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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

20<sup>TH</sup> FISCAL PERIOD  
ENDED OCTOBER 31, 2012

# MESSAGE TO OUR UNITHOLDERS

## Dear Investor,

In the 20th fiscal period (May 1, 2012 – October 31, 2012), Premier Investment Corporation (PIC) posted a decrease both in revenues and profits, with operating revenues of 6,210 million yen (down 108 million yen), ordinary income of 1,985 million yen (down 193 million yen), and net income of 1,983 million yen (down 195 million yen), all on a period-on-period basis. However, these figures surpassed the forecasts made at the beginning of the fiscal period.

As a result of endeavors made on leasing activities, the occupancy rate of PIC's office buildings ended up higher than the initial forecast. Although rental revenue remained almost flat due to the rent-free periods granted to new tenants and the downward revision of rent upon contract renewals with existing tenants, an increase in common area charges and incidental revenue, etc., led to higher real estate rental revenue as compared to the previous fiscal period for office buildings. However, due to the increase in real estate rental expenses, such as real estate taxes on properties acquired in the 19th fiscal period being recorded as expenses in the fiscal period under review, real estate rental income increased only slightly.

As for residential properties, defined as those with "Single" and "DINKs" units that call for a monthly rent of less than 300,000 yen and occupy slightly less than 70% of the units owned by PIC (on a residential space basis), operation were extremely stable both in terms of rent levels and occupancy rates. However, properties with "Wide" units primarily targeting expatriate families have continued to see their occupancy rate drop since the

Great East Japan Earthquake, and PIC has had to lower rent in order to raise their occupancy rate. Consequently, the average occupancy rate for the period fell slightly, partly due to seasonal factors, and both revenues and profits decreased period-on-period.

For operations outside the real estate rental business, there was a decrease in profit equivalent to the 170 million yen gain on sale of a property recorded in the previous fiscal period (as PIC had no such gain on sale for the 20th fiscal period). Nevertheless, PIC achieved cost reductions, including reduced borrowing costs through the repayment of interest-bearing liabilities by using cash on hand and decreasing borrowings upon refinancing.

The period-on-period increase/decrease results categorized by operation and by major items are as follows.



	(million yen)		
	Revenue	Expenses	Income
Real estate rental business	66	133	-67
(Of which, office buildings)	146	132	13
(Of which, residential properties)	-80	0	-81
Other operations	-174	-46	-128
Gain on sale of property	-170		-170
Dividend income	-4		-4
Operating expenses		-1	1
Non-operating income	0	-45	45
(Of which, interest expenses)		-33	33
(Other non-operating expenses)		-12	12

The distribution per unit for the 20th fiscal period was 10,084 yen, down 482 yen period-on-period. This value is higher than the initial forecast by 54 yen and, contrary to initial assumptions, PIC was able to achieve the 10,000 yen level without reversing the reserve for reduction entry (gain on sale of a property transferred in the 19th period). As such, PIC

decided to carry over the reserve for reduction entry (100 million yen) to the 21st fiscal period and thereafter.

In the office building rental market, there still remains downward pressure on rents and, in particular, the middle-class, middle-sized properties (class B office buildings) that PIC targets will continue to face severe conditions for a while longer. PIC will put more focus on leasing activities, and proactively conduct renovations and upgrades to reinforce competitiveness of owned properties and enhance tenant satisfaction. For residences, PIC will work to raise the occupancy rate and rent levels.

In September 2012, PIC commemorated its tenth anniversary since its listing on the Tokyo Stock Exchange. Starting with total assets of 56 billion yen upon listing and persevering through hardships brought on by the 2008 economic collapse as well as strengthening its operational base with the participation of NTT Urban Development (NTTUD) as a sponsor, PIC has increased its asset size by approximately four times over the past ten years, and has steadily realized the distribution of profits. Going forward, we are dedicated to continuing to realize the stable management of PIC over the medium to long term through close cooperation with Premier REIT Advisors Co., Ltd., the asset manager, and the sponsors. Your continued encouragement and support is highly appreciated.


  
**Yuichi Kawamori**  
 Executive Director  
 Premier Investment Corporation  
**Kimito Muragishi**  
 President and Chief Executive Officer  
 Premier REIT Advisors Co., Ltd.

