

Translation

MCUBS MIDCITY INVESTMENT CORPORATION SUMMARY OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

August 15, 2019

Name of issuer: MUCBS MidCity Investment Corporation
("the Investment Corporation")
Stock exchange listing: Tokyo Stock Exchange
Securities code: 3227
Website: <https://www.midcity-reit.com/>
Representative of the Investment Corporation: Katsuhiro Tsuchiya, Executive Director
Name of asset manager: Mitsubishi Corp.- UBS Realty Inc.
Representative of the asset manager: Katsuji Okamoto, President & CEO
Contact: Katsura Matsuo, Head of Office Division
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Scheduled date for filing of securities report: September 26, 2019
Scheduled date for distributions payment: September 18, 2019
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, 2019 (January 1, 2019 to June 30, 2019)

(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, 2019	10,279	(4.8)	5,638	5.8	4,994	8.1	4,994	8.1
December 31, 2018	10,798	36.3	5,327	58.2	4,621	66.9	4,620	66.9

	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, 2019	3,039	3.5	1.8	48.6
December 31, 2018	2,812	3.3	1.7	42.8

(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	Yen	Millions of yen	Yen	Millions of yen	%	%
June 30, 2019	2,751	4,520	—	—	90.5	3.2
December 31, 2018	2,545	4,181	—	—	90.5	3.0

Note 1: Total distributions for the six months ended June 30, 2019 consist of unappropriated retained earnings at the end of period after transferring ¥474 million to reserve for reduction entry of property.

Note 2: Total distributions for the six months ended December 31, 2018 consist of unappropriated retained earnings at the end of period after transferring ¥439 million to reserve for reduction entry of property.

Note 3: Payout ratio is calculated by following formula.

$$\text{Payout ratio} = \text{Distribution per unit} \div \text{net income per unit} \times 100$$

(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, 2019	274,736	142,070	51.7	86,463
December 31, 2018	280,790	141,257	50.3	85,969

(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, 2019	16,534	(4,532)	(11,080)	17,199
December 31, 2018	20,665	(25,007)	4,100	16,277

2. Outlook for the six months ending December 31, 2019 (July 1, 2019 to December 31, 2019) and June 30, 2020 (January 1, 2020 to June 30, 2020) and

(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, 2019	8,340	(18.9)	3,802	(32.6)	3,214	(35.6)	3,213	(35.7)
June 30, 2020	8,287	(0.6)	3,831	0.8	3,255	1.3	3,254	1.3

	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, 2019	1,955		1,955		—	
June 30, 2020	1,980		1,980		—	

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, 2019 1,643,125 units

As of December 31, 2018 1,643,125 units

Number of treasury units at end of period:

As of June 30, 2019 0 unit

As of December 31, 2018 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 23.

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 “1. Results of Operations, (2) Outlook of Next Fiscal Period, B. Outlook for Business” on page 5.

1. Results of Operations

(1) Overview of the Fiscal Period under Review

A. Brief background to MCUBS MidCity

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

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

Since MCUBS MidCity began investing in 9 properties in 2006 at a total acquisition price of ¥146,650 million, MCUBS MidCity has achieved steady growth in assets through continuous acquisition of properties. As of June 30, 2019, 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 of ¥260,619 million.

(Note) As of July 1, 2019, an absorption-type merger has been conducted with MCUBS MidCity Inc. as the dissolving company and Mitsubishi Corp.- UBS Realty. Inc as the surviving company. After this merger, Mitsubishi Corp.- UBS Realty. Inc engages in asset management for MCUBS MidCity.

B. Investment Environment and Management Results

In this fiscal period (January - June 2019), as part of the strategic asset replacement, in March 2019 MCUBS MidCity disposed the remaining 45% quasi-co-ownership of the Matsushita IMP Bldg. in the Osaka area (disposition price: ¥12,150 million) the rest of 55% were disposed in the previous fiscal period (July - December 2018). In the same month, we acquired M-City Edogawabashi Bldg. in the Tokyo area with an acquisition price of ¥4,070 million to reduce risks through diversified investments. As of the end of this fiscal period, MCUBS MidCity's portfolio was comprised 23 properties at a total acquisition price of ¥260,619 million. The investment ratio (based on the acquisition price) of which are distributed in terms of geographic region was 97.0% in the three major metropolitan areas (including 59.8% in the Tokyo area, 35.3% in the Osaka area, and 1.9% in the Nagoya area), 3.0% in other areas, and are distributed in terms of property type was 88.0% in office properties and 12.0% in others.

In addition, the occupancy rate at the end of this fiscal period rose 98.5%, to 99.4%, as a result of efforts to attract new tenants and improve the satisfaction of existing tenants, benefiting from an improvement in the vacancy rate and the office leasing market, which continues to see a gradual upward trend in rent levels. The total leasable area is 354,878.02 m², and the number of tenants is 371.

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

C. Overview of Fund Procurement

i. Issuance of New Investment Units

MCUBS MidCity does not raise funds through issuance of new investment units. The total number of investment units issued and outstanding as of the end of the fiscal period was 1,643,125 units.

ii. Debt Financing

In the fiscal period, MCUBS MidCity repaid a portion of the proceeds from the sale of the Matsushita IMP Bldg. in advance of the repayment of ¥6,900 million in March 2019. As of the end of the fiscal period, MCUBS MidCity had borrowed ¥107,975 million from 19 financial institutions, and the outstanding amount of investment corporation bonds was ¥8,000 million. The ratio of interest-bearing debt to total assets (hereinafter referred to as "LTV") is 42.2%, the ratio of long-term debt is 100.0% (including long-term debt due within 1 year), and the ratio of fixed interest rates is 84.0% (including fixed interest rates under interest rate swap agreements).

