

## Translation

# MCUBS MIDCITY INVESTMENT CORPORATION SUMMARY OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

August 20, 2018

Name of issuer: MUCBS MidCity Investment Corporation  
("the Investment Corporation")  
Stock exchange listing: Tokyo Stock Exchange  
Securities code: 3227  
Website: <http://www.midcity-reit.com/>  
Representative of the Investment Corporation: Katsuhiko Tsuchiya, Executive Director  
Name of asset manager: MCUBS MidCity Inc.  
Representative of the asset manager: Toyota Watanabe, President & CEO & Representative Director  
Contact: Naoki Suzuki, Deputy President & Representative Director  
Tel: (03)5293-4150  
Scheduled date for filing of securities report: September 27, 2018  
Scheduled date for distributions payment: September 21, 2018  
Supplementary materials for financial results: Otherwise prepared  
Analyst meeting: Scheduled

(Amounts of less than one million yen are rounded down)

## 1. Financial results for the six months ended June 30, 2018 (January 1, 2018 to June 30, 2018)

### (1) Operating results

(Percentages show period-on-period changes)

	Operating revenues		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the six months ended								
June 30, 2018	7,924	4.1	3,368	12.9	2,769	15.3	2,767	15.1
December 31, 2017	7,610	(5.2)	2,983	(5.3)	2,400	(5.0)	2,405	(4.8)

	Net income per unit	Return on unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
	Yen	%	%	%
For the six months ended				
June 30, 2018	1,727	2.1	1.1	34.9
December 31, 2017	1,621	1.9	1.0	31.5

Note: 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 income per unit for the six months ended December 31, 2017 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 July 1, 2017.

### (2) Distributions

	Distributions (excluding distributions in excess of profit)		Distributions in excess of profit		Payout ratio	Ratio of distributions to net assets
	Per unit	Total	Per unit	Total		
For the six months ended						
June 30, 2018	1,684	2,767	0	0	100.0	2.0
December 31, 2017	8,110	2,405	0	0	100.0	1.9

Note 1: Payout ratio for the six months ended June 30, 2018 is calculated by following formula because new investment units were issued.

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

Payout ratio for the six months ended December 31, 2017 is calculated by following formula.

Payout ratio = Distribution per unit ÷ net income per unit (not adjusted to reflect the Unit Split) × 100

Note 2: Distributions per unit for the six months ended December 31, 2017 shown in the above table (2) differ from net income per unit for the period then ended shown in the above table (1) because net income per unit for the period is calculated as pro forma information which has been adjusted to reflect the Unit Split as if it had been effective on July 1, 2017.

### (3) Financial position

	Total assets	Net assets	Ratio of net assets to total assets	Net asset value per unit
	Millions of yen	Millions of yen	%	Yen
As of				
June 30, 2018	272,674	139,404	51.1	84,840
December 31, 2017	248,837	127,737	51.3	86,127

Note: 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 July 1, 2017.

#### (4) Cash flows

	Net cash provided by (used in)			Cash and cash equivalents at end of period
	Operating activities	Investing activities	Financing activities	
For the six months ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2018	3,691	(23,114)	19,828	16,518
December 31, 2017	3,993	(821)	(2,341)	16,113

## 2. Outlook for the six months ending December 31, 2018 (July 1, 2018 to December 31, 2018) and June 30, 2019 (January 1, 2019 to June 30, 2019)

(Percentages show period-on-period changes)

	Operating revenues		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the six months ending								
December 31, 2018	10,780	36.0	5,281	56.8	4,577	65.3	4,576	65.4
June 30, 2019	10,205	△5.3	5,480	3.8	4,840	5.7	4,839	5.7

	Net income per unit		Distributions per unit (excluding distributions in excess of profit)		Distributions in excess of profit per unit	
	Yen		Yen		Yen	
For the six months ending						
December 31, 2018	2,785		2,520		0	
June 30, 2019	2,945		2,665		0	

Note: For the six months ending December 31, 2018, distributions per unit differ from net income per unit because the Investment Corporation will reserve ¥434 million from distributable profit. For the six months ending June 30, 2019, distributions per unit differ from net income per unit because the Investment Corporation will reserve ¥459 million from distributable profit.

### 3. Others

- (1) Changes in accounting policies and accounting estimates or restatements  
 Changes in accounting policies due to accounting standards revision: None  
 Changes in accounting policies due to other reasons: None  
 Changes in accounting estimates: None  
 Restatements: None

(2) Number of units issued

Number of units issued at end of period (including treasury units):

As of June 30, 2018 1,643,125 units

As of December 31, 2017 296,625 units

Number of treasury units at end of period:

As of June 30, 2018 0 unit

As of December 31, 2017 0 unit

Note: For the number of unit as a basis of calculation of net income per unit, please refer to per unit information on page 26.

#### Forward-looking Statements and Other Notes

Forward-looking statements in this presentation are based on the information currently available and certain assumptions we believe reasonable. Actual results may differ materially from the forward-looking statements in this presentation due to various factors. Furthermore, those statements do not guarantee the amount of future distributions.

For further information and assumptions regarding the forward-looking statements, please refer to "2. Management policy and results of operation, (2) Results of operation, ② Outlook of next fiscal period, (b) Outlook of business" on page 8.

## 1. Summary of related corporations of the Investment Corporation

Disclosure is omitted as there are no significant changes from the “Structure of the investment corporation” presented in the most recent yuka shoken hokokusho (securities report) (submitted on March 29, 2018).

## 2. Management policy and results of operation

### (1) Management policy

Disclosure is omitted because there are no significant changes from the “Investment Policy,” “Investment Target” and “Distribution Policy” presented in the most recent yuka shoken hokokusho (securities report) (submitted on March 29, 2018).

### (2) Results of operation

#### ① Overview of fiscal period under review

##### (a) Brief background to MCUBS MidCity

MCUBS MidCity Investment Corporation (hereafter “MCUBS MidCity”) was established by MCUBS MidCity Inc. (hereafter, the “Asset Management Company”) on June 1, 2006 under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereafter, the “Investment Trusts Act”), and listed on the Tokyo Stock Exchange, Inc.’s Real Estate Investment Trust Section (Securities Code: 3227) on August 29, 2006.

During the fiscal period under review (24th fiscal period: January 1, 2018 to June 30, 2018), MCUBS MidCity acquired four properties (total acquisition price: ¥23,205 million; of which, one is an additional acquisition to an existing property) with funds procured through issuance of new investment units in February 2018 and new borrowings. As of the end of the fiscal period under review (June 30, 2018), the portfolio of MCUBS MidCity was comprised of 23 properties (including silent partnership interests backed by Nagoya Lucent Tower; the same shall apply hereinafter) with the total acquisition prices amounting to ¥261,349 million.

MCUBS MidCity conducts asset management under the portfolio building policy of focusing on office properties and investments in the three major metropolitan areas, which are the Tokyo metropolitan area (Tokyo, Kanagawa, Chiba and Saitama Prefectures), Osaka metropolitan area (Osaka, Kyoto and Hyogo Prefectures) and Nagoya metropolitan area (Aichi Prefecture) (the same shall apply hereinafter).

##### (b) Investment environment and management performance

###### (i) Investment environment

In the 24th fiscal period, GDP for the January to March 2018 period saw negative growth for the first time in nine quarters against the backdrop of sluggish personal consumption, decline in housing investment and other factors. However, as most view this was a temporary economic slowdown caused by special factors such as a decrease in purchase due to price hike of perishable food and dairy items and unusual weather, the economy is expected to continue to be generally brisk, backed by the continuation of exports and improvement in the employment/income environment due to mild recovery of the global economy going forward.

In the real estate investment market, the transaction price continues to be on an upward trend with ongoing more active transactions against the backdrop of favorable fund procurement environment. According to the Ministry of Land, Infrastructure, Transport and Tourism’s Land Value LOOK Report for the first quarter (January 1 to April 1) of 2018, the land price of intensively used land of major cities in Japan increased in 91 of the 100 districts, remained flat in 9 districts and decreased in none of the districts. Accordingly, the land price trend continues to be on an upward trend.

In the office leasing market, improvement in vacancy rate and the upward trend of rent level are continuing. Although we intend to carefully keep an eye on the impact from new supply of large-scale buildings in Tokyo, there are many buildings scheduled for completion with tenants informally contracted as well as needs for floor expansion and relocation due to improvement in corporate earnings, increase in the number of employees, work-style reform, etc. Therefore, demand for office floors is expected to remain solid and it is unlikely that there will be any significant negative turn in the supply-demand situation.

