

**MCUBS MidCity Investment Corporation**

**The 27th fiscal period Asset Management Report**

**July 1, 2019 – December 31, 2019**



**MCUBS MidCity Investment Corporation**

# I. ASSET MANAGEMENT REPORT

## Outline of asset management operation

### 1. Operating results and financial position

Fiscal period		23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
As of /for the six months ended		December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019
Operating revenues	(Millions of yen)	7,610	7,924	10,798	10,279	8,569
(Rental business revenues)	(Millions of yen)	(7,472)	(7,788)	(8,369)	(8,179)	(8,406)
Operating expenses	(Millions of yen)	4,627	4,555	5,470	4,641	4,585
(Rental business expenses)	(Millions of yen)	(3,879)	(3,786)	(4,128)	(3,682)	(3,729)
Operating income	(Millions of yen)	2,983	3,368	5,327	5,638	3,983
Ordinary income	(Millions of yen)	2,400	2,769	4,621	4,994	3,389
Net income	(Millions of yen)	2,405	2,767	4,620	4,994	3,388
Total assets	(Millions of yen)	248,837	272,674	280,790	274,736	301,075
(Period-on-period change)	(%)	(0.0)	(9.6)	(3.0)	(-2.2)	(9.6)
Net assets	(Millions of yen)	127,737	139,404	141,257	142,070	156,027
(Period-on-period change)	(%)	(0.0)	(9.1)	(1.3)	(0.6)	(9.8)
Interest-bearing liabilities	(Note 1) (Millions of yen)	104,975	115,975	122,875	115,975	126,975
Unitholders' capital	(Millions of yen)	125,148	136,452	136,452	136,452	151,540
Number of units issued and outstanding	(Units)	296,625	1,643,125	1,643,125	1,643,125	1,784,125
Net asset value per unit	(Note 2) (Yen)	86,127	84,840	85,969	86,463	87,453
Total distributions	(Millions of yen)	2,405	2,767	4,181	4,520	3,487
Distribution per unit	(Yen)	8,110	1,684	2,545	2,751	1,955
(Profit distribution per unit)	(Yen)	(8,110)	(1,684)	(2,545)	(2,751)	(1,955)
(Distribution per unit in excess of profit)	(Yen)	(—)	(—)	(—)	(—)	(—)
Ratio of ordinary income to total assets	(Notes 3 and 4) (%)	1.0 (1.9)	1.1 (2.1)	1.7 (3.3)	1.8 (3.6)	1.2 (2.3)
Return on unitholders' equity	(Notes 3 and 5) (%)	1.9 (3.7)	2.1 (4.2)	3.3 (6.5)	3.5 (7.1)	2.3 (4.5)
Ratio of net assets to total assets	(Note 6) (%)	51.3	51.1	50.3	51.7	51.8
(Period-on-period change)	(%)	(0.0)	(-0.2)	(-0.8)	(1.4)	(0.1)
Ratio of interest-bearing liabilities to total assets	(Note 7) (%)	42.2	42.5	43.8	42.2	42.2
Payout ratio	(Note 8) (%)	100.0	100.0	90.5	90.5	102.9
Additional information:						
Number of investment properties	(Note 9) (Properties)	19	22	22	22	25
Total leasable area	(Note 10) (m <sup>2</sup> )	349,515.43	368,099.75	368,250.14	354,878.02	381,318.47
Number of tenants	(Note 11) (Tenants)	394	413	427	371	411
Occupancy ratio	(Note 12) (%)	97.0	98.1	98.5	99.4	98.6
Depreciation	(Millions of yen)	1,256	1,328	1,325	1,220	1,193
Capital expenditures	(Millions of yen)	817	597	582	750	1,235
Rental net operating income (NOI)	(Note 13) (Millions of yen)	4,850	5,330	5,566	5,716	5,872

- 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  $\text{Ordinary income} \div \{(\text{Total assets at beginning of period} + \text{Total assets at end of period}) \div 2\} \times 100$
- Note 5  $\text{Net income} \div (\text{Net assets at beginning of period} + \text{Net assets at end of period}) \div 2 \times 100$
- Note 6  $\text{Net assets at end of period} \div \text{Total assets at end of period} \times 100$
- Note 7  $\text{Interest-bearing liabilities at end of period} \div \text{Total assets at end of period} \times 100$
- Note 8  $\text{Distribution per unit} \div \text{net income per unit (not adjusted to reflect the Unit Split)} \times 100$   
Payout ratio for the 24th and the 27th fiscal period is calculated using the following formula because new investment units were issued.  
 $\text{Total distributions (excluding distributions in excess of profit)} \div \text{Net income} \times 100$   
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 (hereinafter "MCUBS MidCity") was established on June 1, 2006 under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereinafter the "Investment Trust Act"), and was listed on the Tokyo Stock Exchange, Inc.'s Real Estate Investment Trust Section (Securities Code: 3227) on August 29, 2006.

From a medium-to long-term perspective, MCUBS MidCity's basic policy is aim to secure stable revenues and steady growth of assets under management. MCUBS MidCity mainly invests in office properties, and invests in the three major metropolitan areas which are Tokyo metropolitan area (Tokyo, Kanagawa, Chiba, and Saitama Prefectures), Osaka metropolitan area (Osaka, Kyoto, and Hyogo Prefectures), and Nagoya metropolitan area (Aichi Prefecture), as its portfolio building policy.

Since MCUBS MidCity began investing in 9 properties in 2006 at a total acquisition price of ¥146,650 million, MCUBS MidCity has achieved steady growth in assets through continuous acquisition of properties. As of December 31, 2019, the portfolio of MCUBS MidCity was comprised of 26 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting of ¥287,629 million.

### (2) Management Results

In the fiscal period under review (27th fiscal period: July 1, 2019 to December 31, 2019), MCUBS MidCity issued new investment units and raised funds through new borrowings in November 2019 with the aim of continuing to increase unitholder value through aggressive initiatives undertaken to date. As a result, MCUBS MidCity newly acquired a total of 3 properties: East Square Tokyo (acquisition price: ¥9,500 million) and Hotel Vista Premio Tokyo (acquisition price: ¥11,200 million) located in the Tokyo area, and Osaka YM Bldg. (acquisition price: ¥6,310 million) located in the Osaka area. We are confident that we have been able to make carefully selected investments with strong focus on location, quality and profitability through exclusive negotiation. As of the end of the 27th fiscal period, MCUBS MidCity's portfolio was comprised 26 properties at a total acquisition price of ¥287,629 million. The investment ratio (based on the acquisition price) of which are distributed in terms of geographic region was 97.3% in the three major metropolitan areas (including 61.4% in the Tokyo area, 34.2% in the Osaka area, and 1.7% in the Nagoya area), 2.7% in other areas, and are distributed in terms of property type was 85.3% in office properties and 14.7% in others.

The occupancy rate at the end of the 27th fiscal period stood at 98.6% (99.4% at the end of the previous fiscal period),

as vacancy rates continued to decline and rent levels continued to rise moderately in the office leasing market, and as a result of the acquisition of 3 properties with value enhancement potential, including some vacancies. The total leasable area was 381,318.47 m<sup>2</sup>, and the number of tenants was 411.

MCUBS MidCity shares the view on sustainability, in particular ESG (Environment, Social and Governance) recently attracting attention, with the asset management company striving to respond to responsibility concerning the environment and society based on the “Environmental Charter” and the “Basic Policy on Responsible Real Estate Investment”, and proactively promotes such efforts together with the asset management Company. Regarding environmental issues in particular, we have also been participating in GRESB (Global Real Estate Sustainability Benchmark) and was designated as the highest ranking "Green Star" in the real estate evaluation for 4 consecutive years, and have also received 5-star evaluation in the "GRESB rating" (5-level evaluation) based on the relative evaluation. In addition, since December 2018, we have been included in the MSCI Japan ESG Select Leaders Index, and have received an ESG rating of "AA." In the 27th fiscal period, G-Square Shibuya Dogenzaka has received J-REIT's first certification for “CASBEE for Smart Wellness Office.” As of the end of the 27th fiscal period, 3 properties were certified under DBJ Green Building certification, 4 were certified under CASBEE for real estate certification, 5 were certified under BELS (Building-Housing Energy-efficiency Labeling System), and 2 were certified under Tokyo Low-Carbon Small and Medium-Sized Model Building.

### (3) Overview of Fund Procurement

#### (a) Issuance of New Investment Units

During the 27th fiscal period, MCUBS MidCity implemented additional issuance of new investment units through public offering with the payment date on November 19, 2019 (134,000 units) and through third-party allotment with the payment date of December 17, 2019 (7,000 units), to partly fund the new acquisition of 3 properties (total acquisition price: ¥27,010 million) made in November 2019. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 1,784,125 investment units.