On March 5, 2019, the JCR rating was upgraded from A+ to AA-. The rating of the MCUBS MidCity as of the end of the fiscal period is as follows:

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

D. Overview of Business Performance and Distribution

As a result of the management described above, MCUBS MidCity recorded operating revenue of ¥10,279 million, operating income of ¥5,638 million, ordinary income of ¥4,994 million, and net income of ¥4,994 million.

Distributions are to be distributed in excess of 90% of the amount of distributable earnings in an attempt to include distributions of retained earnings as deductible expenses through the application of Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, including amendments thereto) (hereinafter referred to as the "Act on Special Measures Concerning Taxation"). In accordance with this policy, MCUBS MidCity decided to distribute a portion of the gain on the sale of the Matsushita IMP Bldg. (45% quasi-co-ownership) disposed in March 2019 from unappropriated retained earnings of ¥474 million as a reserve for reduction entry and the remaining amount of ¥4,520 million after deducting the amount of the reserve as distributions. As a result, the distribution per unit was ¥2,751.

(2) Outlook of Next Fiscal Period

A. Future Asset Management Policies and Challenges to Address

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

i. Internal Growth Strategy

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

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

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

ii. External Growth Strategy

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

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

iii. Financial Strategy

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

B. Outlook for Business

i. Important Matters Subsequent to the End of the Fiscal Period

Not applicable.

ii. Financial Outlook

The business forecasts for the fiscal period ending December 31, 2019 (July 1, 2019 to December 31, 2019) and the business forecasts for the fiscal period ending June 30, 2020 (January 1, 2020 to June 30, 2020) are prepared based on the following " Assumptions for the Business Forecast for the Fiscal Period Ending December 31, 2019 (27th Fiscal Period: July 1, 2,019 to December 31, 2019) and Fiscal Period Ending June 30, 2020 (28th Fiscal Period: January 1, 2,020 to June 30, 2020)"

Assumptions for the Business Forecast
for the Fiscal Period Ending December 31, 2019 (27th Fiscal Period: July 1, 2019 to December 31, 2019)
and the Fiscal Period Ending June 30, 2020 (28th Fiscal Period: January 1, 2020 to June 30, 2020)

Item	Assumption
Asset under management	<ul style="list-style-type: none"> • The assumption is that MCUBS MidCity holds 23 properties (including silent partnership interests) as of June 30, 2019, and that there will be no changes in assets under management (acquisition of new properties, disposition of existing properties, etc.) until the end of June 2020. • Actual results may fluctuate due to changes in the property portfolio and other factors.
Operating revenue	<ul style="list-style-type: none"> • Rental revenue is calculated based on the lease agreements in force as of today, taking into account the market environment, the characteristics of each property, the competitiveness of each property, and the situation of each tenant. • Operating revenue is based on the assumption that there is no arrears or nonpayment of rents by tenants. • Dividend income from silent partnership interests is calculated reflecting a forecast about occupancy of real estate that is a source of cash flow.
Operating expenses	<ul style="list-style-type: none"> • Of the expenses related to rental business, which are the main operating expenses, expenses other than depreciation are calculated based on historical data and reflecting seasonal factors and other cost fluctuation factors. • Property management fees are assumed to be ¥842 million for the fiscal period ending December 31, 2019 and ¥819 million for the fiscal period ending June 30, 2020. • Utilities expenses are assumed to be ¥635 million for the fiscal period ending December 31, 2019 and ¥538 million for the fiscal period ending June 30, 2020. • Fixed asset taxes, city planning taxes and depreciable asset taxes (hereinafter referred to as "fixed asset taxes, etc.") are assumed to be ¥679 million for the fiscal period ending December 31, 2019 and ¥683 million for the fiscal period ending June 30, 2020. In general, the fixed property taxes, city planning taxes, etc. of the acquired asset are paid at the time of acquisition by calculating the period apportionment with the previous owner, and such amounts will be included in the purchase price of properties. Accordingly, with respect to fixed property taxes, city planning taxes, etc. of the newly acquired properties will be recorded as expenses in the following acquisition year onwards. • Repairs of buildings are expensed in the amount expected to be required during the respective accounting fiscal periods. Repair and maintenance expenses are assumed to be ¥248 million for the fiscal period ending December 31, 2019, and ¥214 million for the fiscal period ending June 30, 2020. 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. • Depreciation is assumed to be ¥1,172 million for the fiscal period ending December 31, 2019 and ¥1,197 million for the fiscal period ending June 30, 2020 on a straight-line basis, including incidental expenses and additional future capital expenditures.
Non-operating expense	<ul style="list-style-type: none"> • Interest expenses are assumed to be ¥439 million for the fiscal period ending December 31, 2019 and ¥440 million for the fiscal period ending June 30, 2020. • Borrowing-related expenses are assumed to be ¥124 million for the fiscal period ending December 31, 2019 and ¥117 million for the fiscal period ending June 30, 2020. • Amortization of investment unit issuance costs are assumed to be ¥17 million for the fiscal period ending December 31, 2019 and ¥11 million for the fiscal period ending June 30, 2020.
Interest-bearing debt	<ul style="list-style-type: none"> • The balance of interest-bearing debt is assumed to be ¥115,975 million at the end of December 2019 and ¥115,975 million at the end of June 2020. • The scheduled repayments in the fiscal period ending December 31, 2019 of ¥15,200 million (due on July 31, 2019) have been refinanced by the same amount.
Number of investment units issued and outstanding	<ul style="list-style-type: none"> • It is assumed that the total number of investment units issued and outstanding is 1,643,125 units, which is the number as of today. • The assumption is that there will be no additional issuance of new investment units until the end of the fiscal period ending June 30, 2020.