The J-REIT market remained strong from the beginning of the 24th fiscal period starting at the TSE REIT index of 1,665 points against the backdrop of J-REIT's favorable fundamentals as well as low and stable long-term interest rate environment to end at 1,764 points at the end of the fiscal period. Furthermore, despite continuous expectation for a rise in interest rates in Europe and the U.S. due to the anticipated policy rate hikes in the U.S., etc., the interest rate in Japan is expected to remain at a low level with the continuation of the loose monetary policy by the Bank of Japan. We will continue to pay close attention to the monetary policy and financial market going forward.

(ii) Asset management performance

<Investment performance>

During the 24th fiscal period, in order to portfolio management enhancement aiming for continuous growth as a new growth stage, MCUBS MidCity newly acquired a total of four properties (Yoshiyasu Kanda Bldg. (acquisition price: ¥4,000 million) and USC Bldg. (additional acquisition) (acquisition price: ¥5,800 million) in February 2018; and TOYOTA MOBILITY SERVICE Bldg. (former name: SSP Bldg.) (acquisition price: ¥9,200 million) and M-City Akasaka 1-chome Bldg. (acquisition price: ¥4,205 million) in March) with proceeds from issuance of new investment units in February 2018 combined with funds procured from new borrowings. Among them, TOYOTA MOBILITY SERVICE Bldg. was acquired through exclusive negotiation based on CRE proposal<sup>(Note)</sup> utilizing the sponsor network, and USC Bldg. (additional acquisition) was acquired through exclusive negotiation by exercising preferential negotiation rights, utilizing the pipeline. In applying various acquisition methods like this, MCUBS MidCity has avoided excessive acquisition competition even under the heated real estate transaction market.

As a result, MCUBS MidCity's portfolio as of the end of the 24th fiscal period was comprised of 23 properties, the investment ratios (based on acquisition price) of which are distributed in terms of geographic region with 97.0% (of which Tokyo metropolitan area accounting for 49.6%, Osaka metropolitan area 45.5% and Nagoya metropolitan area 1.9%) in the three major metropolitan areas and 3.0% in other areas, and are distributed in terms of property type with 88.1% being office buildings and 11.9% being others.

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

<Performance of management of portfolio assets>

MCUBS MidCity has closely worked together with sponsor companies, property management companies and office leasing brokers, creating tenant attraction plans for each property that match the respective location and characteristics. Furthermore, it has strived to maintain and enhance occupancy rates and rents by promoting the heightening of tenant satisfaction levels in seeking to attract new tenants and making its relationship of trust with existing tenants even stronger.

In the 24th fiscal period, amid an environment showing recovery in office demand continuing on from the previous fiscal period, there were active tenant movements for reasons of integration of offices and improvement of location. Although there were some tenant exits, a high occupancy rate of 98.1%, surpassing that at the end of the previous fiscal period (97.0%), was maintained at the end of the fiscal period under review, as a result of the aforementioned measures.

(c) Overview of fund procurement

(i) Issuance of new investment units

During the 24th fiscal period, MCUBS MidCity implemented additional issuance of new investment units through public offering with the payment date on February 15, 2018 (152,000 units) and through third-party allotment with the payment date of March 9, 2018 (8,000 units), to partly fund the new acquisition of four properties (total acquisition price: ¥23,205 million; of which, one property being an additional acquisition to an existing property) made in February and March 2018. The total number of investment units issued and outstanding as of the end of the fiscal period under review was 1,643,125 investment units.

(ii) Debt financing

MCUBS MidCity procures funds considering the maintaining of a balance between fund procurement flexibility and financial stability, including keeping LTV at a conservative level, reducing refinancing risks and mitigating interest rate fluctuation risks.

In the 24th fiscal period, MCUBS MidCity newly borrowed ¥11,000 million on February 28, 2018 to partly fund the new acquisition of four properties made in February and March 2018. In addition, MCUBS MidCity issued unsecured investment corporation bonds (10-year: ¥2,000 million) in May 2018 for the third consecutive year. Out of ¥11,000 million borrowed in February 2018, early repayment was made for ¥2,000 million on May 31, 2018 using the funds procured from issuance of investment corporation bonds. As a result of these efforts, MCUBS MidCity has realized further strengthening of its financial base through diversification of fund procurement means, as well as reduction of financial costs and extension of terms of interest-bearing liabilities.

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

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

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

(d) Overview of business performance and distributions

As a result of the abovementioned asset management, MCUBS MidCity posted operating revenue of ¥7,924 million, operating income of ¥3,368 million, ordinary income of ¥2,769 million and net income of ¥2,767 million in its performance for the 24th fiscal period.

Concerning distributions, to ensure that distributions of retained earnings would be deductible for tax purposes based on application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, including amendments thereto) (hereafter, the "Act on Special Measures Concerning Taxation"), MCUBS MidCity decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution per unit that are less than ¥1. Accordingly, MCUBS MidCity declared a distribution per unit of ¥1,684.

## ② Outlook of next fiscal period

### (a) Future asset management policy and challenges to address

#### (i) Internal growth strategy

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

On the other hand, Tokyo metropolitan area's office leasing market is expecting a large volume of supply, mainly of large-scale buildings. However, there are many buildings scheduled for completion with tenants informally contracted and needs for floor expansion and relocation due to improvement in corporate earnings, increase in the number of employees, work-style reform, etc. remain strong. The vacancy rate is likely to remain stable at a low level to a certain degree against the backdrop of such solid office demand, and the market rent is also expected to remain stable.

Under such circumstances, in view of maintaining and enhancing revenue for the medium and long term, MCUBS MidCity is, based on the following strategies, working on heightening the satisfaction levels of existing tenants through the provision of comfortable office environments and services and maintaining and improving rent revenue and occupancy rates through initiatives for attracting new tenants.

#### <Strategy on existing tenants to maintain high occupancy rates>

As an initiative for capturing the needs and heightening the satisfaction levels of existing tenants, the Asset Management Company has been conducting surveys of tenant satisfaction levels on the tenants of multi-tenant buildings in MCUBS MidCity's portfolio since the first fiscal period. Based on the results of the surveys, matters pointed out and requested by tenants, etc., the Asset Management Company instructs property management companies and building management companies, as well as considers and carries out repair and maintenance, value-enhancement and other construction work that fulfills tenant needs.

According to the results of the most recent survey conducted in October and November 2017 (12th survey), "overall building comfort" and "security measures" of properties in both Tokyo metropolitan area and Osaka metropolitan area has earned higher evaluation than before. This, we believe, is the result of improved tenant satisfaction due to improvement of facilities, implementation of disaster drills, etc. The Asset Management Company will maintain such initiatives to listen to the "voice of office workers," aiming to enhance satisfaction levels of existing tenants and the value of portfolio assets.

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

#### <Strategy on leasing to attract new tenants>

As for assets that have relatively large vacant space and scheduled vacant space among MCUBS MidCity's portfolio assets, aggressive efforts will be continuously made to attract new tenants by making proposals in line with tenant size and needs while taking advantage of excellent location and high specifications of the buildings. In addition, MCUBS MidCity has worked to improve competitiveness of properties in view of provision of comfortable office environments by conducting upgrading of facilities and renewal of interiors one after another, as necessary.

Leveraging the strengths of having Mitsubishi Corp.- UBS Realty Group and the Kanden Realty & Development Group as its sponsors, the Asset Management Company conducts market analysis by utilizing tenant information, etc. that property management companies have acquired in closely working with the site and, based on the results, will develop strategies for attracting tenants, including value-enhancement plans that lead to increased competitiveness of MCUBS MidCity's portfolio assets in order to facilitate effective attracting of new tenants.

## <Sustainability>

Concerning its portfolio, MCUBS MidCity shares the view on sustainability with the Asset Management Company that strives to respond to the environment and social responsibility based on the “Environment Charter” and “Basic Policy on Responsible Real Estate Investment,” implements environmental and energy saving measures, streamlines energy use, and appropriately responds to environmental consideration and reduction of environmental burden.

