

<http://www.pic-reit.co.jp/>

**Premier Investment Corporation is a J-REIT  
that manages a portfolio comprised of office  
buildings and residential properties primarily  
in the Tokyo Economic Bloc.**

(Listed on the Tokyo Stock Exchange - securities code: 8956)



## SEMIANNUAL REPORT

**25<sup>TH</sup> FISCAL PERIOD**  
ENDED APRIL 30, 2015

## 1. Comprehensive Support from NTT Urban Development, the Main Sponsor



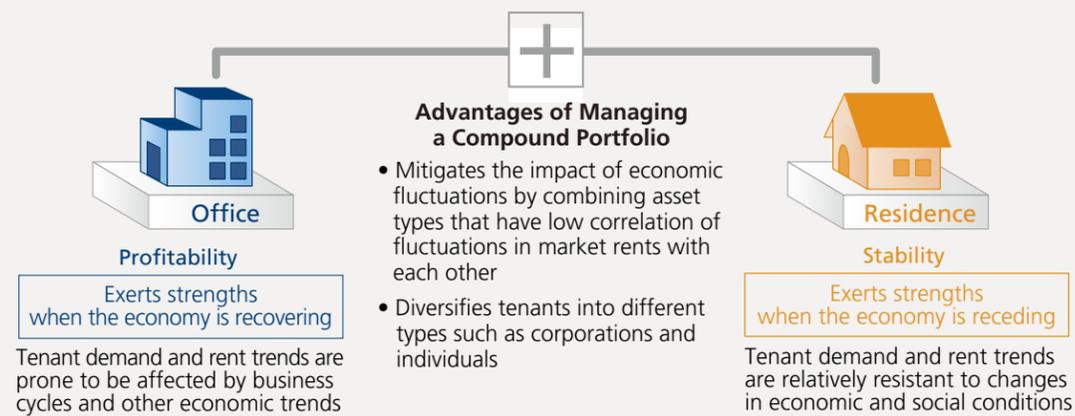
- Abundant track record of development and pipelines for office buildings
- Operating capability in real estate rental business
- Fund-raising capability based on its high credibility

### Overview of NTTUD

NTTUD is the sole general real estate company within the NTT (Nippon Telegraph and Telephone Corporation) Group.

<b>Name</b>	NTT Urban Development Corporation	<b>Credit rating</b>	A+ (Rating and Investment Information, Inc.)
<b>Address</b>	4-14-1 Sotokanda, Chiyoda Ward, Tokyo	<b>Major shareholder</b>	Nippon Telegraph and Telephone Corporation (shareholding ratio: 67.3%) (as of March 31, 2015)
<b>Representative</b>	Sadao Maki, President & CEO		
<b>Total assets (consolidated)</b>	1,033,220 million yen (fiscal year ended March 2015)		
<b>Net sales (consolidated)</b>	152,052 million yen (fiscal year ended March 2015)		

## 2. A Compound Portfolio of Office Buildings and Residential Properties as Investment Targets

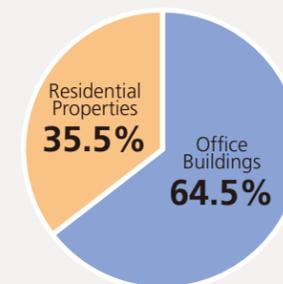


## 3. Focused Investment on Assets in the Tokyo Economic Bloc

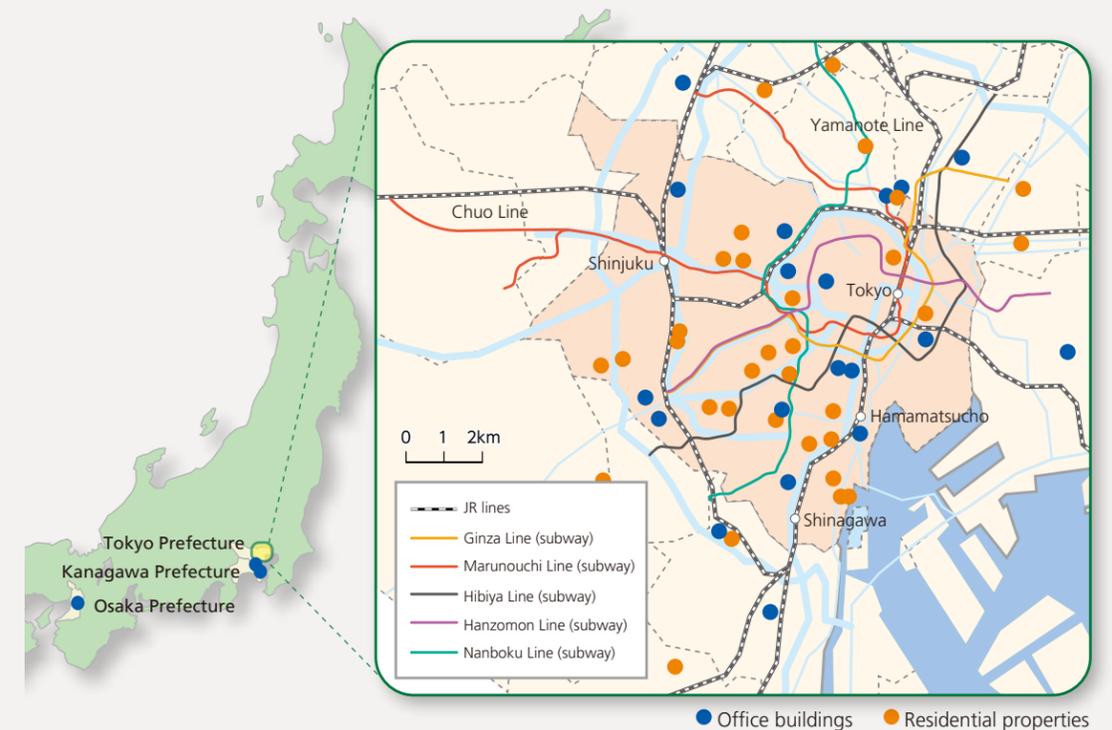
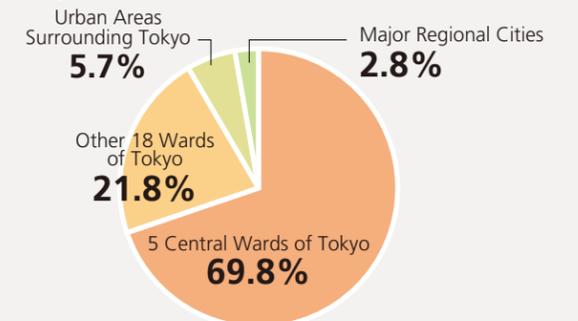
### Investment Ratio of Portfolio and Portfolio Distribution (as of April 30, 2015)

(Note) The respective investment ratios are indicated on an acquisition price basis.

< By asset type >



< By area >



Potential tenant needs

More efficient by concentrating investment areas



**Shuro Hoshizawa**  
Executive Director  
Premier Investment Corporation

On behalf of Premier Investment Corporation (PIC), I would like to express our gratitude for your loyal patronage.

PIC has continued to grow steadily through reinforced coordination with NTT Urban Development Corporation (NTTUD), the main sponsor.

In January 2015, PIC issued additional investment units through public offering and acquired three office buildings (22.0 billion yen in total) from a private placement fund managed by NTTUD. Through these and other measures, PIC has successfully expanded the asset size and reinforced its financial standing.

As of the end of April 2015, PIC has a portfolio of a total of 58 properties comprised of 25 office buildings and 33 residential properties, with the asset size standing at 235.8 billion yen. The occupancy rate of the entire portfolio was 96.0% as of that date.

In the 25th fiscal period ended April 2015, PIC posted operating revenues of 7,460 million yen, up 9.4% period-on-period, and net income of 2,826 million yen, an increase of 20.8% from the previous fiscal period.

As for distribution per unit, PIC secured 10,731 yen that surpassed the forecast for the period (10,300 yen) announced in the press release dated January 5, 2015.



**Takahiro Okuda**  
President and CEO  
Premier REIT Advisors Co., Ltd.  
Consolidated subsidiary of NTT Urban Development Corporation

Furthermore, in May 2015, PIC acquired 60% quasi co-ownership (3,600 million yen) of a large-scale regional office building owned by NTTUD, as well as sold two residential properties owned by PIC to NTTUD (for co-ownership with a domestic corporation) at 5,800 million yen.

Going forward, we will continue our endeavors to further expand the asset size while working to enhance the quality of the portfolio we own as we aim to achieve stable management over the medium to long term. By doing so, we will put forth our utmost efforts to meet the expectations of our unitholders. We appreciate and request your continued support and encouragement of PIC.

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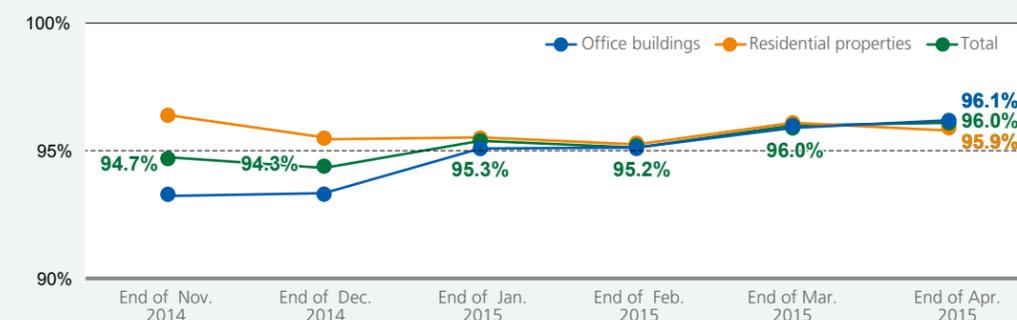
## Financial Results Highlights

<b>(Note 1)</b> Distribution per Unit (yen)	24th Fiscal Period (ended October 2014)	¥ 10,110	(Note 1) Number of outstanding investment units at end of period: 24th Fiscal Period: 218,699 units 25th Fiscal Period: 263,399 units 26th Fiscal Period: 263,399 units (forecast)
	25th Fiscal Period (ended April 2015)	10,731	
	Forecast for 26th Fiscal Period (ending October 2015) (Note 2)	10,750	

	24th Fiscal Period (ended October 2014)	25th Fiscal Period (ended April 2015)
Operating Revenues (mm yen)	6,822	7,460
Operating Income (mm yen)	3,002	3,454
Ordinary Income (mm yen)	2,342	2,828
Net Income (mm yen)	2,340	2,826
Total Assets (mm yen)	218,723	239,861
Net Assets (mm yen)	96,401	123,362
Net Assets Ratio (%)	44.1	51.4
Net Assets per Unit (yen) (Note)	440,796	468,348

(Note) The number of outstanding investment units at the end of the 24th and 25th fiscal periods was 218,699 units and 263,399 units, respectively.

## Monthly Occupancy Rate for the 25th Fiscal Period



(Note) The value related to the property backing the preferred securities of an SPC is not included in the calculation of the occupancy rate for respective asset types.

## Events Undertaken in the 25th Fiscal Period

### [ Acquisition of Assets ]

PIC acquired Urbannet Ikebukuro Building, Urbannet Kojimachi Building and Urbannet Omori Building on January 22, 2015, using proceeds obtained from the issuance of new investment units through public offering.

### [ Sale of Assets ]

PIC sold Kanda Chuodori Building on November 7, 2014.

# TOPICS IN THE 25TH FISCAL PERIOD

## Overview of Issuance of New Investment Units through Public Offering

Acquisition of Properties  
22 billion yen in total



Type	Office building		
Location	Toshima Ward, Tokyo	Chiyoda Ward, Tokyo	Ota Ward, Tokyo
Acquisition price	13,600 million yen	3,600 million yen	4,800 million yen
Appraisal value	14,400 million yen	3,730 million yen	5,110 million yen
Appraisal NOI yield	5.4%	4.9%	6.0%
Seller	Limited liability company (Godo Kaisha) NU-6 (a private placement fund formed by NTTUD)		
Acquisition date	January 22, 2015		
Property characteristics	A large-scale office building with a standard floor space of approximately 330 tsubos (1,090m <sup>2</sup> ), a size fairly scarce in the Ikebukuro area	Two stations (Hanzomon Station and Kojimachi Station) on two subway lines are available within a five-minute walk	A large-scale office building with a standard floor space of approximately 274 tsubos (906m <sup>2</sup> ), located in approximately a six-minute walk from Omori Station on the JR lines

Overview of the Offering  
Procured amount:  
26.3 billion yen

Issuance determination date	January 5, 2015
Finalization date of offer price and other items	January 14, 2015 (closing price: 625,000 yen)
Payment date	Primary offering: January 21, 2015 Third-party allotment: February 18, 2015
Number of units issued	Total: 44,700 units (Primary offering: 42,500 units, Third-party allotment: 2,200 units)

## Reinforcement of Portfolio Profitability

	24th fiscal period (actual) (as of October 31, 2014)	Newly acquired properties (as of April 30, 2015)	25th fiscal period (actual) (as of April 30, 2015)
<b>No. of properties</b>	56 properties	3 properties	58 properties (Note 1)
<b>Acquisition price</b>	216.3 billion yen	22.0 billion yen	235.8 billion yen
<b>Average building age</b>	18.4 years	26.0 years	19.6 years
<b>Occupancy rate at end of period</b>	94.3%	100.0%	96.0%
<b>No. of tenants</b>	3,597	16	3,610
<b>NOI yield</b> (Note 2)	4.3%	5.4%	4.4%
<b>Yield after depreciation</b> (Note 3)	3.2%	4.3%	3.3%
<b>Distribution by asset type</b>			
<b>Distribution by geographical area</b>			
<b>LTV (interest-bearing liabilities ratio)</b> (Note 4)	55.0%	—	47.2%
<b>Distribution per unit</b>	10,110 yen	—	25th fiscal period: 10,731 yen (actual) 26th fiscal period: 10,750 yen (forecast)

(Note 1) As PIC sold Kanda Chuodori Building on November 7, 2014, the number of properties it owned as of the end of the 25th fiscal period stood at 58 in total.

(Note 2) NOI yield is calculated by using the following formulas.

1) Owned properties

Refer to Changes in Portfolio NOI Yields on page 11.

2) Newly acquired properties

NOI yield = [NOI based on appraisal value (\*) / investment value (\*\*)] for the newly acquired properties x 100

\* NOI based on appraisal value = sum total of net operating income by direct capitalization method indicated in the real estate appraisal reports for the newly acquired properties

\*\* Investment value = sum total of acquisition prices of the newly acquired properties

(Note 3) Yield after depreciation is calculated by using the following formulas.

1) Owned properties

Yield after depreciation = [annualized real estate rental income (\*) / investment value (\*\*)] for the owned properties (including preferred securities) x 100

\* Annualized real estate rental income = sum total of [(real estate rental income or dividend income from preferred securities) x 2] for owned properties

\*\* Investment value = sum total of book value at end of period (after depreciation) for owned properties

2) Newly acquired properties

Yield after depreciation = [(NOI based on appraisal value – assumed depreciation (\*) / investment value (\*\*)] for newly acquired properties x 100

\* Assumed depreciation = annual depreciation (forecast) for the newly acquired properties, estimated by the asset management company using the straight-line method

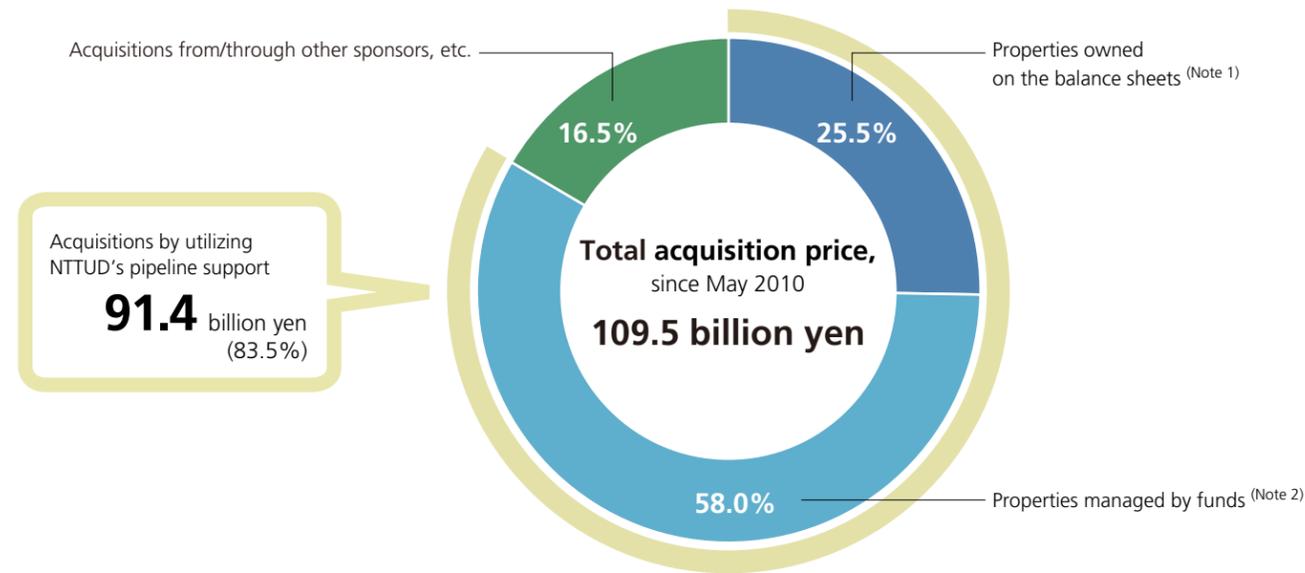
\*\* Investment value = sum total of acquisition prices of the newly acquired properties

(Note 4) LTV (interest-bearing liabilities ratio) = [interest-bearing liabilities / (interest-bearing liabilities + unitholders' capital)] x 100

# SPONSOR COLLABORATION

## Results of Property Acquisitions through NTTUD's Pipelines (as of April 30, 2015)

Since May 2010 (16th fiscal period), when NTTUD became its main sponsor, PIC has continuously implemented property acquisitions by way of NTTUD.