Distribution per unit	<ul style="list-style-type: none"> • Distributions per unit is calculated on the basis of the cash distribution policy set forth in the Article of Incorporation of MCUBS MidCity. • Distribution per unit may change due to various factors, including changes in assets under management, fluctuations in rental income resulting from changes in tenants, etc., unexpected repairs, interest rate fluctuations, and additional issuance of new investment units.
Distribution in excess of earnings per unit	<ul style="list-style-type: none"> • It is assumed that no cash distributions in excess of earnings (distribution in excess of earnings per unit) will be made.
Other	<ul style="list-style-type: none"> • The assumption is that there will be no revision in laws and regulations, the tax system, accounting standards, the regulations on the listing of securities, or the regulations of the Investment Trusts Association, Japan, etc. that will affect the above forecast figures. • The assumption is that there will be no unexpected material change in general economic trends, real estate market conditions, etc.

2. Financial information

(1) Balance sheets

	(Thousands of yen)	
	As of	
	December 31, 2018	June 30, 2019
ASSETS		
Current assets:		
Cash and bank deposits	12,094,297	12,862,061
Cash and bank deposits in trust	4,872,591	4,337,318
Rental receivables	180,638	172,809
Income taxes receivable	33,000	32,332
Prepaid expenses	68,404	47,571
Other	64	—
Total current assets	17,248,997	17,452,093
Noncurrent assets:		
Property and equipment:		
Buildings in trust, at cost (Note 1)	80,908,877	75,054,399
Less: Accumulated depreciation	(20,830,268)	(19,219,593)
Buildings in trust, net	60,078,608	55,834,806
Structures in trust, at cost	116,879	188,913
Less: Accumulated depreciation	(31,165)	(28,475)
Structures in trust, net	85,714	160,438
Machinery and equipment in trust, at cost	5,819	4,103
Less: Accumulated depreciation	(2,681)	(2,048)
Machinery and equipment in trust, net	3,138	2,055
Tools, furniture and fixtures in trust, at cost (Note 1)	563,061	516,446
Less: Accumulated depreciation	(401,044)	(364,194)
Tools, furniture and fixtures in trust, net	162,016	152,252
Land in trust	197,324,195	195,353,088
Construction in progress in trust	22,701	27,581
Total net property and equipment	257,676,375	251,530,221
Intangible assets:		
Software	2,863	2,611
Total intangible assets	2,863	2,611
Investments and other assets:		
Investment securities	5,085,027	5,085,027
Lease and guarantee deposits	10,210	10,210
Long-term prepaid expenses	645,351	557,669
Deferred tax assets	10	3
Total investments and other assets	5,740,599	5,652,910
Total noncurrent assets	263,419,838	257,185,744
Deferred charges:		
Investment corporation bonds issuance costs	61,825	56,445
Investment unit issuance costs	59,678	41,815
Total deferred charges	121,503	98,261
TOTAL ASSETS	280,790,339	274,736,099

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

(Thousands of yen)

	As of	
	December 31, 2018	June 30, 2019
LIABILITIES		
Current liabilities:		
Operating accounts payable	581,053	365,271
Short-term loans payable	6,900,000	—
Current portion of long-term loans payable	15,200,000	23,750,000
Accounts payable	1,007,866	1,179,279
Accrued expenses	143,871	152,678
Distribution payable	12,452	12,691
Consumption taxes payable	129,446	507,959
Advances received	1,102,088	1,159,880
Other	698,838	605,871
Total current liabilities	25,775,617	27,733,631
Noncurrent liabilities:		
Investment corporation bonds – unsecured	8,000,000	8,000,000
Long-term loans payable	92,775,000	84,225,000
Tenant leasehold and security deposits	12,341,919	12,706,996
Tenant leasehold and security deposits in trust	639,893	—
Total noncurrent liabilities	113,756,813	104,931,996
TOTAL LIABILITIES	139,532,431	132,665,628
NET ASSETS		
Unitholders' equity:		
Unitholders' capital	136,452,412	136,452,412
Surplus:		
Voluntary reserve		
Reserve for reduction entry of property	183,659	622,708
Total voluntary reserve	183,659	622,708
Retained earnings	4,621,836	4,995,350
Total surplus	4,805,495	5,618,059
Total unitholders' equity	141,257,908	142,070,471
TOTAL NET ASSETS (Note 2)	141,257,908	142,070,471
TOTAL LIABILITIES AND NET ASSETS	280,790,339	274,736,099

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)

