | ¥ 136,452 | ¥ 183 | ¥ 183 | ¥ 2,768 | ¥ 2,951 | ¥ 139,404 | ¥ 139,404 |

| | Unitholders' equity | | | | | | |
|---------------------------------------|--------------------------------|---|-------------------------|-------------------|---------------|---------------------------|------------------|
| | Surplus | | | | | | |
| | | Voluntary reserve | | | | | |
| | Unitholders' capital | Reserve for reduction entry of property | Total voluntary reserve | Retained earnings | Total surplus | Total unitholders' equity | Total net assets |
| | (in thousands of U.S. dollars) | | | | | | |
| Balance as of December 31, 2017 | \$ 1,132,151 | \$ 1,655 | \$ 1,655 | \$ 21,756 | \$ 23,421 | \$ 1,155,572 | \$ 1,155,572 |
| Changes during the period | | | | | | | |
| Issuance of new investment units | 102,261 | — | — | — | — | 102,261 | 102,261 |
| Dividends from surplus..... | — | — | — | (21,756) | (21,756) | (21,756) | (21,756) |
| Net income | — | — | — | 25,031 | 25,031 | 25,031 | 25,031 |
| Total changes during the period..... | 102,261 | — | — | 3,274 | 3,274 | 105,536 | 105,536 |
| Balance as of June 30, 2018 | \$ 1,234,412 | \$ 1,655 | \$ 1,655 | \$ 25,040 | \$ 26,696 | \$ 1,261,118 | \$ 1,261,118 |

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

MCUBS MIDCITY INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the six months ended December 31, 2017 and June 30, 2018

| | For the six months ended | | |
|--|--------------------------|------------------|-----------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Cash flows from operating activities: | | | |
| Income before income taxes..... | ¥ 2,406 | ¥ 2,769 | \$ 25,049 |
| Depreciation and amortization | 1,256 | 1,328 | 12,013 |
| Amortization of long-term prepaid expenses | 96 | 97 | 877 |
| Amortization of investment unit issuance costs | 23 | 28 | 253 |
| Amortization of investment corporation bonds issuance costs..... | 4 | 4 | 36 |
| Interest income | (0) | (0) | (0) |
| Interest expenses | 416 | 428 | 3,871 |
| Subsidy income | — | (50) | (452) |
| Gain on donation of noncurrent assets | (5) | — | — |
| Reduction entry for property | — | 50 | 452 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in operating accounts receivable..... | 93 | (10) | (90) |
| Decrease (increase) in consumption taxes refundable | 333 | (251) | (2,270) |
| Increase (decrease) in consumption taxes payable..... | 305 | (305) | (2,759) |
| Increase (decrease) in operating accounts payable | (97) | (95) | (859) |
| Increase (decrease) in accounts payable | (284) | 67 | 606 |
| Increase (decrease) in advances received..... | (7) | 142 | 1,284 |
| Decrease (increase) in prepaid expenses..... | 4 | 5 | 45 |
| Payments of long-term prepaid expenses | (147) | (85) | (768) |
| Other, net..... | 24 | (21) | (189) |
| Subtotal..... | 4,423 | 4,102 | 37,108 |
| Interest income received | 0 | 0 | 0 |
| Interest expenses paid | (422) | (410) | (3,709) |
| Income taxes paid | (7) | (0) | (0) |
| Net cash provided by operating activities | 3,993 | 3,691 | 33,390 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment in trust..... | (761) | (24,815) | (224,488) |
| Proceeds from tenant leasehold and security deposits | 628 | 1,527 | 13,814 |
| Proceeds from tenant leasehold and security deposits in trust | 2 | 214 | 1,935 |
| Payments of tenant leasehold and security deposits | (493) | (147) | (1,329) |
| Payments of tenant leasehold and security deposits in trust | (197) | (57) | (515) |
| Proceeds from restricted bank deposits in trust | 0 | 378 | 3,419 |
| Payments for restricted bank deposits in trust | (0) | (214) | (1,935) |
| Other, net..... | — | (0) | (0) |
| Net cash used in investing activities | (821) | (23,114) | (209,100) |
| Cash flows from financing activities: | | | |
| Proceeds from long-term loans payable | 13,675 | 11,000 | 99,511 |
| Repayments of long-term loans payable | (13,675) | (2,000) | (18,092) |
| Proceeds from investment corporation bonds – unsecured | — | 1,981 | 17,921 |
| Proceeds from issuance of investment units | — | 11,250 | 101,773 |
| Dividends paid | (2,341) | (2,402) | (21,729) |
| Net cash provided by (used in) financing activities | (2,341) | 19,828 | 179,373 |
| Net change in cash and cash equivalents..... | 831 | 404 | 3,654 |
| Cash and cash equivalents at the beginning of period..... | 15,282 | 16,113 | 145,766 |
| Cash and cash equivalents at the end of period (Note 3) | ¥ 16,113 | ¥ 16,518 | \$ 149,430 |

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

MCUBS MIDCITY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of and for the six months ended December 31, 2017 and June 30, 2018

Note 1 — Organization

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

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

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

The total assets managed by the Company at the end of the 24th fiscal period (June 30, 2018) amounted to ¥261.3 billion (US\$2,363 million) (the total acquisition price of 23 properties).