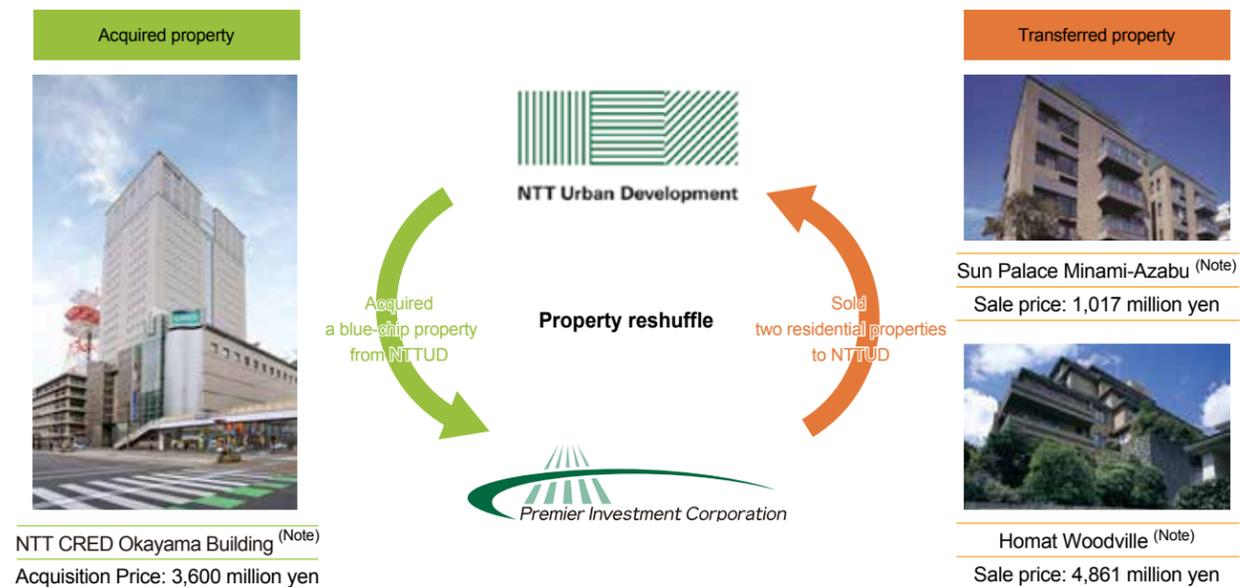


(Note 1) "Properties owned on the balance sheets" represents properties that had been recorded on the balance sheets of NTTUD.

(Note 2) "Properties managed by funds" represents properties that had been owned by private placement funds for which NTTUD provides consigned asset management services as asset manager.

## Quality Enhancement of the Portfolio through Property Reshuffle with NTTUD

As part of the reinforced collaboration with NTTUD, PIC conducted a property reshuffle in the portfolio in May 2015 (the 26th fiscal period).

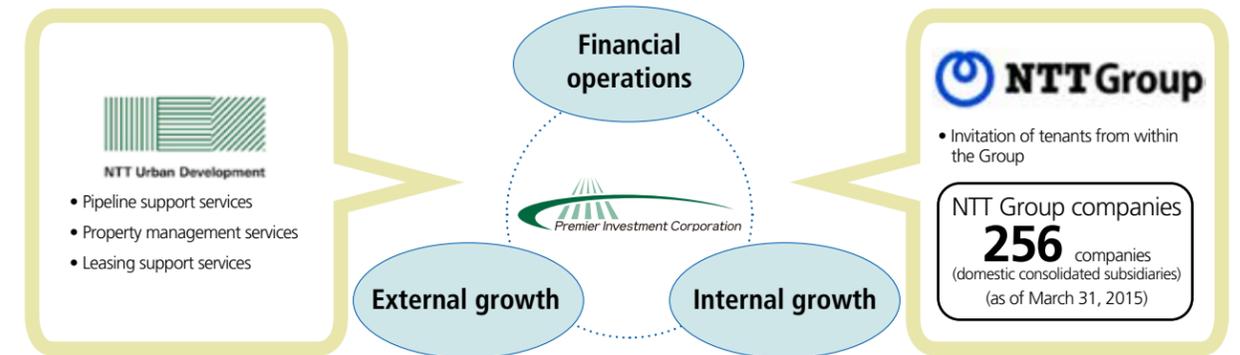


(Note)  
PIC acquired a 60% quasi co-ownership of beneficiary interest in a trust with NTT CRED Okayama Building as the main trust property on May 15, 2015 (26th fiscal period).

(Note)  
PIC transferred beneficiary interests in trusts with Sun Palace Minami-Azabu and Homat Woodville as the main trust properties on May 15, 2015 (26th fiscal period).

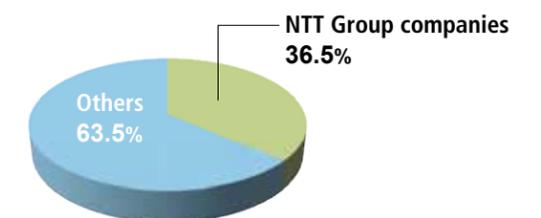
## Multi-faceted Support Provided by the NTT Group for Growth

PIC aims to achieve growth by building on the synergy with the NTT Group.



## Ratio of NTT Group Companies as Tenants of PIC's Office Buildings (as of April 30, 2015)

Utilizing its relationship with the NTT Group, PIC works to grasp the demand of Group companies for office spaces to move in and endeavors to invite them. By doing so, PIC aims to achieve stable management of its portfolio.



## Top 10 Tenants Occupying PIC's Office Buildings (as of April 30, 2015)

Rank	Tenant name	Leased floor space	Ratio (Note 1)	Property
1	DOCOMO CS, Inc.	9,204 m <sup>2</sup>	6.3%	Urbannet Ikebukuro Building
2	NTT Business Associe East Co., Ltd.	7,125 m <sup>2</sup>	4.8%	Urbannet Omori Building
3	Sumitomo Osaka Cement Co., Ltd.	6,872 m <sup>2</sup>	4.7%	Rokubancho Building
4	NTT Urban Development Corporation	6,731 m <sup>2</sup>	4.6%	Tradepia Yodoyabashi (Land) (Note 2) and Granpark (Note 3)
5	NTT DATA Corporation	5,530 m <sup>2</sup>	3.8%	Urbannet Mita Building
6	NTT Finance Corporation	5,417 m <sup>2</sup>	3.7%	Urbannet Ikebukuro Building
7	Fields Corporation	4,882 m <sup>2</sup>	3.3%	KN Shibuya No.3
8	NTT Learning Systems Corporation	4,801 m <sup>2</sup>	3.3%	Urbannet Azabu Building
9	Japan Display Inc.	4,140 m <sup>2</sup>	2.8%	Landic Shimbashi 2 Building
10	Itoki Corporation	4,037 m <sup>2</sup>	2.7%	Urbannet Irifune Building
<b>Total</b>		<b>58,743 m<sup>2</sup></b>	<b>39.9%</b>	

(Note 1) The ratio represents the percentage of the leased floor space of the relevant tenants to the total leasable space of floors practically used for offices.

(Note 2) NTTUD is entered as tenant of Tradepia Yodoyabashi (Land), as it is in effect the leaseholder of the relevant land (the beneficiary of the beneficiary interest in real estate trust for the entire building standing on the land as trust property). Furthermore, the leaseholder under the land leasehold establishment agreement is Sumitomo Mitsui Trust Bank, Limited, the trustee.

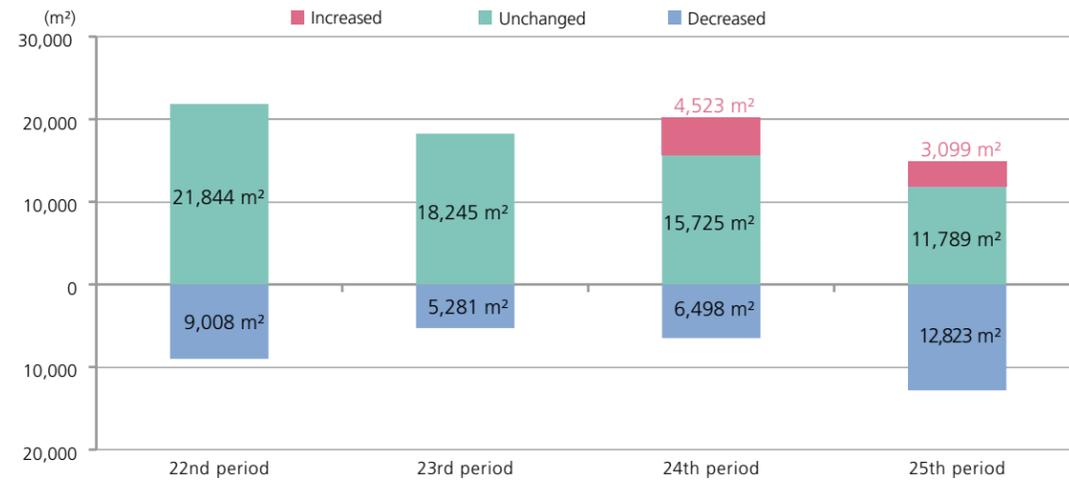
(Note 3) The leased floor space of Granpark indicates the figure equivalent to the effective equity interest of PIC to the building portion of the property.

## Rent Trends

### Office buildings: Upward revision of rents continued to take place upon contract renewal

The graphs show how rents have changed (increased, remained unchanged or decreased) upon contract renewals with office tenants.

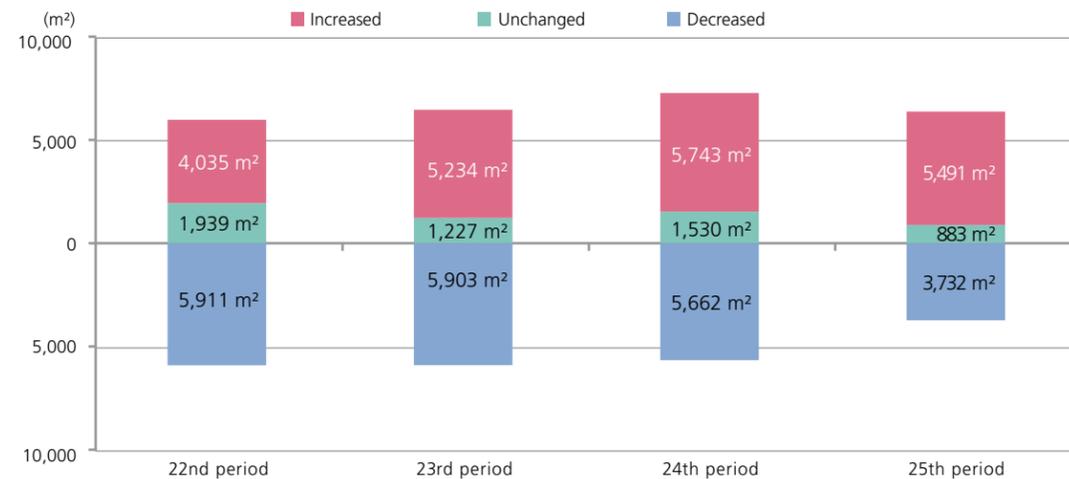
#### Office Buildings



### Residential properties: Upon tenant replacement, rents were revised upward for 54% of such contracts

The graphs show how rents have changed (increased, remained unchanged or decreased) upon tenant replacement for residential properties.

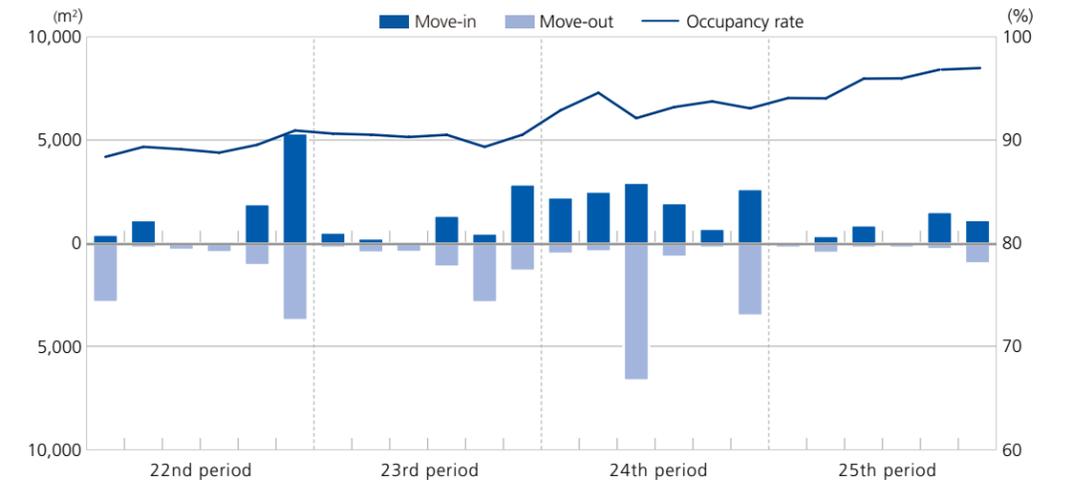
#### Residential Properties



## Occupancy Rates

### Office buildings: Period-average occupancy rate was 94.8%, up 2.2% period-on-period, continuing to show an upward trend

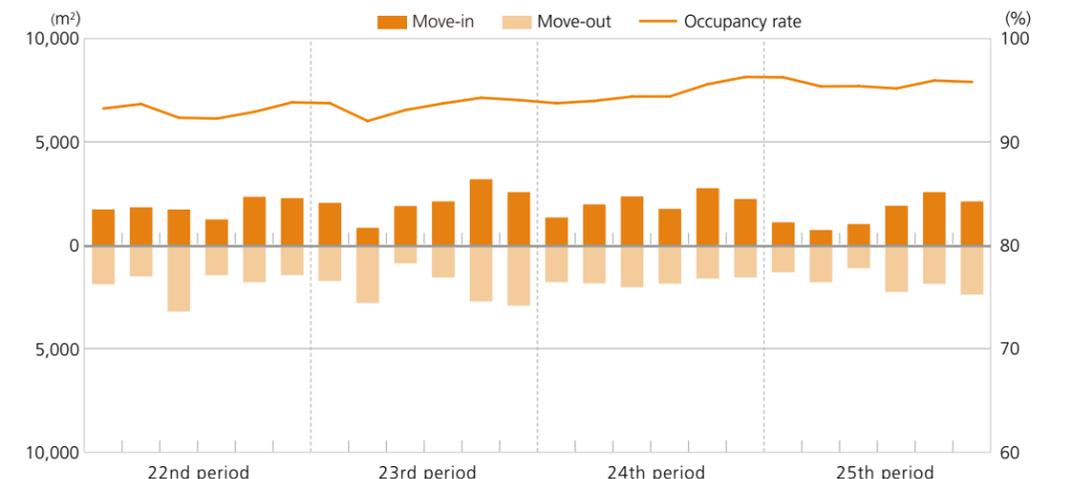
#### Office Buildings



(Note) Move-in and move-out are indicated by square meter (m²), while the occupancy rate is indicated by percentage (%).

### Residential properties: Occupancy remained stable, with period-average occupancy rate standing at 95.8%, up 0.9% period-on-period

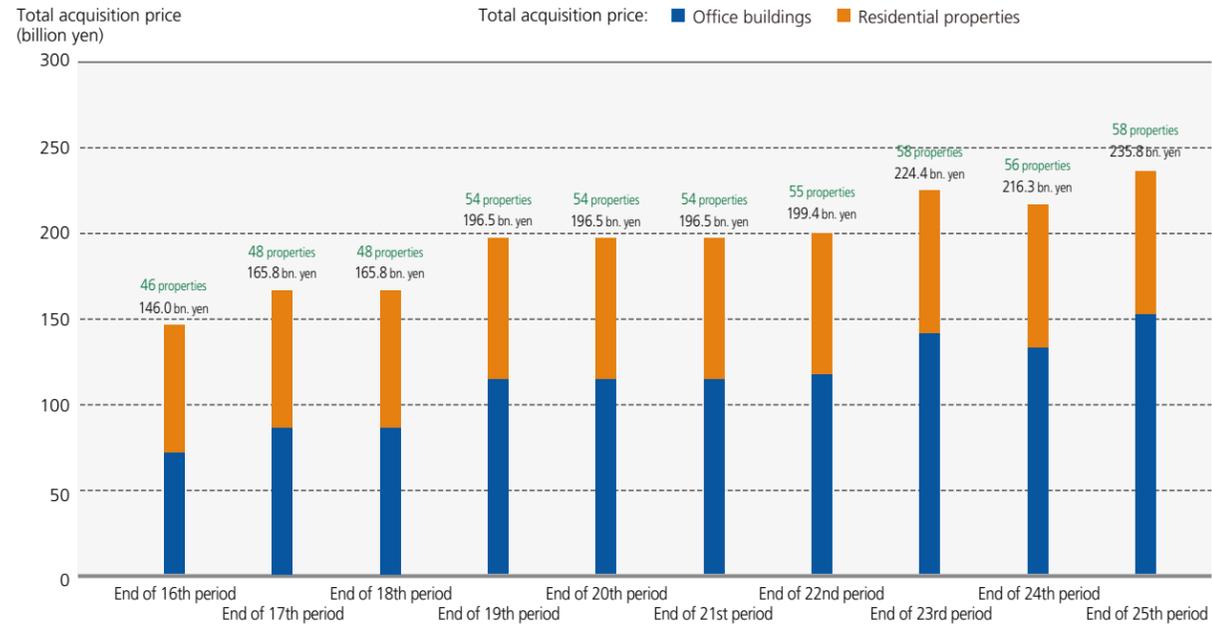
#### Residential Properties



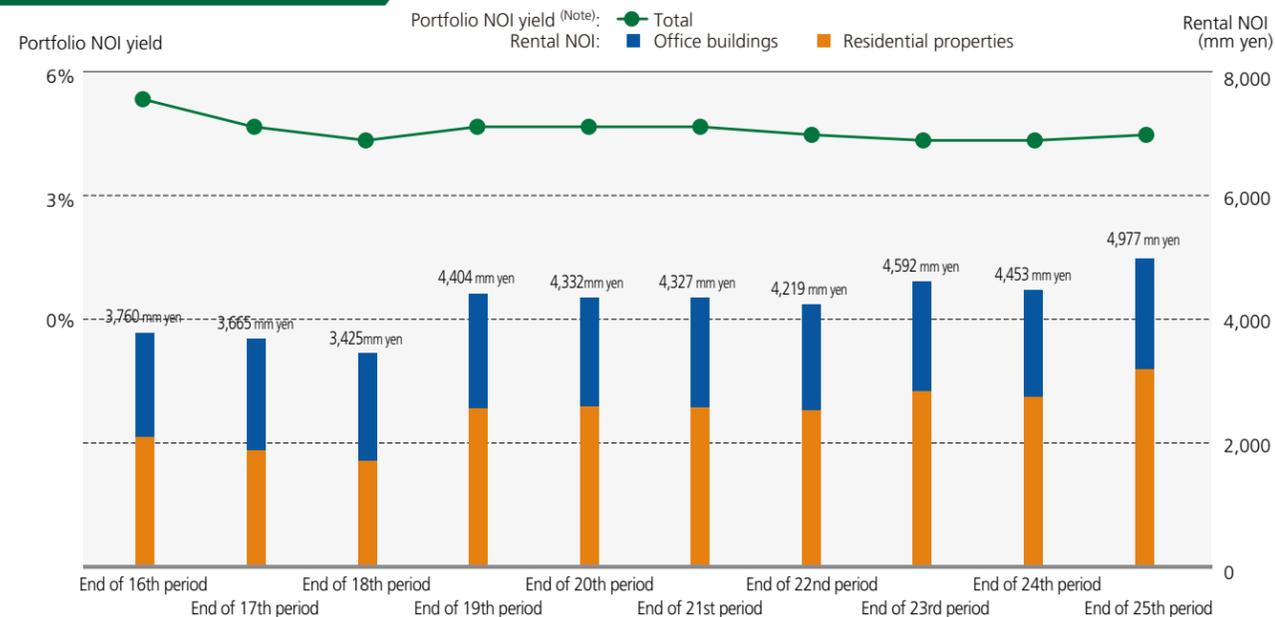
(Note) Move-in and move-out are indicated by square meter (m²), while the occupancy rate is indicated by percentage (%).