	For the six months ended	
	December 31, 2018	June 30, 2019
Operating revenues		
Rent revenues—real estate (Note 4)	7,764,585	7,693,769
Other rental business revenues (Note 4)	604,778	485,415
Dividends income	165,565	161,560
Gain on sales of property and equipment (Note 5)	2,263,726	1,938,695
Total operating revenues	<u>10,798,655</u>	<u>10,279,441</u>
Operating expenses		
Expenses related to rental business (Note 4)	4,128,604	3,682,666
Loss on sales of property and equipment (Note 5)	427,905	—
Asset management fees	789,078	824,956
Asset custody fees	5,961	5,970
Administrative service fees	36,548	37,283
Directors' compensations	8,700	11,020
Other	73,880	79,132
Total operating expenses	<u>5,470,678</u>	<u>4,641,030</u>
Operating income	<u>5,327,977</u>	<u>5,638,411</u>
Non-operating income		
Interest income	79	81
Reversal of distribution payable	514	1,219
Interest on refund	1,024	25
Settlement money for property tax	—	757
Other	405	0
Total non-operating income	<u>2,024</u>	<u>2,082</u>
Non-operating expenses		
Interest expenses	431,996	423,964
Interest expenses on investment corporation bonds	22,492	22,525
Borrowing related expenses	138,791	130,505
Amortization of investment corporation bonds issuance costs	5,379	5,379
Amortization of investment unit issuance costs	19,838	17,862
Other	89,930	46,229
Total non-operating expenses	<u>708,429</u>	<u>646,466</u>
Ordinary income	<u>4,621,572</u>	<u>4,994,027</u>
Extraordinary gain		
Subsidy income	—	967
Total extraordinary gain	<u>—</u>	<u>967</u>
Income before income taxes	<u>4,621,572</u>	<u>4,994,994</u>
Income taxes		
Current	819	671
Deferred	27	7
Total income taxes	<u>847</u>	<u>678</u>
Net income	<u>4,620,725</u>	<u>4,994,316</u>
Retained earnings brought forward	1,111	1,033
Unappropriated retained earnings	4,621,836	4,995,350

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, 2018

	Unitholders' equity							
	Surplus						Total unitholders' equity	Total net assets
	Unitholders' capital (Note 2)	Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity		
		Unitholders' capital (Note 2)	Reserve for reduction entry of property					
Balance as of June 30, 2018	136,452,412	183,659	183,659	2,768,133	2,951,792	139,404,205	139,404,205	
<u>Changes during the period</u>								
Dividends from surplus	—	—	—	(2,767,022)	(2,767,022)	(2,767,022)	(2,767,022)	
Net income	—	—	—	4,620,725	4,620,725	4,620,725	4,620,725	
<u>Total changes during the period</u>	—	—	—	1,853,703	1,853,703	1,853,703	1,853,703	
Balance as of December 31, 2018	136,452,412	183,659	183,659	4,621,836	4,805,495	141,257,908	141,257,908	

For the six months ended June 30, 2019

	Unitholders' equity							
	Surplus						Total unitholders' equity	Total net assets
	Unitholders' capital (Note 2)	Voluntary reserve		Retained earnings	Total surplus	Total unitholders' equity		
		Unitholders' capital (Note 2)	Reserve for reduction entry of property					
Balance as of December 31, 2018	136,452,412	183,659	183,659	4,621,836	4,805,495	141,257,908	141,257,908	
<u>Changes during the period</u>								
Provision of reserve for reduction entry of property	—	439,049	439,049	(439,049)	—	—	—	
Dividends from surplus	—	—	—	(4,181,753)	(4,181,753)	(4,181,753)	(4,181,753)	
Net income	—	—	—	4,994,316	4,994,316	4,994,316	4,994,316	
<u>Total changes during the period</u>	—	439,049	439,049	373,514	812,563	812,563	812,563	
Balance as of June 30, 2019	136,452,412	622,708	622,708	4,995,350	5,618,059	142,070,471	142,070,471	

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, 2018	June 30, 2019
Unappropriated retained earnings	4,621,836,523	4,995,350,688
Cash distribution declared	4,181,753,125	4,520,236,875
<i>(Cash distribution declared per unit)</i>	<i>(2,545)</i>	<i>(2,751)</i>
Voluntary reserve		
Provision of reduction entry of property	439,049,427	474,524,519
Retained earnings carried forward	1,033,971	589,294

Note:

For the six months ended December 31, 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, the Investment Corporation transferred a portion of unappropriated retained earnings calculated based on Article 65-7 of the Special Taxation Measures Act of Japan to reserve for reduction entry and declared a total of ¥4,181,753,125 for cash distributions which was all of the remaining retained earnings except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 4.

For the six months ended June 30, 2019

In accordance with the distribution policy in Article 34, Paragraph 1, Item 2 of the Investment Corporation's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15 of the Special Taxation Measures Act of Japan and Article 39-32-3 of the Ordinance for Enforcement of the Special Taxation Measures Act for the fiscal period, the Investment Corporation transferred a portion of unappropriated retained earnings calculated based on Article 65-7 of the Special Taxation Measures Act of Japan to reserve for reduction entry and declared a total of ¥4,520,236,875 for cash distributions which was all of the remaining retained earnings except for fractional distribution per unit less than one yen. The Investment Corporation generally does not make distribution in excess of profit prescribed in the article of incorporation 34, Paragraph 1, Item 4.