#### (b) Debt Financing

In the 27th fiscal period, MCUBS MidCity borrowed a total of ¥15,200 million on July 31, 2019 to refinance. MCUBS MidCity has realized reduction of financial costs while further diversifying maturity dates and extending borrowing periods. In addition, as of November 21, 2019, MCUBS MidCity newly borrowed totaling ¥11,000 million to partly fund the new acquisition of 3 properties in November 2019. As of the end of the 27th fiscal period, MCUBS MidCity had borrowed ¥118,975 million from 19 financial institutions, and the outstanding amount of investment corporation bonds was ¥8,000 million. The ratio of interest-bearing debt to total assets (hereinafter referred to as "LTV") was 42.2%, the ratio of long-term debt was 100.0% (including long-term debt due within 1 year), and the ratio of fixed interest rates was 89.1% (including fixed interest rates under interest rate swap agreements).

On September 26, 2019, the R&I rating was upgraded from A to A+. The rating of the MCUBS MidCity as of the end of the 27th fiscal period was as follows:

Credit rating agencies	Issuer rating	Rating outlook
Japan Credit Rating Agency, Ltd. (JCR)	AA-	Stable
Rating and Investment Information, Inc. (R&I)	A+	Stable

#### (4) Overview of Business Performance and Distribution

As a result of the management described above, MCUBS MidCity recorded operating revenue of ¥8,569 million, operating income of ¥3,983 million, ordinary income of ¥3,389 million, and net income of ¥3,388 million.

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 all of unappropriated retained earnings after reversal of a portion of reserve for reduction entry of property amounting to ¥98 million. Accordingly, MCUBS MidCity declared distribution per unit of ¥1,995.

### 3. Changes in unitholders' capital

For the six months ended December 31, 2019, the Investment Corporation raised funds totaling of ¥15,088 million with issuance of 134,000 investment units through public offering in November 2019 and 7,000 investment units through allocation of investment units to a third party in December 2019. The outline of changes in unitholders' capital for last five years until December 31, 2019 was as follows:

Date	Capital transaction	Number of units issued and outstanding		Unitholders' capital (Millions of yen)		Note
		Increase	Balance	Increase	Balance	
April 22, 2015	Allocation of investment units to a third party	8,400	192,025	2,435	92,808	Note 1
July 29, 2015	Public offering	70,000	262,025	21,222	114,030	Note 2
August 17, 2015	Allocation of investment units to a third party	4,000	266,025	1,212	115,243	Note 3
February 28, 2017	Public offering	29,100	295,125	9,419	124,662	Note 4
March 27, 2017	Allocation of investment units to a third party	1,500	296,625	485	125,148	Note 5
January 1, 2018	Unit Split	1,186,500	1,483,125	—	125,148	Note 6
February 15, 2018	Public offering	152,000	1,635,125	10,738	135,887	Note 7
March 9, 2018	Allocation of investment units to a third party	8,000	1,643,125	565	136,452	Note 8
November 19, 2019	Public offering	134,000	1,777,125	14,339	150,791	Note 9
December 17, 2019	Allocation of investment units to a third party	7,000	1,784,125	749	151,540	Note 10

Note 1 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 2 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 3 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 4 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 5 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 6 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 7 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 8 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.

Note 9 New investment units were issued at a price of ¥110,760 per unit (subscription price of ¥107,011 per unit) through a public offering in order to raise funds for acquiring new property.

Note 10 New investment units were issued at a price of ¥107,011 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on November 19, 2019.

#### 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	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
As of /for the six months ended	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019
Highest price	397,500 Note 1 (76,200)	85,400	93,200	106,300	127,200
Lowest price	313,000 Note 1 (75,000)	73,300	77,300	84,900	102,500

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

In accordance with the distribution policy in the Investment Corporation's articles of incorporation, the Investment Corporation decided to distribute all of unappropriated retained earnings at the end of the period after reversal of reserve for reduction entry of property amounting to ¥98,616 thousand. As a result, cash distribution per unit for the six months ended December 31, 2019 amounted to ¥1,955.

Fiscal period	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
As of /for the six months ended	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019
Retained earnings at end of period (Thousands of yen)	2,405,786	2,768,133	4,621,836	4,995,350	3,389,348
Reversal of reserve for reduction entry of property (Thousands of yen)	—	—	—	—	98,616
Retained earnings carried forward (Thousands of yen)	157	1,111	440,083	475,113	—
Total cash distributions (Thousands of yen)	2,405,628	2,767,022	4,181,753	4,520,236	3,487,964
(Cash distribution per unit) (Yen)	(8,110)	(1,684)	(2,545)	(2,751)	(1,955)
Profit distributions (Thousands of yen)	2,405,628	2,767,022	4,181,753	4,520,236	3,487,964
(Profit distribution per unit) (Yen)	(8,110)	(1,684)	(2,545)	(2,751)	(1,955)
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

MCUBS MidCity aims to secure stable revenues and steady growth of assets under management as follows.

### (1) Internal growth strategy

MCUBS MidCity will formulate optimal medium-to long-term management strategies for each property and maximize cash flows based on these strategies.

In order to attract new tenants, MCUBS MidCity will work closely with property management contractors (hereinafter referred to as "property management companies") and office rental agencies to develop plans for attracting tenants tailored to the location and characteristics of each real estate under management, and steadily secure tenants by utilizing the unique routes owned by property management companies. Also, as follow-up activities for existing tenants, under the supervision of the asset management company, MCUBS MidCity collaborates with the property management company and the contractor for building management (hereinafter referred to as the "building management company") to create a database of tenants' requests, etc., conduct annual tenant satisfaction surveys, and actively exchange opinions

with tenants' managers, etc. In response, MCUBS MidCity provides solutions such as facility renovation to improve tenant satisfaction, and make proposals for appropriate floor expansion, etc., in a timely manner.

In addition, under the supervision of the asset management company, in order to maintain and improve the earnings and asset value of the assets under management in the medium to long term, MCUBS MidCity aim to minimize operation management costs while maintaining management quality by implementing lifecycle management in the operation management stage in collaboration with the property management company and the building management company.

## (2) External growth strategy

MCUBS MidCity will promote external growth in order to reduce investment management costs through the economies of scale and to reduce the risk of fluctuations in revenues through the effects of the portfolio, such as the diversification of investment assets. As a strategy for realizing external growth, MCUBS MidCity will pursue opportunities to acquire real estate based on information provided by the sponsor companies and group companies and its own network.

As for the targeted areas to be invested, MCUBS MidCity is considering the acquisition of investment assets with a focus on office properties in the three major metropolitan areas, and from the standpoint of securing more opportunities to acquire properties and diversifying 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. In addition, as for the investment target in terms of property type, although MCUBS MidCity invests primarily in office properties, from the viewpoint of securing more opportunities to acquire properties and diversifying investment, MCUBS MidCity's investment targets also include real estate other than office properties (however, no new investment will be made as to retail properties and industrial properties).

## (3) Financial strategy

With the aim of maintaining financial stability, MCUBS MidCity will continue its efforts to maintain conservative LTV levels, raise stable funds, diversify maturity dates for interest-bearing debt, and promote the participation of new lending financial institutions. In addition, MCUBS MidCity will respond to interest rate fluctuation risks by adopting fixed interest rates in accordance with interest rate trends.

## 6. Subsequent events

None.



# Outline of the Investment Corporation

## 1. Investment unit

Fiscal period	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
As of	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019
Number of units authorized (Units)	2,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Number of units issued and outstanding (Units)	296,625	1,643,125	1,643,125	1,643,125	1,784,125
Unitholders' capital (Millions of yen)	125,148	136,452	136,452	136,452	151,540
Number of unitholders (People)	11,604	12,157	13,094	12,883	12,715

## 2. Unitholders

Major unitholders as of December 31, 2019 were as follows:

Name	Number of units owned (Units)	Ratio of number of units owned to total number of units issued (Note) (%)
The Master Trust Bank of Japan, Ltd. Trust Account	345,091	19.34
Japan Trustee Services Bank, Ltd. Trust Account	214,188	12.00
The Nomura Trust and Banking Co., Ltd. Trust Account	84,983	4.76
Trust & Custody Services Bank, Ltd. Trust Account	49,981	2.80
Kanden Realty & Development Co., Ltd.	46,000	2.57
STATE STREET BANK WEST CLIENT - TREATY 505234	26,195	1.46
BNYM AS AGT/CLTS 10 PERCENT	23,292	1.30
Mitsubishi Corporation	21,000	1.17
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	18,939	1.06
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	18,907	1.05
Total	848,576	47.56

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

### 3. Officers

Officers, etc. as of December 31, 2019 were as follows:

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2019 (Thousands of yen)
Executive Director	Katsuhiro Tsuchiya	M&A Sogo Law Office (Attorney at Law)	3,180
Supervisory Director	Haruo Kitamura	Chief of KITAMURA & CO. (Certified public accountant)	3,000
	Osamu Ito	Partner of UNITED FUSO LAW OFFICE (Attorney at Law)	3,000
	Kyoko Nagata	Associate Professor of Tokyo Institute of Technology, School of Engineering	3,000
Independent auditor	KPMG AZSA LLC	—	(Note 3) 13,800