# MANAGEMENT STATUS IN THE 25TH FISCAL PERIOD (2)

## Growth in Asset Size



## Changes in Portfolio NOI Yields



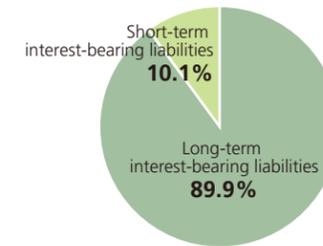
(Note) Portfolio NOI yield = [annualized rental NOI (\*) / investment value (\*\*)] x 100 of owned properties for each fiscal period by asset type (with Akihbara UDX [preferred securities] included in the office building category)  
 \* Annualized rental NOI = sum total of [(real estate rental income + depreciation or dividend income from preferred securities) x 2] of respective owned properties for each fiscal period by asset type  
 \*\* Investment value = sum total of book value (after depreciation) as of the end of each fiscal period of respective owned properties by asset type

# FINANCIAL STATUS IN THE 25TH FISCAL PERIOD

## Status of Interest-Bearing Liabilities

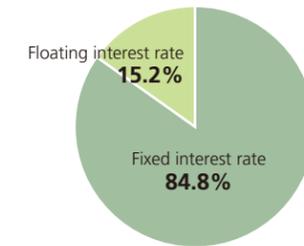
### Ratios of Long-Term and Short-Term Borrowings (Note)

[As of April 30, 2015]



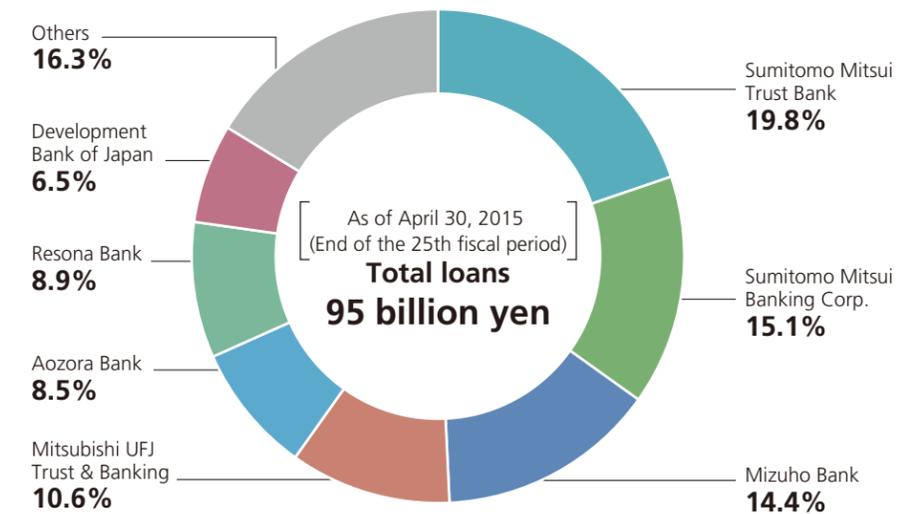
### Ratios of Fixed and Floating Interest Rate Borrowings

[As of April 30, 2015]



(Note) Loan periods are counted from the drawdown dates for loans and from the issue dates for corporate bonds.

### Lender Formation



### Changes in LTV (Note)

[As of October 31, 2014  
(End of the 24th fiscal period)]  
**55.0%**

[As of April 30, 2015  
(End of the 25th fiscal period)]  
**47.2%**

(Note) LTV (interest-bearing liabilities ratio) = [interest-bearing liabilities / (interest-bearing liabilities + unitholders' capital)] x 100

## [25th Fiscal Period (as of April 30, 2015)]

No.	Area	Property Name (Note 1)	Acquisition Price (mm yen) (Note 2)	Share (%) (Note 3)	Period End Occupancy Rate (%)	Real Estate Rental Income			PML Value (%) (Note 4)	
						Revenues (mm yen)	Expenses (mm yen)	Income (mm yen)		
<b>Office Buildings</b>										
A01	5 Central Wards of Tokyo	Landic Shimbashi Building	6,341	2.7	100.0	193	82	110	10.6	
A02		Landic Shimbashi 2 Building	7,045	3.0	100.0	211	123	87	12.9	
A03		Premier Dogenzaka Building	1,727	0.7	100.0	71	26	45	5.5	
A04		KN Shibuya No.3	5,348	2.3	100.0	(Note 5)	(Note 5)	114	10.6	
A05		Takadanobaba Center Building	5,118	2.2	100.0	241	117	124	2.0	
A06		Rokubancho Building	7,860	3.3	100.0	(Note 5)	(Note 5)	147	10.8	
A07		Ougaku Building	1,796	0.8	100.0	64	30	33	14.2	
A08		Premier Kaigan Building (Note 6)	5,100	2.2	75.1	99	75	24	10.6	
A10		Urbannet Mita Building	10,300	4.4	100.0	294	125	169	7.2	
A11		Urbannet Azabu Building	5,000	2.1	100.0	(Note 5)	(Note 5)	76	10.5	
A12		Urbannet Ichigaya Building	1,650	0.7	100.0	(Note 5)	(Note 5)	36	7.0	
A14		Urbannet Irifune Building	2,900	1.2	100.0	(Note 5)	(Note 5)	95	10.8	
A15		Granpark	11,490	4.9	99.5	428	227	200	12.0	
A16		Urbannet Kojimachi Building	3,600	1.5	100.0	89	22	66	10.0	
B02		Other 18 Wards of Tokyo	Premier Toyochō Building	4,310	1.8	100.0	83	65	17	16.2
B03			Ueno TH Building	4,380	1.9	74.5	90	64	26	12.8
B04	Gotanda NT Building		4,100	1.7	100.0	85	40	45	14.3	
B05	Ueno Tosei Building		5,900	2.5	100.0	206	93	112	10.7	
B06	Urbannet Ikebukuro Building		13,600	5.8	100.0	398	133	264	13.0	
B07	Urbannet Omori Building	4,800	2.0	100.0	145	54	90	6.8		
C01	Urban Areas Surrounding Tokyo	Premier Yokohama Nishiguchi Building	3,558	1.5	70.6	82	71	11	10.2	
C02		The Kanagawa Science Park R&D Building	6,556	2.8	97.7	408	274	133	10.4	
C04		NU Kannai Building	3,300	1.4	80.1	149	97	51	14.3	
G01	Major Regional Cities	Tradepia Yodoyabashi (Land)	6,500	2.8	100.0	(Note 5)	(Note 5)	(Note 5)	—	
<b>Subtotal</b>			<b>132,279</b>	<b>56.1</b>	<b>96.1</b>	<b>4,311</b>	<b>2,067</b>	<b>2,244</b>	<b>—</b>	
<b>Residential Properties</b>										
D01	5 Central Wards of Tokyo	Park Axis Yotsuya Stage	5,208	2.2	95.6	152	73	79	7.4	
D02		Park Axis Meiji-Jingumae	2,604	1.1	100.0	53	24	28	9.9	
D03		Sun Palace Minami-Azabu (Note 7)	1,150	0.5	92.0	31	18	13	5.3	
D04		Cabin Arena Akasaka	1,330	0.6	100.0	39	17	22	10.1	
D05		Cabin Arena Minami-Aoyama	1,070	0.5	100.0	36	17	18	11.2	
D06		Bureau Kioicho	1,840	0.8	100.0	37	15	22	11.6	
D07		Homat Woodville (Note 7)	5,090	2.2	95.9	124	60	64	7.4	
D08		Roppongi Green Terrace	4,678	2.0	90.8	111	66	44	10.3	
D09		Premier Stage Shibakoen II	2,181	0.9	95.3	55	27	27	11.5	
D11		Langue Tower Kyobashi	927	0.4	98.3	35	16	18	12.5	
D12		Premier Stage MitaKeidaimae	1,580	0.7	90.5	53	19	34	14.3	
D13		Premier Rosso	1,662	0.7	89.4	53	22	31	14.0	
D14		Premier Blanc Yoyogikouen	2,330	1.0	95.3	65	30	35	13.1	
D15		Premier Stage Uchikanda	1,723	0.7	96.0	57	22	35	13.8	
D16		Premier Stage Ichigayakawadacho	1,460	0.6	93.0	45	20	25	13.1	
D17		Walk Akasaka	2,043	0.9	96.6	44	32	12	13.9	
D18		Premier Stage Shibakoen	1,585	0.7	100.0	42	28	13	16.1	
D19		MEW	1,556	0.7	100.0	36	21	15	13.9	
D20		Shibaura Island Air Tower	7,590	3.2	97.0	332	239	93	11.2	
D21		Storia Akasaka	3,930	1.7	88.6	87	42	44	11.7	
D22		Renai Shinjuku-Gyoen Tower	6,500	2.8	96.8	180	110	69	7.2	
D23		Shibaura Island Bloom Tower	5,500	2.3	96.4	274	163	110	10.0	
D24		Questcourt Harajuku	4,500	1.9	96.9	126	56	69	12.7	
D25		Urbancourt Ichigaya	1,385	0.6	97.3	57	21	36	12.0	

No.	Area	Property Name (Note 1)	Acquisition Price (mm yen) (Note 2)	Share (%) (Note 3)	Period End Occupancy Rate (%)	Real Estate Rental Income			PML Value (%) (Note 4)
						Revenues (mm yen)	Expenses (mm yen)	Income (mm yen)	
E01	Other 18 Wards of Tokyo	B-Site Osaki	1,072	0.5	100.0	29	10	19	12.1
E02		Premier Garden Hongo	975	0.4	93.1	30	12	18	12.1
E03		Premier Grande Magome	1,560	0.7	100.0	41	20	20	15.7
E04		Premier Nozze Yutenji	1,525	0.6	97.4	37	21	16	13.6
E05		Premier Stage Yushima	1,803	0.8	89.9	51	30	21	17.2
E06		Premier Stage Komagome	1,830	0.8	96.0	51	27	23	18.0
E07		Premier Stage Otsuka	1,310	0.6	97.0	41	22	19	22.5
E08		Premier Stage Honjo-Azumabashi	2,640	1.1	97.5	78	40	38	14.7
E09		Premier Stage Ryogoku	1,496	0.6	100.0	46	24	22	12.8
<b>Subtotal</b>			<b>83,634</b>	<b>35.5</b>	<b>95.9</b>	<b>2,545</b>	<b>1,379</b>	<b>1,165</b>	<b>—</b>
<b>Preferred Securities (Office Building)</b>									
Z01	—	UDX Special Purpose Company Preferred Securities (Note 8)	19,940	8.5	—	—	—	—	—
<b>Subtotal</b>			<b>19,940</b>	<b>8.5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total</b>			<b>235,853</b>	<b>100.0</b>	<b>96.0</b>	<b>6,857</b>	<b>3,446</b>	<b>3,410</b>	<b>9.1</b>

(Note 1) PIC owns properties in the form of either beneficiary interests in real estate trust or preferred securities.

(Note 2) The acquisition price indicates the transaction price excluding tax depicted, which does not include incidental expenses accompanying the acquisition of the relevant owned properties (such as transaction brokerage fees and tax and public dues.)

(Note 3) The indicated shares represent the ratio of the acquisition price of respective properties to the total acquisition price of all properties.

(Note 4) PIC acquired earthquake risk reports for real estate in trust from Takenaka Corporation. However, the earthquake risk reports are only the expression of opinions, and do not guarantee the correctness of the statements. The Probable Maximum Loss (PML) values of individual properties are defined as the loss rate from earthquake damage for individual properties, evaluated based on the strength of a probable earthquake of maximum magnitude that could cause the greatest damage to buildings and is assumed to happen once every 475 years. However, the PML values do not consider damage to equipment, furniture or inventories, damage by water or fire, compensation to victims, or losses due to work closures.

In assessing the PML of the portfolio, the correlation of damages to multiple properties is considered. As such, the loss rates as a whole (total damage/price to reacquire all buildings) are obtained from the sum of the damage generated simultaneously among buildings that comprise the portfolio when an earthquake that happens once every 475 years occurs at a certain epicenter, and the maximum figure of the values has been set as the PML value of the portfolio.

(Note 5) The rental revenues from a leasing contract with a single major tenant or leaseholder constitute more than 80% of the total rental revenues for this property, and the major tenant or leaseholder has not agreed to disclose the rental revenues. Accordingly, PIC does not indicate these figures due to this unavoidable reason.

(Note 6) The property name was changed from YS Kaigan Building to Premier Kaigan Building as of April 1, 2015.

(Note 7) PIC executed a transfer agreement for Sun Palace Minami-Azabu and Homat Woodville on April 28, 2015, and sold them on May 15, 2015.

(Note 8) The property owned by UDX Special Purpose Company, the issuer of the preferred securities, comprises an entire office building and its site, and the property name is Akihabara UDX.

### BELS

Building Energy-efficiency Labeling System



BELS is a system for third parties to evaluate and indicate energy conservation performance of non-residential buildings, based on the Evaluation Guidelines for the Building Energy-efficiency Labeling System for non-residential buildings (2013).

PIC has acquired the BELS evaluation for one of its owned properties.

### Low-Carbon Model Building

Low-Carbon Small and Medium-Sized Model Building Certified by the Tokyo Metropolitan Government



The "Low-Carbon Small and Medium-Sized Model Building" is an assessment index for low-carbon buildings (low-carbon building benchmark) announced by the Tokyo Metropolitan Government in May 2012, with an aim to create the real estate market in which low-carbon buildings featuring low CO<sub>2</sub> emission are valued.

PIC has acquired the low-carbon model building certification for three of its owned properties.

## Features of PIC

### Characteristics and Basic Policy of PIC

#### Integrates Know-How in Real Estate and Finance

PIC conducts asset management that takes advantage of the expertise and experience nourished primarily by NTT Urban Development Corporation, which implements the real estate development and leasing businesses, etc. and serves as the main sponsor of Premier REIT Advisors Co., Ltd., as well as other major sponsors comprising Kenedix, Inc., one of Japan's leading real estate asset management companies, SOHGOH REAL ESTATE Group, which conducts comprehensive real estate businesses including sale of residences, and Sumitomo Mitsui Trust Bank, Limited, which boasts of the first-rate track records in real estate-related businesses in Japan.

#### Aims to Maximize Real Estate Value

Real estate is an important asset indispensable for the national economy. PIC aims to maximize the interests of its unitholders by enhancing the profitability of such real estate.

#### Firmly Holds a Dynamic and Sound Financial Balance

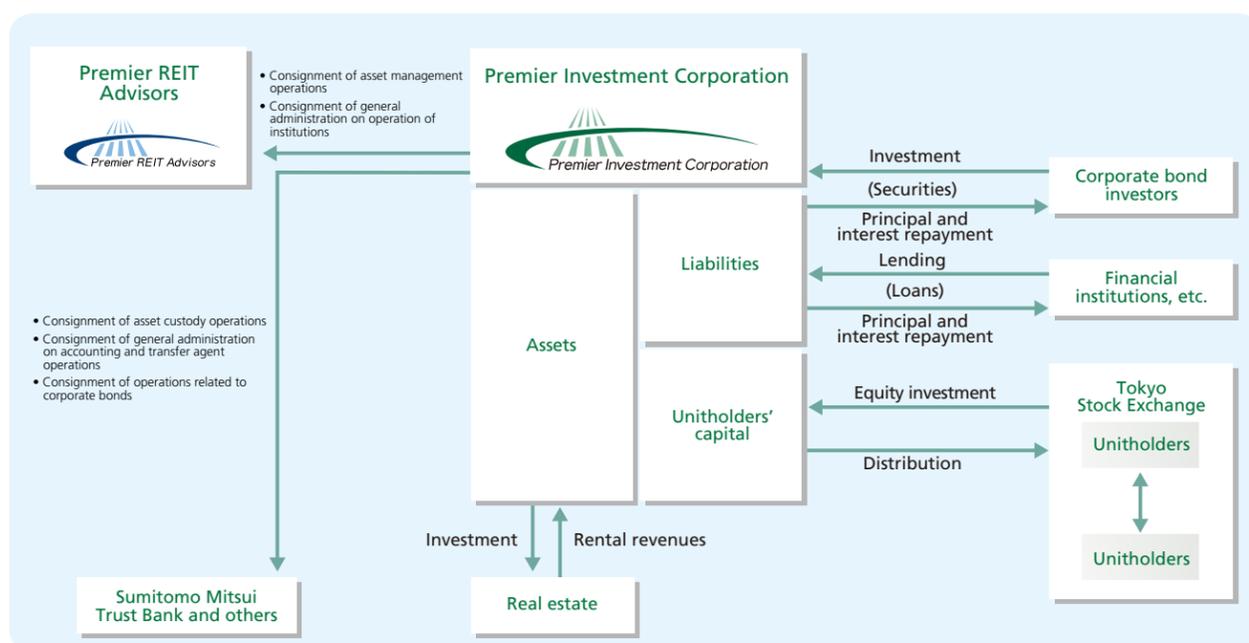
PIC has executed basic agreements on loans with various financial institutions including Sumitomo Mitsui Trust Bank, Limited to establish a framework that allows dynamic financing (fund procurement) in line with property acquisitions. In addition, PIC makes it a basic policy to keep its LTV <sup>(Note)</sup> at 60% or lower, giving consideration to possible issuance of new investment units in a stable manner and other financing activities. Through this and other measures, PIC firmly holds a sound financial standing.

(Note) LTV (interest-bearing liabilities ratio) = [(interest-bearing liabilities / (interest-bearing liabilities + unitholders' capital)) x 100]

#### Endeavors to Disclose Information in a Timely and Appropriate Manner

PIC believes that its top priority mission is to conduct appropriate business management and return profits stably to the satisfaction of its unitholders. PIC will endeavor to proactively conduct information disclosure and IR activities so that a larger number of unitholders can fully understand the characteristics of its management policies and strategies on investment target areas.

## Structure of PIC



(Note) The above chart shows the major part of PIC's structure.