(5) Statements of cash flows

(Thousands of yen)

	For the six months ended	
	December 31, 2018	June 30, 2019
Cash flows from operating activities:		
Income before income taxes	4,621,572	4,994,994
Depreciation and amortization	1,325,504	1,220,258
Amortization of long-term prepaid expenses	97,592	102,290
Amortization of investment unit issuance costs	19,838	17,862
Amortization of investment corporation bonds issuance costs	5,379	5,379
Interest income	(79)	(81)
Interest expenses	454,489	446,489
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	(5,747)	7,829
Decrease (increase) in consumption taxes refundable	251,725	—
Increase (decrease) in consumption taxes payable	129,446	378,513
Increase (decrease) in operating accounts payable	168,092	(215,782)
Increase (decrease) in accounts payable	85,767	45,666
Increase (decrease) in advances received	(125,707)	57,791
Decrease (increase) in prepaid expenses	(31,142)	20,833
Payments of long-term prepaid expenses	(182,302)	(14,609)
Decrease in property and equipment in trust due to disposition	14,317,774	9,934,504
Other, net	1,069	(30,040)
Subtotal	<u>21,133,276</u>	<u>16,971,900</u>
Interest income received	79	81
Interest expenses paid	(460,536)	(437,682)
Income taxes paid	(7,536)	(2)
Net cash provided by operating activities	<u>20,665,282</u>	<u>16,534,296</u>
Cash flows from investing activities:		
Purchases of property and equipment in trust	(23,306,548)	(4,882,863)
Purchases of intangible assets	(424)	(314)
Proceeds from tenant leasehold and security deposits	404,713	555,628
Proceeds from tenant leasehold and security deposits in trust	32,200	24,352
Payments of tenant leasehold and security deposits	(1,428,888)	(204,598)
Payments of tenant leasehold and security deposits in trust	(19,004)	(713,714)
Proceeds from restricted bank deposits in trust	19,004	713,714
Payments for restricted bank deposits in trust	(708,367)	(24,352)
Net cash used in investing activities	<u>(25,007,314)</u>	<u>(4,532,147)</u>
Cash flows from financing activities:		
Proceeds from short-term loans payable	6,900,000	—
Repayments of short-term loans payable	—	(6,900,000)
Proceeds from long-term loans payable	15,300,000	—
Repayments of long-term loans payable	(15,300,000)	—
Dividends paid	(2,765,177)	(4,180,294)
Other, net	(34,019)	—
Net cash provided by (used in) financing activities	<u>4,100,803</u>	<u>(11,080,294)</u>
Net change in cash and cash equivalents	<u>(241,228)</u>	<u>921,854</u>
Cash and cash equivalents at the beginning of period	<u>16,518,754</u>	<u>16,277,526</u>
Cash and cash equivalents at the end of period (Note 6)	<u>16,277,526</u>	<u>17,199,380</u>

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 and equipment (Including trust assets)

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

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

(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 and equipment

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

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

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

Taxes on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥64,219 thousand and ¥13,603 thousand for the six months ended December 31, 2018 and June 30, 2019, respectively.

(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 rate 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 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 of property

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

(Thousands of yen)

	As of	
	December 31, 2018	June 30, 2019
Reduction entry by:		
Government subsidies received		
Buildings in trust	54,864	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, 2018	June 30, 2019
Authorized	10,000,000 units	10,000,000 units
Issued and outstanding	1,643,125 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, 2018 and June 30, 2019, 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, 2018	June 30, 2019
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 revenues and expenses

Revenues and expenses related to property rental business for the six months ended December 31, 2018 and June 30, 2019 consist of the following:

(Thousands of yen)

	For the six months ended	
	December 31, 2018	June 30, 2019
Rental business revenues:		
Rent revenues—real estate:		
Rental revenues	6,240,983	6,212,051
Common area charges	1,293,278	1,282,606
Parking lots	230,323	199,111
Total rent revenues—real estate	7,764,585	7,693,769
Other rental business revenues:		
Utilities	491,308	415,031
Cancellation penalty	24,631	—
Other	88,837	70,383
Total other rental business revenues	604,778	485,415
Total rental business revenues	8,369,363	8,179,185
Expenses related to rental business:		
Property management fees	888,442	867,278
Utilities	737,317	595,384
Property-related taxes	673,870	665,977
Insurance	9,127	8,032
Repair and maintenance	417,158	268,161
Depreciation	1,325,541	1,220,319
Other	77,145	57,512
Total expenses related to rental business	4,128,604	3,682,666
Operating income from property leasing activities	4,240,759	4,496,518

Note 5 – Analysis of gain or loss on sales of property and equipment

Analysis of gain or loss on sales of property and equipment for the six months ended December 31, 2018 and June 30, 2019 is as follows:

(Thousands of yen)

	For the six months ended		
	December 31, 2018		June 30, 2019
	Matsushita IMP Bldg.	MID REIT Kyobashi Bldg.	Matsushita IMP Bldg.
Sale of property and equipment	14,850,000	1,700,000	12,150,000
Cost of property and equipment	12,261,446	2,056,328	9,934,504
Other sales expenses	324,827	71,576	276,799
Gain (loss) on sales of property and equipment, net	2,263,726	(427,905)	1,938,695

Note 6 – 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, 2018	June 30, 2019
Cash and bank deposits	12,094,297	12,862,061
Cash and bank deposits in trust	4,872,591	4,337,318
Restricted bank deposits in trust ⁽¹⁾	(689,362)	—
Cash and cash equivalents	<u>16,277,526</u>	<u>17,199,380</u>