- 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 Katsura Matsuo, Head of Office Division of the Asset Manager of the Investment Corporation, was appointed as an alternate executive director for a vacancy of the executive director by the 8th General Meeting of Unitholders held on March 15, 2019.
- Note 3 The compensation for the independent auditor includes ¥2,300 thousand fees for non-audit-service prescribed under Article 2, paragraph 1 of the Certified Public Accountants Act of Japan (Act No.103 of 1948, as amended) 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 December 31, 2019 were as follows:

Classification	Name
Asset manager	Mitsubishi Corp. - UBS Realty 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 June 30, 2019		As of December 31, 2019	
				Total of net book value	Ratio to total assets	Total of net book value	Ratio to total assets
				(Note 1)	(Note 2)	(Note 1)	(Note 2)
				(Millions of yen)	(%)	(Millions of yen)	(%)
Trust beneficial interest in real property	Office Building	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	132,597	48.3	142,872	47.5
			Osaka metropolitan area (Note 3)	85,361	31.1	91,766	30.5
		Other areas		5,623	2.0	5,640	1.9
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 3)	23,500	8.6	35,071	11.6
			Osaka metropolitan area (Note 3)	2,339	0.9	2,320	0.8
		Other areas		2,081	0.8	2,062	0.7
	Sub-total			251,503	91.5	279,734	92.9
	Investments in Tokumei Kumiai agreement (Note 4)			5,085	1.9	5,085	1.7
Bank deposits and other assets			18,147	6.6	16,256	5.4	
Total assets			274,736	100.0	301,075	100.0	

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

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

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

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

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

## 2. Major property

The principal properties (top ten properties in net book value) as of December 31, 2019 were as follows:

Name of property	Net book value (Millions of yen)	Leasable area (Note 1) (m <sup>2</sup> )	Leased area (Note 2) (m <sup>2</sup> )	Occupancy ratio (Note 3) (%)	Ratio of rental revenue to total rental revenues (Note 4) (%)	Major use
Twin 21	65,808	82,304.83	80,790.13	98.2	28.8	Office
AEON MALL Tsudanuma	23,387	101,210.44	101,210.44	100.0	9.2	Retail facilities
Yokohama i-land Tower	23,346	25,460.50	25,460.50	100.0	8.5	Office
Cube Kawasaki	20,397	24,494.06	24,494.06	100.0	8.2	Office
Shibuya Sakuragaoka Square	17,304	6,379.66	6,379.66	100.0	4.4	Office
G-Square Shibuya Dogenzaka	12,125	5,049.36	5,049.36	100.0	3.8	Office
Hotel Vista Premio Tokyo	11,683	4,236.46	4,236.46	100.0	(Note 5)	Hotel
USC Bldg.	11,068	12,489.08	11,724.28	93.9	3.6	Office
Kitahama MID Bldg.	10,235	10,189.49	10,189.49	100.0	3.6	Office
East Square Tokyo	9,916	12,208.42	9,888.58	81.0	0.7	Office
Total	205,274	284,022.30	279,422.96	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 December 31, 2019.

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 December 31, 2019.

Note 3 “Occupancy ratio” is presented as percentage figures, which are obtained by dividing the leased area as of December 31, 2019 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 December 31, 2019 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	8,710	7,522	
			G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	16,500	12,125	
			Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	19,500	17,304	
			Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	8,400	6,991	
			Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	23,300	20,397	
			Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	3,190	2,837	
			Sasazuka Center Bldg.	2-1-6 Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,360	9,056	
			USC Bldg.	4-11-38 Toyo, Koto-ku, Tokyo	Trust beneficial interest	11,500	11,068	
			Yoshiyasu Kanda Bldg.	2-1-15, Iwamotocho, Chiyoda-ku, Tokyo	Trust beneficial interest	4,280	4,203	
			TOYOTA MOBILITY SERVICE Bldg.	2-12-4, Nihombashi Hamacho, Chuo-ku, Tokyo	Trust beneficial interest	10,500	9,601	
			M-City Akasaka 1-chome Bldg.	1-11-28, Akasaka, Minato-ku, Tokyo	Trust beneficial interest	4,470	4,368	
			Yokohama i-land Tower	6-50-1, Honmachi, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	23,900	23,346	
			M-City Edogawabashi Bldg.	1-44-10, Sekiguchi, Bunkyo-ku, Tokyo	Trust beneficial interest	4,240	4,131	
			East Square Tokyo	1-6-35, Shinsuna, Koto-ku, Tokyo	Trust beneficial interest	10,200	9,916	
		Osaka metropolitan area	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	61,400	65,808	
			MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	2,590	3,060	
			Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	11,100	10,235	
			MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	2,570	3,316	
			Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	4,070	2,756	
			Osaka YM Bldg.	7-15-26, Fukushima, Fukushima-ku, Osaka-shi	Trust beneficial interest	7,650	6,589	
	Other area		Sendai Capital Tower	4-10-3 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficial interest	6,900	5,640	
	Sub total						254,330	240,279
	Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	29,200	23,387
Hotel Vista Premio Tokyo				4-3-2, Akasaka, Minato-ku, Tokyo	Trust beneficial interest	12,000	11,683	
Osaka metropolitan area			Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	3,440	2,320	
Other area		Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	4,600	2,062		
Sub total						49,240	39,454	
Total						303,570	279,734	

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

Note 2 "Appraisal value at end of period" shows the value as of December 31, 2019 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 June 30, 2019 and December 31, 2019 were as follows:

Investment category	Investment Area		Name of property	For the six months ended							
				June 30, 2019				December 31, 2019			
				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	283,662	3.7	9	100.0	298,626	3.8
			Shibuya Sakuragaoka Square	4	100.0	345,226	4.5	4	100.0	344,655	4.4
			Yokohama Creation Square	42	98.2	317,103	4.1	43	100.0	350,613	4.5
			Cube Kawasaki	10	100.0	658,774	8.6	10	100.0	642,757	8.2
			Higashi-Nihombashi Green Bldg.	7	100.0	82,487	1.1	7	100.0	83,858	1.1
			Sasazuka Center Bldg.	9	100.0	255,969	3.3	9	100.0	271,297	3.4
			USC Bldg.	9	93.9	283,869	3.7	9	93.9	283,863	3.6
			Yoshiyasu Kanda Bldg.	6	100.0	101,204	1.3	7	100.0	98,963	1.3
			TOYOTA MOBILITY SERVICE Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
			M-City Akasaka 1-chome Bldg.	12	100.0	76,813	1.0	12	100.0	90,474	1.1
			Yokohama i-land Tower	7	100.0	653,376	8.5	7	100.0	666,640	8.5
			M-City Edogawabashi Bldg.	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)
			East Square Tokyo	—	—	—	—	13	81.0	58,706	0.7
		Osaka metropolitan area	Twin 21	110	99.2	2,224,711	28.9	109	98.2	2,270,201	28.8
			Matsushita IMP Bldg. (Note 7)	—	—	152,897	2.0	—	—	—	—
			MID Imabashi Bldg.	21	100.0	94,350	1.2	21	100.0	95,784	1.2
			Kitahama MID Bldg.	11	100.0	281,429	3.7	11	100.0	281,370	3.6
			MID Nishihommachi Bldg.	18	100.0	85,483	1.1	18	100.0	86,873	1.1
			Higobashi MID Bldg.	12	100.0	112,624	1.5	12	100.0	113,437	1.4
			Osaka YM Bldg.	—	—	—	—	25	100.0	44,725	0.6
	Other area	Sendai Capital Tower	76	95.8	248,216	3.2	74	93.0	261,851	3.3	
	Sub total			367	99.1	—	—	405	97.9	—	—
Other	Three major metropolitan areas	Tokyo metropolitan area	AEON MALL Tsudanuma	1	100.0	726,000	9.4	1	100.0	726,000	9.2
			Hotel Vista Premio Tokyo	—	—	—	—	2	100.0	(Note 6)	(Note 6)
		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	—	—	6	100.0	—	—
Total			371	99.4	7,693,769	100.0	411	98.6	7,869,468	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., M-City Edogawabashi Bldg., Hotel Vista Premio Tokyo, 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 disposed 55% of co-quasi ownership in Matsushita IMP Bldg. on September 5, 2018 and disposed remaining 45% of trust beneficial interest in the property on March 8, 2019.
- 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 December 31, 2019 were as follows:

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

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

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

## 5. Details of specified transaction

The details of specified transaction as of December 31, 2019 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)	31,600,000	20,300,000	(194,765)
Total		31,600,000	20,300,000	(194,765)

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

## 6. Other assets

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

## 7. Investment assets by country or area

There is no investment asset other than Japan.

## Capital expenditures for property

### 1. Schedule of capital expenditures

The significant plan for capital expenditures on property maintenance as of December 31, 2019 was as below. The amounts of estimated cost shown in the below table can be including expenses which will be charged to income.