## Company Overview

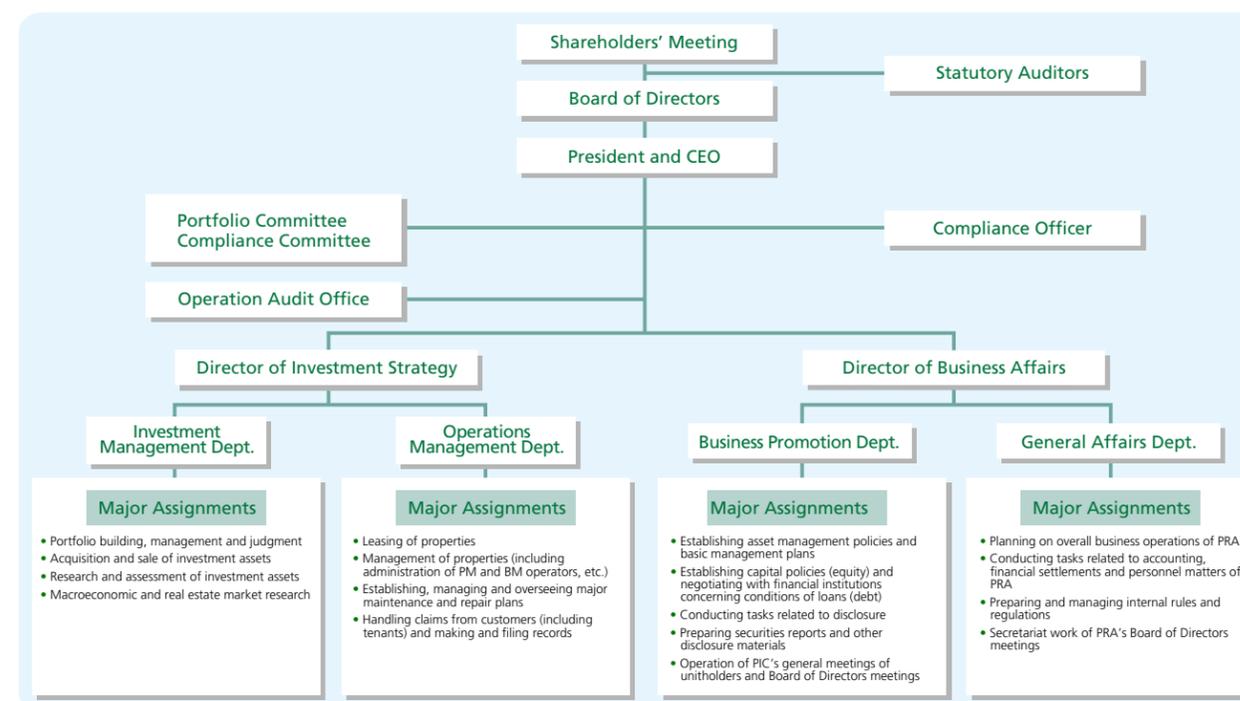
Trade name	Premier REIT Advisors Co., Ltd.
Paid-in capital	300 million yen (as of March 31, 2015)
Line of business	Investment management business in accordance with the Financial Instruments and Exchange Act
Shareholder composition	NTT Urban Development Corporation (53.1%), Kenedix, Inc. (30.0%), SOHGOH REAL ESTATE CO., LTD. (10.0%), Sumitomo Mitsui Trust Bank, Limited (4.9%) and Nikko Properties Co., Ltd. (2.0%)

## Corporate History

July 17, 2001	Premier REIT Advisors Co., Ltd. established
August 31, 2001	Obtained license as real estate transaction agent
October 29, 2001	Obtained license as discretionary transaction agent under the Building Lots and Building Transactions Business Act
February 19, 2002	Obtained license as asset management agent for investment corporation under the Act on Investment Trusts and Investment Corporations prior to the revision by the Act for Partial Revision of the Securities and Exchange Act (Act No. 65 of 2006)
July 26, 2007	Obtained approval of subsidiary business for affairs related to the operation of the administrative instruments of investment corporations under the Act on Investment Trusts and Investment Corporations prior to the revision by the Act for Partial Revision of the Securities and Exchange Act
September 30, 2007	Acquired deemed registration for investment management business under the Financial Instruments and Exchange Act <sup>(Note)</sup>
May 14, 2010	Became a consolidated subsidiary of NTT Urban Development Corporation

(Note) Premier REIT Advisors Co., Ltd. is deemed to have been registered for investment management business as of September 30, 2007, applicable to Article 159-1 of the Supplementary Provisions of the Act for Partial Revision of the Securities and Exchange Act.

## Organization of Premier REIT Advisors (PRA)



### Investment Unit Status

#### Change in Investment Unit Price of PIC

The following is the history of investment unit prices <sup>(Note)</sup> and weekly transaction volumes of PIC on the Tokyo Stock Exchange from the start of the 21st fiscal period (November 1, 2012) to the end of the 25th fiscal period (April 30, 2015).



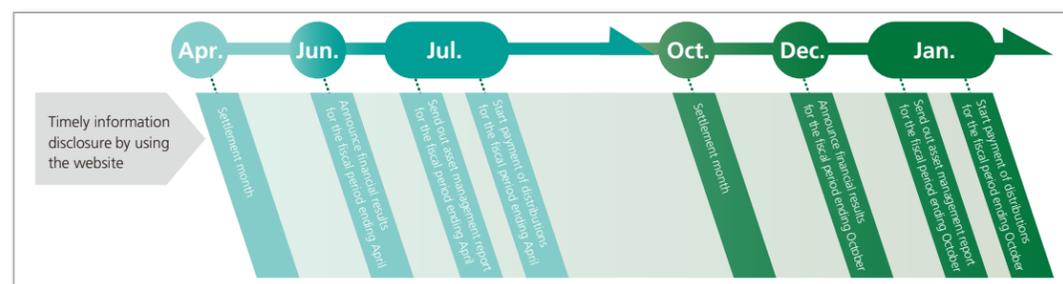
(Note) The investment unit price has been made into a graph based on the closing price of the final trading date at the end of each week.

#### Number of Investment Units by Unitholders and Number of Unitholders

Number of investment units 263,399 units in total <sup>(Note)</sup>		Number of unitholders 13,598 entities in total	
39,352 units	◆ 14.9%	Individuals	95.5%  (12,986 entities)
17,792 units	▶ 6.7%	Other domestic corporations	2.2%  295 entities
37,573 units	◆ 14.2%	Foreign corporations and individuals	1.5%  199 entities
168,682 units	◆◆◆ 64.0%	Financial institutions including financial instruments business operators	0.9%  118 entities

(Note) The investment unit ratio has been rounded down to the tenth place.

#### Annual Schedule (planned)



To the Board of Directors of Premier Investment Corporation:

We have audited the accompanying financial statements of Premier Investment Corporation ("the Company"), which comprise the balance sheet as at April 30, 2015, and the profit and loss statement, statement of changes in unitholders' equity and cash flow statement for the six months period then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2015, and its financial performance and cash flows for the six months period then ended in accordance with accounting principles generally accepted in Japan.

#### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note-19 to the financial statements, which states that the Company acquired a new property and sold properties.

#### Other Matter

The financial statements of the Company as at and for the six months period ended October 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on January 28, 2015.

**KPMG AZSA LLC**  
July 29, 2015  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# BALANCE SHEETS

AS OF OCTOBER 31, 2014 AND APRIL 30, 2015

	Thousands of yen	
	October 31, 2014	April 30, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and deposits (Note-3) (Note-14)	¥ 2,757,601	¥ 2,449,482
Cash and deposits held in trust (Note-3) (Note-14)	8,914,100	11,046,564
Tenant receivables	87,485	97,135
Prepaid expenses	134,540	159,690
Income taxes refund receivables	77,929	69,858
Consumption taxes refund receivables	-	460,133
Deferred tax assets (Note-10)	1,334	3,395
Other current assets	3,494	9,288
<b>TOTAL CURRENT ASSETS</b>	<b>11,976,486</b>	<b>14,295,548</b>
<b>LONG-TERM ASSETS</b>		
Property and equipment		
Tools, furniture and fixtures	145	145
Buildings held in trust (Note-4)	75,839,619	81,769,783
Structures held in trust (Note-4)	1,736,878	1,776,127
Tools, furniture and fixtures held in trust (Note-4)	242,173	258,080
Less accumulated depreciation	(18,935,848)	(20,127,637)
Land held in trust (Note-4)	125,251,793	139,251,346
Property and equipment, net	184,134,761	202,927,845
Intangible fixed assets		
Leasehold held in trust (Note-4)	1,777,602	1,777,602
Other intangible fixed assets held in trust (Note-4)	4,061	3,992
Other intangible fixed assets	659	549
Total intangible fixed assets	1,782,323	1,782,144
Investment and other assets		
Investment securities (Note-14) (Note-15)	20,035,175	20,035,175
Other deposits	10,000	10,000
Long-term prepaid expenses	113,344	129,419
Other deposits held in trust	604,402	604,402
New investment unit issuance costs	13,022	29,409
Corporate bond issuance costs	53,808	47,475
Total investment and other assets	20,829,752	20,855,881
<b>TOTAL LONG-TERM ASSETS</b>	<b>206,746,837</b>	<b>225,565,871</b>
<b>TOTAL ASSETS</b>	<b>¥ 218,723,324</b>	<b>¥ 239,861,420</b>

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

	Thousands of yen	
	October 31, 2014	April 30, 2015
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	¥ 678,173	¥ 998,627
Short-term loans payable (Note-7) (Note-14)	17,400,000	10,900,000
Long-term loans payable due within one year (Note-7) (Note-14)	30,400,000	29,400,000
Accrued expenses	198,947	175,694
Distributions payable	12,511	13,649
Income taxes payable	549	1,582
Consumption taxes payable	302,925	-
Business office taxes payable	3,908	9,879
Rents received in advance	1,017,594	965,988
Deposits received	105,833	125,345
Total current liabilities	50,120,443	42,590,767
<b>LONG-TERM LIABILITIES</b>		
Long-term loans payable (Note-7) (Note-14)	54,400,000	54,700,000
Corporate bonds (Note-6) (Note-14)	12,500,000	12,500,000
Tenant security deposits held in trust	5,301,025	6,708,256
Total long-term liabilities	72,201,025	73,908,256
<b>TOTAL LIABILITIES</b>	<b>122,321,469</b>	<b>116,499,023</b>
<b>NET ASSETS</b>		
<b>UNITHOLDERS' EQUITY (Note-5)</b>		
Unitholders' capital	94,005,086	120,350,148
Units authorized - 2,000,000 units		
Units issued and outstanding - 263,399 units as of April 30, 2015		
- 218,699 units as of October 31, 2014		
Surplus		
Reserve for reduction entry	56,156	185,554
Unappropriated income	2,340,611	2,826,693
Total unitholders' equity	96,401,854	123,362,396
<b>TOTAL NET ASSETS</b>	<b>96,401,854</b>	<b>123,362,396</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥ 218,723,324</b>	<b>¥ 239,861,420</b>

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

# PROFIT AND LOSS STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2014 AND APRIL 30, 2015

	Thousands of yen	
	October 31, 2014	April 30, 2015
<b>OPERATING INCOME AND EXPENSES</b>		
Operating revenues		
Rental revenue (Note-8)	¥ 5,547,647	¥ 6,162,097
Other revenue (Note-8)	679,007	696,196
Gains from sale of properties (Note-9)	214,708	251,007
Dividend income	380,794	350,862
Operating expenses		
Property-operating expenses (Note-8)	3,309,559	3,455,233
Asset management fees	262,346	295,400
Directors' compensation	9,000	9,000
Custodian fees	10,316	10,885
Administration fees	81,992	90,648
Audit fees	8,700	8,600
Other expenses	138,241	135,850
Operating income	3,002,000	3,454,545
<b>NON-OPERATING INCOME AND EXPENSES</b>		
Non-operating income		
Interest income	1,139	1,190
Return of unclaimed distribution	946	605
Other non-operating income	245	61
Non-operating expenses		
Interest expense	603,933	548,049
Interest expenses on corporate bonds	41,827	41,343
Amortization of corporate bond issuance costs	6,332	6,332
Amortization of new investment unit issuance costs	7,255	5,710
Public listing related costs of new investment units	-	24,475
Other non-operating expenses	2,441	2,418
Ordinary income	2,342,542	2,828,072
Income before income taxes	2,342,542	2,828,072
Income taxes (Note-10)		
Current	605	3,606
Deferred	1,426	(2,060)
Net income	2,340,510	2,826,526
Income carried forward	100	167
<b>UNAPPROPRIATED INCOME</b>	<b>¥ 2,340,611</b>	<b>¥ 2,826,693</b>

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

# STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED OCTOBER 31, 2014 AND APRIL 30, 2015

	Thousands of yen						
	Unitholders' Equity						Total Net Assets
	Unitholders' Capital (Note-1)	Surplus			Total Unitholders' Equity		
		Voluntary Retained Earnings		Unappropriated Retained Earnings			
Reserve for Reduction Entry (Note-13)		Total Voluntary Retained Earnings					
<b>BALANCE AT APR. 30, 2014</b>	¥ 94,005,086	¥ 56,156	¥ 56,156	¥ 2,213,553	¥ 2,269,709	¥ 96,274,796	¥ 96,274,796
Changes during the period							
Cash distributions paid				(2,213,452)	(2,213,452)	(2,213,452)	(2,213,452)
Net income				2,340,510	2,340,510	2,340,510	2,340,510
Total changes during the period	-	-	-	127,058	127,058	127,058	127,058
<b>BALANCE AT OCT. 31, 2014</b>	¥ 94,005,086	¥ 56,156	¥ 56,156	¥ 2,340,611	¥ 2,396,768	¥ 96,401,854	¥ 96,401,854
Changes during the period							
Issuance of new investment units	26,345,062					26,345,062	26,345,062
Provision of reserve for reduction entry		185,554	185,554	(185,554)	-	-	-
Reversal of reserve for reduction entry		(56,156)	(56,156)	56,156	-	-	-
Cash distributions paid				(2,211,046)	(2,211,046)	(2,211,046)	(2,211,046)
Net income				2,826,526	2,826,526	2,826,526	2,826,526
Total changes during the period	26,345,062	129,397	129,397	486,081	615,479	26,960,542	26,960,542
<b>BALANCE AT APR. 30, 2015</b>	¥ 120,350,148	¥ 185,554	¥ 185,554	¥ 2,826,693	¥ 3,012,247	¥ 123,362,396	¥ 123,362,396

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

# CASH FLOW STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2014 AND APRIL 30, 2015

	Thousands of yen	
	October 31, 2014	April 30, 2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Income before income taxes	¥ 2,342,542	¥ 2,828,072
Depreciation	1,155,800	1,223,298
Amortization of corporate bond issuance costs	6,332	6,332
Amortization of new investment unit issuance costs	7,255	5,710
Interest income	(1,139)	(1,190)
Refund of unpaid distributions	(946)	(605)
Interest expenses	645,760	589,393
Increase in tenant receivables	(7,288)	(9,650)
(Decrease) Increase in accounts payable	(2,930)	227,087
Decrease (Increase) in consumption taxes refund receivables	27,364	(460,133)
Increase (Decrease) in consumption taxes payable	302,925	(302,925)
Decrease in rent received in advance	(47,963)	(51,606)
(Decrease) Increase in deposits received	(50,018)	19,512
Decrease in carrying amounts of property and equipment due to sale	8,216,638	2,441,741
Other	27,493	(35,139)
<b>SUBTOTAL</b>	<b>12,621,827</b>	<b>6,479,897</b>
Interest received	1,139	1,190
Interest paid	(596,057)	(620,864)
Income taxes paid	(8,257)	5,498
Net cash provided by operating activities	12,018,650	5,865,721
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments for purchases of property and equipment held in trust	(183,145)	(22,361,597)
Payments for purchases of intangible fixed assets held in trust	(270)	(671)
Proceeds from tenant security deposits held in trust	459,946	1,642,155
Payments of tenant security deposits held in trust	(935,956)	(234,924)
Net cash used in investing activities	(659,425)	(20,955,039)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term loans payable	10,900,000	-
Proceeds from long-term loans payable	-	11,300,000
Repayments of short-term loans payable	(14,900,000)	(6,500,000)
Repayments of long-term loans payable	(5,687,500)	(12,000,000)
Payments of distributions	(2,213,439)	(2,209,303)
Proceeds from issuance of new investment units	-	26,345,062
Payments of new investment unit issuance costs	-	(22,097)
Net cash (used in) provided by financing activities	(11,900,939)	16,913,661
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(541,714)</b>	<b>1,824,343</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>12,213,416</b>	<b>11,671,702</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>¥ 11,671,702</b>	<b>¥ 13,496,046</b>

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

# NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2014 AND APRIL 30, 2015

## Note-1. Organization and basis of presentation

**(a) Organization** – Premier Investment Corporation (hereinafter, “PIC”) is an investment corporation established in May 2002 under the Act on Investment Trusts and Investment Corporations (hereinafter, “Investment Trusts Act”) with an initial capital of 200,000 thousand yen (400 units), and it is listed on the Tokyo Stock Exchange. Premier REIT Advisors Co., Ltd., is the asset manager of PIC.

Status of equity financing is as follows:

Date	Description	Total Number of Investment Units Issued and Outstanding		Unitholders' Capital (millions of yen)	
		Increase (Decrease)	Balance	Increase (Decrease)	Balance
May 2, 2002	Incorporation through private placement	400 units	400 units	200	200
September 10, 2002	Capital increase through public offering	59,000 units	59,400 units	27,187	27,387
November 15, 2003	Capital increase through public offering	18,000 units	77,400 units	8,699	36,087
December 10, 2003	Capital increase through third-party allotment	2,000 units	79,400 units	966	37,053
May 31, 2005	Capital increase through public offering	22,000 units	101,400 units	14,381	51,434
November 26, 2007	Capital increase through public offering	30,000 units	131,400 units	17,510	68,945
May 14, 2010	Capital increase through third-party allotment	8,700 units	140,100 units	3,012	71,957
November 14, 2011	Capital increase through public offering	53,000 units	193,100 units	12,816	84,774
December 12, 2011	Capital increase through third-party allotment	3,599 units	196,699 units	870	85,644
November 7, 2013	Capital increase through public offering	20,900 units	217,599 units	7,942	93,587
December 4, 2013	Capital increase through third-party allotment	1,100 units	218,699 units	418	94,005
January 21, 2015	Capital increase through public offering	42,500 units	261,199 units	25,048	119,053
February 18, 2015	Capital increase through third-party allotment	2,200 units	263,399 units	1,296	120,350

As of April 30, 2015, PIC had total unitholders' capital of 120,350,148 thousand yen with 263,399 units outstanding.

As of April 30, 2015, PIC owned a portfolio of 24 office buildings, 33 residential properties and preferred securities of an SPC (58 properties in total). Total acquisition costs of those properties were 235,853 million yen.