Note:

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

Note 7 – 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, 2018 and June 30, 2019 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

(Thousands of yen)

	As of	
	December 31, 2018	June 30, 2019
Due within one year	4,317,290	4,427,796
Due after one year	7,916,908	7,252,206
Total	<u>12,234,198</u>	<u>11,680,002</u>

(b) Lease commitments

Future minimum lease payments required under the terms of operating leases as of December 31, 2018 and June 30, 2019 are as follows:

(Thousands of yen)

	As of	
	December 31, 2018	June 30, 2019
Due within one year	6,036	6,036
Due after one year	7,545	4,527
Total	<u>13,581</u>	<u>10,563</u>

Note 8 – 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, security deposits and investment corporation bond are managed by decentralizing maturity date of loans payable and investment corporation bond and maintaining liquidity with preparing plans for funds.

Although loans payable with floating interest rates are subject to fluctuations in market interest rates, a certain portion of loans payable with floating interest rates is hedged by interest rate swaps. The 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, 2018 and June 30, 2019.

(Thousands of yen)

	As of					
	December 31, 2018			June 30, 2019		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
(1) Cash and bank deposits	12,094,297	12,094,297	—	12,862,061	12,862,061	—
(2) Cash and bank deposits in trust	4,872,591	4,872,591	—	4,337,318	4,337,318	—
Total assets	16,966,888	16,966,888	—	17,199,380	17,199,380	—
(3) Short-term loans payable	6,900,000	6,900,000	—	—	—	—
(4) Current portion of long-term loans payable	15,200,000	15,236,901	36,901	23,750,000	23,772,901	22,901
(5) Investment corporation bonds – unsecured	8,000,000	8,028,450	28,450	8,000,000	8,038,750	38,750
(6) Long-term loans payable	92,775,000	93,856,301	1,081,301	84,225,000	85,641,384	1,416,384
Total liabilities	122,875,000	124,021,652	1,146,652	115,975,000	117,453,036	1,478,036
(7) 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) Short-term loans payable

Because of their short maturities and floating interest rates, the carrying amounts of short-term loans payable approximate their fair values.

(4) Current portion of long-term loans payable and (6) 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.

(5) Investment corporation bonds – unsecured

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

(7) Derivative instruments

Please refer to “Note 9 - Derivative instruments” for further information.

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

	(Thousands of yen)	
	As of	
	December 31, 2018	June 30, 2019
Investment securities	5,085,027	5,085,027
Tenant leasehold and security deposits	12,341,919	12,706,996
Tenant leasehold and security deposits in trust	639,893	—

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

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

(Thousands of yen)						
As of December 31, 2018	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	12,094,297	—	—	—	—	—
Cash and bank deposits in trust	4,872,591	—	—	—	—	—
Total	16,966,888	—	—	—	—	—

(Thousands of yen)						
As of June 30, 2019	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Cash and bank deposits	12,862,061	—	—	—	—	—
Cash and bank deposits in trust	4,337,318	—	—	—	—	—
Total	17,199,380	—	—	—	—	—

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

(Thousands of yen)						
As of December 31, 2018	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	6,900,000	—	—	—	—	—
Long-term loans payable	15,200,000	22,850,000	14,250,000	9,900,000	10,200,000	35,575,000
Investment corporation bonds – unsecured	—	—	1,500,000	1,000,000	—	5,500,000

(Thousands of yen)						
As of June 30, 2019	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term loans payable	23,750,000	19,600,000	12,950,000	11,200,000	8,900,000	31,575,000
Investment corporation bonds – unsecured	—	1,500,000	1,000,000	—	—	5,500,000

Note 9 – Derivative instruments

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

(Thousands of yen)						
Method of hedge accounting	Type of derivatives	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 swap (Floating-rate to fixed-rate interest)	Long-term loans payable	32,600,000	28,600,000	Note 1	-

(Thousands of yen)						
Method of hedge accounting	Type of derivatives	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 swap (Floating-rate to fixed-rate interest)	Long-term loans payable	32,600,000	28,600,000	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 8 - Financial instruments (b) Quantitative information for financial instruments”.

Note 10 – Related-party transactions

There was no related-party transaction to be disclosed for the six months ended December 31, 2018 and June 30, 2019.

Note 11 – Segment information

Segment information for the six months ended December 31, 2018 and June 30, 2019 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		Related segment
	December 31, 2018	June 30, 2019	
Panasonic Corporation	1,061,467	1,052,422	Property rental business
AEON Retail Co., Ltd.	726,000	—	Property rental business

Note 12 – Fair value of investment and rental properties

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 the aggregate for the six months ended December 31, 2018 and June 30, 2019.

(Thousands of yen)

	As of / For the six months ended	
	December 31, 2018	June 30, 2019
Net book value		
Balance at the beginning of the period	249,844,634	257,654,032
Net increase (decrease) during the period ⁽¹⁾	7,809,397	(6,150,780)
Balance at the end of the period	257,654,032	251,503,251
Fair value	267,920,000	267,940,000

Notes:

(1) For the six months ended December 31, 2018:

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

		Increase (decrease) in net book value
		(Thousands of yen)
Acquisition:	Yokohama i-land Tower	22,870,427
Dispositions:	Matsushita IMP Bldg. (partial disposition)	(12,261,446)
	MID REIT Kyobashi Bldg.	(2,056,328)

For the six months ended June 30, 2019:

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

		Increase (decrease) in net book value
		(Thousands of yen)
Acquisition:	M-City Edogawabashi Bldg.	4,135,319
Disposition:	Matsushita IMP Bldg.	(9,934,504)

(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, 2018 and June 30, 2019, please refer to “Note 4 – Rental business revenue and expenses.”