Note 2 — Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥110.54 = US\$1, the effective rate of exchange prevailing at June 30, 2018. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended June 30, 2018 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

Amounts less than ¥1 million and US\$ 1 thousand have been rounded down. As a result, the total shown in the financial statements and notes thereto does not necessarily agree to the sum of individual account balances.

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

(b) Cash and Cash Equivalents

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

(c) Property and Equipment (Including Trust Assets)

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

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

(d) Intangible assets

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

(e) Long-term Prepaid Expenses

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

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

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

(g) Accounting Treatment of Investments in Tokumei Kumiai

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

(h) Hedge Accounting

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

(i) Investment Corporation Bonds Issuance Costs

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

(j) Investment Unit Issuance Costs

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

(k) Income Taxes

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

(l) Consumption Taxes

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

(m) Taxes on Property and Equipment

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

Under the above tax rules, a seller of a property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes calculated from the acquisition date to the end of the calendar year is capitalized as a cost of the property in accordance with Japanese GAAP. In subsequent calendar years, half of such taxes on property and equipment for each calendar year are charged as operating expenses in each fiscal period.

No taxes on property and equipment were capitalized for the six months period ended for December 31, 2017. Taxes on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥86 million (US\$777 thousand) for the six months ended June 30, 2018.

(n) Revenue Recognition

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

Note 3 – Cash and Cash Equivalents

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

| | As of | | |
|--|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Cash and bank deposits | ¥ 11,031 | ¥ 11,789 | \$ 106,649 |
| Cash and bank deposits in trust | 5,246 | 4,729 | 42,780 |
| Restricted bank deposits in trust ⁽¹⁾ | (164) | — | — |
| Cash and cash equivalents | ¥ 16,113 | ¥ 16,518 | \$ 149,430 |

Note:

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

Note 4 – Reduction Entry of Property

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

| | As of | | |
|--|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Reduction entry by: | | | |
| Government subsidies received | | | |
| Buildings in trust | ¥ 4 | ¥ 54 | \$ 488 |
| Tools, furniture and fixtures in trust | 7 | 7 | 63 |
| Insurance income | | | |
| Buildings in trust | 68 | 68 | 615 |

Note 5 – Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended December 31, 2017 and June 30, 2018, respectively.

For the six months ended December 31, 2017:

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

For the six months ended June 30, 2018:

| | At cost | | | | Accumulated depreciation | Depreciation for the period | Net property and equipment |
|--|-------------------|----------|----------|--|--------------------------|-----------------------------|----------------------------|
| | Beginning balance | Increase | Decrease | Ending balance (in millions of yen) | | | |
| Buildings in trust | ¥ 78,072 | ¥ 4,280 | ¥ — | ¥ 82,352 | ¥ 23,139 | ¥ 1,302 | ¥ 59,212 |
| Structures in trust | 137 | 1 | — | 139 | 34 | 3 | 104 |
| Machinery and equipment in trust | 7 | — | — | 7 | 3 | 0 | 4 |
| Tools, furniture and fixtures in trust | 585 | 50 | — | 635 | 445 | 22 | 190 |
| Land in trust | 169,977 | 20,355 | — | 190,332 | — | — | 190,332 |
| Construction in progress in trust | 4 | 10 | — | 14 | — | — | 14 |
| Total | ¥ 248,784 | ¥ 24,698 | ¥ — | ¥ 273,482 | ¥ 23,623 | ¥ 1,328 | ¥ 249,859 |

| | At cost | | | | Accumulated depreciation | Depreciation for the period | Net property and equipment |
|--|-------------------|------------|----------|--|--------------------------|-----------------------------|----------------------------|
| | Beginning balance | Increase | Decrease | Ending balance (in thousands of U.S. dollars) | | | |
| Buildings in trust | \$ 706,278 | \$ 38,719 | \$ — | \$ 744,997 | \$ 209,326 | \$ 11,778 | \$ 535,661 |
| Structures in trust | 1,239 | 9 | — | 1,257 | 307 | 27 | 940 |
| Machinery and equipment in trust | 63 | — | — | 63 | 27 | 0 | 36 |
| Tools, furniture and fixtures in trust | 5,292 | 452 | — | 5,744 | 4,025 | 199 | 1,718 |
| Land in trust | 1,537,696 | 184,141 | — | 1,721,838 | — | — | 1,721,838 |
| Construction in progress in trust | 36 | 90 | — | 126 | — | — | 126 |
| Total | \$ 2,250,624 | \$ 223,430 | \$ — | \$ 2,474,054 | \$ 213,705 | \$ 12,013 | \$ 2,260,349 |

Note 6 – Intangible Assets

The following tables show the summary of movement in intangible assets for the six months ended December 31, 2017 and June 30, 2018, respectively.