Name of property	Location	Purpose	Scheduled term for construction or maintenance	Estimated cost (Millions of yen)		
				Total	Payment for the six months ended December 31, 2019	Total of advanced payment
Cube Kawasaki	Kawasaki-ku, Kawasaki-shi	Renewal of heat system	September 2019 to January 2020	238	—	—
Twin 21	Chuo-ku, Osaka-shi	Partial renewal of elevator	March 2020 to October, 2020	182	—	—
Yokohama i-land Tower	Naka-ku, Yokohama-shi	Repair of smoking area	April 2020 to June 2020	101	—	—
AEON MALL Tsudanuma	Narashino-shi, Chiba	Renewal of chiller unit	May 2020 to December 2020	95	—	—
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioning system at standard floor	August 2020 to November 2020	82	—	—

### 2. Capital expenditures for the six months ended December 31, 2019

Maintenance expenditures on property for the six months ended December 31, 2019 were totaling to ¥1,511 million consisting of ¥1,235 million of capital expenditures stated as below and ¥275 million of repair and maintenance expenses charged to income.

Name of property	Location	Purpose	Term for construction or maintenance	Capital expenditures (Millions of yen)
Yokohama i-land Tower	Naka-ku, Yokohama-shi	Renewal of security system at common area of high-rise tower	May 2019 to December 2019	541
Twin 21	Chuo-ku, Osaka-shi	Renewal of drainage pipe	August 2019 to December 2019	70
Twin 21	Chuo-ku, Osaka-shi	Repair of park avenue	October 2019 to December 2019	63
Twin 21	Chuo-ku, Osaka-shi	Repair of air conditioning system at standard floor	December 2018 to August 2019	62
Yokohama i-land Tower	Naka-ku, Yokohama-shi	Renewal of security system at common area	May 2019 to December 2019	49
Other properties, etc.	—	Other capital expenditures	—	447
Total				1,235

### 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	23 <sup>rd</sup>	24 <sup>th</sup>	25 <sup>th</sup>	26 <sup>th</sup>	27 <sup>th</sup>
As of /for the six months ended	December 31, 2017	June 30, 2018	December 31, 2018	June 30, 2019	December 31, 2019
Reserved funds at beginning of period	1,539	1,581	389	—	—
Increase	817	298	12	—	—
Decrease	775	1,490	401	—	—
Reserved funds at end of period	1,581	389	—	—	—

Note The Investment Corporation had decided not to reserve funds for future expenditures on maintenance based on a long-term maintenance plan from the 25<sup>th</sup> fiscal period.



## Condition of expenses and liabilities

### 1. Details of asset management expenses

(Thousands of yen)

Fiscal period	26 <sup>th</sup>	27 <sup>th</sup>
For the six months ended	June 30, 2019	December 31, 2019
(a) Asset management fees	824,956	727,860
(b) Asset custody fees	5,970	6,001
(c) Administrative service fees	37,283	36,559
(d) Directors' compensations	11,020	12,180
(e) Independent auditor fees	11,500	11,500
(f) Other operating expenses	67,632	62,518
Total	958,363	856,618

Note The amount of asset management fees for the six months ended June 30, 2019 does not include ¥40,700 thousand of asset management fees related to acquisition capitalized as part of the acquisition cost of properties and ¥121,500 thousand of asset management fees related to disposal charged to income as expenses relating to sales of properties. Also, the amount of asset management fees for the six months ended December 31, 2019 does not include ¥270,100 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
East Square Tokyo	November 20, 2019	9,500	—	—	—	—
Osaka YM Bldg.	November 20, 2019	6,310	—	—	—	—
Hotel Vista Premio Tokyo	November 22, 2019	11,200	—	—	—	—
Total	—	27,010	—	—	—	—

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

### 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	East Square Tokyo	November 20, 2019	9,500	10,200	Tanizawa Sōgō Appraisal Co., Ltd.	October 1, 2019
	Trust beneficial interest	Osaka YM Bldg.	November 20, 2019	6,310	7,060	Japan Real Estate Institute	October 1, 2019
	Trust beneficial interest	Hotel Vista Premio Tokyo	November 22, 2019	11,200	12,000	Tanizawa Sōgō Appraisal Co., Ltd.	August 1, 2019
	Total			27,010	29,260	—	—

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

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

#### (2) Asset backed securities

None

#### (3) Other transaction

None

#### **4. Transactions with interested parties**

(1) Outline of transactions

None

(2) Amounts of fees paid and other expenses

None

#### **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 December 31, 2019 was as follows:

Approval day	Item	Summary
November 5, 2019	Underwriting agreements of new investment units	In connection with the 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.

### 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 December 31, 2019 and June 30, 2019, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for the six months ended December 31, 2019 and June 30, 2019 and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of MCUBS MidCity Investment Corporation as at December 31, 2019 and June 30, 2019, and their financial performance and cash flows for the six months ended December 31, 2019 and June 30, 2019 in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying financial statements with respect to the six months ended December 31, 2019 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

March 26, 2020  
Tokyo, Japan

**MCUBS MIDCITY INVESTMENT CORPORATION**  
**BALANCE SHEETS**  
**As of June 30, 2019 and December 31, 2019**

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits (Notes 3 and 19) .....	¥ 12,862	¥ 8,882	\$ 81,069
Cash and bank deposits in trust (Notes 3 and 19) .....	4,337	5,554	50,693
Rental receivables.....	172	222	2,026
Accounts receivable – other.....	—	10	91
Income taxes receivable.....	32	32	292
Consumption tax refundable.....	—	620	5,658
Prepaid expenses .....	47	59	538
<b>Total current assets .....</b>	<b>17,452</b>	<b>15,381</b>	<b>140,388</b>
<b>Noncurrent assets:</b>			
<b>Property and equipment, at cost (Notes 5 and 7):</b>			
Buildings in trust (Note 4) .....	75,054	80,383	733,689
Structures in trust.....	188	258	2,354
Machinery and equipment in trust .....	4	4	36
Tools, furniture and fixtures in trust (Note 4) .....	516	520	4,746
Land in trust .....	195,353	219,361	2,002,199
Construction in progress in trust.....	27	29	264
<b>Total property and equipment.....</b>	<b>271,144</b>	<b>300,556</b>	<b>2,743,300</b>
Less: Accumulated depreciation.....	19,614	20,793	189,786
<b>Total net property and equipment.....</b>	<b>251,530</b>	<b>279,763</b>	<b>2,553,514</b>
<b>Intangible assets (Note 6):</b>			
Software .....	2	2	18
Other .....	—	0	0
<b>Total intangible assets.....</b>	<b>2</b>	<b>2</b>	<b>18</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 8 and 19) .....	5,085	5,085	46,412
Lease and guarantee deposits.....	10	10	91
Long-term prepaid expenses.....	557	703	6,416
Deferred tax assets (Note 17) .....	0	0	0
<b>Total investments and other assets.....</b>	<b>5,652</b>	<b>5,798</b>	<b>52,920</b>
<b>Total noncurrent assets .....</b>	<b>257,185</b>	<b>285,564</b>	<b>2,606,462</b>
<b>Deferred charges:</b>			
Investment corporation bonds issuance costs .....	56	51	465
Investment unit issuance costs.....	41	78	711
<b>Total deferred charges .....</b>	<b>98</b>	<b>129</b>	<b>1,177</b>
<b>TOTAL ASSETS.....</b>	<b>¥ 274,736</b>	<b>¥ 301,075</b>	<b>\$ 2,748,037</b>

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

**MCUBS MIDCITY INVESTMENT CORPORATION**  
**BALANCE SHEETS**  
**As of June 30, 2019 and December 31, 2019**

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Operating accounts payable .....	¥ 365	¥ 514	\$ 4,691
Current portion of long-term loans payable (Notes 9 and 19) .....	23,750	22,850	208,561
Accounts payable .....	1,179	1,868	17,050
Accrued expenses .....	152	147	1,341
Distribution payable .....	12	11	100
Consumption taxes payable .....	507	—	—
Advances received .....	1,159	1,285	11,728
Other .....	605	656	5,987
<b>Total current liabilities .....</b>	<b>27,733</b>	<b>27,334</b>	<b>249,488</b>
<b>Noncurrent liabilities:</b>			
Investment corporation bonds – unsecured (Notes 11 and 19) .....	8,000	8,000	73,019
Long-term loans payable (Notes 9 and 19) .....	84,225	96,125	877,373
Tenant leasehold and security deposits (Note 19) .....	12,706	13,589	124,032
<b>Total noncurrent liabilities .....</b>	<b>104,931</b>	<b>117,714</b>	<b>1,074,424</b>
<b>TOTAL LIABILITIES .....</b>	<b>132,665</b>	<b>145,048</b>	<b>1,323,913</b>
<b>NET ASSETS (Note 12)</b>			
<b>Unitholders' equity:</b>			
Unitholders' capital, 10,000,000 units authorized; 1,643,125 units as of June 30, 2019 and 1,784,125 units as of December 31, 2019 issued and outstanding .....	136,452	151,540	1,383,169
Surplus:			
Voluntary reserve			
Reserve for reduction entry of property .....	622	1,097	10,012
Total voluntary reserve .....	622	1,097	10,012
Retained earnings .....	4,995	3,389	30,932
Total surplus .....	5,618	4,486	40,945
<b>Total unitholders' equity .....</b>	<b>142,070</b>	<b>156,027</b>	<b>1,424,123</b>
<b>TOTAL NET ASSETS .....</b>	<b>142,070</b>	<b>156,027</b>	<b>1,424,123</b>
<b>TOTAL LIABILITIES AND NET ASSETS .....</b>	<b>¥ 274,736</b>	<b>¥ 301,075</b>	<b>\$ 2,748,037</b>