**(b) Basis of presentation** – The financial statements of PIC have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and other related regulations of Japan and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are a translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by PIC and were filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain items presented in the financial statements have been reclassified for the convenience of readers outside Japan. PIC does not prepare consolidated financial statements as PIC has no subsidiaries.

PIC's fiscal period is six months, which respectively ends in April and October of each year.

Amounts less than 1 thousand yen have been omitted. As a result, the total shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

## Note-2. Summary of significant accounting policies

**(a) Cash and cash equivalents** – Cash and cash equivalents consist of cash, demand deposits, cash and deposits held in trust, and short-term investments. Short-term investments are highly liquid, readily convertible to cash, have an insignificant risk of change in value, and an original maturity of three months or less.

**(b) Valuation standard and method for securities** –

**Available-for-sale securities** – Private securities without fair market value are stated at cost being determined by the moving average method.

**(c) Depreciation and amortization –**

**Property and equipment –** Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment, except for land, is computed by using the straight-line method at rates based on estimated useful lives.

The ranges of useful lives used in the computation of depreciation are generally as follows:

Tools, furniture and fixtures .....	3 years
Buildings held in trust .....	3-68 years
Structures held in trust .....	3-50 years
Tools, furniture and fixtures held in trust.....	3-15 years

In accordance with the amended Japanese tax law, properties and equipment acquired on or after April 1, 2007 are depreciated with the residual value of one yen recognized at the end of the useful life.

Properties and equipment acquired before March 31, 2007 are depreciated with the residual value of 5% of acquisition costs over taxable lives.

However, in accordance with the amended Japanese tax law, such properties and equipment are depreciated with the residual value of one yen over five years from the following fiscal year after they are depreciated to the residual value of 5% of acquisition costs.

**Prepaid expenses –** Prepaid expenses are amortized using the straight-line method, and are mainly comprised of deferred financing costs for corporate bonds, loans, and insurance.

**New investment unit issuance costs –** New investment unit issuance costs are amortized using the straight-line method over three years.

**Corporate bond issuance costs –** Corporate bond issuance costs are amortized using the straight-line method over the period through the redemption of the bonds.

**(d) Income taxes –** Income taxes are accounted for financial reporting purposes. The tax effect of temporary differences for the carrying amount of assets and liabilities between book basis and tax basis is recognized as deferred taxes.

**(e) Property-related taxes –** Property-related taxes (i.e., property tax, city planning tax and depreciable property tax) are imposed on properties on a calendar year basis. The amount of taxes paid in the period is charged to income as property operating expenses. In accordance with Japanese business practice, at the time of disposal, the seller of the property is generally liable for property-related 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 of the property for the accrued property-related tax liabilities, and the amount of the settlement reflects this adjustment. PIC is allocated the portion of the property-related taxes for the period from the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of those properties. Capitalized property-related taxes totaled 134,411 thousand yen for the six months ended April 30, 2015.

**(f) Method of hedge accounting –** Special accounting is applied for interest rate swap transactions that satisfy the requirements for special accounting.

**Hedging instruments and hedged items –** Hedging instruments: interest rate swap transactions, Hedged items: interest expenses on loans payable.

**Hedging policy –** PIC conducts derivative transactions to hedge interest rate fluctuation risks for loans payable with floating interest rates based on the "Asset Management Target and Policies" provided in its Articles of Incorporation and the risk management regulations on derivative transactions.

**Method for assessing the effectiveness of hedging –** Assessment of the effectiveness of hedging is omitted as requirements are satisfied for special accounting for interest rate swap transactions.

**(g) Revenue recognition –** PIC owns and operates office buildings and residential properties that are rented to tenants. Revenue from leasing the office and residential spaces is recognized on an accrual basis based on the lease agreements. Rental revenue includes fixed rental revenues, recoveries of utility charges, and other income.

**(h) Accounting treatment of beneficiary interest in trust accounts, including real estate –** For beneficiary interests in real estate trust, which are commonly utilized in the ownership of commercial properties in Japan and through which PIC holds all of its properties, all accounts of assets and liabilities held in trust, as well as all income generated and expenses incurred from assets in trust, are recognized in the relevant balance sheet and income statement accounts.

**(i) Accounting for consumption taxes –** The national and local consumption taxes are excluded from business transaction amounts. Consumption taxes receivable and consumption taxes payable are netted, and the net amount is recorded as consumption taxes refund receivables or consumption taxes payable on the balance sheets.

**Note-3. Cash and cash equivalents**

Cash and cash equivalents as of October 31, 2014 and April 30, 2015 consisted of the following:

	Thousands of yen	
	October 31, 2014	April 30, 2015
Cash and deposits	¥ 2,757,601	¥ 2,449,482
Cash and deposits held in trust	8,914,100	11,046,564
<b>CASH AND CASH EQUIVALENTS</b>	<b>¥ 11,671,702</b>	<b>¥ 13,496,046</b>

**Note-4. Schedule of property and equipment and intangible fixed assets held in trust**

Property and equipment and intangible fixed assets held in trust as of October 31, 2014 and April 30, 2015 consisted of the following:

	Thousands of yen					
	October 31, 2014			April 30, 2015		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Property and equipment held in trust						
Buildings and structures						
Buildings	¥ 75,839,619	¥ 18,038,707	¥ 57,800,912	¥ 81,769,783	¥ 19,181,335	¥ 62,588,447
Structures	1,736,878	713,504	1,023,373	1,776,127	753,353	1,022,774
Tools, furniture and fixtures	242,173	183,490	58,682	258,080	192,804	65,276
Land	125,251,793	-	125,251,793	139,251,346	-	139,251,346
<b>SUBTOTAL</b>	<b>203,070,464</b>	<b>18,935,703</b>	<b>184,134,761</b>	<b>223,055,337</b>	<b>20,127,492</b>	<b>202,927,845</b>
Intangible fixed assets held in trust						
Leasehold	1,777,602	-	1,777,602	1,777,602	-	1,777,602
Other intangible fixed assets	6,664	2,603	4,061	7,111	3,118	3,992
<b>SUBTOTAL</b>	<b>1,784,267</b>	<b>2,603</b>	<b>1,781,663</b>	<b>1,784,714</b>	<b>3,118</b>	<b>1,781,595</b>
<b>TOTAL</b>	<b>¥ 204,854,731</b>	<b>¥ 18,938,306</b>	<b>¥ 185,916,425</b>	<b>¥ 224,840,051</b>	<b>¥ 20,130,611</b>	<b>¥ 204,709,440</b>

A government subsidy of 19,834 thousand yen, granted for the capital expenditures at The Kanagawa Science Park R&D Building in 2006, has been deducted from the acquisition cost of the building in trust.

**Note-5. Unitholders' equity**

PIC issues investment units in accordance with the Investment Trusts Act. All the proceeds from the issuance of new units are designated as stated capital. PIC maintains minimum net assets of at least 50,000 thousand yen as required by the Investment Trusts Act.

**Note-6. Corporate bonds**

Corporate bonds for the six months ended October 31, 2014 and April 30, 2015 were as follows:

	Thousands of yen		Interest rate (%)
	October 31, 2014 (Amount)	April 30, 2015 (Amount)	
Unsecured bond No.4 (issued on July 25, 2013 and due on July 25, 2018)	¥ 7,500,000	¥ 7,500,000	0.72
Unsecured bond No.5 (issued on March 6, 2014 and due on March 6, 2019)	2,500,000	2,500,000	0.45
Unsecured bond No.6 (issued on March 6, 2014 and due on March 5, 2021)	2,500,000	2,500,000	0.72
<b>TOTAL</b>	<b>¥ 12,500,000</b>	<b>¥ 12,500,000</b>	<b>-</b>

\* The anticipated maturities of corporate bonds for the following five years (excluding the corporate bonds payable due within one year) beginning May 1, starting in 2015 are as follows:

	(thousands of yen)			
	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less
¥	-	-	10,000,000	-

**Note-7. Short-term and long-term loans**

Short-term and long-term loans as of October 31, 2014 and April 30, 2015 consisted of the following:

	October 31, 2014		April 30, 2015	
	Amount (Thousands of yen)	Average interest rate *1 (%)	Amount (Thousands of yen)	Average interest rate *1 (%)
<b>SHORT-TERM LOANS</b>				
Unsecured loan due on March 31, 2015 with floating rate	¥ 6,500,000	0.4511	¥ -	-
Unsecured loan due on July 31, 2015 with floating rate	6,500,000	0.38947	6,500,000	0.37559
Unsecured loan due on September 30, 2015 with floating rate	4,400,000	0.34000	4,400,000	0.36476
<b>SUBTOTAL</b>	<b>17,400,000</b>	<b>-</b>	<b>10,900,000</b>	<b>-</b>
<b>LONG-TERM LOANS PAYABLE DUE WITHIN ONE YEAR</b>				
Unsecured loan due on May 14, 2015 with fixed rate	3,900,000	1.72750	3,900,000	1.72750
Unsecured loan due on September 4, 2015 with fixed rate	8,000,000	1.14250	8,000,000	1.14250
Unsecured loan due on July 29, 2015 with fixed rate	6,500,000	1.39250	6,500,000	1.39250
Unsecured loan due on November 18, 2014 with fixed rate	12,000,000	1.16500	-	-
Unsecured loan due on December 8, 2015 with fixed rate	-	-	11,000,000	1.29375
<b>SUBTOTAL</b>	<b>30,400,000</b>	<b>-</b>	<b>29,400,000</b>	<b>-</b>
<b>LONG-TERM LOANS</b>				
Unsecured loan due on December 8, 2015 with fixed rate	11,000,000	1.29375	-	-
Unsecured loan due on December 8, 2016 with fixed rate	9,000,000	1.43375	9,000,000	1.43375
Unsecured loan due on August 31, 2016 with fixed rate	2,250,000	1.34525	2,250,000	1.34525
Unsecured loan due on September 5, 2018 with fixed rate	5,000,000	1.21000	5,000,000	1.21000
Unsecured loan due on September 5, 2017 with fixed rate	5,000,000	0.95375	5,000,000	0.95375
Unsecured loan due on November 16, 2017 with fixed rate	3,000,000	0.98250	3,000,000	0.98250
Unsecured loan due on February 28, 2019 with fixed rate	2,850,000	1.02875	2,850,000	1.02875
Unsecured loan due on March 27, 2018 with fixed rate	7,900,000	0.88250	7,900,000	0.88250
Unsecured loan due on May 22, 2018 with fixed rate	3,000,000	1.15125	3,000,000	1.15125
Unsecured loan due on October 31, 2016 with floating rate	5,400,000	0.46030	5,400,000	0.43725
Unsecured loan due on September 30, 2019 with fixed rate	-	-	2,400,000	0.71625
Unsecured loan due on September 30, 2019 with fixed rate *2	-	-	2,400,000	0.71625
Unsecured loan due on September 30, 2019 with fixed rate *2	-	-	2,400,000	0.71625
Unsecured loan due on September 30, 2021 with fixed rate	-	-	2,400,000	0.91125
Unsecured loan due on March 31, 2022 with fixed rate *2	-	-	1,050,000	0.87000
Unsecured loan due on March 31, 2020 with fixed rate	-	-	650,000	0.69000
<b>SUBTOTAL</b>	<b>54,400,000</b>	<b>-</b>	<b>54,700,000</b>	<b>-</b>
<b>TOTAL</b>	<b>¥ 102,200,000</b>	<b>-</b>	<b>¥ 95,000,000</b>	<b>-</b>

\*1 Floating interest rates in the table above represents the weighted average interest rate for the period.

\*2 As PIC has conducted interest rate swap transactions for the balance of the loan in order to reduce the interest rate fluctuation risk, the fixed rate interest obtained by taking into account the effect of the interest rate swaps is indicated.

\*3 The anticipated maturities of long-term loans for the following five years (excluding long-term loans payable due within one year) beginning May 1, starting in 2015 are as follows:

	(thousands of yen)			
	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less
¥	16,650,000	15,900,000	10,850,000	7,850,000

**Note-8. Rental revenues and expenses**

Rental revenues and expenses for the six months ended October 31, 2014 and April 30, 2015 were as follows:

	Thousands of yen	
	October 31, 2014	April 30, 2015
<b>REAL ESTATE RENTAL REVENUE</b>		
Rental revenue		
Rents	¥ 4,672,987	¥ 5,173,001
Common area charge	874,660	989,095
Subtotal	5,547,647	6,162,097
Other revenue		
Parking fees	155,271	166,034
Facility fees	47,423	52,376
Incidental revenue	380,468	386,247
Miscellaneous income	95,843	91,538
Subtotal	679,007	696,196
<b>TOTAL REAL ESTATE RENTAL REVENUE</b>	<b>6,226,655</b>	<b>6,858,293</b>
<b>REAL ESTATE RENTAL EXPENSES</b>		
Property-operating expenses		
Property management fees	762,142	824,457
Utilities	458,487	489,081
Real estate taxes	476,794	461,024
Insurance	13,967	14,372
Maintenance and repairs	266,605	268,217
Trust fees	39,045	40,354
Depreciation	1,155,681	1,223,188
Miscellaneous expenses	136,833	134,537
<b>TOTAL REAL ESTATE RENTAL EXPENSES</b>	<b>3,309,559</b>	<b>3,455,233</b>
<b>REAL ESTATE RENTAL INCOME</b>	<b>¥ 2,917,096</b>	<b>¥ 3,403,059</b>

**Note-9. Gains from sale of properties**

Gains from sale of properties for the six months ended October 31, 2014 and April 30, 2015 were as follows:

	Thousands of yen		
	October 31, 2014		April 30, 2015
	Iwamotocho Building	IPB Ochanomizu Building	Kanda Chuodori Building
Revenue from sale of properties	¥ 6,915,000	¥ 1,570,000	¥ 2,778,439
Cost of properties	6,903,526	1,313,139	2,440,727
Other expenses for sale	3,050	50,575	86,704
<b>GAINS FROM SALE OF PROPERTIES</b>	<b>¥ 8,432</b>	<b>¥ 206,285</b>	<b>¥ 251,007</b>

**Note-10. Income taxes**

Income taxes in Japan applicable to PIC consist of corporate income tax, enterprise tax, and inhabitant tax. The following is reconciliation between the statutory income tax rate in Japan and the effective tax rate reflected in the accompanying financial statements for the six months ended October 31, 2014 and April 30, 2015:

	October 31, 2014	April 30, 2015
Statutory tax rate	34.16%	34.15%
Adjustments		
Deductible cash distributions	(32.21)	(34.13)
Other	(1.86)	0.04
<b>EFFECTIVE TAX RATE</b>	<b>0.09%</b>	<b>0.05%</b>

Under PIC's distribution policy, cash distributions are made in excess of 90% of distributable income as defined in the Special Taxation Measures Law of Japan for the fiscal period to qualify for conditions as set forth in the Special Taxation Measures Law to achieve a deduction of cash distributions for income tax purposes. Based on such policy, PIC treated the cash distributions as tax deductions as allowed in the Special Taxation Measures Law.

The Act for Partial Revision of the Income Tax Act, etc. (Act No. 9 of 2015) was promulgated on March 31, 2015, which stipulates that the income tax rate will be lowered, effective for the accounting period starting on April 1, 2015 and thereafter. Accordingly, with regard to the temporary differences that are anticipated to be reversed in the accounting period starting on May 1, 2015, the effective statutory income tax rate used in the calculation of deferred tax assets and deferred tax liabilities has been changed from the previous 34.15% to 32.31%. Furthermore, the tax rate change will have only a minimum impact on PIC's deferred tax assets.

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of October 31, 2014 and April 30, 2015 were as follows:

	Thousands of yen	
	October 31, 2014	April 30, 2015
Deferred tax assets		
Enterprise taxes	¥ 1,334	¥ 3,395
Total of deferred tax assets	1,334	3,395
<b>NET DEFERRED TAX ASSETS</b>	<b>¥ 1,334</b>	<b>¥ 3,395</b>

**Note-11. Per unit information**

The following table summarizes the net assets per unit as of October 31, 2014 and April 30, 2015 and the net income per unit for the six months ended October 31, 2014 and April 30, 2015:

	October 31, 2014	April 30, 2015
Net assets per unit	¥ 440,796	¥ 468,348
Net income per unit	10,701	11,629

The net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding for the respective six-month period.

The basis for calculating net income per unit was as follows:

	Thousands of yen	
	October 31, 2014	April 30, 2015
Net income	¥ 2,340,510	¥ 2,826,526
Amount not available to ordinary unitholders	-	-
Net income related to ordinary unitholders	2,340,510	2,826,526
Average number of units during the period	218,699 units	243,055 units

Diluted net income per unit is not presented since no warrants and convertible bonds were outstanding during the six months ended October 31, 2014 and April 30, 2015.

**Note-12. Leases**

PIC leases some properties to tenants under non-cancellable operating leases. As of October 31, 2014 and April 30, 2015, the future lease revenues under the non-cancellable operating leases were as follows:

	Thousands of yen	
	October 31, 2014	April 30, 2015
Due within one year	¥ 345,291	¥ 266,913
Due after one year	1,917,409	1,847,170
<b>TOTAL</b>	<b>¥ 2,262,701</b>	<b>¥ 2,114,083</b>

**Note-13. Distribution information**

Pursuant to the distribution policy set forth in Article 13, Paragraph 1 of PIC's Article of Incorporation, the maximum distribution amount cannot exceed the unappropriated income, and this amount must exceed 90% of the "distributable income" which is defined in Article 67-15 of the Special Taxation Measures Law of Japan. No cash distributions exceeding the unappropriated income as set forth in Article 13, Paragraph 2 of the PIC's Article of Incorporation were made.

[October 31, 2014]

In accordance with this policy, PIC declared on a total distribution of 2,211,046,890 yen as distribution of income for the 24th fiscal period (payment to start on January 19, 2015). This is the maximum value arrived at when the number of units outstanding (218,699 units) is multiplied by an integer, within the limit of the unappropriated retained earnings for the 24th fiscal period after adding the reversal of the existing reserve for the reduction entry, which is defined in Article 66-2 of the Special Taxation Measures Law, and deducting the provision of the newly recorded reserve for reduction entry.

[April 30, 2015]

In accordance with this policy, PIC declared on a total distribution of 2,826,534,669 yen as distribution of income for the 25th fiscal period (payment to start on July 9, 2015), which was the maximum value arrived at when the number of units outstanding (263,399 units) was multiplied by an integer, within the limit of the unappropriated retained earnings as of the end of the 25th fiscal period.

Furthermore, PIC does not make cash distributions in excess of the profit as stipulated in Article 13-2 of its Articles of Incorporation.