In addition, MCUBS MidCity is proactively making efforts in external evaluation and certification systems concerning the environment. In the continuous monitoring under DBJ Green Building certification (five-level certification system) issued by the Development Bank of Japan (DBJ), ratings for Twin 21, Matsushita IMP Bldg., Kitahama MID Bldg. and Higobashi MID Bldg. are 4-stars in recognition of efforts meeting the needs of the times, such as extensive office facilities and disaster prevention measures. Furthermore, some of MCUBS MidCity’s portfolio assets have received Comprehensive Assessment System for Built Environment Efficiency (CASBEE) certification and Building-Housing Energy-efficiency Labeling System (BELS) certification. MCUBS MidCity has also been participating in real estate evaluation of Global Real Estate Sustainability Benchmark (GRESB) since 2016 and was designated as "Green Star," the highest ranking, in 2017 for the second consecutive year.

### (ii) External growth strategy

MCUBS MidCity strives to improve the risk-return profile of its portfolio via acquiring assets under management in view of mitigating risks of fluctuations in revenue with the effects of diversifying its portfolio of assets under management, etc. Upon acquisition, MCUBS MidCity aims to realize external growth by utilizing the property sourcing capacity of its sponsors, proactively leveraging the pipeline support.

As for the targeted investment region, MCUBS MidCity examines acquisitions of assets under management with a focus on office properties in the three major metropolitan areas. In addition, from the standpoint of securing more opportunities for property acquisition and diversified investment, investment targets also include so-called “government-designated cities” as well as other major cities or their equivalent, outside of the three major metropolitan areas. Furthermore, as for the investment target in terms of property type, although MCUBS MidCity invests primarily in office properties, from the standpoint of securing more opportunities for property acquisition and diversified investment, MCUBS MidCity's investment targets also include real estate other than office properties. (However, it states that no new investment shall be made as to retail properties and industrial properties.)

### (iii) Financial strategy

Ongoing efforts will be made at keeping LTV at a conservative level, stable fund procurement, diversifying maturity dates for interest-bearing liabilities and promoting the addition of lending financial institutions with the goal of maintaining financial stability. In addition, measures will be taken to hedge against interest rate fluctuation risks by fixing interest rates depending on interest rate trends.

(b) Outlook of business  
(i) Financial outlook

The following is MCUBS MidCity's business outlook for the fiscal period ending December 31, 2018 (July 1, 2018 to December 31, 2018). For the assumptions underlying the forecast of business, please refer to "Assumptions regarding business outlook for the 25th fiscal period (July 1, 2018 to December 31, 2018) and the 26th fiscal period (January 1, 2019 to June 30, 2019)" below.

Operating revenue	¥ 10,780 million
Operating income	¥ 5,281 million
Ordinary income	¥ 4,577 million
Net income	¥ 4,576 million
Distribution per unit	¥ 2,520
Distribution in excess of earnings per unit	¥ 0

In addition, assuming that "Assumptions regarding business outlook for the 25th fiscal period (July 1, 2018 to December 31, 2018) and the 26th fiscal period (January 1, 2019 to June 30, 2019)" remains unchanged, MCUBS MidCity expects the following business outlook for its 26th fiscal period (January 1, 2019 to June 30, 2019).

Operating revenue	¥ 10,205 million
Operating income	¥ 5,480 million
Ordinary income	¥ 4,840 million
Net income	¥ 4,839 million
Distribution per unit	¥ 2,665
Distribution in excess of earnings per unit	¥ 0

(Note) The business outlook presented herein is current expectations calculated based on certain assumptions. Accordingly, actual operating revenue, operating income, ordinary income, net income and distribution per unit may differ from the forecasts due to changes in the conditions. Moreover, the forecasts should not be construed as a guarantee of distribution amounts.



Assumptions regarding business outlook  
for the 25th fiscal period (July 1, 2018 to December 31, 2018) and the  
26th fiscal period (January 1, 2019 to June 30, 2019)

Item	Assumptions														
Assets under management	<ul style="list-style-type: none"> <li>• It is assumed that the following property is acquired (the “Asset to be Acquired”) and the following two properties are disposed (the “Assets to be Disposed”), in addition to the 23 properties (including silent partnership interests) held by MCUBS MidCity as of June 30, 2018. With regard to all the Asset to be Acquired and the Assets to be Disposed, sale and purchase agreements have been executed. Planned acquisition/disposition date of each property is as follows:  <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">&lt; Asset to be Acquired &gt;</td> </tr> <tr> <td style="text-align: center;">Yokohama i-land Tower</td> <td style="text-align: center;">To be acquired on September 14, 2018</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">&lt; Assets to be Disposed &gt;</td> </tr> <tr> <td style="text-align: center;">MID REIT Kyobashi Bldg.</td> <td style="text-align: center;">To be disposed on September 4, 2018</td> </tr> <tr> <td style="text-align: center;">Matsushita IMP Bldg.</td> <td style="text-align: center;">To be disposed on September 5, 2018</td> </tr> <tr> <td style="text-align: center;">Beneficiary interest ratio: 55%</td> <td style="text-align: center;">To be disposed on March 8, 2019</td> </tr> <tr> <td style="text-align: center;">Beneficiary interest ratio: 45%</td> <td style="text-align: center;">To be disposed on March 8, 2019</td> </tr> </table> </li> <li>• It is assumed that there will be no changes (new property acquisition and sale of existing property, etc.) in MCUBS MidCity’s assets under management until June 30, 2019, excluding the acquisition of the Asset to be Acquired and the disposition of the Assets to be Disposed.</li> <li>• The actual assets under management may vary due to changes in the property portfolio and other factors.</li> </ul>	< Asset to be Acquired >		Yokohama i-land Tower	To be acquired on September 14, 2018	< Assets to be Disposed >		MID REIT Kyobashi Bldg.	To be disposed on September 4, 2018	Matsushita IMP Bldg.	To be disposed on September 5, 2018	Beneficiary interest ratio: 55%	To be disposed on March 8, 2019	Beneficiary interest ratio: 45%	To be disposed on March 8, 2019
< Asset to be Acquired >															
Yokohama i-land Tower	To be acquired on September 14, 2018														
< Assets to be Disposed >															
MID REIT Kyobashi Bldg.	To be disposed on September 4, 2018														
Matsushita IMP Bldg.	To be disposed on September 5, 2018														
Beneficiary interest ratio: 55%	To be disposed on March 8, 2019														
Beneficiary interest ratio: 45%	To be disposed on March 8, 2019														
Operating revenue	<ul style="list-style-type: none"> <li>• Rent revenue (rent revenue – real estate) is calculated based on lease agreements effective as of today, with due consideration of several factors such as the market environment, characteristics and market competitiveness of individual properties, and status of individual tenants.</li> <li>• Operating revenue is calculated assuming there are no tenant defaults or non-payments of rent by tenants.</li> <li>• Dividend income from silent partnership interests is calculated by reflecting a forecast of occupancy of real estate which backs cash flows.</li> <li>• As a result of disposition of trust beneficiary interest of Matsushita IMP Bldg. on September 5, 2018 (Beneficiary interest ratio : 55%) and March 8, 2019 (Beneficiary interest ratio : 45%) described in Assets under management above, gains on sales of property (expected difference between the disposition price and the planned book value on the planned disposition date – expected disposition-related expenses; the same shall apply hereinafter) of ¥2,263 million (planned) and ¥1,985 million (planned) are expected to arise for the 25th fiscal period and for the 26th fiscal period, respectively. The actual amount of gains on sales of property may vary.</li> </ul>														
Operating expenses	<ul style="list-style-type: none"> <li>• Of the expenses related to the rent business, which constitute a principal component of operating expenses, expenses other than depreciation are calculated based on historical data and reflecting seasonal and other factors that may cause fluctuations in expenses.</li> <li>• Property management fees of ¥903 million and ¥854 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> <li>• Utilities expenses of ¥785 million and ¥672 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> <li>• Fixed asset taxes, city planning taxes and depreciable assets taxes (“fixed asset taxes, etc.”) of ¥649 million and ¥640 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively. Settlement money for those taxes for the Asset to be Acquired stated in the column “Assets under management” above will not be recorded as expenses for the 25th fiscal period because it will be included in the acquisition cost of such properties and those taxes are assumed to be ¥30 million (equivalent to three months) in the 26th fiscal period.</li> <li>• The amount expected to be necessary for building repair expenses in the respective fiscal period is recorded as expenses. Building repair expenses of ¥370 million and ¥269 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively. Please note that actual repair expenses may differ significantly from the forecasted amounts due to various reasons, including repair expenses possibly arising from damages, etc. to buildings due to unexpected causes.</li> <li>• Depreciation is calculated based on the straight-line method inclusive of associated costs and future additional capital expenditures. ¥1,338 million and ¥1,235 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> </ul>														