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

**MCUBS MIDCITY INVESTMENT CORPORATION**  
**STATEMENTS OF INCOME AND RETAINED EARNINGS**  
**For the six months ended June 30, 2019 and December 31, 2019**

	For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>Operating revenues</b>			
Rent revenues—real estate (Note 14) .....	¥ 7,693	¥ 7,869	\$ 71,823
Other rental business revenues (Note 14) .....	485	536	4,892
Dividends income .....	161	162	1,478
Gain on sales of property and equipment (Note 15).....	1,938	—	—
<b>Total operating revenues</b> .....	<b>10,279</b>	<b>8,569</b>	<b>78,212</b>
<b>Operating expenses</b>			
Expenses related to rental business (Note 14).....	3,682	3,729	34,036
Asset management fees .....	824	727	6,635
Asset custody fees .....	5	6	54
Administrative service fees.....	37	36	328
Directors' compensations.....	11	12	109
Other.....	79	74	675
<b>Total operating expenses</b> .....	<b>4,641</b>	<b>4,585</b>	<b>41,849</b>
<b>Operating income</b> .....	<b>5,638</b>	<b>3,983</b>	<b>36,354</b>
<b>Non-operating income</b>			
Interest income .....	0	0	0
Reversal of distribution payable .....	1	0	0
Interest on refund.....	0	0	0
Settlement money for property tax. ....	0	—	—
Gain on donation of noncurrent assets (Note 16).....	—	0	0
Other.....	0	—	—
<b>Total non-operating income</b> .....	<b>2</b>	<b>1</b>	<b>9</b>
<b>Non-operating expenses</b>			
Interest expenses.....	423	421	3,842
Interest expenses on investment corporation bonds .....	22	22	200
Borrowing related expenses.....	130	126	1,150
Amortization of investment corporation bonds issuance costs	5	5	45
Amortization of investment unit issuance costs .....	17	19	173
Other.....	46	0	0
<b>Total non-operating expenses</b> .....	<b>646</b>	<b>595</b>	<b>5,430</b>
<b>Ordinary income</b> .....	<b>4,994</b>	<b>3,389</b>	<b>30,932</b>
<b>Extraordinary gain</b>			
Subsidy income .....	0	—	—
<b>Total extraordinary gain</b> .....	<b>0</b>	<b>—</b>	<b>—</b>
<b>Income before income taxes</b> .....	<b>4,994</b>	<b>3,389</b>	<b>30,932</b>
Income taxes (Note 17):			
Current .....	0	0	0
Deferred .....	0	0	0
<b>Total income taxes</b> .....	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net income</b> .....	<b>4,994</b>	<b>3,388</b>	<b>30,923</b>
<b>Retained earnings brought forward</b> .....	<b>1</b>	<b>0</b>	<b>0</b>
<b>Unappropriated retained earnings (Note 13)</b> .....	<b>¥ 4,995</b>	<b>¥ 3,389</b>	<b>\$ 30,932</b>

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



**MCUBS MIDCITY INVESTMENT CORPORATION**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
For the six months ended June 30, 2019 and December 31, 2019

	Unitholders' equity						
	Surplus					Total unitholders' equity	Total net assets
	Unitholders' capital	Voluntary reserve		Retained earnings (in millions of yen)	Total surplus		
		Reserve for reduction entry of property	Total voluntary reserve				
Balance as of December 31, 2018 .....	¥ 136,452	¥ 183	¥ 183	¥ 4,621	¥ 4,805	¥ 141,257	¥ 141,257
<u>Changes during the period</u>							
Provision of reserve for reduction entry of property .	—	439	439	(439)	—	—	—
Dividends from surplus.....	—	—	—	(4,181)	(4,181)	(4,181)	(4,181)
Net income .....	—	—	—	4,994	4,994	4,994	4,994
Total changes during the period.....	—	439	439	373	812	812	812
Balance as of June 30, 2019 .....	¥ 136,452	¥ 622	¥ 622	¥ 4,995	¥ 5,618	¥ 142,070	¥ 142,070
<u>Changes during the period</u>							
Issuance of new investment units.....	15,088	—	—	—	—	15,088	15,088
Provision of reserve for reduction entry of property .	—	474	474	(474)	—	—	—
Dividends from surplus.....	—	—	—	(4,520)	(4,520)	(4,520)	(4,520)
Net income .....	—	—	—	3,388	3,388	3,388	3,388
Total changes during the period.....	15,088	474	474	(1,606)	(1,131)	13,957	13,957
Balance as of December 31, 2019 .....	¥ 151,540	¥ 1,097	¥ 1,097	¥ 3,389	¥ 4,486	¥ 156,027	¥ 156,027

	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 June 30, 2019 .....	\$ 1,245,454	\$ 5,677	\$ 5,677	\$ 45,591	\$ 51,277	\$ 1,296,732	\$ 1,296,732
<u>Changes during the period</u>							
Issuance of new investment units.....	137,714	—	—	—	—	137,714	137,714
Provision of reserve for reduction entry of property .	—	4,326	4,326	(4,326)	—	—	—
Dividends from surplus.....	—	—	—	(41,255)	(41,255)	(41,255)	(41,255)
Net income .....	—	—	—	30,923	30,923	30,923	30,923
<u>Total changes during the period</u> .....	137,714	4,326	4,326	(14,658)	(10,323)	127,391	127,391
Balance as of December 31, 2019 .....	\$ 1,383,169	\$ 10,012	\$ 10,012	\$ 30,932	\$ 40,945	\$ 1,424,123	\$ 1,424,123

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

**MCUBS MIDCITY INVESTMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**For the six months ended June 30, 2019 and December 31, 2019**

	For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>Cash flows from operating activities:</b>			
Income before income taxes.....	¥ 4,994	¥ 3,389	\$ 30,932
Depreciation and amortization .....	1,220	1,193	10,889
Amortization of long-term prepaid expenses .....	102	93	848
Amortization of investment unit issuance costs .....	17	19	173
Amortization of investment corporation bonds issuance costs.....	5	5	45
Interest income.....	(0)	(0)	(0)
Interest expenses .....	446	443	4,043
Gain on donation of noncurrent assets .....	—	(0)	(0)
Loss on retirement of noncurrent assets .....	—	1	9
Changes in assets and liabilities:			
Decrease (increase) in operating accounts receivable.....	7	(49)	(447)
Decrease (increase) in consumption taxes refundable.....	—	(620)	(5,658)
Increase (decrease) in consumption taxes payable .....	378	(507)	(4,627)
Increase (decrease) in operating accounts payable .....	(215)	149	1,359
Increase (decrease) in accounts payable .....	45	21	191
Increase (decrease) in advances received .....	57	126	1,150
Decrease (increase) in prepaid expenses .....	20	(11)	(100)
Payments of long-term prepaid expenses.....	(14)	(238)	(2,172)
Decrease in property and equipment in trust due to disposition .....	9,934	—	—
Other, net.....	(30)	21	191
Subtotal.....	16,971	4,034	36,820
Interest income received.....	0	0	0
Interest expenses paid.....	(437)	(448)	(4,089)
Income taxes paid.....	(0)	(0)	(0)
Net cash provided by operating activities .....	16,534	3,585	32,721
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment in trust .....	(4,882)	(28,789)	(262,769)
Purchases of intangible assets .....	(0)	—	—
Proceeds from tenant leasehold and security deposits.....	555	1,185	10,815
Proceeds from tenant leasehold and security deposits in trust.....	24	—	—
Payments of tenant leasehold and security deposits .....	(204)	(288)	(2,628)
Payments of tenant leasehold and security deposits in trust .....	(713)	—	—
Proceeds from restricted bank deposits in trust .....	713	—	—
Payments for restricted bank deposits in trust .....	(24)	—	—
Net cash used in investing activities .....	(4,532)	(27,892)	(254,581)
<b>Cash flows from financing activities:</b>			
Repayments of short-term loans payable .....	(6,900)	—	—
Proceeds from long-term loans payable .....	—	26,200	239,138
Repayments of long-term loans payable .....	—	(15,200)	(138,736)
Proceeds from issuance of investment units.....	—	15,064	137,495
Dividends paid .....	(4,180)	(4,520)	(41,255)
Net cash provided by (used in) financing activities .....	(11,080)	21,544	196,641
<b>Net change in cash and cash equivalents .....</b>	<b>921</b>	<b>(2,763)</b>	<b>(25,219)</b>
<b>Cash and cash equivalents at the beginning of period.....</b>	<b>16,277</b>	<b>17,199</b>	<b>156,982</b>
<b>Cash and cash equivalents at the end of period (Note 3).....</b>	<b>¥ 17,199</b>	<b>¥ 14,436</b>	<b>\$ 131,763</b>

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

**MCUBS MIDCITY INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the six months ended June 30, 2019 and December 31, 2019**

**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, Mitsubishi Corp.- UBS Realty Inc. (formerly: MCUBS MidCity Inc.) (the “Asset Manager”). Although the Asset Manager had been owned by Mitsubishi Corp. - UBS Realty Inc. and Kanden Realty & Development Co., Ltd., Kanden Realty & Development Co., Ltd. sold all shares of MCUBS MidCity Inc. to Mitsubishi Corp.- UBS Realty Inc. On April 1. Also, an absorption-type merger has been conducted with MCUBS MidCity Inc. as the dissolving company and Mitsubishi Corp.- UBS Realty Inc. as the surviving company, on July 1, 2019.