Income carried forward after the distributions for the six months ended October 31, 2014 and April 30, 2015 were as follows:

	October 31, 2014	April 30, 2015
Unappropriated income	¥ 2,340,611,918	¥ 2,826,693,685
Reversal of reserve for reduction entry	56,156,181	-
Cash distributions declared	2,211,046,890	2,826,534,669
(Cash distribution declared per unit)	(10,110)	(10,731)
Provision of reserve for reduction entry	185,554,064	-
<b>INCOME CARRIED FORWARD</b>	<b>¥ 167,145</b>	<b>¥ 159,016</b>

**Note-14. Financial instruments****(a) Items concerning the current status of financial instruments -**

**Policies on financial instruments** - PIC procures funds for acquiring properties, conducting maintenance and repairs, repaying interest-bearing liabilities and for other purposes primarily through borrowings from financial institutions, issuing corporate bonds or issuing new investment units.

With regard to temporary surplus funds, tenant security deposits held in trust, etc., PIC manages them as bank deposits in consideration of such factors as safety and liquidity.

Moreover, PIC owns investment securities (preferred securities backed by the cash flow gained from real estate) as part of its real estate investment.

As for derivative transactions, PIC may use them only to hedge against interest rate fluctuation risks arising from liabilities.

**Description of financial instruments, their respective risks and risk management structure** - Short-term loans, long-term loans and corporate bonds are means of fund procurement primarily for acquiring trust beneficiary interests and repaying interest-bearing liabilities.

Although loans and corporate bonds are exposed to liquidity risk upon the arrival of repayment dates, PIC manages the risk by such measures as working to maintain and enhance its ability to procure funds from the capital market through issuing investment units, by controlling the ratio of interest-bearing liabilities to total assets within a range considered appropriate, creating fund procurement plans as early as possible by regularly checking liquidity on hand through making monthly cash payment schedules, etc., and preparing necessary funds based on such plans.

In addition, although loans with floating interest rates are exposed to interest rate fluctuation risk, PIC manages the risk by adjusting the ratio of the balance of loans with floating interest rates to the entire loans in accordance with the financing environment, as well as utilizing derivative transactions (interest rate swap transactions) as hedging instruments.

The investment securities (preferred securities backed by the cash flow gained from real estate) are exposed to liquidity risk, credit risk of the issuer, etc. in addition to investment risks specific to real estate. However, PIC will manage such risks by maintaining the ratio of the investment securities to its total assets at a certain level, and by employing such measures as assessing the financial condition issues on a regular basis.

**Supplemental explanation on items concerning fair value of financial instruments** - The fair value of financial instruments includes market prices and, in the event market prices are not available, prices that are rationally calculated. Since such calculation uses certain assumptions and conditions, the calculated prices may differ if different assumptions and conditions are used. As for the contract amount and other conditions of derivative transactions indicated in "(b) Items concerning fair value of financial instruments" below, the contract amount is not an indicator of the market risks related to such derivative transactions.

**(b) Items concerning fair value of financial instruments** - The book values recorded on the balance sheet, fair values and their difference as of October 31, 2014 and April 30, 2015 were as follows:

	Thousands of yen					
	October 31, 2014			April 30, 2015		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets</b>						
(1) Cash and deposits	¥ 2,757,601	¥ 2,757,601	¥ -	¥ 2,449,482	¥ 2,449,482	¥ -
(2) Cash and deposits held in trust	8,914,100	8,914,100	-	11,046,564	11,046,564	-
<b>TOTAL ASSETS</b>	<b>¥ 11,671,702</b>	<b>¥ 11,671,702</b>	<b>¥ -</b>	<b>¥ 13,496,046</b>	<b>¥ 13,496,046</b>	<b>¥ -</b>
<b>Liabilities</b>						
(3) Short-term loans payable	¥ 17,400,000	¥ 17,400,000	¥ -	¥ 10,900,000	¥ 10,900,000	¥ -
(4) Long-term loans payable due within one year	30,400,000	30,577,254	177,254	29,400,000	29,551,992	151,992
(5) Long-term loans payable	54,400,000	55,080,171	680,171	54,700,000	55,224,601	524,601
(6) Corporate bonds	12,500,000	12,629,000	129,000	12,500,000	12,635,150	135,150
<b>TOTAL LIABILITIES</b>	<b>¥ 114,700,000</b>	<b>¥ 115,686,426</b>	<b>¥ 986,426</b>	<b>¥ 107,500,000</b>	<b>¥ 108,311,744</b>	<b>¥ 811,744</b>
(7) Derivative Transaction	-	-	-	-	-	-

\*1 The following methods are used to estimate the fair value of financial instruments:

**(1) Cash and deposits, and (2) cash and deposits held in trust** - Book values of these instruments are used to determine their fair values, as the fair values are considered to approximate the book values because these instruments are settled over the short term.

**(3) Short-term loans payable** - Book values of these instruments are used to determine their fair values, as the fair values are considered to approximate the book values because these instruments are settled over the short term.

**(4) Long-term loans payable due within one year and (5) long-term loans payable** - Fair values of these instruments are calculated based on the total amount of principals and interests discounted by rates estimated in the event that PIC conducts new borrowings corresponding to the remaining periods. However, fair values of certain long-term loans payable with floating interest rates that qualify for the special accounting of interest rate swaps (refer to Note 16. Derivative Transactions below) are based on the method of calculating by discounting the sum of their principal and interest payments net of any cash flows from the interest-rate swap by estimated rates assumed in the event that PIC borrows new loans corresponding to the remaining periods. Moreover, fair values of long-term loans payable with fixed interest rates are based on the method of calculating by discounting the sum of their principal and interest by the rates assumed in the event that PIC borrows new loans corresponding to the remaining periods.

**(6) Corporate bonds** - Fair values of these instruments are calculated based on their market prices.

**(7) Derivative Transaction** - Refer to Note 16. Derivative Transactions below.

\*2 Financial instruments for which it is recognizably very difficult to estimate the fair value:

**Investment securities** - The preferred securities (recorded on the Balance Sheets at 20,035,175 thousand yen as of October 31, 2014 and April 30, 2015, respectively) do not have any market price and do not allow estimation of their future cash flows. Thus, it is recognized to be very difficult to estimate their fair value, and they are excluded from the disclosure of fair value of financial instruments.

\*3 Planned redemption amount of monetary claims as of October 31, 2014 and April 30, 2015, are as follows:

	Thousands of yen					
	October 31, 2014					
	Within one year	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less	More than five years
(1) Cash and deposits	¥ 2,757,601	¥ -	¥ -	¥ -	¥ -	¥ -
(2) Cash and deposits held in trust	8,914,100	-	-	-	-	-
<b>TOTAL</b>	<b>¥ 11,671,702</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>

	Thousands of yen					
	April 30, 2015					
	Within one year	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less	More than five years
(1) Cash and deposits	¥ 2,449,482	¥ -	¥ -	¥ -	¥ -	¥ -
(2) Cash and deposits held in trust	11,046,564	-	-	-	-	-
<b>TOTAL</b>	<b>¥ 13,496,046</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>

\*4 Planned repayment and redemption amounts of loans and corporate bonds as of October 31, 2014 and April 30, 2015, are as follows:

	Thousands of yen					
	October 31, 2014					
	Within one year	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less	More than five years
(3) Short-term loans payable	¥ 17,400,000	¥ -	¥ -	¥ -	¥ -	¥ -
(4) Long-term loans payable due within one year	30,400,000	-	-	-	-	-
(5) Long-term loans payable	-	18,650,000	14,000,000	18,900,000	2,850,000	-
(6) Corporate bonds	-	-	-	7,500,000	2,500,000	2,500,000
<b>TOTAL</b>	<b>¥ 47,800,000</b>	<b>¥ 18,650,000</b>	<b>¥ 14,000,000</b>	<b>¥ 26,400,000</b>	<b>¥ 5,350,000</b>	<b>¥ 2,500,000</b>

	Thousands of yen					
	April 30, 2015					
	Within one year	More than one year and two years or less	More than two years and three years or less	More than three years and four years or less	More than four years and five years or less	More than five years
(3) Short-term loans payable	¥ 10,900,000	¥ -	¥ -	¥ -	¥ -	¥ -
(4) Long-term loans payable due within one year	29,400,000	-	-	-	-	-
(5) Long-term loans payable	-	16,650,000	15,900,000	10,850,000	7,850,000	3,450,000
(6) Corporate bonds	-	-	-	10,000,000	-	2,500,000
<b>TOTAL</b>	<b>¥ 40,300,000</b>	<b>¥ 16,650,000</b>	<b>¥ 15,900,000</b>	<b>¥ 20,850,000</b>	<b>¥ 7,850,000</b>	<b>¥ 5,950,000</b>

**Note-15. Investment securities**

Investment securities represent the preferred securities issued by UDX Special Purpose Company, which are backed by cash flows from Real Estate Property managed by UDX Special Purpose Company. PIC owns 53,580 units (19.0% equity of) the preferred securities (282,000 units in total) as of October 31, 2014 and April 30, 2015, respectively.

These securities do not have a readily available market price. Additionally, due to lack of the transparency of cash flow information from the underlying properties, there is inherent difficulty in estimating fair value, and accordingly they are excluded from the disclosure of fair value.

**Note-16. Derivative Transactions**

**(a) Derivatives to which hedge accounting is not applied** - Not applicable for the six months ended October 31, 2014 and for the six months ended April 30, 2015.

**(b) Derivatives to which hedge accounting is applied** - Not applicable for the six months ended October 31, 2014.

For the six months ended April 30, 2015, the following table shows the contract amount or amount equivalent to the principal provided in the contract as of the closing of accounts for each method of hedge accounting.

Type of hedge accounting	Type of derivative transactions, etc.	Major hedged item	Thousands of yen		
			Contract amount, etc.	Of which, exceeding 1 year	Fair value
Special accounting for interest rate swaps	Interest rate swap transaction Receivable floating; payable fixed	Long-term loans payable	¥ 5,850,000	¥ 5,850,000	*

\* Transactions for which special accounting for interest rate swaps is applied are combined with long-term loans payable for accounting purposes. Accordingly, their fair value is included in the fair value of the relevant long-term loans payable.

**Note-17. Rental property**

PIC owns office buildings and residential properties for rental purposes mainly in the 23 wards of Tokyo. The book values of these rental properties recorded on the balance sheets as of October 31, 2014 and April 30, 2015, the variations during the fiscal period and their fair values are as follows:

	Thousands of yen							
	October 31, 2014				April 30, 2015			
	Book value at May 1, 2014	Increase and Decrease during the period	Book value at October 31, 2014	Fair value at October 31, 2014	Book value at November 1, 2014	Increase and Decrease during the period	Book value at April 30, 2015	Fair value at April 30, 2015
Office buildings	¥ 117,610,379	¥ (8,572,055)	¥ 109,038,324	¥ 107,450,000	¥ 109,038,324	¥ 19,360,121	¥ 128,398,445	¥ 130,390,000
Residential properties	77,478,135	(600,035)	76,878,100	72,634,000	76,878,100	(567,105)	76,310,994	76,044,000
<b>TOTAL</b>	<b>¥ 195,088,515</b>	<b>¥ (9,172,090)</b>	<b>¥ 185,916,425</b>	<b>¥ 180,084,000</b>	<b>¥ 185,916,425</b>	<b>¥ 18,793,015</b>	<b>¥ 204,709,440</b>	<b>¥ 206,434,000</b>

\*1 The book values recorded on the balance sheets represent the amounts obtained by deducting the accumulated depreciation from the acquisition prices (including incidental expenses accompanying the acquisitions).

\*2 Major increases in the fiscal period ended October 31, 2014 are due to the capital expenditures (195,621 thousand yen), and major decreases are due to the sale of Iwamotocho Building and IPB Ochanomizu Building (8,216,666 thousand yen) and the depreciation (1,155,681 thousand yen). Major increases in the fiscal period ended April 30, 2015 are due to the acquisition of Urbannet Kojimachi Building, Urbannet Ikebukuro Building and Urbannet Omori Building (22,198,386 thousand yen) and the capital expenditures (258,545 thousand yen), and major decreases are due to the sale of Kanda Chuodori Building (2,440,727 thousand yen) and the depreciation (1,223,188 thousand yen).

\*3 The fair values at the end of the fiscal periods in the above table are appraisal values based on external real estate appraisers.

In addition, the operating revenues and expenses of the rental properties for the fiscal period ended October 31, 2014 and April 30, 2015 are as follows:

	Thousands of yen					
	October 31, 2014			April 30, 2015		
	Real estate rental revenue	Real estate rental expenses	Real estate rental income	Real estate rental revenue	Real estate rental expenses	Real estate rental income
Office buildings	¥ 3,736,524	¥ 1,924,533	¥ 1,811,991	¥ 4,313,135	¥ 2,076,051	¥ 2,237,084
Residential properties	2,490,130	1,385,026	1,105,104	2,545,158	1,379,182	1,165,975
<b>TOTAL</b>	<b>¥ 6,226,655</b>	<b>¥ 3,309,559</b>	<b>¥ 2,917,096</b>	<b>¥ 6,858,293</b>	<b>¥ 3,455,233</b>	<b>¥ 3,403,059</b>

\* The real estate rental revenues and real estate rental expenses are rental revenues and corresponding expenses (depreciation, property management fees, utilities, etc.), and are recorded in "Operating revenues" and "Operating expenses", respectively.

**Note-18. Segment information**

**(a) Segment information** - Description has been omitted because the real estate business constitutes PIC's sole business segment.

**(b) Related information** -

**(i) Information by product/service category** - Description has been omitted because operating revenues from external customers in a single product/service category account for over 90% of the operating revenues on the profit and loss statements.

**(ii) Information on geographical area** -

**Operating revenues** - Description has been omitted because operating revenues from external customers in Japan account for over 90% of the operating revenues on the profit and loss statements.

**Property and equipment** - Description has been omitted because the amount of property and equipment located in Japan accounts for over 90% of the amount of property and equipment on the balance sheets.

**(iii) Information by major customer** - Description has been omitted because the operating revenues from a single external customer accounts for less than 10% of the operating revenues on the profit and loss statements.

**Note-19. Subsequent events**

**(a) Acquisition of property** - Pursuant to the basic investment policy and other policies, PIC acquired the following property:

NTT CRED Okayama Building	
<b>OVERVIEW OF THE PROPERTY ACQUISITION</b>	
Type of property	Quasi Co-ownership of beneficially interest in a trust (real estate) (60.0% quasi co-ownership)
Acquisition price	3,600 million yen
Appraisal value	3,600 million yen (amount equivalent to 60.0% quasi-co-ownership) (as of April 1, 2015) [Appraiser] Japan Real Estate Institute
Date of conclusion	April 28, 2015
Acquisition date	May 15, 2015
<b>OVERVIEW OF THE PROPERTY HELD IN TRUST</b>	
Location (residential indication)	1-8-45 Nakasange, Kita Ward, Okayama City, Okayama
Use of building	Office and retail
Area	Land: 4,160.86 m <sup>2</sup> Total floor space: 35,299.51 m <sup>2</sup> Total leasable space: 10,210.07 m <sup>2</sup> *
Structure of building	Steel and steel framed reinforced concrete structure with a flat-topped roof, 21 stories with 2 basement stories
Construction completion	February 1999

\* The total leasable space indicates the figure obtained by multiplying the figure of the entire property by the ratio of the quasi co-ownership of beneficiary interest (60.0%).

**(b) Sale of property** - Pursuant to the basic investment policy and other policies, PIC sold the following properties:

	Sun Palace Minami-Azabu	Homat Woodville
<b>OVERVIEW OF THE PROPERTY SOLD</b>		
Type of property	Beneficiary interest in a trust (real estate)	Beneficiary interest in a trust (real estate)
Sale price	1,017 million yen	4,861 million yen
Date of acquisition	September 10, 2002	November 18, 2003
Acquisition price	1,150 million yen	5,090 million yen
Book value	1,027 million yen (as of April 30, 2015)	4,753 million yen (as of April 30, 2015)
Difference between sale price and book value	-9 million yen	107 million yen
Appraisal value	948 million yen (as of April 1, 2015) [Appraiser] Japan Real Estate Institute	4,530 million yen (as of April 1, 2015) [Appraiser] Japan Real Estate Institute
Date of conclusion	April 28, 2015	April 28, 2015
Sale date	May 15, 2015	May 15, 2015
<b>OVERVIEW OF THE PROPERTY HELD IN TRUST</b>		
Location (residential indication)	1-17-5 Minami-Azabu, Minato Ward, Tokyo	4-12-19 Nishi-Azabu, Minato Ward, Tokyo
Use of building	Apartment	Apartment
Area	Land: 677.02 m <sup>2</sup> Total floor space: 2,227.34 m <sup>2</sup> Total leasable space: 1,577.42 m <sup>2</sup>	Land: 2,983.96 m <sup>2</sup> Total floor space: 8,269.98 m <sup>2</sup> Total leasable space: 5,793.93 m <sup>2</sup>
Structure of building	Reinforced concrete structure with a flat-topped roof, 6 stories with 1 basement story	Reinforced concrete structure with a flat-topped roof, 7 stories with 1 basement story
Construction complete	November 1989	August 1988

## CAPITAL EXPENDITURES

### 1. Capital Expenditures

PIC plans to incur capital expenditures for scheduled renovations, etc. of the portfolio it owns, including the following material expenditures.

Name	Address	Purpose	Scheduled Period	Planned Construction Expenditures (thousands of yen)		
				Total	Amount Paid during the 25th Fiscal Period	Amount Paid before the 25th Fiscal Period
NU Kannai Building	Yokohama City, Kanagawa	Renovation of air conditioning systems	May 2015 - September 2017	431,843	-	-

### 2. Capital Expenditures during the 25th Fiscal Period

The following is an overview of major construction classified as capital expenditures during the 25th fiscal period (November 1, 2015 – April 30, 2015) for the portfolio owned by PIC. Capital expenditures during the period totaled 258,545 thousand yen. These, combined with maintenance and repair expenditures of 268,217 thousand yen, were classified as operating expenses for the period, aggregating a total of 526,762 thousand yen represented renovation expenditure.