## Table of Contents

Message to Our Unitholders .....	1	Investment Unit Status .....	17
Table of Contents .....	1	Strategic Policies .....	18
20th Fiscal Period Performance Highlights .....	2	<b>Financial Section</b>	
Premier Investment Corporation: A Decade of Advancement ...	3	Report of Independent Auditors .....	26
Market Environment and PIC's Management Policy .....	5	Balance Sheets .....	27
Review of the 20th Fiscal Period .....	6	Profit and Loss Statements .....	29
Internal Growth .....	7	Statements of Changes in Unitholders' Equity .....	30
Financial Operations .....	9	Cash Flow Statements .....	31
Performance Forecasts .....	11	Notes to Financial Statements .....	32
Overview of Asset Management .....	13	Other Information (Unaudited) .....	43
Portfolio Status .....	14	Asset Manager Overview .....	45
Property Portfolio .....	15	Disclaimer .....	Inside Back Cover

# 20TH FISCAL PERIOD PERFORMANCE HIGHLIGHTS

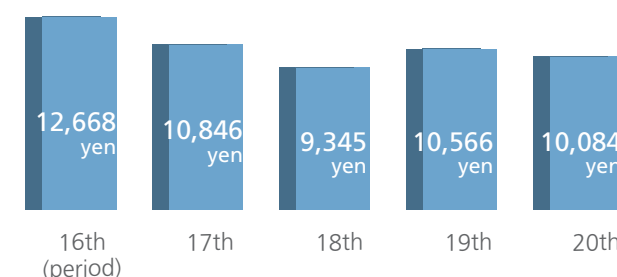
Management and Distribution Results	19th Fiscal Period (ended April 2012)	20th Fiscal Period (ended October 2012)
Operating Revenues (mm yen)	6,318	6,210
Operating Income (mm yen)	3,013	2,772
Ordinary Income (mm yen)	2,178	1,985
Net Income (mm yen)	2,178	1,983
Distribution per Unit (yen) (distribution in excess of profits not included)	10,566	10,084
Total Distributions (mm yen)	2,078	1,983
Distribution Payout Ratio <sup>(Note)</sup>	95.3%	100.0%
Distribution to Net Assets <sup>(Note)</sup>	2.2%	2.3%

(Note) Both the distribution payout ratio and distribution to net assets have been rounded down to the tenth place.

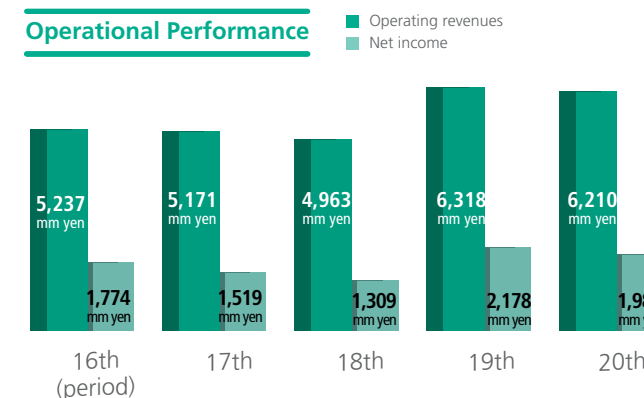
Financial Status	19th Fiscal Period (ended April 2012)	20th Fiscal Period (ended October 2012)
Total Assets (mm yen)	202,605	201,305
Net Assets (mm yen)	87,823	87,728
Net Assets Ratio	43.3%	43.6%
Net Assets per Unit (yen) <sup>(Note)</sup>	446,486	446,004

(Note) The number of outstanding investment units at the end of both the 19th and 20th fiscal periods was 196,699 units.