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 27th fiscal period (December 31, 2019) amounted to ¥287.6 billion (US\$2,625 million) (the total acquisition price of 26 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 ¥109.56 = US\$1, the effective rate of exchange prevailing at December 31, 2019. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended December 31, 2019 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.

Taxes on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥13 million and ¥15 million (US\$136 thousand) for the six months ended June 30, 2019 and December 31, 2019.

**(n) Revenue Recognition**

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

**Note 3 – Cash and Cash Equivalents**

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

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Cash and bank deposits.....	¥ 12,862	¥ 8,882	\$ 81,069
Cash and bank deposits in trust .....	4,337	5,554	50,693
Cash and cash equivalents.....	¥ 17,199	¥ 14,436	\$ 131,763

**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		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Reduction entry by:			
Government subsidies received			
Buildings in trust .....	¥ 54	¥ 54	\$ 492
Tools, furniture and fixtures in trust.....	7	3	27
Insurance income			
Buildings in trust .....	68	68	620

## Note 5 – Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended June 30, 2019 and December 31, 2019, respectively.

### For the six months ended June 30, 2019:

	At cost			Ending balance (in millions of yen)	Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease				
Buildings in trust .....	¥ 80,908	¥ 1,200	¥ 7,054	¥ 75,054	¥ 19,219	¥ 1,198	¥ 55,834
Structures in trust.....	116	91	19	188	28	3	160
Machinery and equipment in trust .....	5	—	1	4	2	0	2
Tools, furniture and fixtures in trust .....	563	16	63	516	364	18	152
Land in trust .....	197,324	3,695	5,666	195,353	—	—	195,353
Construction in progress in trust ...	22	5	0	27	—	—	27
Total .....	¥ 278,941	¥ 5,008	¥ 12,805	¥ 271,144	¥ 19,614	¥ 1,220	¥ 251,530

### For the six months ended December 31, 2019:

	At cost			Ending balance (in millions of yen)	Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease				
Buildings in trust <sup>(1)</sup> .....	¥ 75,054	¥ 5,344	¥ 15	¥ 80,383	¥ 20,375	¥ 1,169	¥ 60,008
Structures in trust.....	188	69	—	258	34	5	224
Machinery and equipment in trust .....	4	—	—	4	2	0	1
Tools, furniture and fixtures in trust .....	516	4	—	520	381	17	138
Land in trust <sup>(1)</sup> .....	195,353	24,008	—	219,361	—	—	219,361
Construction in progress in trust ...	27	3	1	29	—	—	29
Total .....	¥ 271,144	¥ 29,429	¥ 17	¥ 300,556	¥ 20,793	¥ 1,193	¥ 279,763

	At cost			Ending balance (in thousands of U.S. dollars)	Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease				
Buildings in trust <sup>(1)</sup> .....	\$ 685,049	\$ 48,776	\$ 136	\$ 733,689	\$ 185,971	\$ 10,669	\$ 547,718
Structures in trust.....	1,715	629	—	2,354	310	45	2,044
Machinery and equipment in trust .....	36	—	—	36	18	0	9
Tools, furniture and fixtures in trust .....	4,709	36	—	4,746	3,477	155	1,259
Land in trust <sup>(1)</sup> .....	1,783,068	219,131	—	2,002,199	—	—	2,002,199
Construction in progress in trust ...	246	27	9	264	—	—	264
Total .....	\$ 2,474,844	\$ 268,610	\$ 155	\$ 2,743,300	\$ 189,786	\$ 10,889	\$ 2,553,514

Note:

- (1) Changes in the net book value for the six months ended December 31, 2019 are mainly due to the acquisitions of East Square Tokyo (¥9,905 million, US\$ 90,407 thousand), Osaka YM Bldg. (¥6,593 million, US\$60,177 thousand) and Hotel Vista Premio Tokyo (¥11,691 million, US\$106,708 thousand).

## Note 6 – Intangible Assets

The following tables show the summary of movement in intangible assets for the six months ended June 30, 2019 and December 31, 2019, respectively.

### For the six months ended June 30, 2019:

	At cost			Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease			
	(in millions of yen)					
Software .....	¥ 6	¥ 0	¥ —	¥ 4	¥ 0	¥ 2
Total .....	¥ 6	¥ 0	¥ —	¥ 4	¥ 0	¥ 2

### For the six months ended December 31, 2019:

	At cost			Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease			
	(in millions of yen)					
Software .....	¥ 6	¥ —	¥ —	¥ 4	¥ 0	¥ 2
Other .....	—	0	—	—	—	0
Total .....	¥ 6	¥ 0	¥ —	¥ 4	¥ 0	¥ 2

	At cost			Accumulated amortization	Amortization for the period	Net intangible assets
	Beginning balance	Increase	Decrease			
	(in thousands of U.S. dollars)					
Software .....	\$ 54	\$ —	\$ —	\$ 36	\$ 0	\$ 18
Other .....	—	0	—	—	—	0
Total .....	\$ 54	\$ 0	\$ —	\$ 36	\$ 0	\$ 18

## Note 7 – Fair Value of Investment and Rental Properties

The following table shows the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended June 30, 2019 and December 31, 2019.

	As of / For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>Net book value</b>			
Balance at the beginning of the period .....	¥ 257,654	¥ 251,503	\$ 2,295,573
Net increase (decrease) during the period <sup>(1)</sup> .....	(6,150)	28,231	257,676
Balance at the end of the period .....	¥ 251,503	¥ 279,734	\$ 2,553,249
<b>Fair value<sup>(2)</sup> .....</b>	267,940	303,570	2,770,810

Notes:

(1) For the six months ended June 30, 2019:

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

		Increase (decrease) in net book value (in millions of yen)
Acquisition:	M-City Edogawabashi Bldg.	¥ 4,135
Disposition:	Matsushita IMP Bldg.	(9,934)

For the six months ended December 31, 2019:

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

		Increase (decrease) in net book value (in millions of yen)	(in thousands of U.S. dollars)
Acquisitions:	East Square Tokyo	¥ 9,905	\$ 90,407
	Osaka YM Bldg.	6,593	60,177
	Hotel Vista Premio Tokyo	11,691	106,708

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

For rental revenues and expenses for the six months ended June 30, 2019 and December 31, 2019, please refer to “Note 14 - Rental Business Revenues and Expenses.”

## Note 8 – Investments in Tokumei Kumiai

The Company invests in real estate properties by entering into TK agreements as a Tokumei Kumiai investor (“TK investor”) with Japanese special purpose companies known as Tokumei Kumiai operators (“TK operators”), which are the property holding entities. Such TK transactions are a common method of investing and holding real estate properties in Japan. The relationship between the TK operators and the TK investors is governed by TK agreements, whereby the TK investors provide funds to the TK operators in return for the prorated portion of the income derived from the investments in properties held by the TK operators. Information on investments in TK as of June 30, 2019 and December 31, 2019 is as follows:

### As of June 30, 2019:

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

### As of December 31, 2019:

Name of TK operator	Carrying amounts	The value of TK <sup>(1)</sup>	Unrealized gains (or losses)	Carrying amounts	The value of TK <sup>(1)</sup>	Unrealized gains (or losses)
	(in millions of yen)			(in thousands of U.S. dollars)		
R40 Godo Kaisha <sup>(2)</sup> .....	¥ 5,085	¥ 5,085	¥ —	\$ 46,412	\$ 46,412	\$ —
Total .....	¥ 5,085	¥ 5,085	¥ —	\$ 46,412	\$ 46,412	\$ —

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 June 30, 2019 and December 31, 2019.