Name	Address	Purpose	Period	Amount Paid (thousands of yen)
Landic Shimbashi 2 Building	Minato Ward, Tokyo	Renovation of outer wall	November 2014 – April 2015	95,890
Renai Shinjuku-Gyoen Tower	Shinjuku Ward, Tokyo	Renovation of common space	December 2014 – January 2015	34,038
Takadanobaba Center Building	Shinjuku Ward, Tokyo	Renovation of air conditioning systems	October 2014 – January 2015	28,922
Urbannet Mita Building	Minato Ward, Tokyo	Renovation of automatic fire alarm systems	December 2014 – March 2015	25,350
Other construction	-	-	-	74,344
<b>Total</b>				<b>258,545</b>

### 3. Amounts Reserved for Long-Term Maintenance and Repair Plans

Item	Fiscal Period	Thousands of yen	
		24th Fiscal Period (May 1, 2014 – October 31, 2014)	25th Fiscal Period (November 1, 2014 – April 30, 2015)
Deposits at end of the preceding period		494,209	446,032
Deposits made during the period		14,323	14,323
Amounts used from deposits during the period		62,500	-
Deposits carried forward to the next period		446,032	460,355

## OVERVIEW OF FUND PROCUREMENT

### 1. Issuance of New Investment Units

Issuance of new investment units through public offering		Issuance of new investment units through third-party allotment	
<p>On January 21, 2015, PIC issued new investment units through public offering and procured funds totaling 25,048 million yen.</p> <p>PIC used the procured funds to acquire new properties (Urbannet Kojimachi Building, Urbannet Ikebukuro Building and Urbannet Omori Building) and, in combination with the proceeds obtained from issuing new investment units through third-party allotment, for which payment was made on February 18, 2015, as well as with cash on hand, to partially repay short-term loans* (4,800 million yen) before maturity.</p>		<p>On February 18, 2015, PIC issued new investment units through third-party allotment with SMBC Nikko Securities Inc. as the allottee, and procured funds totaling approximately 1,296 million yen.</p> <p>PIC used the procured funds to partially repay short-term loans* (4,800 million yen) before maturity, in combination with part of the proceeds obtained from issuing new investment units through public offering, for which payment was made on January 21, 2015, as well as with cash on hand.</p>	
Number of new investment units	42,500 units	Number of new investment units	2,200 units
Offer price	609,375 yen per unit	Paid amount (issue price)	589,375 yen per unit
Paid amount (issue price)	589,375	Payment date	February 18, 2015
Payment date	January 21, 2015	Total paid amount (issue price)	1,296,625,000 yen
Total paid amount (issue price)	25,048,437,500 yen	Starting date for calculating dividends	November 1, 2014
Starting date for calculating dividends	November 1, 2014	* Refer to 2. Borrowing of Funds, Etc. below	

### 2. Borrowing of Funds, Etc.

(i) Of the 12,000 million yen in a long-term loan borrowed on November 18, 2011, PIC refinanced 9,600 million yen into long-term loans on November 18, 2014 while repaying the remaining 2,400 million yen using part of the proceeds from selling an office building (Kanda Chuodori Building) that was transferred on November 7, 2014. The following table shows the breakdown of the 9,600 million yen in long-term loans.

Lender	Development Bank of Japan Inc.	Mitsubishi UFJ Trust and Banking Corporation	Sumitomo Mitsui Banking Corporation	Mizuho Bank, Ltd.
Loan amount	2,400 million yen	2,400 million yen	2,400 million yen	2,400 million yen
Drawdown date	November 18, 2014			
Principal repayment date	September 30, 2019			September 30, 2021
Repayment method	Lump-sum repayment upon maturity			
Interest rate (p.a.), etc.	Fixed rate: 0.71625%	Fixed rate: 0.71625%*		Fixed rate: 0.91125%
Collateral/guarantee	Unsecured and non-guaranteed			

\*As PIC has conducted interest rate swap transactions for the balance of the loans in order to reduce the interest rate fluctuation risk, the fixed rate interest obtained by taking into account the effect of the interest rate swaps is indicated.

(ii) Of the 6,500 million yen in short-term loans borrowed on March 31, 2014, PIC made an early repayment of 4,800 million yen on February 27, 2015 by using part of the proceeds obtained from issuing new investment units through public offering, the proceeds obtained from issuing new investment units through third-party allotment and cash on hand. The remaining 1,700 million yen was refinanced into long-term loans on March 31, 2015. The following table shows the breakdown of the 1,700 million yen in long-term loans.

Lender	Sumitomo Mitsui Trust Bank, Limited	Aozora Bank, Ltd.
Loan amount	1,050 million yen	650 million yen
Drawdown date	March 31, 2015	
Principal repayment date	March 31, 2022	March 31, 2020
Repayment method	Lump-sum repayment upon maturity	
Interest rate (p.a.), etc.	Fixed rate: 0.87000%*	Fixed rate: 0.69000%
Collateral/guarantee	Unsecured and non-guaranteed	

\*As PIC has conducted an interest rate swap transaction for the balance of the loan in order to reduce the interest rate fluctuation risk, the fixed rate interest obtained by taking into account the effect of the interest rate swap is indicated.

As a result of the above, PIC's interest-bearing liabilities totaled 107,500 million yen as of April 30, 2015. The breakdown is as follows: 10,900 million yen in short-term loans, 84,100 million yen in long-term loans (including long-term loans due within one year) and 12,500 million yen in corporate bonds. Of the total interest-bearing liabilities, long-term interest-bearing liabilities accounted for 89.9%.

## CREDIT RATINGS

PRC has been granted the following issuer and bond credit ratings.

Rating agency	Rating	
	Issuer rating (Rating outlook)	Bond rating (Note 1)
Japan Credit Rating Agency, Ltd. (JCR) (Note 2)	AA- (Stable)	-
Rating and Investment Information, Inc. (R&I) (Note 3)	A+ (Stable)	A+
Moody's (Japan) K.K.	Baa1 (Stable)	-

(Note 1) The bond credit rating has been granted to the Unsecured bonds No. 4, 5 and 6.

(Note 2) As of July 8, 2015, PIC newly obtained an issuer credit rating from Japan Credit Rating Agency, Ltd. (JCR), as described above.

(Note 3) As of February 19, 2015 (the 25th fiscal period), Rating and Investment Information, Inc. (R&I) announced that it changed the issuer credit rating, etc. of PIC as follows:

\* Issuer rating (rating outlook): From A (Stable) to A+ (Stable)

\* Bond rating: from A to A+

# STRATEGIC POLICIES

## I. INVESTMENT POLICY

### 1. Basic Policy

Premier Investment Corporation (PIC) shall invest in real estate located primarily in the Tokyo metropolitan area and comprising buildings primarily for office and residential uses and their lots, as well as in securities and other assets that are backed by the said real estate. PIC shall conduct management with an aim to ensure solid growth of assets it owns and stable earnings from medium- to long-term perspectives.

Premier REIT Advisors, Co., Ltd. (PRA), the asset manager of PIC, has established Asset Management Guidelines as its internal rules for conducting asset management of PIC.

PRA has established such Asset Management Guidelines based on the belief that they should be most suited to the basic policy for managing the assets of PIC in light of the existing market environment and economic conditions. The following is a summary of the Guidelines:

### 2. Portfolio Management Standards Based on Basic Policy

#### 1. Holding Period

In principle, all investment assets are held for the medium to long term. No assets will be acquired solely for the purpose of divestiture after a short period of time.

#### 2. Acquisition Standards

##### A) Acquisition Standards

In acquiring investment assets in which PIC invests, PRA shall comprehensively investigate the real estate market situation over the medium to long term, the investment returns assumed from the acquisition

prices of and the expected income from relevant investment assets, fluctuations in asset values and their forecasted fluctuations, prospects and stability of areas where the properties are located, building size, building and facility specifications, earthquake resistance performance, status of rights, tenants, property management conditions, environment and soil quality, current responses to deterioration or obsolescence of real estate, projected future capital expenditures thereof, status of insurance and other factors, and select investments after considering the importance of these assets in the portfolio structure. In doing so, steps shall be taken to construct a portfolio that clearly classifies the strategic position of these investment assets.

##### B) Use [see table on page 39](#)

a. PIC shall invest in real estate, its leasehold interest or surface rights (chijo-ken), real estate in trust underlying its beneficial interests, its leasehold interest or surface rights, and real estate underlying equity investments in real estate backed securities or anonymous partnerships (hereinafter, "Real Estate Backed Securities, etc."), its leasehold interests or surface rights (collectively referred to as "Investment Real Estate"), all of which shall be primarily for office and residential uses. However, such properties may in some cases be used partially for retail or other purposes. Consequently, the office buildings and residential properties acquired by PIC may include properties that are partially used for retail or other purposes.

b. In consideration of the characteristics of each real estate use indicated in the table on page 39, PIC works to ensure diversification of property uses by investing primarily in

both office buildings and residential properties while assigning a relatively high importance to office buildings, aiming to minimize the adverse effects of changes in economic and social conditions on PIC's earnings and ensure creation of stable cash flow over the medium to long term.

c. PIC aims to maintain a portfolio ratio of office buildings to residential properties of around 6:4 (based on acquisition price) over the medium to long term. PIC plans to acquire investment assets based on this policy in the future. However, there is no guarantee that PIC will be able to smoothly acquire the investment assets as planned.

##### C) Areas [see table on page 40](#)

a. As noted above, PIC's investments are focused primarily in the Tokyo Economic Bloc, which is characterized by high concentrations of people and industries and an established economic foundation, and in Major Regional Cities.

b. Specifically, by dividing the investment target areas into the categories of the 5 Central Wards of Tokyo, the Other 18 Wards of Tokyo, the Urban Areas Surrounding Tokyo and the Major Regional Cities, and by considering the balance between those categories while concentrating on the 5 Central Wards, PIC seeks to achieve a portfolio diversified by asset type comprising office buildings and residential properties. The targeted ratio of office buildings to residential properties is stated above. Based on the abovementioned basic policy, PIC diversifies its investment targeting to achieve a geographical split as indicated in the table on page 40 for both office buildings and residential properties (each of which is set at 100% in the table).

## Use

Use	Key Investment Points <small>(Note 1)</small>
<b>Office Buildings</b>	<ul style="list-style-type: none"> <li>a. In the real estate market of Japan, office buildings are relatively less individualized and are available in a greater stock compared to real estate provided for other uses, and therefore may be considered relatively superior with respect to market scale and liquidity. For these reasons, PIC has positioned office buildings as its primary investment target.</li> <li>b. Demand from tenants (lessees) for office buildings may fluctuate, impacted by business cycles and other economic trends. This might adversely affect PIC's profitability with regard to its office buildings. However, compared to real estate for other uses, office buildings are generally expected to provide relatively higher levels of profitability.</li> <li>c. PIC will consider acquisition of large-scale office buildings with great care, after thoroughly investigating future supply and demand trends and location characteristics.</li> </ul>
<b>Residential Properties</b>	<ul style="list-style-type: none"> <li>a. PIC invests in Japanese rental residential properties commanding relatively high quality in terms of designs of exteriors, entrances and other areas, specifications of story height, exterior walls and other items, total floor space, floor plans and other aspects.</li> <li>b. Rental residential properties are relatively resistant to the adverse effects of changes in economic and social conditions compared to real estate for other uses, and thus are expected to yield relatively stable earnings. Due to such characteristics, PIC has positioned rental residential properties as part of the main investment target for the purpose of stabilizing cash flow and diversifying investment assets.</li> <li>c. As of the date of this document, PRA expects that the market for rental residential properties in the Tokyo Economic Bloc will expand and diversify over the medium to long term due to the effects of the recent demand for returning to city centers and lifestyle changes. However, if PRA determines that the aforementioned characteristics have been damaged due to changes in the market or other reasons, different investment decisions may be made.</li> <li>d. Since tenants of rental residential properties are particularly selective about geographical areas, and different markets are formed for different types of residential properties, PIC invests in said properties based on the following analyses and understandings of the future supply and demand trends and other factors in accordance with the characteristics of respective property types.</li> </ul>
<small>(Classification by type of residential properties)</small> <b>Wide</b>	<ul style="list-style-type: none"> <li>a. This type refers to residential properties specially planned and designed for expatriates (i.e., persons dispatched or set off from abroad to offices established in the Tokyo Economic Bloc by Western and multinational companies) under limited location conditions in accordance with their lifestyles.</li> <li>b. Recently, the tenant demand for these properties has increased among wealthy Japanese families as well. Like those described in b. above, these tenants have higher creditworthiness than those of other types of residences, and the risk of delinquent rent and similar problems with regard to such tenants appears to be low.</li> <li>c. Because the properties with this type of units are in shorter supply than office buildings, residential properties intended for Japanese residents and real estate for other uses, stable income is expected due to its scarcity and other features. Also, depending on the quality of management performance, differences in profitability may arise regarding investments in these properties.</li> </ul>
<b>Family</b>	<ul style="list-style-type: none"> <li>a. This type refers to residential properties intended for mean-income Japanese families (especially families with three or more members, including children), and are designed to meet their lifestyles.</li> <li>b. Generally, these families tend to place emphasis on neighborhood scenes and living environments; thus, they tend to prefer locations away from the center of Tokyo. These properties are expected to yield relatively high levels of profitability.</li> </ul>
<b>DINKs</b>	<ul style="list-style-type: none"> <li>a. This type refers to residential properties intended for young households (without children) where both partners work, and are designed to meet their lifestyles. (DINK is the acronym for "Double Income, No Kids.")</li> <li>b. Demand of these tenants tends to focus on areas with convenient commuter access to the center of Tokyo. Since those properties appear to be in short supply in such areas and said households of DINKs earn high levels of income, these properties have a scarcity value, and are expected to yield relatively high profitability.</li> </ul>
<b>Single</b>	<ul style="list-style-type: none"> <li>a. This type refers to residential properties intended for persons living alone, and are designed to meet their lifestyles.</li> <li>b. Together with diversifying lifestyles, the market for more spacious and higher-quality residential properties targeting singles is growing steadily, and such properties are expected to continue yielding stable profitability going forward.</li> <li>c. Since the 5 Central Wards of Tokyo, especially Minato, Shinjuku and Shibuya Wards, enjoy higher average rents and more stable demand with respect to these properties compared to other areas, investments in properties located in these wards may increase cash flow.</li> </ul>

(Note 1) The "Key Investment Points" in the table above reflect the current views of PRA as of the date of this document. These points may change due to future economic and real estate market trends. Moreover, they provide no guarantee of future trends regarding the degree of importance of properties for different uses, future earnings yield thereon or other considerations.

(Note 2) The 5 Central Wards of Tokyo in this Semiannual Report refer to Chiyoda, Chuo, Minato, Shinjuku and Shibuya Wards (hereinafter the same).

## D) Asset Size by Property

▶see table below

- a. Office buildings  
In principle, office buildings with leasable floor space of approximately 2,000m<sup>2</sup> or more, and standard floor sizes of approximately 300m<sup>2</sup> or more, are the investment targets.
- b. Residential properties  
In principle, residential properties of the sizes indicated in the table below are the investment targets (in accordance with the classifications by unit type).

For both office buildings and residential properties, PIC will determine the appropriate size of each property based on the standards above and by considering the regional characteristics of the location and the compatibility of asset size with the location.

## E) Due Diligence ▶see table on page 41

PIC decides on whether or not it will acquire investment assets in a comprehensive manner after conducting economic, physical and legal inspections of the assets. The table on page 41

lists the items that are, in principle, investigated in conducting such economic, physical and legal inspections. However, since the importance of each item listed in the table in deciding on the acquisition of investment assets may differ depending on the use of the Investment Real Estate or the type and nature of the investment assets, PIC will not necessarily examine all of the said items before acquiring the investment assets. In addition, the investment assets acquired by PIC may not in the end satisfy all of the standards of such items, which are intended for the inspections and investigations for deciding on the acquisition of the investment assets.

## F) Standards for Tenant Selection

▶see table below

- a. Credit, as well as other information, is checked regarding prospective tenants in line with the attribute classifications indicated in the table below. With respect to checks of corporate tenants, when their credit status cannot be determined from the materials obtained or when otherwise deemed neces-

sary, databases of outside research agencies and other materials will be used. When examination results of credit checks and other matters are recognized to be satisfactory, judgment will be made on the appropriateness of executing a lease agreement after comprehensively considering rent level, term of lease, amount of deposit, type of tenant business, balance with other tenants in the subject property, size and configuration of desired space, and other matters.

- b. Concerning current tenants and new tenants with whom agreements have been concluded, PIC as a rule intends to maintain long-term relationships to the fullest extent possible. However, in Japan, the term of a lease agreement for both office buildings and residential properties is usually two years. Moreover, many agreements include provisions that allow tenants to cancel the agreement by providing notice in advance for a certain period of time. Such provisions are also included in many of the lease agreements for the investment assets of PIC.

## Areas

Use	Area	5 Central Wards of Tokyo	Other 18 Wards of Tokyo	Urban Areas Surrounding Tokyo	Major Regional Cities
Office buildings		50% or more	0% - 20%	0% - 40%	0% - 20%
Residential properties		50% or more	0% - 40%	0% - 20%	0% - 20%

(Note 1) Diversification ratios by area show the respective ratios of office buildings and residential properties. Since the figures in the table represent ranges, the total of such figures is not necessarily 100%. Although PIC makes investments by aiming to achieve the ratios above, the actual ratios may differ in the course of acquiring the investment assets.

(Note 2) The Major Regional Cities refers to such cities as Sapporo, Sendai, Shizuoka, Nagoya, Osaka, Kyoto, Kobe, Hiroshima, Okayama and Fukuoka (hereinafter the same).