For the six months ended December 31, 2017:

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

For the six months ended June 30, 2018:

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

| | At cost | | | Ending balance (in thousands of U.S. dollars) | Accumulated amortization | Amortization for the period | Net intangible assets |
|-----------------------|-------------------|----------|----------|--|--------------------------|-----------------------------|-----------------------|
| | Beginning balance | Increase | Decrease | | | | |
| Software | \$ 54 | \$ 0 | \$ — | \$ 54 | \$ 27 | \$ 0 | \$ 27 |
| Trademark right | 9 | — | — | 9 | 9 | 0 | 0 |
| Total | \$ 63 | \$ 0 | \$ — | \$ 63 | \$ 36 | \$ 0 | \$ 27 |

Note 7 – Fair Value of Investment and Rental Properties

The following table shows the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended December 31, 2017 and June 30, 2018.

| | As of / For the six months ended | | |
|--|----------------------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Net book value | | | |
| Balance at the beginning of the period | ¥ 226,924 | ¥ 226,485 | \$ 2,048,896 |
| Net increase (decrease) during the period ⁽¹⁾ | (439) | 23,359 | 211,317 |
| Balance at the end of the period | ¥ 226,485 | ¥ 249,844 | \$ 2,260,213 |
| Fair value⁽²⁾ | 226,900 | 254,600 | 2,303,238 |

Notes:

(1) For the six months ended December 31, 2017:

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

For the six months ended June 30, 2018:

Changes in the net book value are mainly due to increase by the following acquisitions or other capital expenditures offset by depreciation.

| | | Increase in net book value (in millions of yen) |
|---------------|------------------------------------|---|
| Acquisitions: | TOYOTA MOBILITY SERVICE Bldg. | ¥ 9,619 |
| | M-City Akasaka 1-chome Bldg. | 4,276 |
| | Yoshiyasu Kanda Bldg. | 4,190 |
| | USC Bldg. (additional acquisition) | 6,003 |

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

For rental revenues and expenses for the six months ended December 31, 2017 and June 30, 2018, please refer to “Note 14 - Rental Business Revenues and Expenses.”

Note 8 – Investments in Tokumei Kumiai

The Company invests in real estate properties by entering into TK agreements as a Tokumei Kumiai investor (“TK investor”) with Japanese special purpose companies known as Tokumei Kumiai operators (“TK operators”), which are the property holding entities. Such TK transactions are a common method of investing and holding real estate properties in Japan. The relationship between the TK operators and the TK investors is governed by TK agreements, whereby the TK investors provide funds to the TK operators in return for the prorated portion of the income derived from the investments in properties held by the TK operators. Information on investments in TK as of December 31, 2017 and June 30, 2018 is as follows:

As of December 31, 2017:

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

As of June 30, 2018:

| Name of TK operator | Carrying amounts | The value of TK ⁽¹⁾ (in millions of yen) | Unrealized gains (or losses) | Carrying amounts | The value of TK ⁽¹⁾ (in thousands of U.S. dollars) | Unrealized gains (or losses) |
|--------------------------------------|------------------|--|---------------------------------|------------------|--|---------------------------------|
| R40 Godo Kaisha ⁽²⁾ | ¥ 5,085 | ¥ 5,085 | ¥ — | \$ 46,001 | \$ 46,001 | \$ — |
| Total | ¥ 5,085 | ¥ 5,085 | ¥ — | \$ 46,001 | \$ 46,001 | \$ — |

Note:

- (1) The value of TK represents carrying amounts because it is too difficult to estimate fair value based on reasonable future cash flow.
- (2) The investment asset is trust beneficiary interest for the 33.9% co-ownership interest (and 29.5% right of site) of the sectional ownership of Nagoya Lucent Tower.

Note 9 – Loans Payable

The following tables show the details of loans payable as of December 31, 2017 and June 30, 2018.