## Cash Distribution per Unit



## Operational Performance



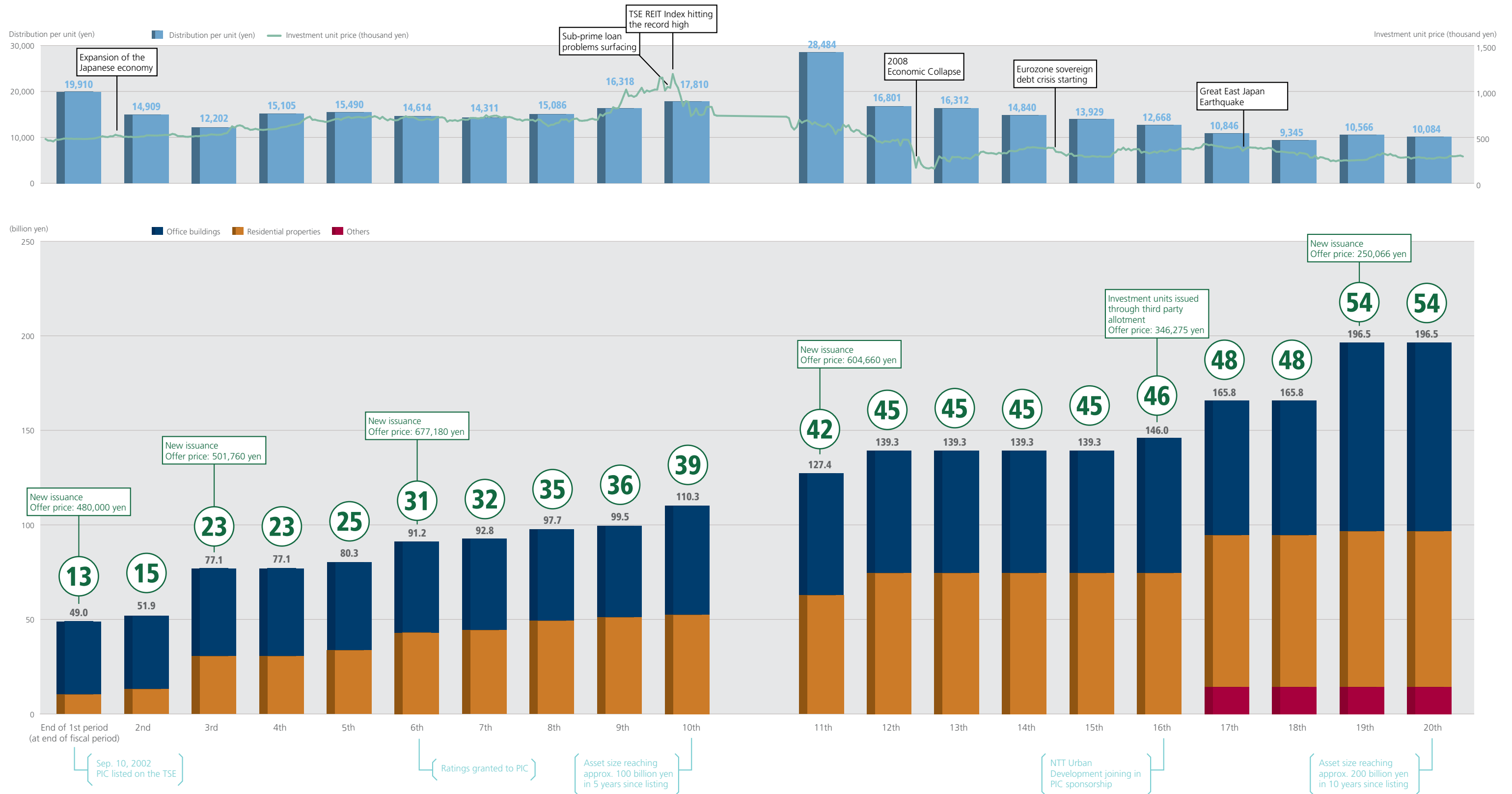
# PREMIER INVESTMENT CORPORATION:

## A DECADE OF ADVANCEMENT

On September 10, 2002, a year after the J-REIT system started, PIC was listed on the Tokyo Stock Exchange as the sixth J-REIT. Since then, PIC has steadily expanded its asset size, and the total acquisition price of its assets under management increased

from 49.0 billion yen at the end of the 1st fiscal period (April 30, 2003) to 196.5 billion yen at the end of the 20th fiscal period (October 31, 2012). Since May 2010, when NTT Urban Development (NTTUD) became its main sponsor, PIC has

expanded its assets, with a focus on office buildings, by approximately 60 billion yen (approximately 41%) as well as reinforced its financial standing.



# MARKET ENVIRONMENT AND PIC'S MANAGEMENT POLICY

## Market Environment

In the 20th fiscal period, PIC was in an environment in which the recovery of the Japanese economy was at a standstill, with the trade balance remaining in the red for four consecutive months and personal

consumption getting weaker, thus business confidence started to head downward. As for the Japanese real estate rental market, residential properties generally continued to stay strong but office buildings failed to see any notable growth in leasing

demand. Rent for office buildings is still on a downward trend, except for high-grade properties located in business areas in central Tokyo, and it is likely to take more time for the entire rental office market to bottom out.

## Property Transaction Market Status

In the domestic real estate market, REITs have actively acquired office buildings, ahead of the recovery in rent levels, against the backdrop of a favorable financing environment. For residential properties, competition over acquisitions has become extremely heated in central Tokyo.