Classification	Borrowing date	Maturity date	Average interest rate <sup>(1)</sup>	Balance as of		
				June 30, 2019	December 31, 2019	December 31, 2019
				(in millions of yen)		(in thousands of U.S. dollars)
Long-term	July 31, 2012	July 31, 2019	(Note 3) 1.524	¥ 1,700	¥ —	\$ —
loans payable	July 31, 2013	July 31, 2020	(Note 3) 1.709	1,800	(Note 5) 1,800	16,429
	July 31, 2014	July 31, 2019	(Note 2) 0.962	4,000	—	—
	July 31, 2014	July 31, 2020	(Note 2) 1.240	2,000	(Note 5) 2,000	18,254
	July 31, 2014	July 31, 2021	(Note 3) 1.478	1,800	1,800	16,429
	July 31, 2015	July 31, 2019	0.567	9,500	—	—
	July 31, 2015	July 31, 2021	(Note 2) 1.034	4,500	4,500	41,073
	July 31, 2015	July 31, 2023	(Note 2) 1.384	1,000	1,000	9,127
	July 31, 2015	July 31, 2020	(Note 2) 0.865	9,300	(Note 5) 9,300	84,884
	July 31, 2015	July 31, 2020	(Note 3) 0.908	1,200	(Note 5) 1,200	10,952
	July 31, 2015	July 31, 2022	(Note 2) 1.202	2,200	2,200	20,080
	July 31, 2015	July 31, 2022	(Note 3) 1.233	800	800	7,301
	July 31, 2015	July 31, 2023	(Note 2) 1.384	500	500	4,563
	July 31, 2015	July 31, 2023	(Note 3) 1.400	500	500	4,563
	April 28, 2016	April 30, 2021	(Note 2) 0.498	2,800	2,800	25,556
	July 29, 2016	January 31, 2020	0.377	3,700	(Note 5) 3,700	33,771
	July 29, 2016	January 31, 2020	(Note 3) 0.373	2,250	(Note 5) 2,250	20,536
	July 29, 2016	January 31, 2020	(Note 3) 0.373	2,600	(Note 5) 2,600	23,731
	July 29, 2016	January 31, 2021	(Note 3) 0.451	2,500	2,500	22,818
	July 29, 2016	July 31, 2021	(Note 3) 0.494	2,650	2,650	24,187
	July 29, 2016	July 31, 2024	(Note 3) 0.735	4,700	4,700	42,898
	January 31, 2017	January 31, 2022	(Note 3) 0.647	4,000	4,000	36,509
	January 31, 2017	January 31, 2024	(Note 3) 0.809	4,000	4,000	36,509
	July 31, 2017	July 31, 2023	(Note 3) 0.680	1,900	1,900	17,342
	July 31, 2017	July 31, 2023	(Note 3) 0.688	1,000	1,000	9,127
	July 31, 2017	July 31, 2025	(Note 3) 0.856	3,975	3,975	36,281
	July 31, 2017	July 31, 2027	(Note 3) 1.040	3,900	3,900	35,596
	July 31, 2017	July 29, 2022	(Note 3) 0.524	2,900	2,900	26,469
	February 28, 2018	February 28, 2023	0.367	2,400	2,400	21,905
	February 28, 2018	February 28, 2025	(Note 3) 0.640	1,200	1,200	10,952
	February 28, 2018	February 28, 2025	(Note 3) 0.719	2,700	2,700	24,644
	February 28, 2018	February 27, 2026	(Note 3) 0.800	2,700	2,700	24,644
	July 31, 2018	July 31, 2028	(Note 2) 0.923	3,400	3,400	31,033
	July 31, 2018	July 31, 2028	(Note 3) 1.019	1,500	1,500	13,691
	July 31, 2018	July 31, 2026	(Note 2) 0.777	2,900	2,900	26,469
	July 31, 2018	July 31, 2026	(Note 3) 0.770	2,000	2,000	18,254
	July 31, 2018	July 31, 2026	(Note 3) 0.834	800	800	7,301
	July 31, 2018	July 31, 2025	(Note 3) 0.743	1,800	1,800	16,429
	July 31, 2018	January 31, 2023	0.342	2,900	2,900	26,469
	July 31, 2019	July 31, 2029	(Note 3) 0.724	—	2,900	26,469
	July 31, 2019	January 31, 2029	(Note 3) 0.675	—	1,050	9,583
	July 31, 2019	January 31, 2028	(Note 3) 0.604	—	3,400	31,033
	July 31, 2019	July 30, 2027	(Note 2) 0.488	—	1,000	9,127
	July 31, 2019	January 29, 2027	(Note 3) 0.528	—	4,000	36,509
	July 31, 2019	July 31, 2026	(Note 3) 0.490	—	900	8,214
	July 31, 2019	January 31, 2025	0.392	—	1,950	17,798
November 21, 2019	November 21, 2029	(Note 3) 0.758	—	1,700	15,516	
November 21, 2019	November 21, 2029	(Note 3) 0.780	—	1,300	11,865	
November 21, 2019	May 21, 2029	(Note 3) 0.719	—	3,100	28,294	
November 21, 2019	May 21, 2026	(Note 2) 0.441	—	2,000	18,254	
November 21, 2019	May 21, 2024	0.327	—	2,000	18,254	
November 21, 2019	November 21, 2023	0.317	—	900	8,214	
Long-term loans payable total .....				107,975	118,975	1,085,934
Loans payable total .....				¥ 107,975	¥ 118,975	\$ 1,085,934

### 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) The use of proceeds was acquisition of trust beneficiary interest in real estate, etc.
- (5) Current portion of these term loans is shown as current portion of long-term loans payable in the balance sheets.

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

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year.....	¥ 23,750	¥ 22,850	\$ 208,561
1-2 years.....	19,600	14,250	130,065
2-3 years.....	12,950	9,900	90,361
3-4 years.....	11,200	11,100	101,314
4-5 years.....	8,900	10,700	97,663

## Note 10 – Commitment line

As of June 30, 2019 and December 31, 2019, 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		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Total amount of committed lines of credit.....	¥ 15,000	¥ 15,000	\$ 136,911
Borrowings drawn down .....	—	—	—
Unused committed lines of credit.....	¥ 15,000	¥ 15,000	\$ 136,911

## Note 11 – Investment Corporation Bonds

The details of the unsecured investment corporation bonds issued and outstanding as of June 30, 2019 and December 31, 2019 are as follows:

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(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	\$ 13,691
¥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	13,691
¥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	9,127
¥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	18,254
¥2 billion of 10-year bonds, issued on May 29, 2018, maturing on May 29, 2028			
with a coupon of 0.590%.....	2,000	2,000	18,254
Total .....	¥ 8,000	¥ 8,000	\$ 73,019

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

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Up to 1 year.....	¥ —	¥ —	\$ —
1-2 years.....	1,500	1,500	13,691
2-3 years.....	1,000	1,000	9,127
3-4 years.....	—	—	—
4-5 years.....	—	—	—

## 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\$456 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of units issued and outstanding are 1,643,125 units and 1,784,125 units as of June 30, 2019 and December 31, 2019, respectively.

## Note 13 – Appropriation of Retained Earnings

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

The following table shows the appropriation of retained earnings for the six months ended June 30, 2019 and December 31, 2019, respectively.

	For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Unappropriated retained earnings .....	¥ 4,995	¥ 3,389	\$ 30,932
Reversal of reserve for reduction entry of property.....	—	98	894
Cash distribution declared .....	(4,520)	(3,487)	(31,827)
Provision of reserve for reduction entry of property .....	(474)	—	—
Retained earnings carried forward .....	¥ 0	¥ —	\$ —

For the year ended June 30, 2019, the Company transferred ¥474 million to provision of reserve for reduction entry of property from unappropriated retained earnings of ¥4,995 million at the end of the period.

For the year ended December 31, 2019, the Company reversed ¥98 million (US\$894 thousand) of reserve for reduction entry of property.

Cash distributions per investment unit are ¥2,751 and ¥1,955 (US\$17) for the six months ended June 30, 2019 and December 31, 2019, respectively.

## Note 14 – Rental Business Revenues and Expenses

Revenues and expenses related to property rental business for the six months ended June 30, 2019 and December 31, 2019 consist of the following:

	For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>Rental business revenues:</b>			
Rent revenues—real estate:			
Rental revenues .....	¥ 6,212	¥ 6,387	\$ 58,296
Common area charges .....	1,282	1,283	11,710
Parking lots .....	199	198	1,807
Total rent revenues—real estate.....	7,693	7,869	71,823
Other rental business revenues:			
Utilities.....	415	451	4,116
Cancellation penalty .....	—	4	36
Other .....	70	81	739
Total other rental business revenues .....	485	536	4,892
Total rental business revenues .....	¥ 8,179	¥ 8,406	\$ 76,725
<b>Expenses related to rental business:</b>			
Property management fees .....	¥ 867	¥ 872	\$ 7,959
Utilities .....	595	630	5,750
Property-related taxes .....	665	679	6,197
Insurance .....	8	8	73
Repair and maintenance .....	268	275	2,510
Depreciation .....	1,220	1,193	10,889
Loss on retirement of noncurrent assets.....	—	1	9
Other .....	57	68	620
Total expenses related to rental business .....	¥ 3,682	¥ 3,729	\$ 34,036
<b>Operating income from property leasing activities.....</b>	<b>¥ 4,496</b>	<b>¥ 4,677</b>	<b>\$ 42,688</b>

## Note 15 – Analysis of Gain on Sales of Property and Equipment

Analysis of gain on sales of property and equipment for the six months ended June 30, 2019 is as follows:

	For the six months ended	
	June 30, 2019	
	Matsushita IMP Bldg.	
	(in millions of yen)	
Sale of property and equipment .....	¥ 12,150	
Cost of property and equipment .....	(9,934)	
Other sales expenses .....	(276)	
Gain on sales of property and equipment, net .....	¥ 1,938	

## Note 16 – Gain on Donation of Noncurrent Assets

Gain on donation of noncurrent assets for the six months ended December 31, 2019 was recognized due to a transfer of carbon credits.