| Classification | Borrowing date | Maturity date | Average interest rate ⁽¹⁾ | Balance as of | | |
|-------------------------------------|-------------------|-------------------|--------------------------------------|----------------------|-----------------|--------------------------------|
| | | | | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | | | | (in millions of yen) | | (in thousands of U.S. dollars) |
| Long-term | July 31, 2012 | July 31, 2019 | (Note 3) 1.524 | ¥ 1,700 | ¥ 1,700 | \$ 15,379 |
| loans payable | July 31, 2013 | July 31, 2018 | (Note 2) 1.297 | 4,800 | (Note 4) 4,800 | (Note 4) 43,423 |
| | July 31, 2013 | July 31, 2020 | (Note 3) 1.709 | 1,800 | 1,800 | 16,283 |
| | July 31, 2014 | July 31, 2019 | (Note 2) 0.962 | 4,000 | 4,000 | 36,185 |
| | July 31, 2014 | July 31, 2020 | (Note 2) 1.240 | 2,000 | 2,000 | 18,092 |
| | July 31, 2014 | July 31, 2021 | (Note 3) 1.478 | 1,800 | 1,800 | 16,283 |
| | July 31, 2015 | July 31, 2019 | 0.569 | 9,500 | 9,500 | 85,941 |
| | July 31, 2015 | July 31, 2021 | (Note 2) 1.034 | 4,500 | 4,500 | 40,709 |
| | July 31, 2015 | July 31, 2023 | (Note 2) 1.384 | 1,000 | 1,000 | 9,046 |
| | July 31, 2015 | July 31, 2018 | 0.469 | 10,500 | (Note 4) 10,500 | (Note 4) 94,988 |
| | July 31, 2015 | July 31, 2020 | (Note 2) 0.865 | 9,300 | 9,300 | 84,132 |
| | July 31, 2015 | July 31, 2020 | (Note 3) 0.908 | 1,200 | 1,200 | 10,855 |
| | July 31, 2015 | July 31, 2022 | (Note 2) 1.202 | 2,200 | 2,200 | 19,902 |
| | July 31, 2015 | July 31, 2022 | (Note 3) 1.233 | 800 | 800 | 7,237 |
| | July 31, 2015 | July 31, 2023 | (Note 2) 1.384 | 500 | 500 | 4,523 |
| | July 31, 2015 | July 31, 2023 | (Note 3) 1.400 | 500 | 500 | 4,523 |
| | April 28, 2016 | April 30, 2021 | (Note 2) 0.498 | 2,800 | 2,800 | 25,330 |
| | July 29, 2016 | January 31, 2020 | 0.379 | 3,700 | 3,700 | 33,472 |
| | July 29, 2016 | January 31, 2020 | (Note 3) 0.373 | 2,250 | 2,250 | 20,354 |
| | July 29, 2016 | January 31, 2020 | (Note 3) 0.373 | 2,600 | 2,600 | 23,520 |
| | July 29, 2016 | January 31, 2021 | (Note 3) 0.451 | 2,500 | 2,500 | 22,616 |
| | July 29, 2016 | July 31, 2021 | (Note 3) 0.494 | 2,650 | 2,650 | 23,973 |
| | July 29, 2016 | July 31, 2024 | (Note 3) 0.735 | 4,700 | 4,700 | 42,518 |
| | January 31, 2017 | January 31, 2022 | (Note 3) 0.647 | 4,000 | 4,000 | 36,185 |
| | January 31, 2017 | January 31, 2024 | (Note 3) 0.809 | 4,000 | 4,000 | 36,185 |
| | July 31, 2017 | July 31, 2023 | (Note 3) 0.680 | 1,900 | 1,900 | 17,188 |
| | July 31, 2017 | July 31, 2023 | (Note 3) 0.688 | 1,000 | 1,000 | 9,046 |
| | July 31, 2017 | July 31, 2025 | (Note 3) 0.856 | 3,975 | 3,975 | 35,959 |
| | July 31, 2017 | July 31, 2027 | (Note 3) 1.040 | 3,900 | 3,900 | 35,281 |
| | July 31, 2017 | July 29, 2022 | (Note 3) 0.524 | 2,900 | 2,900 | 26,234 |
| | February 28, 2018 | February 28, 2023 | 0.359 | — | 2,400 | 21,711 |
| | February 28, 2018 | February 28, 2019 | 0.225 | — | (Note 5) — | (Note 5) — |
| | February 28, 2018 | February 28, 2025 | (Note 3) 0.640 | — | 1,200 | 10,855 |
| | February 28, 2018 | February 28, 2025 | (Note 3) 0.719 | — | 2,700 | 24,425 |
| | February 28, 2018 | February 27, 2026 | (Note 3) 0.800 | — | 2,700 | 24,425 |
| Long-term loans payable total | | | | ¥ 98,975 | 107,975 | 976,795 |
| Loans payable total..... | | | | ¥ 98,975 | ¥ 107,975 | \$ 976,795 |

Notes:

- (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 are hedged by interest rate swaps are calculated adjusting the effect of the interest rate swaps.
- (2) These term loans are hedged by interest rate swaps.
- (3) Interest rates of these term loans are fixed rate.
- (4) Current portion of these term loans is shown as current portion of long-term loans payable in the balance sheets.
- (5) The Company borrowed ¥2,000 million on February 28, 2018 and repaid this term loan on May 31, 2018 in advance of the maturity date.

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

| | As of | | |
|-------------------|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Up to 1 year..... | ¥ 15,300 | ¥ 15,300 | \$ 138,411 |
| 1-2 years..... | 15,200 | 23,750 | 214,854 |
| 2-3 years..... | 22,850 | 19,600 | 177,311 |
| 3-4 years..... | 14,250 | 12,950 | 117,152 |
| 4-5 years..... | 9,900 | 8,300 | 75,085 |

Note 10 – Commitment line

As of December 31, 2017 and June 30, 2018, the Company entered into committed lines of credit with Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited and MUFG Bank, Ltd. as follows:

| | As of | | |
|---|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Total amount of committed lines of credit | ¥ 15,000 | ¥ 15,000 | \$ 135,697 |
| Borrowings drawn down | — | — | — |
| Unused committed lines of credit | ¥ 15,000 | ¥ 15,000 | \$ 135,697 |