## Financial Market Status

Financial institutions have maintained their flexible and positive lending attitude for real estate-related loans. With regard to equity financing, the Tokyo Stock Exchange REIT Index has recovered, partly due to expectations of the use of REITs as alternative assets to stable stocks, leading to an increase in the number of IPOs and POs by REITs.

## Rental Market Status

Occupancy has improved and rent levels have bottomed out for large-scale office buildings in central Tokyo, but class B office buildings face intensified competition over tenants and continued downward pressure on rent. As for residences, while properties with Single and DINKs units have operated stably both in terms of rent levels and occupancy rates, demand for properties with Wide and higher-rent DINKs units has not expanded, and the downward trend of rent is expected to continue for a while longer.

## PIC's Management Policy

### External Growth

- PIC's basic strategy over the short term is to increase its investment by volume in office buildings in the Tokyo metropolitan area, with expectations for the rent levels to start to bottom out in the latter half of 2013.
- Aim to increase DPU through asset replacement of properties that focus on cash flows and pursue returns after depreciation, located primarily in the 5 central wards of Tokyo.

### Financial Operations

- Stabilize and maintain/enhance distribution levels by taking utmost advantage of the NTT value.
- Firmly secure DPU of 10,000 yen using gains on sale of properties through asset replacement.
- Thoroughly take a defensive stance for the time being.
- Continue to maintain the ratio of long-term, fixed-interest debt and reduce financing costs, but avoid raising LTVs beyond the current level.
- Work to add new lenders to the lender base by utilizing syndicated loans.
- Remain careful and prudent in achieving external growth by issuing investment units through public offerings, as it will take more time for PIC's investment unit price to recover significantly.

### Internal Growth

#### Office (Tokyo Area)

- Reinforce leasing activities for tenants housed in buildings owned by NTTUD in neighboring areas.
- Reinforce relationships with leasing agents and conduct flexible leasing activities, focusing on properties that remain vacant over a long period, in order to minimize opportunity loss.
- Continue investments focused on renovation and upgrades.

#### Residence (Tokyo Area)

- Endeavor to further increase the occupancy rate on these units on top of working to obtain incidental revenues (tenant security deposits and contract renewal fees) and pursuing cost reductions.

# REVIEW OF THE 20TH FISCAL PERIOD

## External Growth

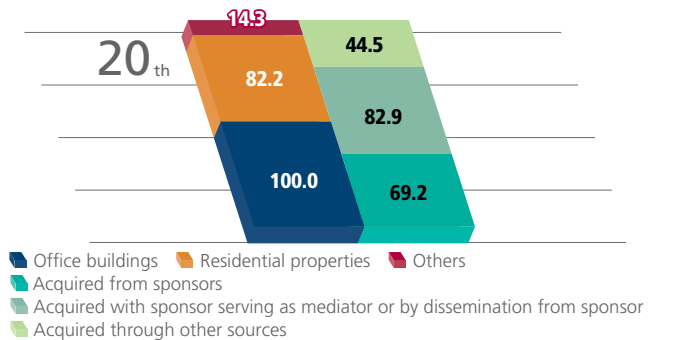
- PIC made no acquisition or sale of properties in the 20th fiscal period.
- As of October 31, 2012, PIC owns 54 properties comprised of 21 office buildings, 32 residential properties and preferred securities of an SPC, with a total acquisition price of 196,544 million yen.

## Internal Growth

- For office buildings, PIC attained new leases of approximately 3,000m<sup>2</sup>, resulting in move-ins surpassing move-outs by space and with the period-average occupancy rate increasing slightly.
- Office rent continued to be under downward pressure, leading to an increase in contract renewals with downward revisions of rent for existing tenants.
- Residential properties saw the period average occupancy rate decrease slightly partly due to seasonal factors. Properties with Single and DINKs units operated extremely stably both in terms of rent levels and occupancy rates.
- No recovery was seen in the demand for properties with WIDE units as expatriates who had left Japan due to concerns over the earthquake and the nuclear power plant incident were slow in coming back. PIC had to lower rent for new contracts to maintain the occupancy rate for these properties.