Item	Assumptions
	<ul style="list-style-type: none"> <li>As a result of disposition of MID REIT Kyobashi Bldg. on September 4, 2018 described in Assets under management above, loss on sales of property (absolute value of expected difference between the disposition price and the planned book value on the planned disposition date + expected disposition-related expenses) of ¥433 million (planned) is expected to arise for the 25th fiscal period.</li> </ul>
Non-operating expenses	<ul style="list-style-type: none"> <li>Interest expenses of ¥454 million and ¥446 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> <li>Borrowing-related expenses of ¥139 million and ¥128 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> <li>Amortization of investment unit issuance costs of ¥19 million and ¥17 million are expected for the 25th fiscal period and for the 26th fiscal period, respectively.</li> </ul>
Interest-bearing liabilities	<ul style="list-style-type: none"> <li>It is assumed that the balance of interest-bearing liabilities outstanding will be ¥122,875 million and ¥115,975 million as of the end of the 25th fiscal period and as of the end of the 26th fiscal period, respectively.</li> <li>It is assumed that ¥6,900 million will be newly borrowed as of September 12, 2018 for the purpose of acquiring the properties stated in “Assets under management” above.</li> <li>That short-term loans payable is assumed to be repaid at the end of March 2019 in advance of the maturity date by appropriating a part of proceeds from planned disposition of Matsushita IMP Bldg. (Beneficiary interest ratio: 45%) on March 8, 2019 described in Assets under management above.</li> </ul>
Number of investment units issued and outstanding	<ul style="list-style-type: none"> <li>It is assumed that the number of investment units issued and outstanding is 1,643,125, which is the number as of today, and that no additional new investment units are issued by the end of the 26th fiscal period.</li> </ul>
Distribution per unit	<ul style="list-style-type: none"> <li>Distribution per unit is calculated assuming the cash distribution policy set forth in the Articles of Incorporation of MCUBS MidCity.</li> <li>Distribution per unit may change due to various factors, including changes in assets under management, fluctuations in rent income associated with tenant changes, etc., incurrence of unexpected repairs, fluctuations in interest rates, and the issuance of additional investment units.</li> <li>As to a part of gains on sales of property of ¥2,263 million (planned) and ¥1,985 million (planned) expected to arise for Matsushita IMP Bldg. described in Operating Revenue above, voluntary reserve of ¥434 million (planned) and ¥459 million (planned) is assumed to be recorded for the 25th fiscal period and for the 26th fiscal period, respectively, within the scope of application of “Special Provisions for Taxation on Investment Corporations (Article 67-15 of the Act on Special Measures Concerning Taxation) and “Special Provisions for Taxation in Cases of Repurchase of Specified Assets” (Article 65-7 of the Act on Special Measures Concerning Taxation). The actual amount of voluntary reserve may vary.</li> </ul>
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> <li>It is assumed that there will be no cash distributions in excess of earnings (distribution in excess of earnings per unit).</li> </ul>
Other	<ul style="list-style-type: none"> <li>It is assumed that no changes will be made to laws, the tax system, accounting standards, securities listing regulations, rules of The Investment Trusts Association, Japan, etc. affecting the aforementioned forecasts.</li> <li>It is assumed that there will be no major and unforeseen changes in general economic trends, real estate market conditions, etc.</li> </ul>

The detail of the asset to be acquired in the 25th fiscal period is as follows.

Name of property	Location	Investment category	Planned acquisition price (Millions of yen) (Note)	Planned acquisition date
Yokohama i-land Tower	6-50-1 Hon-cho, Naka-ku, Yokohama-shi, Kanagawa	Office building	22,100	September 14, 2018
Total			22,100	

(Note) “Planned acquisition price” indicates the sale price (excluding acquisition expenses, property taxes, city planning taxes, consumption taxes, etc.) of the asset to be acquired stated in the trust beneficiary interest transfer agreement.

The details of the assets to be disposed in the 25th fiscal period and the 26th fiscal period are as follows.

Name of property	Location	Investment category	Planned disposition price (Millions of yen) (Note)	Planned disposition date
MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-cho, Miyakojima-ku, Osaka-shi, Osaka	Office building	1,700	September 4, 2018
Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi, Osaka	Office building	27,000	Beneficiary interest ratio: 55% September 5, 2018 Beneficiary interest ratio: 45% March 8, 2019
Total			28,700	

(Note) “Planned disposition price” indicates the sale price (excluding property taxes, city planning taxes, consumption taxes, etc.) of each asset to be disposed stated in the trust beneficiary interest transfer agreement.

For details of acquisition and disposition, please refer to “Notice Regarding Acquisition, Leasing, Disposition and Cancellation of Leasing of Trust Beneficiary Interests in Domestic Real Estates (Acquisition of One Office Buildings and Disposition of Two Office Buildings)” dated August 20, 2018.

### 3. Financial information

#### (1) Balance sheets

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits	11,031,348	11,789,553
Cash and bank deposits in trust	5,246,810	4,729,201
Rental receivables	164,686	174,891
Income taxes receivable	27,354	26,284
Consumption tax refundable	—	251,725
Prepaid expenses	42,853	37,262
Deferred tax assets	13	38
Other	55,996	—
<b>Total current assets</b>	<b>16,569,063</b>	<b>17,008,956</b>
<b>Noncurrent assets:</b>		
<b>Property, plant and equipment:</b>		
Buildings in trust, at cost (Note 1)	78,072,237	82,352,517
Less: Accumulated depreciation	(21,837,494)	(23,139,723)
Buildings in trust, net	56,234,742	59,212,793
Structures in trust, at cost	137,960	139,749
Less: Accumulated depreciation	(31,563)	(34,999)
Structures in trust, net	106,397	104,749
Machinery and equipment in trust, at cost	7,916	7,916
Less: Accumulated depreciation	(3,016)	(3,336)
Machinery and equipment in trust, net	4,900	4,579
Tools, furniture and fixtures in trust, at cost (Note 1)	585,010	635,561
Less: Accumulated depreciation	(422,896)	(445,524)
Tools, furniture and fixtures in trust, net	162,113	190,037
Land in trust	169,977,118	190,332,179
Construction in progress in trust	4,043	14,839
<b>Total net property, plant and equipment</b>	<b>226,489,315</b>	<b>249,859,178</b>
<b>Intangible assets:</b>		
Software	3,515	3,305
Trademark right	95	42
<b>Total intangible assets</b>	<b>3,611</b>	<b>3,347</b>
<b>Investments and other assets:</b>		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,000	10,210
Long-term prepaid expenses	573,319	560,641
<b>Total investments and other assets</b>	<b>5,668,347</b>	<b>5,655,879</b>
<b>Total noncurrent assets</b>	<b>232,161,274</b>	<b>255,518,406</b>
<b>Deferred assets:</b>		
Investment corporation bonds issuance costs	53,156	67,205
Investment unit issuance costs	53,593	79,516
<b>Total deferred assets</b>	<b>106,750</b>	<b>146,722</b>
<b>TOTAL ASSETS</b>	<b>248,837,087</b>	<b>272,674,084</b>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Operating accounts payable	508,467	412,960
Current portion of long-term loans payable	15,300,000	15,300,000
Accounts payable – other	815,868	766,875
Accrued expenses	132,505	149,918
Distribution payable	8,941	11,121
Consumption taxes payable	305,930	–
Advances received	1,084,994	1,227,796
Other	376,715	1,005,031
<b>Total current liabilities</b>	<b>18,533,424</b>	<b>18,873,704</b>
<b>Noncurrent liabilities:</b>		
Investment corporation bonds – unsecured	6,000,000	8,000,000
Long-term loans payable	83,675,000	92,675,000
Tenant leasehold and security deposits	12,726,537	13,721,175
Tenant leasehold and security deposits in trust	164,268	–
<b>Total noncurrent liabilities</b>	<b>102,565,806</b>	<b>114,396,175</b>
<b>TOTAL LIABILITIES</b>	<b>121,099,230</b>	<b>133,269,879</b>
<b>NET ASSETS</b>		
<b>Unitholders' equity:</b>		
Unitholders' capital	125,148,412	136,452,412
Surplus:		
Voluntary reserve		
Reserve for reduction entry of property	183,659	183,659
Total voluntary reserve	183,659	183,659
Retained earnings	2,405,786	2,768,133
Total surplus	2,589,445	2,951,792
<b>Total unitholders' equity</b>	<b>127,737,857</b>	<b>139,404,205</b>
<b>TOTAL NET ASSETS (Note 2)</b>	<b>127,737,857</b>	<b>139,404,205</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>248,837,087</b>	<b>272,674,084</b>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