Note 11 – Investment Corporation Bonds

The details of the unsecured investment corporation bonds issued and outstanding as of December 31, 2017 and June 30, 2018 are as follows:

| | As of | | |
|--|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| ¥1.5 billion of 5-year bonds, issued on May 23, 2016, maturing on May 21, 2021 with a coupon of 0.340% | ¥ 1,500 | ¥ 1,500 | \$ 13,569 |
| ¥1.5 billion of 10-year bonds, issued on May 23, 2016, maturing on May 22, 2026 with a coupon of 0.810% | 1,500 | 1,500 | 13,569 |
| ¥1 billion of 5-year bonds, issued on May 29, 2017, maturing on May 27, 2022 with a coupon of 0.260% | 1,000 | 1,000 | 9,046 |
| ¥2 billion of 10-year bonds, issued on May 29, 2017, maturing on May 28, 2027 with a coupon of 0.670% | 2,000 | 2,000 | 18,092 |
| ¥2 billion of 10-year bonds, issued on May 29, 2018, maturing on May 29, 2028 with a coupon of 0.590% | — | 2,000 | 18,092 |
| Total | ¥ 6,000 | ¥ 8,000 | \$ 72,371 |

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

| | As of | | |
|--------------------|----------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Up to 1 year | ¥ — | ¥ — | \$ — |
| 1-2 years | — | — | — |
| 2-3 years | — | 1,500 | 13,569 |
| 3-4 years | 1,500 | 1,000 | 9,046 |
| 4-5 years | 1,000 | — | — |

Note 12 – Net Assets

The Company issues only non-par value units in accordance with the Investment Trust Act, and the entire amount of the issue price of new units is allocated to unitholders' capital within net assets. The Company is required to maintain net assets of at least ¥50 million (US\$452 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of units issued and outstanding are 296,625 units and 1,643,125 units as of December 31, 2017 and June 30, 2018, respectively.

Note 13 – Appropriation of Retained Earnings

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

The following table shows the appropriation of retained earnings for the six months ended December 31, 2017 and June 30, 2018, respectively.

| | For the six months ended | | |
|---|--------------------------|---------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Unappropriated retained earnings | ¥ 2,405 | ¥ 2,768 | \$ 25,040 |
| Cash distribution declared | (2,405) | (2,767) | 25,031 |
| Retained earnings carried forward | ¥ 0 | ¥ 1 | \$ 9 |

Cash distributions per investment unit are ¥8,110 and ¥1,684 (US\$15) for the six months ended December 31, 2017 and June 30, 2018, respectively. The Company executed a five-for-one unit split (the "Unit Split") with December 31, 2017 as the record date and January 1, 2018 as the effective date for the Unit Split.

Note 14 – Rental Business Revenues and Expenses

Revenues and expenses related to property rental business for the six months ended December 31, 2017 and June 30, 2018 consist of the following:

| | For the six months ended | | |
|---|--------------------------|----------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Rental business revenues: | | | |
| Rent revenues—real estate: | | | |
| Rental revenues | ¥ 5,630 | ¥ 5,869 | \$ 53,093 |
| Common area charges | 1,124 | 1,163 | 10,521 |
| Parking lots | 207 | 225 | 2,035 |
| Total rent revenues—real estate..... | 6,962 | 7,258 | 65,659 |
| Other rental business revenues: | | | |
| Utilities..... | 454 | 446 | 4,034 |
| Cancellation penalty | 9 | 6 | 54 |
| Other | 46 | 77 | 696 |
| Total other rental business revenues | 510 | 530 | 4,794 |
| Total rental business revenues | ¥ 7,472 | ¥ 7,788 | \$ 70,454 |
| Expenses related to rental business: | | | |
| Property management fees | ¥ 851 | ¥ 875 | \$ 7,915 |
| Utilities..... | 719 | 644 | 5,825 |
| Property-related taxes..... | 594 | 640 | 5,789 |
| Insurance | 11 | 9 | 81 |
| Repair and maintenance | 367 | 217 | 1,963 |
| Depreciation | 1,256 | 1,328 | 12,013 |
| Other | 77 | 70 | 633 |
| Total expenses related to rental business | ¥ 3,879 | ¥ 3,786 | \$ 34,250 |
| Operating income from property leasing activities..... | ¥ 3,593 | ¥ 4,002 | \$ 36,204 |

Note 15 – Income Taxes

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

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

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

| | For the six months ended | |
|------------------------------------|--------------------------|---------------|
| | December 31, 2017 | June 30, 2018 |
| | (Rate) | |
| Statutory tax rate..... | 31.74% | 31.74% |
| Deductible cash distributions..... | (31.73) | (31.71) |
| Other | 0.03 | 0.02 |
| Effective tax rate..... | 0.04% | 0.05% |