Note 13 – Per unit information

The net asset value per unit as of December 31, 2018 and June 30, 2019 was ¥85,969 and ¥86,463, respectively. Net income per unit for the six months ended December 31, 2018 and June 30, 2019 was ¥2,812 and ¥3,039, respectively.

The net income per unit is calculated by dividing the net income attributable to unitholders by the adjusted weighted average number of units outstanding during the six-month period. The Investment Corporation has no potentially dilutive units.

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

	(Thousands of yen)	
	For the six months ended	
	December 31, 2018	June 30, 2019
Net income	4,620,725	4,994,316
Effect of dilutive units	—	—
Net income attributable to unitholders	4,620,725	4,994,316
Adjusted weighted-average number of units outstanding for the period	1,643,125 units	1,643,125 units

Note 14 – Subsequent events

None

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

There was no change in unitholders' capital for the six months ended June 30, 2019. 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.

3. Additional information

(1) Composition of assets

Classification of assets	Investment category	Investment area	As of December 31, 2018		As of June 30, 2019	
			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)	128,616	45.8	132,597	48.3
		Osaka metropolitan area (Note 2)	95,376	34.0	85,361	31.1
		Other areas	5,586	2.0	5,623	2.0
	Other	Three major metropolitan areas				
		Tokyo metropolitan area (Note 2)	23,615	8.4	23,500	8.6
		Osaka metropolitan area (Note 2)	2,357	0.8	2,339	0.9
	Other areas	2,101	0.7	2,081	0.8	
Sub-total			257,654	91.8	251,503	91.5
Investments in Tokumei Kumiai agreement (Note 3)			5,085	1.8	5,085	1.9
Bank deposits and other assets			18,051	6.4	18,147	6.6
Total assets			280,790	100.0	274,736	100.0
Total liabilities			139,532	49.7	132,665	48.3
Total net assets			141,257	50.3	142,070	51.7

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, 2019 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, 2019 were as follows:

Investment category	Investment area		Property Number	Name of property	Location (Note 1)	Form of ownership	Net book value	Appraisal value	Leasable area	Leased area	Occupancy ratio
							(Note 2) Millions of yen	(Note 3) Millions of yen	(Note 4) (m ²)	(Note 5) (m ²)	(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	7,548	8,700	6,858.16	6,858.16	100.0
			OT-2	G-Square Shibuya Dogenzaka	2-11-1 Dogenzaka, Shibuya-ku, Tokyo	Trust beneficial interest	12,156	16,000	5,010.68	5,010.68	100.0
			OT-3	Shibuya Sakuragaoka Square	31-15, Sakuragaokacho, Shibuya-ku, Tokyo	Trust beneficial interest	17,357	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	7,015	8,190	12,706.18	12,476.50	98.2
			OT-5	Cube Kawasaki	1-14 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficial interest	20,410	22,600	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	2,841	3,160	3,254.77	3,254.77	100.0
			OT-7	Sasazuka Center Bldg.	2-1-6, Sasazuka, Shibuya-ku, Tokyo	Trust beneficial interest	9,057	9,120	8,239.17	8,239.17	100.0
			OT-8	USC Bldg.	4-11-38, Toyo, Koto-ku, Tokyo	Trust beneficial interest	11,095	11,500	12,489.08	11,724.28	93.9
			OT-9	Yoshiyasu Kanda Bldg.	2-1-15, Iwamotocho, Chiyoda-ku, Tokyo	Trust beneficial interest	4,206	4,280	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	9,626	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	4,340	4,430	2,581.62	2,581.62	100.0
			OT-12	Yokohama i-land Tower	6-50-1, Honmachi, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficial interest	22,810	23,400	25,460.50	25,460.50	100.0
			OT-13	M-City Edogawabashi Bldg.	1-44-10, Sekiguchi, Bunkyo-ku, Tokyo	Trust beneficial interest	4,130	4,240	3,472.70	3,472.70	100.0
	Office Building	Osaka metropolitan area		OO-1	Twin 21	2-1-61 Shiromi, Chuo-ku, Osaka-shi	Trust beneficial interest	65,914	59,800	82,304.84	81,620.87
OO-5				MID Imabashi Bldg.	2-3-16 Imabashi, Chuo-ku, Osaka-shi	Trust beneficial interest	3,074	2,470	4,277.63	4,277.63	100.0
OO-7				Kitahama MID Bldg.	1-6-7 Doshomachi, Chuo-ku, Osaka-shi	Trust beneficial interest	10,264	10,700	10,189.49	10,189.49	100.0
OO-8				MID Nishihommachi Bldg.	1-6-1 Awaza, Nishi-ku, Osaka-shi	Trust beneficial interest	3,327	2,490	3,881.74	3,881.74	100.0
OO-9				Higobashi MID Bldg.	1-5-16 Edojori, Nishi-ku, Osaka-shi	Trust beneficial interest	2,779	3,970	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	5,623	6,760	12,997.45	12,450.01	95.8
Sub total							223,581	231,410	238,526.41	236,300.52	99.1
Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1-23-1 Tsudanuma, Narashino-shi, Chiba	Trust beneficial interest	23,500	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	2,339	3,430	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	2,081	4,600	5,554.91	5,554.91	100.0	
	Sub total							27,921	36,530	116,351.61	116,351.61
Total							251,503	267,940	354,878.02	352,652.13	99.4

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, 2019 appraised by the real estate appraiser (JLL Morii Valuation & Advisory, K.K., Tanizawa Sōgō Appraisal Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and Japan Real Estate Institute) in accordance with the methods and standard of assets valuation as stipulated in the Articles of Incorporation of the Investment Corporation as well as the regulations as stipulated by The Investment Trusts Association, Japan.