## (2) Statements of income and retained earnings

(Thousands of yen)

	<b>For the six months ended</b>	
	<b>December 31, 2017</b>	<b>June 30, 2018</b>
<b>Operating revenue</b>		
Rent revenue—real estate (Note 4)	6,962,607	7,258,435
Other rental business revenue (Note 4)	510,054	530,479
Dividends income	138,202	135,326
Total operating revenue	<u>7,610,864</u>	<u>7,924,241</u>
<b>Operating expenses</b>		
Expenses related to rental business	3,879,165	3,786,827
Asset management fees	624,301	643,427
Asset custody fee	5,706	5,862
Administrative service fees	33,861	36,945
Directors' compensations	8,700	8,700
Other	76,052	73,970
Total operating expenses	<u>4,627,787</u>	<u>4,555,733</u>
<b>Operating income</b>	<u>2,983,076</u>	<u>3,368,508</u>
<b>Non-operating income</b>		
Interest income	82	72
Reversal of distribution payable	1,097	475
Interest on refund	1,027	22
Other	0	44
Total non-operating income	<u>2,208</u>	<u>614</u>
<b>Non-operating expenses</b>		
Interest expenses	399,572	410,633
Interest expenses on investment corporation bonds	16,533	17,691
Borrowing related expenses	139,445	137,739
Amortization of investment corporation bonds issuance costs	4,439	4,752
Amortization of investment unit issuance costs	23,429	28,075
Other	928	917
Total non-operating expenses	<u>584,349</u>	<u>599,810</u>
<b>Ordinary income</b>	<u>2,400,936</u>	<u>2,769,311</u>
<b>Extraordinary income</b>		
Subsidy income	—	50,000
Gain on donation of noncurrent assets	5,559	—
Total extraordinary income	<u>5,559</u>	<u>50,000</u>
<b>Extraordinary losses</b>		
Reduction entry of property	—	50,000
Total extraordinary losses	<u>—</u>	<u>50,000</u>
<b>Income before income taxes</b>	<u>2,406,495</u>	<u>2,769,311</u>
<b>Income taxes</b>		
Current	878	1,360
Deferred	1	(24)
Total income taxes	<u>879</u>	<u>1,335</u>
<b>Net income</b>	<u>2,405,616</u>	<u>2,767,976</u>
<b>Retained earnings brought forward</b>	169	157
<b>Unappropriated retained earnings</b>	2,405,786	2,768,133

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

## (3) Statements of changes in net assets

(Thousands of yen)

**For the six months ended December 31, 2017**

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

**For the six months ended June 30, 2018**

	Unitholders' equity							
	Surplus						Total unitholders' equity	Total net assets
	Unitholders' capital (Note 2)	Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity		
		Reserve for reduction entry of property	Total voluntary reserve					
<b>Balance as of January 1, 2018</b>	125,148,412	183,659	183,659	2,405,786	2,589,445	127,737,857	127,737,857	
<u>Changes during the period</u>								
Issuance of new investment units	11,304,000	—	—	—	—	11,304,000	11,304,000	
Dividends from surplus	—	—	—	(2,405,628)	(2,405,628)	(2,405,628)	(2,405,628)	
Net income	—	—	—	2,767,976	2,767,976	2,767,976	2,767,976	
<u>Total changes during the period</u>	11,304,000	—	—	362,347	362,347	11,666,347	11,666,347	
<b>Balance as of June 30, 2018</b>	136,452,412	183,659	183,659	2,768,133	2,951,792	139,404,205	139,404,205	

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

#### (4) Statements of cash distributions

(Yen)

	For the six months ended	
	December 31, 2017	June 30, 2018
Unappropriated retained earnings	2,405,786,142	2,768,133,507
Cash distribution declared	2,405,628,750	2,767,022,500
<i>(Cash distribution declared per unit)</i>	<i>(8,110)</i>	<i>(1,684)</i>
Voluntary reserve		
Retained earnings carried forward	157,392	1,111,007

Note:

For the six months ended December 31, 2017

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Investment Corporation's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15 of the Special Taxation Measures Act of Japan and Article 39-32-3 of the Ordinance for Enforcement of the Special Taxation Measures Act for the fiscal period, cash distributions declared for the six months ended December 31, 2017 were ¥2,405,628,750 which were all of retained earnings at the end of each period except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 4.

For the six months ended June 30, 2018

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Investment Corporation's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15 of the Special Taxation Measures Act of Japan and Article 39-32-3 of the Ordinance for Enforcement of the Special Taxation Measures Act for the fiscal period, cash distributions declared for the six months ended June 30, 2018 were ¥2,767,022,500 which were all of retained earnings at the end of each period except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 4.



## (5) Statements of cash flows

(Thousands of yen)

	For the six months ended	
	December 31, 2017	June 30, 2018
<b>Net cash provided by (used in) operating activities:</b>		
Income before income taxes	2,406,495	2,769,311
Depreciation and amortization	1,256,830	1,328,613
Amortization of long-term prepaid expenses	96,184	97,792
Amortization of investment unit issuance costs	23,429	28,075
Amortization of investment corporation bonds issuance costs	4,439	4,752
Interest income	(82)	(72)
Interest expenses	416,106	428,325
Subsidy income	—	(50,000)
Gain on donation of noncurrent assets	(5,559)	—
Reduction entry of property	—	50,000
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	93,937	(10,205)
Decrease (increase) in consumption taxes refundable	333,562	(251,725)
Increase (decrease) in consumption taxes payable	305,930	(305,930)
Increase (decrease) in operating accounts payable	(97,940)	(95,506)
Increase (decrease) in accounts payable—other	(284,180)	67,793
Increase (decrease) in advances received	(7,413)	142,801
Decrease (increase) in prepaid expenses	4,358	5,590
Payments of long-term prepaid expenses	(147,322)	(85,114)
Other, net	24,882	(21,975)
Subtotal	4,423,657	4,102,526
Interest income received	82	72
Interest expenses paid	(422,778)	(410,912)
Income taxes paid	(7,256)	(289)
Net cash provided by operating activities	3,993,704	3,691,396
<b>Net cash provided by (used in) investing activities:</b>		
Purchases of property, plant and equipment in trust	(761,653)	(24,815,586)
Proceeds from tenant leasehold and security deposits	628,443	1,527,616
Proceeds from tenant leasehold and security deposits in trust	2,392	214,312
Payments of tenant leasehold and security deposits	(493,256)	(147,879)
Payments of tenant leasehold and security deposits in trust	(197,054)	(57,280)
Proceeds from restricted bank deposits in trust	29	378,581
Payments for restricted bank deposits in trust	(46)	(214,312)
Other, net	—	(210)
Net cash used in investing activities	(821,144)	(23,114,758)
<b>Net cash provided by (used in) financing activities:</b>		
Proceeds from long-term loans payable	13,675,000	11,000,000
Repayments of long-term loans payable	(13,675,000)	(2,000,000)
Proceeds from investment corporation bonds – unsecured	—	1,981,198
Proceeds from issuance of investment units	—	11,250,001
Dividends paid	(2,341,199)	(2,402,973)
Net cash provided (used) by financing activities	(2,341,199)	19,828,226
<b>Net change in cash and cash equivalents</b>	<b>831,360</b>	<b>404,863</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>15,282,529</b>	<b>16,113,890</b>
<b>Cash and cash equivalents at end of period (Note 5)</b>	<b>16,113,890</b>	<b>16,518,754</b>

The accompanying notes in sections (6), (7) and (8) below are an integral part of these statements.

(6) Note relating to going concern assumption

Nothing to be noted.

(7) Summary of significant accounting policies

**(a) Securities**

Non-marketable securities held as available-for-sale are stated at cost determined by the moving average method. Investments in Tokumei Kumiai (silent partnership) agreements are accounted for by using the equity method of accounting.

**(b) Property, plant and equipment**

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

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

**(c) Intangible assets**

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

**(d) Long-term prepaid expenses**

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

**(e) Investment unit issuance costs**

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

**(f) Investment corporation bonds issuance costs**

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

**(g) Taxes on property, plant and equipment**

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

Under the above tax rules, a seller of a property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes calculated from the acquisition date to the end of the calendar year is capitalized as a cost of the property in accordance with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). In subsequent calendar years, half of such taxes on property, plant and equipment for

each calendar year are charged as operating expenses in each fiscal period.