## Asset Size per Property

	Dedicated Use Area per Rental Unit	Number of Rental Units
Wide	80m <sup>2</sup> or more	10 or more
Family	60m <sup>2</sup> or more	20 or more
DINKs	40-80m <sup>2</sup>	20 or more
Single	25-40m <sup>2</sup>	30 or more

## Standards for Tenant Selection

Classification	Check Items (Details)
Corporations	<ol style="list-style-type: none"> <li>1. Business types, business history, financial details (i.e., financial soundness), etc.</li> <li>2. Purpose of lease (e.g., purpose of use, period)</li> <li>3. Existence or non-existence of joint and several guarantors and attributes of such guarantors</li> </ol>
Individuals	<ol style="list-style-type: none"> <li>1. Office and details of employment, service years, etc.</li> <li>2. Annual income (and the proportion of the total amount of rent to annual income, etc.)</li> <li>3. Purpose of lease (e.g., purpose of use, period and number of residents)</li> <li>4. Existence or non-existence of joint and several guarantors and attributes of such guarantors (e.g., relationship with such individuals)</li> <li>5. Age, gender, family structure, etc.</li> </ol>

## Due Diligence

Item	Details	
Tenant inspection	<ol style="list-style-type: none"> <li>1. Financial credibility, status of rent collection, etc. of tenants</li> <li>2. Tenants' business types, number of tenants, purposes of use, etc. (including household conditions for residential properties)</li> <li>3. Past occupancy rates, rent trends and future expectations</li> <li>4. Proportion occupied by each tenant, diversification of tenants, etc.</li> </ol>	
Economic Inspection	Market research	<ol style="list-style-type: none"> <li>1. Market rents, occupancy rates, trends in competing properties and tenant demand, etc.</li> </ol>
	Income-related	<ol style="list-style-type: none"> <li>1. Inspection of competitive strength, including ability to attract tenants and resale potential</li> <li>2. Lease agreement levels, lease agreement structures, and possibility of renewal of such agreements</li> <li>3. Expense levels, structures of agreements related to expenses, and possibility of renewal of such agreements</li> <li>4. Inspection of appropriate levels of rents and expenses, and possibility of projected future expense burdens</li> <li>5. Comparison of maintenance and repair plans with actual funds accumulated</li> </ol>
Location	<ol style="list-style-type: none"> <li>1. Condition of roadways, access to primary means of transport (e.g., passenger trains), numbers of users of primary means of transport</li> <li>2. Location and accessibility of convenience facilities, commercial facilities, public offices, and recreational facilities, status of usage of neighboring and nearby land, and future indicators (all of which are specific to residential properties)</li> <li>3. Status of sunlight, vistas, views, noise, etc. (all of which are specific to residential properties)</li> <li>4. Area's name value, reputation, scale, etc.</li> </ol>	
Physical Inspection	Construction, facilities and specifications	<ol style="list-style-type: none"> <li>1. For both office buildings and residential properties: Design, primary structure, building age, construction companies, etc.</li> <li>2. Conditions of interior and exterior components Office buildings: Configuration of rental floors, free-access floors (e.g., OA floors), subdivision measures, ceiling heights, electrical capacity, air-conditioning system, floor load, illuminance, security measures, water supply and drainage facilities, elevator facilities, parking, other common facilities, etc. Residential properties: Configuration of rental rooms, floor plans, ceiling heights, security measures, broadcast reception equipment, water supply and drainage facilities, elevator facilities, parking for cars and bicycles, assembly rooms, other common facilities, etc.</li> </ol>
	Earthquake resistance	<ol style="list-style-type: none"> <li>1. Achievement of abilities in line with new earthquake-resistant construction standards (the earthquake-resistant construction standards based on the Building Standards Act revised in 1981) or equivalent or higher standards</li> <li>2. In principle, the probable maximum loss (PML) value caused by an earthquake should be less than 20%. Reinforcement work for earthquake resistance or other similar measures must be taken for a property with a PML of 20% or more for acquiring the property.</li> </ol>
	Property management	<ol style="list-style-type: none"> <li>1. Compliance with applicable laws and regulations (specifically, the Fire Service Act, City Planning Act and other building-related laws and regulations), etc.</li> <li>2. Estimates of future maintenance and repair expenses (for the next ten years or so) based on building condition reports</li> <li>3. Quality of property management, existence or non-existence of and terms of management bylaws, and the quality and financial credibility of a property management company</li> </ol>
Environment, ground characteristics, etc.	<ol style="list-style-type: none"> <li>1. Status of use and management of hazardous materials such as asbestos, chlorofluorocarbons, and PCBs</li> <li>2. Soil quality, land use history, status of soil contamination, etc.</li> </ol>	
Legal Inspection	Title, etc.	<p>Matters relating to rights in a property, including the following items, will be carefully investigated, considering the reliability of titles of former owners and other parties. Particularly careful investigations are required with regard to properties with complex title arrangements such as those for which PIC does not hold any ownership or not hold ownership independently (e.g., properties for which PIC holds co-ownership or compartmentalized ownership or leased land).</p> <ol style="list-style-type: none"> <li>1. Completion or incompleteness of the perfection of a leasehold interest and review of other interests or rights superseding the leasehold interest</li> <li>2. Existence or non-existence of registration of rights for a site where the building is located, existence or non-existence of (i) restrictions on separate disposition of a building and the right for a site where a property is located and (ii) registrations thereof, and (iii) proportions of ownership shares</li> <li>3. Measures for securing the repayment of deposit money, and policies and measures concerning reserve funds accumulated for long-term maintenance and repair plans</li> <li>4. Existence or non-existence of (i) special agreements prohibiting separation of co-ownership interest and (ii) registration thereof, appropriate measures concerning such matters as requests for separation of co-ownership interest and sales of said co-ownership interests, and obligations and rights between such owners</li> <li>5. Compartmentability of compartmentalized ownership</li> <li>6. Status of collateral established before acquisition of the property by PIC, terms of such collateral agreement, and whether any such collateral agreement is to be succeeded</li> <li>7. Terms of agreements, special agreements, etc. which are executed with lessors of leasehold interests, compartmentalized owners, co-owners and other related parties (particularly, existence or non-existence of first refusal right, and details of such right)</li> <li>8. Attributes of lessors of leasehold interests, compartmentalized owners, co-owners and other related parties (including whether they are corporations or individuals)</li> <li>9. Terms of trust agreements in the case of trust beneficial interests of real estate in trust</li> </ol>
	Property line inspection	<ol style="list-style-type: none"> <li>1. Status of confirmation of boundaries, existence or non-existence of any assets extending beyond boundaries, and related circumstances</li> </ol>
	Tenant attributes	<ol style="list-style-type: none"> <li>1. Purpose of use by tenants, and formats of agreements with tenants</li> <li>2. Existence or non-existence of any disputes with tenants</li> </ol>

## G) Amount of Investment

- a. From the standpoint of increasing the efficiency of asset and real estate management, the smallest amount of investment in each investment asset will be one billion yen (¥1,000,000,000) (which only covers the purchase price and excludes taxes, acquisition fees, etc.) as a rule.
- b. On the other hand, the maximum ratio of the investment amount of a single investment asset will, in principle, be 25% of the total amount invested in the investment assets after investing in that single asset, and an investment decision shall be made after considering the overall portfolio structure and effects of investments for diversification.

## 3. Sales Standards

A) The basic policy is to hold the investment assets acquired by PIC over the medium to long term. In principle, PIC does not plan to sell the acquired investment assets over the short term.

B) Considered in the medium to long term, however, PIC may investigate sales of its investment assets after the portfolio structure is strategically classified, comprehensively taking into consideration such factors as real estate market conditions, projected future earnings, current fluctuations and forecasted fluctuations in asset values, future prospects and stability of areas where the properties are located, and projected capital expenditures, etc. arising from the deterioration or obsolescence of the real estate. Moreover, while the sales policy for each investment asset will basically be determined in the annual asset management plan, this plan may be revised as necessary.

## a. Strategic classifications

Classification	Strategic Significance
Core Assets	Assets with respect to which the basic policy is to carry over in the long term for the purpose of ensuring medium- to long-term stability of earnings.
Active Assets	The investment assets with higher liquidity, from which earnings based mainly on medium- to long-term rent income (income gains) are obtained, provided that the total returns (income gains plus capital gains) including earnings from sale (capital gains) based on the increased asset values (value enhancement) from the increase in the income gains after acquisition, are also intentionally and proactively sought.

- 1) The targets of the investment assets classified by PIC as active assets are as follows: The amount of investment per investment asset is four billion yen (¥4,000,000,000) or less for an office building and two billion yen (¥2,000,000,000) or less for a residential property.
- 2) The upper limit on active assets as a proportion of the portfolio shall be 20% as a rule.
- b. Specific cases where sale will be considered
- 1) When a strategic sale would contribute to earnings of PIC:  
**[Example]** When the property value increases through improved profitability resulting from measures such as lower vacancy rates, higher rent income, or reduced expenses.
- 2) When an investor offers an attractive purchase price:  
**[Example]** When the prospective purchaser indicates a strong intent to purchase, for instance, by making an attractive bid that exceeds appraisal value by 10% or more or otherwise exceeds the estimated value in the surrounding area due to such prospective purchaser's special circumstances.
- 3) When the property has lost strategic importance:  
**[Example1]** When the age of the property reduces its profitability, and it is determined that the targeted earnings will not

be achieved even with additional allocation of capital.

**[Example 2]** When another investment asset with higher profitability has been acquired in the same area, or the fact that the marketability in the surrounding area has remarkably declined or other circumstances are judged to have led the asset to lose importance in the portfolio structure.

4) When the property is sold from a financial viewpoint:  
**[Example]** When a reduction in the interest-bearing liabilities ratio is intended.

C) The Investment Real Estate related to the investment assets to be sold will be sold through measures such as the acceptance of competitive bids over a limited period and use of competitive real estate brokers and specialized agents, so that sales at high prices can be realized.

## 4. Policy for Investment in Development Projects

PIC shall, in principle, acquire investment assets that provide or promise stable rental income or similar earnings. PIC does not intend to acquire undeveloped land and construct buildings thereon. However, with regard to a property being constructed by a third party, PIC may decide on investing in it even before completion if, for example, it is determined that such property under construction is capable enough to securely attract tenants after completion and risks regarding completion and delivery have been minimized. In this case, the investment determination shall be made by comparing the benefits of acquiring such an investment asset with the negative impact of not earning rental income over the period until the asset begins to generate such income, as well as other risks possibly borne by PIC in connection with acquiring the investment asset.

### 5. Investment Policy for Real Estate Backed Securities, etc.

When PIC invests in the Real Estate Backed Securities, etc., the investment decision shall be made after additionally investigating the following items.

A) The Investment Real Estate underlying the Real Estate Backed Securities, etc. shall be assets compliant with the Targets and Policies of Asset Management stipulated in the Attachment to the Articles of Incorporation of PIC.

B) In principle, PIC shall be given an opportunity to acquire the underlying Investment Real Estate when it is being sold.

C) The same policy as indicated in the above subparagraph shall be followed when PIC invests in the Real Estate Backed Securities, etc. of which the underlying Investment Real Estate is development properties.

### 6. Insurance Policy

Determination as to whether or not the investment assets should be insured against earthquake damage will be made by comparing the effects of such a disaster with the cost of casualty insurance premiums, using the PML value of the entire portfolio as a basis. If any individual property has a high PML value, taking out an earthquake insurance policy on such individual property will be considered.

(Note) Probable Maximum Loss (PML) refers to the maximum estimated rate of loss resulting from an earthquake. Although there is no single precise definition of PML, as used here, PML refers to the ratio (in terms of percentage) of projected construction costs to restore the damaged building to the state before suffering damage to total reconstruction work costs (replacement price) for the said building when there occurs the strongest earthquake (Probable Maximum Earthquake (PME): a major earthquake occurring once every 475 years with a 10% probability of occurrence during every fifty-year period) expected to occur in the area where the building is located. Furthermore, the PML value does not consider the impact of destruction of neighboring buildings or damages by water, fire or other causes.

### 7. Financial Policy

#### A) Loans and Corporate Bonds

a. In order to contribute to the steady growth of investment assets and efficient and stable operation of investments, PIC may borrow funds (including loans via the call market) or issue corporate bonds, by which funds will be raised to acquire or repair assets, pay distributions, fund PIC's operation, or repay debts (including repayment of deposit money, loans and obligations of its corporate bonds (including short-term corporate bonds; hereinafter referred to as "Corporate Bonds)). However, the respective maximum limit of the loans and bond issuances shall be one trillion yen (¥1,000,000,000,000) and the combined amount shall not exceed one trillion yen (¥1,000,000,000,000) (Articles 14-1 and 14-3 of the Articles of Incorporation).

b. In the case of borrowing funds in accordance with above a), PIC shall select effective means of funding from the perspective of the term of the loan and the fixed or floating interest rate structures, and aim to raise funds at low costs after comprehensively considering the capital market and the financial environment, and after making projections concerning future changes in economic and social climates. Moreover, in order to flexibly respond to the capital needs for the acquisition of new investment assets, repayment of security deposits or other monies in custody for tenants, or other events, PIC may enter into agreements (e.g., commitment line agreements) by which a credit line will be established in advance or PIC may conclude agreements on the reservation of loans at any time it requires.

c. When borrowing funds in accordance with above a), the said funds shall only be borrowed from qualified institutional investors designated by the Financial Instruments and Exchange Act (hereinafter referred to as "FIEA") (on the condition, however, that they are the institutional investors designated in the "Special Tax Measures for an Investment Corporation" under the Act on Special Measures Concerning Taxation).

d. PIC may offer its investment assets as collateral for borrowed funds or the issuance of corporate bonds.

e. PIC shall aim to maintain the ratio of the balance of loans and issued corporate bonds to total assets (Note) at 60% or less. However, in connection with the acquisition of new investment assets and other circumstances, this ratio may tentatively exceed 60% for a short period of time.

(Note) Total assets is the amount entered in the Assets section of the balance sheet at the end of the fiscal period nearest to the time of calculation of the loan-to-value ratio. However, as far as property and equipment are concerned, when there is a disparity between the value of such assets calculated based on the appraisal values obtained from appraisers and their book values at the end of the fiscal period, the difference shall be added to or subtracted from the book values of those assets at the end of the fiscal period to calculate total assets.

#### B) Issuance of Investment Units for Subscription

a. To raise funds, PIC may, upon approval of the Board of Directors, issue investment units for subscription.

b. Issuance of investment units for subscription shall be determined by considering PIC's financial situation, including the loan-to-value ratio, and the dilution of the investment units.

### 3. Property Management Policy

In managing real estate, PIC intends to enhance the value and competitiveness of assets through continuous capital expenditures made from a medium to long-term perspective, and aims to achieve stable growth in investment returns through higher earnings (e.g., increases in rents, decreases in vacancy rates, and prolonging and fixing the terms of agreements) and reduced expenses (e.g., reduction in outsourcing fees, utility expenses and other fees and expenses).

A) PRA shall select the best possible party to contract with for the provision of property management services for each acquired investment property by consider-

ing the details of quantitative and qualitative analyses as described below, and past experience in relation to each acquired investment property. PRA shall negotiate with such service providers the particulars concerning services, payments and other matters. (Refer to the table below.)

B) PIC may accumulate a long-term maintenance and repair reserve, a reserve for payments, a reserve for distributions and other similar reserves and allowances as deemed necessary to maintain the investment assets or enhance their value.

C) PIC will endeavor to take measures such as maintaining appropriate allocation rates of investments and taking out insurance against losses (e.g., fire and general liability insurance) in order to avoid major declines and fluctuations in earnings caused by disasters, move-outs of tenants and other factors.

D) To secure stable earnings over the medium to long term, PIC shall, in principle, lease all of its Investment Real Estate (including facilities such as parking lots and signage). At the time of leasing, PIC may collect deposits and guarantees and other similar monies. The said monies shall be invested pursuant to the provisions of the Targets and Policies of Asset Management stipulated in the Attachment to the Articles of Incorporation of PIC. The occurrence of unforeseen events, such as drastic changes in funding conditions, general

market conditions, and real estate market conditions, may prevent the operations described above.

### 4. Disclosure Policy

A) PIC's policy is to disclose as much information as possible to investors, thus providing investors with a financial product that can be easily understood.

B) PIC will endeavor to arrange to provide, at all times, accurate and impartial information to all investors without delay.

C) PIC shall disclose information in accordance with the details and formats required by the Act on Investment Trusts and Investment Corporations (hereinafter "Investment Trusts Act"), the FIEA, guidelines of the Tokyo Stock Exchange and Investment Trusts Association of Japan, etc.

## II. DISTRIBUTION POLICY

### 1. Distribution of Profits

In principle, PIC shall distribute profits based on the following policies:

- 1) As part of the total amount of the cash distributions payable to unitholders, the amount of profits (the amount is obtained by subtracting the total of the amount of total unitholders' equity and the amount of the valuation and translation adjustments from the amount of net assets appearing on the balance

sheet of PIC; hereinafter the same) shall be calculated based on the Investment Trusts Act, generally accepted accounting principles of Japan and other corporate accounting practices.

- 2) In the case where tax laws and regulations of Japan permit inclusion as expenses of the amount of cash distributions paid to unitholders by PIC under certain conditions, PIC shall pay cash distributions to unitholders in a manner that satisfies the conditions provided by such tax laws and regulations to permit such inclusion in expenses.

### 2. Cash Distributions in Excess of Profits

If the Board of Directors so determines, PIC may pay cash distributions in excess of profits, based on a statement of accounts concerning cash distributions approved by the Board of Directors under the provisions of the Investment Trusts Act. However, this amount shall not exceed the upper limit stipulated in the regulations of the Investment Trusts Association of Japan or other regulations.

### 3. Method for Paying Distributions

Distributions shall be paid in cash, and shall, in principle, be distributed within three months of the date of settlement of accounts to unitholders or their registered pledgees registered on the final register of

### Standards for Selection of Property Manager

Item	Details
Details and achievements of business	1. Experience and achievements as a property manager 2. Reputation in the industry and consistency of management policies 3. Soundness of company finances
Capabilities and corporate system	1. Depth of knowledge of the market 2. Ability to find tenants and to connect to intermediaries' networks 3. Ability to perform accounting services and reporting with regard to the property
Fees	1. Fee structure and level
Conflicts of interest	1. Existence or non-existence of any competitive projects in the surrounding area

unitholders as of the date of settlement of accounts, in proportion to the number of investment units held by each unitholder or the number of investment units for the registered pledgees.

#### 4. Statute of Limitations on Distributions

In the case where a distribution is not received within three full years from the payment start date for the concerned distribution, PIC shall no longer be liable for such payment. Moreover, no interest shall accrue on unpaid distributions.

#### 5. Other Matters

In principle, when applicable tax laws and regulations of Japan require individual

unitholders to calculate gains/losses from the transfer for each distribution in excess of PIC's profits, PIC shall not pay to them any cash distributions in excess of profits. However, in any of the following cases a) through c), cash distributions in excess of profits may be paid in accordance with (2) above.

a. When it becomes unnecessary due to changes in tax laws and regulations applicable for individual unitholders to calculate the gains/losses from the transfer for each cash distribution in excess of its profits (including cases where the handling of the gains/losses from the transfer for corporate unitholders remains unchanged, but revisions, etc. are made to the said handling with regard to individual unitholders).

b. When the Board of Directors of PIC has determined that the payment of cash distributions in excess of profits is accepted as an appropriate practice (e.g., because tax laws and regulations have been changed to make it an ordinary practice for individual unitholders to declare the gains/losses from the transfer).

c. When the Board of Directors of PIC has determined that the payment of cash distributions in excess of profits is necessary. (e.g., when it has become necessary for PIC to meet the requirements to apply for the special tax measures for an investment corporation as stipulated under Article 67-15 of the Act on Special Measures Concerning Taxation.)

## PIC'S WEBSITE

On its English website, PIC not only provides foreign investors with its latest information (including new releases, financial information, stock price and distribution), but also explains Japan and Tokyo as investment targets as well as the Japanese real estate market, and introduces its investment, growth and finance strategies. PIC always endeavors to disclose information in a timely manner so that investors can gain a better understanding of PIC.

Explanations are given on the characteristics of Japan and Tokyo as investment targets and PIC's features and strategies, etc.

You can check PIC's disclosure materials including news releases and presentations, as well as its latest financial and other information.

You can access information on PIC's investment assets from here.

Hyperlinks are provided to real estate information websites (in English) for Tokyo and other major areas of Japan.



<http://www.pic-reit.co.jp/en/index.html>

\*Please note that the actual image may differ, as the website is updated as needed.

Hyperlinked to the website of Premier REIT Advisors, the asset manager of PIC



<http://www.premier-reit.co.jp/english/>

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