Note 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 Dormy Inn Hakata Gion) that is leasable as of June 30, 2019.

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 Dormy Inn Hakata Gion) that is leased under lease agreements valid as of June 30, 2019.

Note 6 "Occupancy ratio" is presented as percentage figures, which are obtained by dividing the leased area as of June 30, 2019 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.

Note 7 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, 2019 were as follows:

Investment category	Investment area	Property Number	Name of property	For the six months ended								
				December 31, 2018				June 30, 2019				
				Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)	Number of tenants (Note 1)	Occupancy ratio (Note 2) (%)	Rental revenues (Notes 3 and 4) (Thousands of yen)	Ratio of rental revenue to total rental revenues (Note 5) (%)	
Office Building	Three major metropolitan areas	Tokyo metropolitan area	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	264,103	3.4	8	100.0	283,662	3.7
			OT-3	Shibuya Sakuragaoka Square	4	100.0	345,290	4.4	4	100.0	345,226	4.5
			OT-4	Yokohama Creation Square	41	91.9	305,952	3.9	42	98.2	317,103	4.1
			OT-5	Cube Kawasaki	10	100.0	659,467	8.5	10	100.0	658,774	8.6
			OT-6	Higashi-Nihombashi Green Bldg.	7	100.0	78,962	1.0	7	100.0	82,487	1.1
			OT-7	Sasazuka Center Bldg.	9	100.0	260,820	3.4	9	100.0	255,969	3.3
			OT-8	USC Bldg.	9	93.9	275,260	3.5	9	93.9	283,869	3.7
			OT-9	Yoshiyasu Kanda Bldg.	6	100.0	101,495	1.3	6	100.0	101,204	1.3
			OT-10	TOYOTA MOBILITY SERVICE Bldg.	1	100.0	(Note 6)	(Note 6)	1	100.0	(Note 6)	(Note 6)
			OT-11	M-City Akasaka 1-chome Bldg.	12	100.0	87,100	1.1	12	100.0	76,813	1.0
			OT-12	Yokohama i-land Tower	6	98.2	375,142	4.8	7	100.0	653,376	8.5
			OT-13	M-City Edogawabashi Bldg.	—	—	—	—	2	100.0	(Note 6)	(Note 6)
	Osaka metropolitan area	OO-1	Twin 21	107	98.2	2,218,637	28.6	110	99.2	2,224,711	28.9	
		OO-2	Matsushita IMP Bldg. (Note 7)	61	96.7	588,183	7.6	—	—	152,897	2.0	
		OO-4	MID REIT Kyobashi Bldg. (Note 8)	—	—	(Note 6)	(Note 6)	—	—	—	—	
OO-5		MID Imabashi Bldg.	21	100.0	93,652	1.2	21	100.0	94,350	1.2		
OO-7		Kitahama MID Bldg.	11	100.0	280,462	3.6	11	100.0	281,429	3.7		
OO-8		MID Nishihommachi Bldg.	18	100.0	80,095	1.0	18	100.0	85,483	1.1		
OO-9		Higobashi MID Bldg.	12	100.0	111,887	1.4	12	100.0	112,624	1.5		
Other area	OR-1	Sendai Capital Tower	78	91.5	247,457	3.2	76	95.8	248,216	3.2		
Sub total				423	97.9	—	—	367	99.1	—	—	
Other	Three major metropolitan areas	Tokyo metropolitan area	RT-1	AEON MALL Tsudanuma	1	100.0	726,000	9.4	1	100.0	726,000	9.4
		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				427	98.5	7,764,585	100.0	371	99.4	7,693,769	100.0	

Note 1 "Number of tenants" represents the number of tenants based on lease agreements that are valid at the end of each fiscal period. (Figures are for leased units only and exclude the tenants who rent only the floor space for storage, halls, parking, etc.). When a single tenant occupies multiple properties under each agreement, the tenant is counted for each property and totaled. When a single tenant rents multiple units in a single property, the count is as one tenant. For a pass-through master leased property, the tenant is counted on an end-tenant basis assuming that all of end-tenants have 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 at the end of fiscal period 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 the rental revenues includes revenues from Sumitomo Fudosan Ueno Bldg. No.6, TOYOTA MOBILITY SERVICE Bldg., M-City Edogawabashi 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 disposed 55% of co-quasi ownership in Matsushita IMP Bldg. on September 5, 2018 and disposed remaining 45% of trust beneficial interest in the property on March 8, 2019.

Note 8 MID REIT Kyobashi Bldg. was sold on September 4, 2018.

Note 9 Amounts less than one thousand yen are rounded down.