Taxes on property, plant and equipment capitalized as part of the acquisition cost of properties amounted to ¥86,375 thousand for the six months ended June 30, 2018. No taxes on property, plant and equipment were capitalized for the six months period ended for December 31, 2017.

***(h) Hedge accounting***

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

***(i) 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.

***(j) Accounting treatment of trust beneficiary interests in real estate trusts***

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

***(k) Consumption taxes***

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

(8) Notes to financial information

**Note 1 – Reduction entry for property**

Acquisition costs of certain properties in trust were reduced by government subsidies received or insurance income. The accumulated amounts of such reduction were as follows:

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
Reduction entry by:		
Government subsidies received		
Buildings in trust	4,864	54,864
Tools, furniture and fixtures in trust	7,279	7,279
Insurance income		
Buildings in trust	68,700	68,700

**Note 2 – Unitholders' equity**

(1) Number of units

	As of	
	December 31, 2017	June 30, 2018
Authorized	2,000,000 units	10,000,000 units
Issued and outstanding	296,625 units	1,643,125 units

(2) The Investment Corporation is required to maintain net assets of at least ¥50,000 thousand as required by Article 67-4 of the Act on Investment Trusts and Investment Corporations of Japan.

**Note 3 – Commitment line**

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

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
Total amount of committed lines of credit	15,000,000	15,000,000
Borrowings drawn down	—	—
Unused committed lines of credit	15,000,000	15,000,000

#### Note 4 – Rental business revenue and expenses

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

(Thousands of yen)

	For the six months ended	
	December 31, 2017	June 30, 2018
<b>Rental business revenue:</b>		
Rent revenue—real estate:		
Rental revenue	5,630,178	5,869,420
Common area charges	1,124,484	1,163,402
Other	207,943	225,611
Total rent revenue—real estate	6,962,607	7,258,435
Other rental business revenue:		
Utilities	454,228	446,517
Cancellation penalty	9,222	6,085
Other	46,604	77,876
Total other rental business revenue	510,054	530,479
Total rental business revenue	7,472,662	7,788,915
<b>Expenses related to rental business:</b>		
Property management fees	851,615	875,216
Utilities	719,493	644,679
Property-related taxes	594,895	640,754
Insurance	11,094	9,590
Repair and maintenance	367,361	217,252
Depreciation	1,256,830	1,328,618
Other	77,874	70,715
Total expenses related to rental business	3,879,165	3,786,827
<b>Operating income from property leasing activities</b>	<b>3,593,496</b>	<b>4,002,088</b>

## Note 5 – Cash and cash equivalents

Cash and cash equivalents shown in the statement of cash flows consist of the following balance sheet items:

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
Cash and bank deposits	11,031,348	11,789,553
Cash and bank deposits in trust	5,246,810	4,729,201
Restricted bank deposits in trust <sup>(1)</sup>	(164,268)	—
Cash and cash equivalents	<u>16,113,890</u>	<u>16,518,754</u>

Note:

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

## Note 6 – Leases

### (a) Lease rental revenues

The Investment Corporation leases its properties mainly to corporate tenants. Future minimum rental revenues pursuant to existing rental contracts as of December 31, 2017 and June 30, 2018 scheduled to be received are summarized as follows:

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
Due within one year	4,107,200	3,746,665
Due after one year	10,996,022	9,631,961
Total	<u>15,103,223</u>	<u>13,378,626</u>

### (b) Lease commitments

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

(Thousands of yen)

	As of	
	December 31, 2017	June 30, 2018
Due within one year	6,036	6,036
Due after one year	13,581	10,563
Total	<u>19,617</u>	<u>16,599</u>

## Note 7 – Financial instruments

### (a) Qualitative information for financial instruments

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

The Investment Corporation raises funds through loans payable or the issuance of investment corporation 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 and security deposits or investment corporation bond are managed by decentralizing maturity date of loans payable and investment corporation bond, or maintaining liquidity with preparing plans for funds.

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

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

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

### (b) Quantitative information for financial instruments

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

(Thousands of yen)

	As of					
	December 31, 2017			June 30, 2018		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	11,031,348	11,031,348	—	11,789,553	11,789,553	—
(2) Cash and bank deposits in trust	5,246,810	5,246,810	—	4,729,201	4,729,201	—
Total assets	16,278,159	16,278,159	—	16,518,754	16,518,754	—
(3) Current portion of long-term loans payable	15,300,000	15,369,334	69,334	15,300,000	15,314,466	14,466
(4) Investment corporation bonds – unsecured	6,000,000	6,000,550	550	8,000,000	8,006,800	6,800
(5) Long-term loans payable	83,675,000	84,390,589	715,589	92,675,000	93,371,005	696,005
Total liabilities	104,975,000	105,760,474	785,474	115,975,000	116,692,272	717,272
(6) Derivatives instruments	—	—	—	—	—	—

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

#### (1) Cash and bank deposits and (2) Cash and bank deposits in trust

Because of their short maturities, the carrying amounts approximate their fair value.

#### (3) Current portion of long-term loans payable and (5) Long-term loans payable

Loans payable with floating interest rates changing within a short term period are stated at their carrying amounts as their carrying amounts approximate their fair values. The fair value of loans payable with fixed interest rates is determined based on the present value of contractual cash flows (when loans payable with floating interest rates are hedged by interest rate swaps which qualify for hedge accounting and meet special criteria, contractual cash flows in

conjunction with the hedging interest rate swaps) discounted at current market interest rates which would be applicable to new loans payable under the same conditions and terms.

(4) *Investment corporation bonds – unsecured*

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

(6) *Derivative instruments*

Please refer to “Note 8 - Derivative instruments.”

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

	(Thousands of yen)	
	As of	
	December 31, 2017	June 30, 2018
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	12,726,537	13,721,175
Tenant leasehold and security deposits in trust	164,268	—

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

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

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

(Thousands of yen)						
As of June 30, 2018	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	11,789,553	-	-	-	-	-
Cash and bank deposits in trust	4,729,201	-	-	-	-	-
Total	16,518,754	-	-	-	-	-

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

(Thousands of yen)						
As of December 31, 2017	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	15,300,000	15,200,000	22,850,000	14,250,000	9,900,000	21,475,000
Investment corporation bonds – unsecured	-	-	-	1,500,000	1,000,000	3,500,000

(Thousands of yen)						
As of June 30, 2018	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	15,300,000	23,750,000	19,600,000	12,950,000	8,300,000	28,075,000
Investment corporation bonds – unsecured	—	—	1,500,000	1,000,000	—	5,500,000

## Note 8 – Derivative instruments

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

### As of December 31, 2017

(Thousands of yen)						
Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps (Note 1)	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	31,100,000	26,300,000	Note 1	-

### As of June 30, 2018

(Thousands of yen)						
Method of hedge accounting	Derivative instruments	Hedged item	Notional contract amount of derivative instruments		Fair value	Method used to estimate fair value
				Over 1 year		
Special treatment for hedge accounting of interest rate swaps (Note 1)	Interest rate swaps (Floating-rate to fixed-rate interest)	Long-term loans payable	31,100,000	26,300,000	Note 1	-

Note:

- (1) As disclosed in “(7) Summary of significant accounting policies (h) Hedge accounting”, the Investment Corporation applies the special treatment provided under Japanese GAAP for the interest rate swaps which qualify for hedge accounting and meet specific criteria, under which only the interest received or paid under swap contracts, and not the fair value of the derivative, can be determined separately from the hedged asset or liability. Consequently, the fair value of the interest rate swaps as the hedging instruments and the long-term loans payable as the hedged items is calculated together as one and disclosed as such under Note (i) in “Note 7 - Financial instruments (b) Quantitative information for financial instruments”.



## Note 9 – Related-party transactions

There was no related-party transaction to be disclosed for the six months ended December 31, 2017 and June 30, 2018.

## Note 10 – Segment information

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

### (a) Operating segment information

Disclosure is omitted as the Investment Corporation 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

(Thousands of yen)

Name of customer	Revenues for the six months ended		Relating segment
	December 31, 2017	June 30, 2018	
Panasonic Corporation	977,312	972,326	Property rental business
AEON Retail Co., Ltd.	726,000	726,000	Property rental business

## Note 11 – Fair value of investment and rental property

The Investment Corporation has mainly office buildings as investment and rental properties which are located in Tokyo and Osaka metropolitan areas or other areas in Japan. The following table shows the net book value and the fair value of the investment and rental properties in aggregate for the six months ended December 31, 2017 and June 30, 2018.