Deferred tax assets consist of the following:

| | As of | |
|--------------------------------------|----------------------|---|
| | December 31, 2017 | June 30, 2018 |
| | (in millions of yen) | |
| | | June 30, 2018 (in thousands of U.S. dollars) |
| Deferred tax assets: | | |
| Current: | | |
| Enterprise tax payable | ¥ 0 | ¥ 0 \$ 0 |
| Total..... | 0 | 0 |
| Net deferred tax assets | ¥ 0 | ¥ 0 \$ 0 |

Note 16 – Leases

(a) Lease Rental Revenues

The Company leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of December 31, 2017 and June 30, 2018 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

| | As of | |
|---------------------------|----------------------|---|
| | December 31, 2017 | June 30, 2018 |
| | (in millions of yen) | |
| | | June 30, 2018 (in thousands of U.S. dollars) |
| Due within one year | ¥ 4,107 | ¥ 3,746 \$ 33,888 |
| Due after one year | 10,996 | 9,631 87,126 |
| Total | ¥ 15,103 | ¥ 13,378 \$ 121,024 |

(b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of December 31, 2017 and June 30, 2018 are as follows:

| | As of | |
|---------------------------|----------------------|---|
| | December 31, 2017 | June 30, 2018 |
| | (in millions of yen) | |
| | | June 30, 2018 (in thousands of U.S. dollars) |
| Due within one year | ¥ 6 | ¥ 6 \$ 54 |
| Due after one year | 13 | 10 90 |
| Total | ¥ 19 | ¥ 16 \$ 144 |

Note 17 – Financial Instruments

(a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

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

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

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

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

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

(iii) Supplemental information on fair value of financial instruments

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

(b) Quantitative information for financial instruments

The following table shows the carrying amounts, fair value and valuation differences of financial instruments for which fair value is available as of December 31, 2017 and June 30, 2018.

| | December 31, 2017 | | | As of June 30, 2018 | | | June 30, 2018 | | |
|--|----------------------|------------------|--------------|------------------------|------------------|--------------|--------------------------------|---------------------|-----------------|
| | Carrying amounts | Fair value | Difference | Carrying amounts | Fair value | Difference | Carrying amounts | Fair value | Difference |
| | (in millions of yen) | | | | | | (in thousands of U.S. dollars) | | |
| Assets: | | | | | | | | | |
| (1) Cash and bank deposits..... | ¥ 11,031 | ¥ 11,031 | ¥ — | ¥ 11,789 | ¥ 11,789 | ¥ — | \$ 106,649 | \$ 106,649 | \$ — |
| (2) Cash and bank deposits in trust..... | 5,246 | 5,246 | — | 4,729 | 4,729 | — | 42,780 | 42,780 | — |
| Total assets..... | ¥ 16,278 | ¥ 16,278 | ¥ — | ¥ 16,518 | ¥ 16,518 | ¥ — | \$ 149,430 | \$ 149,430 | \$ — |
| Liabilities: | | | | | | | | | |
| (1) Current portion of long-term loans payable | ¥ 15,300 | ¥ 15,369 | ¥ 69 | ¥ 15,300 | ¥ 15,314 | ¥ 14 | \$ 138,411 | \$ 138,538 | \$ 126 |
| (2) Investment corporation bonds – unsecured | 6,000 | 6,000 | 0 | 8,000 | 8,006 | 6 | 72,371 | 72,426 | 54 |
| (3) Long-term loans payable.... | 83,675 | 84,390 | 715 | 92,675 | 93,371 | 696 | 838,384 | 844,680 | 6,296 |
| Total liabilities..... | ¥ 104,975 | ¥ 105,760 | ¥ 785 | ¥ 115,975 | ¥ 116,692 | ¥ 717 | \$ 1,049,167 | \$ 1,055,654 | \$ 6,486 |
| Derivative instruments..... | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | \$ — | \$ — | \$ — |

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

Assets

- (1) Cash and bank deposits and (2) Cash and bank deposits in trust
Because of their short maturities, the carrying amounts approximate their fair value.

Liabilities

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

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

- (2) Investment corporation bonds – unsecured

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

Derivative instruments

Please refer to “Note 18 - Derivative Instruments” for further information.

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

| | As of | | |
|---|----------------------|------------------|-----------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Investment securities..... | ¥ 5,085 | ¥ 5,085 | \$ 46,001 |
| Tenant leasehold and security deposits..... | 12,726 | 13,721 | 124,127 |
| Tenant leasehold and security deposits in trust | 164 | — | — |

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

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

| | Up to 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years |
|---------------------------------------|--------------------------------|-----------|-----------|-----------|-----------|--------------|
| | (in millions of yen) | | | | | |
| <i>As of December 31, 2017:</i> | | | | | | |
| Cash and bank deposits..... | ¥ 11,031 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Cash and bank deposits in trust | 5,246 | — | — | — | — | — |
| Total..... | ¥ 16,278 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| <i>As of June 30, 2018:</i> | | | | | | |
| Cash and bank deposits..... | ¥ 11,789 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Cash and bank deposits in trust | 4,729 | — | — | — | — | — |
| Total..... | ¥ 16,518 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| | Up to 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years |
| | (in thousands of U.S. dollars) | | | | | |
| <i>As of June 30, 2018:</i> | | | | | | |
| Cash and bank deposits..... | \$ 106,649 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Cash and bank deposits in trust | 42,780 | — | — | — | — | — |
| Total..... | \$ 149,430 | \$ — | \$ — | \$ — | \$ — | \$ — |