## Note 17 – Income Taxes

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

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

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

	For the six months ended	
	June 30, 2019	December 31, 2019
	(Rate)	
Statutory tax rate.....	31.51 %	31.51 %
Deductible cash distributions.....	(28.52)	(32.43)
Provision of reserve for reduction entry of property .....	(2.99)	—
Reversal of reserve for reduction entry of property .....	—	0.92
Other .....	0.01	0.02
Effective tax rate.....	0.01 %	0.02 %

Deferred tax assets consist of the following:

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
<b>Deferred tax assets:</b>			
Noncurrent:			
Enterprise tax payable .....	¥ 0	¥ 0	\$ 0
Total.....	0	0	0
<b>Net deferred tax assets .....</b>	<b>¥ 0</b>	<b>¥ 0</b>	<b>\$ 0</b>

## Note 18 – Leases

### (a) Lease Rental Revenues

The Company leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of June 30, 2019 and December 31, 2019 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

	June 30, 2019	As of December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Due within one year .....	¥ 4,427	¥ 4,467	\$ 40,772
Due after one year .....	7,252	6,583	60,085
Total .....	¥ 11,680	¥ 11,051	\$ 100,867

### (b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of June 30, 2019 and December 31, 2019 are as follows:

	June 30, 2019	As of December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Due within one year .....	¥ 6	¥ 6	\$ 54
Due after one year .....	4	1	9
Total .....	¥ 10	¥ 7	\$ 63

## Note 19 – Financial Instruments

### (a) Qualitative information for financial instruments

#### (i) Policy for financial instrument transactions

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

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

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

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

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

#### (iii) Supplemental information on fair value of financial instruments

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

### (b) Quantitative information for financial instruments

The following table shows the carrying amounts, fair value and valuation differences of financial instruments for which fair value is available as of June 30, 2019 and December 31, 2019.

	June 30, 2019			As of December 31, 2019			December 31, 2019		
	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)		
<b>Assets:</b>									
(1) Cash and bank deposits.....	¥ 12,862	¥ 12,862	¥ —	¥ 8,882	¥ 8,882	¥ —	\$ 81,069	\$ 81,069	\$ —
(2) Cash and bank deposits in trust.....	4,337	4,337	—	5,554	5,554	—	50,693	50,693	—
<b>Total assets.....</b>	<b>¥ 17,199</b>	<b>¥ 17,199</b>	<b>¥ —</b>	<b>¥ 14,436</b>	<b>¥ 14,436</b>	<b>¥ —</b>	<b>\$ 131,763</b>	<b>\$ 131,763</b>	<b>\$ —</b>
<b>Liabilities:</b>									
(1) Current portion of long-term loans payable.....	¥ 23,750	¥ 23,772	¥ 22	¥ 22,850	¥ 22,943	¥ 93	\$ 208,561	\$ 209,410	\$ 848
(2) Investment corporation bonds – unsecured.....	8,000	8,038	38	8,000	7,975	(24)	73,019	72,791	(219)
(3) Long-term loans payable...	84,225	85,641	1,416	96,125	97,029	904	877,373	885,624	8,251
<b>Total liabilities.....</b>	<b>¥ 115,975</b>	<b>¥ 117,453</b>	<b>¥ 1,478</b>	<b>¥ 126,975</b>	<b>¥ 127,949</b>	<b>¥ 974</b>	<b>\$ 1,158,953</b>	<b>\$ 1,167,844</b>	<b>\$ 8,890</b>
<b>Derivative instruments.....</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

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 20 - Derivative Instruments” for further information.

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

	As of		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Investment securities.....	¥ 5,085	¥ 5,085	\$ 46,412
Tenant leasehold and security deposits.....	12,706	13,589	124,032

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 June 30, 2019:</i>						
Cash and bank deposits.....	¥ 12,862	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust .....	4,337	—	—	—	—	—
Total.....	¥ 17,199	¥ —	¥ —	¥ —	¥ —	¥ —
<i>As of December 31, 2019:</i>						
Cash and bank deposits.....	¥ 8,882	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and bank deposits in trust .....	5,554	—	—	—	—	—
Total.....	¥ 14,436	¥ —	¥ —	¥ —	¥ —	¥ —
	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 December 31, 2019:</i>						
Cash and bank deposits.....	\$ 81,069	\$ —	\$ —	\$ —	\$ —	\$ —
Cash and bank deposits in trust .....	50,693	—	—	—	—	—
Total.....	\$ 131,763	\$ —	\$ —	\$ —	\$ —	\$ —

Note (iv): Cash flows 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 June 30, 2019:</i>						
Long-term loans payable.....	¥ 23,750	¥ 19,600	¥ 12,950	¥ 11,200	¥ 8,900	¥ 31,575
Investment corporation bonds – unsecured .....	—	1,500	1,000	—	—	5,500
<i>As of December 31, 2019:</i>						
Long-term loans payable.....	¥ 22,850	¥ 14,250	¥ 9,900	¥ 11,100	¥ 10,700	¥ 50,175
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 December 31, 2019:</i>						
Long-term loans payable.....	\$ 208,561	\$ 130,065	\$ 90,361	\$ 101,314	\$ 97,663	\$ 457,968
Investment corporation bonds – unsecured .....	—	13,691	9,127	—	—	50,200



## Note 20 – Derivative Instruments

Information on derivative transactions undertaken by the Company as of June 30, 2019 and December 31, 2019 is as follows. Derivative instruments are used only for hedging purposes and subject to hedge accounting.

### For the six months ended June 30, 2019:

Method of hedge accounting	Type of derivatives	Hedged item	Notional amounts <sup>(2)</sup>		Fair value <sup>(1)</sup>
			Total	Over 1 year (in millions of yen)	
Special treatment for hedge accounting of interest rate swaps <sup>(1)</sup>	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 32,600	¥ 28,600	¥ —
Total .....			¥ 32,600	¥ 28,600	¥ —

### For the six months ended December 31, 2019:

Method of hedge accounting	Type of derivatives	Hedged item	Notional amounts <sup>(2)</sup>		Fair value <sup>(1)</sup>	Notional amounts <sup>(2)</sup>		Fair value <sup>(1)</sup>
			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 <sup>(1)</sup>	Interest rate swap (Floating-rate to fixed-rate interest)	Long-term loans payable	¥ 31,600	¥ 20,300	¥ —	\$ 288,426	\$ 185,286	\$ —
Total .....			¥ 31,600	¥ 20,300	¥ —	\$ 288,426	\$ 185,286	\$ —

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 19 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 21 – Related-Party Transactions

Information on related-party transactions for the six months ended June 30, 2019 and December 31, 2019 is as follows.

### For the six months ended June 30, 2019:

Not applicable.

### For the six months ended December 31, 2019:

Not applicable.

## Note 22 – Per Unit Information

Following table shows the net asset value per unit as of June 30, 2019 and December 31, 2019 and net income per unit for the six months then ended.

	As of / For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(Yen)		(U.S. dollars)
Net asset value per unit.....	¥ 86,463	¥ 87,453	\$ 798
Net income per unit .....	3,039	2,023	18

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. The Company has no dilutive units.

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

	For the six months ended		
	June 30, 2019	December 31, 2019	December 31, 2019
	(in millions of yen)		(in thousands of U.S. dollars)
Net income .....	¥ 4,994	¥ 3,388	\$ 30,923
Amount not attributable to common unitholders .....	—	—	—
Net income attributable to common unitholders .....	4,994	3,388	30,923
Weighted average number of units .....	1,643,125 units	1,675,011 units	

## Note 23 – Segment Information

Segment information for the six months ended June 30, 2019 and December 31, 2019 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

For the six months ended June 30, 2019:

Name of Customer	Revenues (in millions of yen)	Related Segment
Panasonic Corporation.....	¥ 1,052	Property rental business

For the six months ended December 31, 2019:

Name of Customer	Revenues (in millions of yen)	Revenues (in thousands of U.S. dollars)	Related Segment
Panasonic Corporation.....	¥ 1,049	\$ 9,574	Property rental business

**Note 24 – Subsequent events**

Not Applicable.