(Thousands of yen)

	As of / For the six months ended	
	December 31, 2017	June 30, 2018
<b>Net book value</b>		
Balance at the beginning of the period	226,924,906	226,485,272
Net increase (decrease) during the period <sup>(1)</sup>	(439,634)	23,359,362
Balance at the end of the period	226,485,272	249,844,634
<b>Fair value</b>	226,900,000	254,600,000

Notes:

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

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

For the six months ended June 30, 2018:

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

		Increase in net book value
		(Thousands of yen)
Acquisitions:	TOYOTA MOBILITY SERVICE Bldg.	9,619,028
	M-City Akasaka 1-chome Bldg.	4,276,164
	Yoshiyasu Kanda Bldg.	4,190,932
	USC Bldg. (additional acquisition)	6,003,606

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

For rental revenues and expenses for the six months ended December 31, 2017 and June 30, 2018, please refer to “Note 4 – Rental business revenue and expenses.”

## Note 12 – Per unit information

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

	For the six months ended	
	December 31, 2017	June 30, 2018
Pro forma net asset value per unit	86,127	84,840
Pro forma net income per unit	1,621	1,727

(Yen)

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

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

	For the six months ended	
	December 31, 2017	June 30, 2018
Net income	2,405,616	2,767,976
Effect of dilutive units	—	—
Net income attributable to unitholders	2,405,616	2,767,976
Adjusted weighted-average number of units outstanding for the period	1,483,125 units	1,602,373 units

(Thousands of yen)

## Note 13 – Subsequent events

### Acquisition of property

The Investment Corporation decided to acquire following property for the six months ending December 31, 2018.

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

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

### Disposal of properties

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

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

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

### New debt financing

The Investment Corporation obtained (or decided to obtain) following debt financing for repayment of existing loans payable, or acquiring new properties stated above.

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

Note 1: The variable interest rate will be fixed at 0.92250% for Loan 1 and 0.777000% for Loan 3 with the interest-rate swap agreements.

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

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

**Note 14 – Investment securities**

Notes relating to investment securities are omitted as the investment securities (equity interests in silent partnership amounting to ¥5,085,027 thousand in book value) are not traded in markets, and it is difficult to estimate reasonable fair value.

**Note 15 – Omission of disclosure**

Note relating to tax effect accounting, retirement benefits and asset retirement obligations are omitted as immaterial.

## Note 16 – Changes in unit issued and outstanding

For the six months ended June 30, 2018, the Investment Corporation raised funds totaling of ¥11,304 million with issuance of 152,000 investment units through public offering in February 2018 and 8,000 investment units through allocation of investment units to a third party in March 2018. The outline of changes in unitholders' capital for the previous periods was as follows:

Date	Capital transaction	Number of units issued and outstanding		Unitholders' capital (Millions of yen)		Note
		Increase	Balance	Increase	Balance	
June 1, 2006	Private placement for incorporation	200	200	100	100	Note 1
August 28, 2006	Public offering	180,000	180,200	88,587	88,687	Note 2
September 26, 2006	Allocation of investment units to a third party	3,425	183,625	1,685	90,372	Note 3
April 22, 2015	Allocation of investment units to a third party	8,400	192,025	2,435	92,808	Note 4
July 29, 2015	Public offering	70,000	262,025	21,222	114,030	Note 5
August 17, 2015	Allocation of investment units to a third party	4,000	266,025	1,212	115,243	Note 6
February 28, 2017	Public offering	29,100	295,125	9,419	124,662	Note 7
March 27, 2017	Allocation of investment units to a third party	1,500	296,625	485	125,148	Note 8
January 1, 2018	Unit Split	1,186,500	1,483,125	—	125,148	Note 9
February 15, 2018	Public offering	152,000	1,635,125	10,738	135,887	Note 10
March 9, 2018	Allocation of investment units to a third party	8,000	1,643,125	565	136,452	Note 11

Note 1 The Investment Corporation was incorporated through private placement at a price of ¥500,000 per unit.

Note 2 New investment units were issued at a price of ¥510,000 per unit (subscription price of ¥492,150 per unit) through a public offering in order to raise funds for acquiring new property.

Note 3 New investment units were issued at a price of ¥492,150 per unit through the allocation of investment units to Nomura Securities Co., Ltd. in connection with the public offering on August 28, 2006.

Note 4 New investment units were issued at a price of ¥289,950 per unit through the allocation of investment units to Mitsubishi Corporation and UBS AG.

Note 5 New investment units were issued at a price of ¥313,462 per unit (subscription price of ¥303,174 per unit) through a public offering in order to raise funds for acquiring new property.

Note 6 New investment units were issued at a price of ¥303,174 per unit through the allocation of investment units to Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. in connection with the public offering on July 29, 2015.

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

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

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

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

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

## 4. Changes in officers

### (1) Officers of the Investment Corporation

None

### (2) Officers of the Asset Manager

Director (part time):

Toru Tsuji resigned and Katsuhisa Sakai was newly appointed on April 13, 2018.

Director:

Noriyuki Iijima resigned and Nobuo Inoue was newly appointed on June 28, 2018.

## 5. Additional information

### (1) Composition of assets

Classification of assets	Investment category	Investment area		As of December 31, 2017		As of June 30, 2018	
				Total of net book value (Millions of yen)	Ratio to total assets (Note 1) (%)	Total of net book value (Millions of yen)	Ratio to total assets (Note 1) (%)
Trust beneficial interest in real property	Office Building	Three major metropolitan areas	Tokyo metropolitan area (Note 2)	82,058	33.0	105,954	38.9
			Osaka metropolitan area (Note 2)	110,457	44.4	110,081	40.4
		Other areas	5,595	2.2	5,587	2.0	
	Other	Three major metropolitan areas	Tokyo metropolitan area (Note 2)	23,839	9.6	23,724	8.7
			Osaka metropolitan area (Note 2)	2,394	1.0	2,376	0.9
		Other areas	2,139	0.9	2,120	0.8	
Sub-total				226,485	91.0	249,844	91.6
Investments in Tokumei Kumiai agreement (Note 3)				5,085	2.0	5,085	1.9
Bank deposits and other assets				17,266	6.9	17,744	6.5
Total assets				248,837	100.0	272,674	100.0
Total liabilities				121,099	48.7	133,269	48.9
Total net assets				127,737	51.3	139,404	51.1

Note 1 "Ratio to total assets" is calculated by rounding to the nearest first decimal place.

Note 2 The Tokyo metropolitan area consists of Tokyo, Kanagawa, Chiba and Saitama prefectures; the Osaka metropolitan area consists of Osaka, Kyoto and Hyogo prefectures.

Note 3 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 4 Construction in progress in trust is included in "Bank deposits and other assets".

### (2) Investment assets

#### (a) Investment securities

The investment in Tokumei Kumiai ("TK") agreement as of June 30, 2018 was as follows:

Name	Classification of assets	Quantity	Net book value (Millions of yen)		Fair value (Note2) (Millions of yen)		Ratio to total assets (Note 3) (%)
			Per unit	Amount	Per unit	Amount	
Equity interest of TK agreement managed by R40 Godo Kaisha (Note 1)	Investments in Tokumei Kumiai agreement	—	—	5,085	—	5,085	1.9

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 TK agreement.

Note 3 "Ratio to total assets" is calculated by rounding to the nearest first decimal place.