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

| | Up to 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years |
|--|--------------------------------|------------|------------|------------|-----------|--------------|
| | (in millions of yen) | | | | | |
| <i>As of December 31, 2017:</i> | | | | | | |
| Long-term loans payable..... | ¥ 15,300 | ¥ 15,200 | ¥ 22,850 | ¥ 14,250 | ¥ 9,900 | ¥ 21,475 |
| Investment corporation bonds – unsecured | — | — | — | 1,500 | 1,000 | 3,500 |
| <i>As of June 30, 2018:</i> | | | | | | |
| Long-term loans payable..... | ¥ 15,300 | ¥ 23,750 | ¥ 19,600 | ¥ 12,950 | ¥ 8,300 | ¥ 28,075 |
| Investment corporation bonds – unsecured | — | — | 1,500 | 1,000 | — | 5,500 |
| | Up to 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years |
| | (in thousands of U.S. dollars) | | | | | |
| <i>As of June 30, 2018:</i> | | | | | | |
| Long-term loans payable..... | \$ 138,411 | \$ 214,854 | \$ 177,311 | \$ 117,152 | \$ 75,085 | \$ 253,980 |
| Investment corporation bonds – unsecured | — | — | 13,569 | 9,046 | — | 49,755 |

Note 18 – Derivative Instruments

Information on derivative transactions undertaken by the Company as of December 31, 2017 and June 30, 2018 is as follows. Derivative instruments are used only for hedging purposes and subject to hedge accounting.

For the six months ended December 31, 2017:

| Method of hedge accounting | Type of derivatives | Hedged item | Notional amounts ⁽²⁾ | | Fair value ⁽¹⁾ |
|--|--|-------------------------|---------------------------------|-------------------------------------|---------------------------|
| | | | Total | Over 1 year (in millions of yen) | |
| Special treatment for hedge accounting of interest rate swaps ⁽¹⁾ | Interest rate swap (Floating-rate to fixed-rate interest) | Long-term loans payable | ¥ 31,100 | ¥ 26,300 | ¥ — |
| Total | | | ¥ 31,100 | ¥ 26,300 | ¥ — |

For the six months ended June 30, 2018:

| Method of hedge accounting | Type of derivatives | Hedged item | Notional amounts ⁽²⁾ | | Fair value ⁽¹⁾ | Notional amounts ⁽²⁾ | | Fair value ⁽¹⁾ |
|--|--|-------------------------|---------------------------------|-------------------------------------|---------------------------|---------------------------------|---|---------------------------|
| | | | Total | Over 1 year (in millions of yen) | | Total | Over 1 year (in thousands of U.S. dollars) | |
| Special treatment for hedge accounting of interest rate swaps ⁽¹⁾ | Interest rate swap (Floating-rate to fixed-rate interest) | Long-term loans payable | ¥ 31,100 | ¥ 26,300 | ¥ — | \$ 281,346 | \$ 237,922 | \$ — |
| Total | | | ¥ 31,100 | ¥ 26,300 | ¥ — | \$ 281,346 | \$ 237,922 | \$ — |

Notes:

- (1) As disclosed in “Note 2 Summary of Significant Accounting Policies (h) Hedge Accounting”, the Company applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under swap contracts, and not the fair value of the derivative, can be determined separately from hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instruments and the long-term loans payable as hedged items is calculated together as one and disclosed as such under Note (i) in “Note 17 Financial Instruments (b) Quantitative Information for financial instruments”.
- (2) The notional amounts do not represent the market risk exposure associated with the derivative instruments.

Note 19 – Related-Party Transactions

Information on related-party transactions for the six months ended December 31, 2017 and June 30, 2018 is as follows.

For the six months ended December 31, 2017:

Not applicable.

For the six months ended June 30, 2018:

Not applicable.

Note 20 – Per Unit Information

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

| | As of / For the six months ended | | |
|-------------------------------|----------------------------------|---------------|----------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (Yen) | | (U.S. dollars) |
| Net asset value per unit..... | ¥ 86,127 | ¥ 84,840 | \$ 767 |
| Net income per unit | 1,621 | 1,727 | 15 |

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

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

| | For the six months ended | | |
|---|--------------------------|-----------------|--------------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 |
| | (in millions of yen) | | (in thousands of U.S. dollars) |
| Net income | ¥ 2,405 | ¥ 2,767 | \$ 25,031 |
| Amount not attributable to common unitholders | — | — | — |
| Net income attributable to common unitholders | 2,405 | 2,767 | 25,031 |
| Weighted average number of units | 1,483,125 units | 1,602,373 units | |

Note 21 – Segment Information

Segment information for the six months ended December 31, 2017 and June 30, 2018 is as follows:

(a) Operating Segment Information

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

(b) Enterprise-wide Disclosures

(i) Information about Products and Services

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

(ii) Information about Geographic Areas

Revenues from Overseas Customers:

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

Tangible Fixed Assets:

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

(c) Information about Major Customers

| Name of Customer | Revenues for the six months ended | | | Related Segment |
|----------------------------|-----------------------------------|---------------|--------------------------------|--------------------------|
| | December 31, 2017 | June 30, 2018 | June 30, 2018 | |
| | (in millions of yen) | | (in thousands of U.S. dollars) | |
| Panasonic Corporation..... | ¥ 977 | ¥ 972 | \$ 8,793 | Property rental business |
| AEON Retail Co., Ltd. | 726 | 726 | 6,567 | Property rental business |

Note 22 – Subsequent events

(1) Acquisition of property

The Company acquired following property for the six months ending December 31, 2018.

| Name of property | Acquisition price (Note 1) | | Acquisition date |
|-----------------------|----------------------------|--------------------------------|--------------------|
| | (in millions of yen) | (in thousands of U.S. dollars) | |
| Yokohama i-land Tower | ¥ 22,100 | \$ 199,927 | September 14, 2018 |
| Total | ¥ 22,100 | \$ 199,927 | |

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

(2) Disposal of properties

The Company disposed (or decided to dispose) following properties for the six months ending December 31, 2018 and June 30, 2019.

| Name of property | Disposition price (or planned disposition price) (Note 1) | | Disposition price (or scheduled date of disposition) |
|-------------------------|---|--------------------------------|--|
| | (in millions of yen) | (in thousands of U.S. dollars) | |
| MID REIT Kyobashi Bldg. | ¥ 1,700 | \$ 15,379 | September 4, 2018 |
| Matsushita IMP Bldg. | 27,000 | 244,255 | 55% of quasi co-ownership September 5, 2018 45% of quasi co-ownership March 8, 2019 |
| Total | ¥ 28,700 | \$ 259,634 | |

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

(3) New debt financing

The Company obtained following debt financing for repayment of existing loans payable, or acquiring new property stated above.

| | Lender(s) | Amount outstanding | Debt term | Interest rate | Contract date | Borrowing date | Method of borrowing, repayment of principal | Maturity date |
|--------|--|---|-----------|---|-----------------|--------------------|--|------------------|
| Loan 1 | Mizuho Bank, Ltd. | ¥3,400 million (US\$30,758 thousand) | 10 years | Floating rate (JBA 3-month yen TIBOR) + 0.50% (Note 1), (Note 2) | July 26, 2018 | July 31, 2018 | Unsecured and unguaranteed, lump sum repayment | July 31, 2028 |
| Loan 2 | Aozora Bank, Ltd., Mizuho Trust & Banking Co., Ltd. | ¥1,500 million (US\$13,569 thousand) | 10 years | Fixed rate 1.01880% | | | | |
| Loan 3 | Sumitomo Mitsui Trust Bank, Limited | ¥2,900 million (US\$26,234 thousand) | 8 years | Floating rate (JBA 3-month yen TIBOR) + 0.45% (Note 1), (Note 2) | | | | July 31, 2026 |
| Loan 4 | MUFG Bank, Ltd. | ¥2,000 million (US\$18,092 thousand) | 8 years | Fixed rate 0.77000% | | | | |
| Loan 5 | Resona Bank, Limited | ¥800 million (US\$7,237 thousand) | 8 years | Fixed rate 0.83380% | | | | |
| Loan 6 | The Senshu Ikeda Bank, Ltd. The Nishi-Nippon City Bank, Ltd., The Hyakugo Bank, Ltd. | ¥1,800 million (US\$16,283 thousand) | 7 years | Fixed rate 0.74250% | | | | July 31, 2025 |
| Loan 7 | Sumitomo Mitsui Banking Corporation | ¥2,900 million (US\$26,234 thousand) | 4.5 years | Floating rate (JBA 3-month yen TIBOR) + 0.275% (Note 2) | August 20, 2018 | September 12, 2018 | | January 31, 2023 |
| Loan 8 | Mizuho Bank, Ltd. | ¥6,900 million (US\$62,420 thousand) | 0.6 years | Floating rate (JBA 1-month yen TIBOR) + 0.16% (Note 3) | | | | April 30, 2019 |

Note 1: The variable interest rate will be fixed at 0.92250% for Loan 1 and 0.77700% for Loan 3 with the interest-rate swap agreements.

Note 2: The base interest rate applied to the calculation period of Loan 1, 3 and 7 interests to be paid on the interest payment date will be the 3-month Japanese yen TIBOR on a day two business days prior to such interest payment date. If such calculation period is less than three months, the base interest rate will be calculated using the methodology stipulated in the loan agreement.

Note 3: The base interest rate applied to the calculation period of Loan 8 interests to be paid on the interest payment date will be the 1-month Japanese yen TIBOR on a day two business days prior to such interest payment date. If such calculation period is less than one month, the base interest rate will be calculated using the methodology stipulated in the loan agreement.