*(b) Properties in trust*

The investment properties in the form of trust beneficiary interests held by the Investment Corporation as of June 30, 2018 were as follows:

Investment category	Investment area		Property Number	Name of property	Location (Note1)	Form of ownership	Net book value (Note 2) (Millions of yen)	Appraisal value at end of period (Note 3) (Millions of yen)	Leasable area (Note 4) (m <sup>2</sup> )	Leased area (Note 5) (m <sup>2</sup> )	Occupancy ratio (Note 6) (%)
Office Building	Three major metropolitan areas	Tokyo metropolitan area	OT-1	Sumitomo Fudosan Ueno Bldg. No.6	5-24-8, Higashiueno, Taito-ku, Tokyo	Trust beneficial interest	7,614	8,300	6,858.16	6,858.16	100.0
			OT-2	G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	12,217	14,600	5,010.68	5,010.68	100.0
			OT-3	Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	17,453	19,400	6,379.66	6,379.66	100.0
			OT-4	Yokohama Creation Square	5-1 Sakae-cho, Kanagawa-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	7,057	7,960	12,717.13	11,676.13	91.8
			OT-5	Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	20,460	22,500	24,494.06	24,494.06	100.0
			OT-6	Higashi-Nihombashi Green Bldg.	2-8-3 Higashi-Nihombashi, Chuo-ku, Tokyo	Trust beneficial interest	2,848	3,070	3,254.77	2,944.15	90.5
			OT-7	Sasazuka Center Bldg.	2-1-6, Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,079	9,290	8,219.90	7,363.33	89.6
			OT-8	USC Bldg. (Note 7)	4-11-38, Toyo, Koto-ku, Tokyo	Trust beneficial interest	11,154	11,400	12,489.08	11,724.28	93.9
			OT-9	Yoshiyasu Kanda Bldg.	2-1-15, Iwamotocho, Chiyoda-ku, Tokyo	Trust beneficial interest	4,200	4,270	3,149.30	3,149.30	100.0
			OT-10	TOYOTA MOBILITY SERVICE Bldg.	2-12-4, Nihombashi Hamacho, Chuo-ku, Tokyo	Trust beneficial interest	9,591	10,200	6,123.81	6,123.81	100.0
			OT-11	M-City Akasaka 1-chome Bldg.	1-11-28, Akasaka, Minato-ku, Tokyo	Trust beneficial interest	4,276	4,300	2,608.95	2,608.95	100.0
	Osaka metropolitan area	OO-1	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	65,985	55,800	82,304.84	80,749.22	98.1	
		OO-2	Matsushita IMP Bldg.	1-3-7 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	22,434	22,300	37,299.98	35,732.90	95.8	
		OO-4	MID REIT Kyobashi Bldg.	1-5-14 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	2,063	1,460	4,833.88	4,833.88	100.0	
		OO-5	MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	3,096	2,340	4,277.63	4,277.63	100.0	
OO-7		Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	10,327	9,520	10,189.49	10,189.49	100.0		
OO-8		MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	3,356	2,240	3,881.74	3,782.36	97.4		
OO-9		Higobashi MID Bldg.	1-5-16 Edobori, Nishi-ku, Osaka-shi	Trust beneficial interest	2,817	3,770	4,655.57	4,655.57	100.0		
Other area		OR-1	Sendai Capital Tower	4-10-3, Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficial interest	5,587	6,570	12,999.51	12,154.72	93.5	
Sub total							221,623	219,290	251,748.14	244,708.28	97.2
Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	23,724	28,500	101,210.44	101,210.44	100.0
		Osaka metropolitan area	RO-1	Konami Sports Club Kyobashi	1-8-17 Higashinoda-machi, Miyakojima-ku, Osaka-shi	Trust beneficial interest	2,376	3,400	9,586.26	9,586.26	100.0
	Other area	HR-1	Dormy Inn Hakata Gion	1-12 Reisen-machi, Hakata-ku, Fukuoka-shi, Fukuoka	Trust beneficial interest	2,120	3,410	5,554.91	5,554.91	100.0	
	Sub total							28,220	35,310	116,351.61	116,351.61
Total							249,844	254,600	368,099.75	361,059.89	98.1

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

Note 2 "Net book value" is calculated by subtracting accumulated depreciation from the original acquisition cost (including relating expenses) of each property.

Note 3 "Appraisal value at end of period" shows the value as of June 30, 2018 appraised by the real estate appraiser (JLL Morii Valuation & Advisory, K.K., Tanizawa Sōgō Appraisal Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and Japan Real Estate Institute) in accordance with the methods and standard of assets valuation as stipulated in the Articles of Incorporation of the Investment Corporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

Note 4 "Leasable area" refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leasable as of June 30, 2018.

Note 5 "Leased area" refers to space (leased space only, excluding storage, halls, parking and other space, but including common area and parking space of the Konami Sports Club Kyobashi and the AEON MALL Tsudanuma, in which entire buildings are leased, as well as floor space for common area of the MID REIT Kyobashi Bldg. and Dormy Inn Hakata Gion) that is leased under lease agreements valid as of June 30, 2018.

Note 6 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2018 by the leasable area. In addition, the figures in the "Total" rows are presented as percentages that are obtained by dividing the sum of the leased area of each property group by the sum of the group's leasable area.

Note 7 The Investment Corporation acquired approximately 54% of co-quasi ownership in USC Bldg. on February 16, 2018 and has owned 100% of trust beneficial interest in the property.  
Note 8 Amounts less than one million yen are rounded down.



*(c) Operation results of properties*

Operating results of each property held by the Investment Corporation as of June 30, 2018 were as follows:

Investment category	Investment area	Property Number	Name of property	For the six months ended								
				December 31, 2017				June 30, 2018				
				Number of tenants (Note 1)	Occupancy ratio (%) (Note 2)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (%) (Note 5)	Number of tenants (Note 1)	Occupancy ratio (%) (Note 2)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (%) (Note 5)	
Office Building	Three major metropolitan areas	Tokyo metropolitan area	OT-1	Sumitomo Fudosan Ueno Bldg. No.6	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)
			OT-2	G-Square Shibuya Dogenzaka	8	100.0	280,691	4.0	7	100.0	263,850	3.6
			OT-3	Shibuya Sakuragaoka Square	4	100.0	343,195	4.9	4	100.0	344,172	4.7
			OT-4	Yokohama Creation Square	39	87.4	294,408	4.2	39	91.8	287,763	4.0
			OT-5	Cube Kawasaki	10	100.0	573,827	8.2	10	100.0	594,812	8.2
			OT-6	Higashi-Nihombashi Green Bldg.	7	100.0	71,485	1.0	6	90.5	78,814	1.1
			OT-7	Sasazuka Center Bldg.	8	85.6	218,380	3.1	8	89.6	238,643	3.3
			OT-8	USC Bldg. (Note 7)	8	100.0	138,090	2.0	9	93.9	224,265	3.1
			OT-9	Yoshiyasu Kanda Bldg.	—	—	—	—	6	100.0	75,485	1.0
			OT-10	TOYOTA MOBILITY SERVICE Bldg.	—	—	—	—	1	100.0	(Note 6)	(Note 6)
			OT-11	M-City Akasaka 1-chome Bldg.	—	—	—	—	12	100.0	55,251	0.8
	Osaka metropolitan area	OO-1	Twin 21	105	97.8	2,130,688	30.6	106	98.1	2,078,356	28.6	
		OO-2	Matsushita IMP Bldg.	55	86.7	917,688	13.2	57	95.8	865,891	11.9	
		OO-4	MID REIT Kyobashi Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)	
		OO-5	MID Imabashi Bldg.	21	100.0	89,074	1.3	21	100.0	91,019	1.3	
		OO-7	Kitahama MID Bldg.	11	100.0	274,560	3.9	11	100.0	280,946	3.9	
OO-8		MID Nishihommachi Bldg.	18	100.0	74,551	1.1	17	97.4	78,424	1.1		
Other area	OR-1	Sendai Capital Tower	82	95.2	245,562	3.5	80	93.5	243,734	3.4		
Sub total				390	95.6	—	—	409	97.2	—	—	
Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1	100.0	726,000	10.4	1	100.0	726,000	10.0
		Osaka metropolitan area	RO-1	Konami Sports Club Kyobashi	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
	Other area	HR-1	Dormy Inn Hakata Gion	2	100.0	(Note 6)	(Note 6)	2	100.0	(Note 6)	(Note 6)	
	Sub total				4	100.0	—	—	4	100.0	—	—
Total				394	97.0	6,962,607	100.0	413	98.1	7,258,435	100.0	

Note 1 "Number of tenants" represents the number of tenants based on lease agreements that are valid at the end of each fiscal period. (Figures are for leased units only and exclude the tenants who rent only the floor space for storage, halls, parking, etc.). When a single tenant occupies multiple properties under each agreement, the tenant is counted for each property and totaled. When a single tenant rents multiple unit in a single property, the count is as one tenant. For a pass-through master leased property, the tenant is counted on an end-tenant basis assuming that all of end-tenants have been agreed that the lessee of the pass-through master lease agreement is lessor for them. When the Investment Corporation owns only land with leasehold interest, the count is of the number of lessees of the land.

Note 2 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2018 by the leasable area. In addition, the figures in the "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 rental revenues includes Sumitomo Fudosan Ueno Bldg. No.6, TOYOTA MOBILITY SERVICE Bldg., MID REIT Kyobashi Bldg., Konami Sports Club Kyobashi and Dormy Inn Hakata Gion.

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

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

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

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