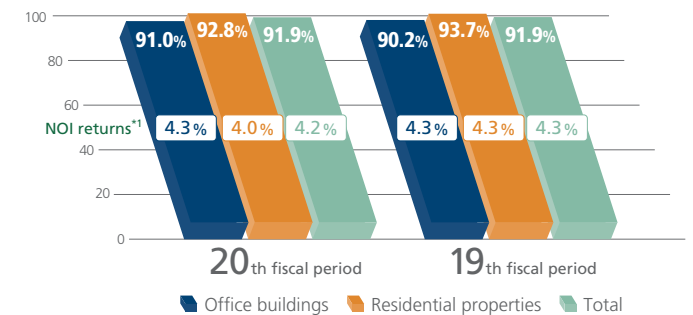
## Financial Operations

- Rating and Investment Information, Inc. (R&I) made a one-notch downgrade of PIC's issuer rating, partly due to its LTV remaining at a high level.
- With no change seen in the lending attitude of lenders, however, PIC is focused on raising the ratio of long-term, fixed-interest debt and reducing financing costs under the low-interest rate environment, while continuing to avoid raising LTV beyond the current level.



(Note) Amounts of less than 100 million yen have been rounded.

## Period-Average Occupancy Rates



\*1 Since the investment value at the beginning and at the end of the 19th fiscal period differs greatly due to the public offering conducted in the period, NOI return in this table is calculated by using the investment value at the end of each fiscal period for the purpose of comparison between the 19th and 20th fiscal periods.

## Financing Results for the 20th Fiscal Period (million yen)

New borrowings	15,500
Repayment	-5,575
Repayment before maturity	-1,000
Redemption of corporate bonds	-10,000
Decrease in interest-bearing liabilities	-1,075

## Status of Interest-Bearing Liabilities (million yen)

	19th Period	20th Period	Change
LTV (*)	55.60%	55.40%	-0.20%
Average number of years remaining	2.2 years	2.3 years	0.1 years
Average interest rate for debt financing	1.51%	1.44%	-0.07%
Ratio of long-term, fixed-interest debt	86.5%	87.4%	0.9%

\*Interest-bearing liabilities / (Interest-bearing liabilities + Unitholders' capital) x 100

## Ratings

Issuer rating	A+	A
Rating outlook	Negative	Stable

# INTERNAL GROWTH

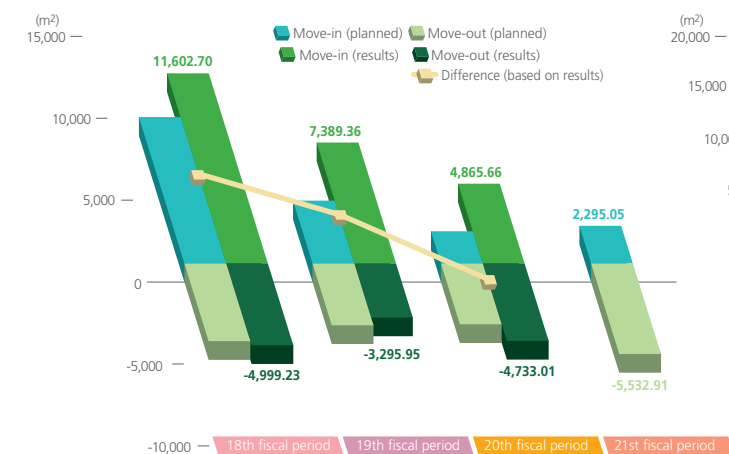
## General Overview

	Occupancy Rate	Rent Situation
Office Buildings	Lack of move-ins and move-outs by large tenants further stabilized the occupancy rate, but demand remained weak.	Rents were in the bottom zone but still decreased in about 50% of contract renewals and about 85% of new contracts.
Residential Properties	Occupancy rate generally remained stable, but showed a larger fluctuation at properties with WIDE units that command higher rents.	Rents stayed almost flat, remaining unchanged in about 96% of contract renewals.

## Management Status of Office Buildings

- As of the beginning of the 20th fiscal period, PIC expected move-outs to be around twice the number of move-ins by space. However, focused endeavors to invite new tenants enabled PIC to newly lease approximately 3,000m<sup>2</sup>, resulting in move-ins surpassing move-outs by about 100m<sup>2</sup>. The period average occupancy rate increased to 91.0% from 90.2% recorded in the 19th fiscal period.
- As rent-free periods ended, the gap in occupancy rates on a contract basis and on a cash flow basis decreased, leading to an increase in rental income for office buildings.
- However, the trend of existing tenants moving out persisted due to prolonged economic stagnation and other factors. Currently, move-outs are projected to surpass move-ins by approximately 3,200m<sup>2</sup> in the 21st fiscal period.
- Rent levels continued to face downward pressure. In the 20th fiscal period, there were no upward revisions of rent upon contract renewal, and approximately half of the tenants due for contract renewal had downward revisions and the other half of the tenants had contracts renewed with rent unchanged, both on a space basis.

## Move-ins and Move-outs by Space



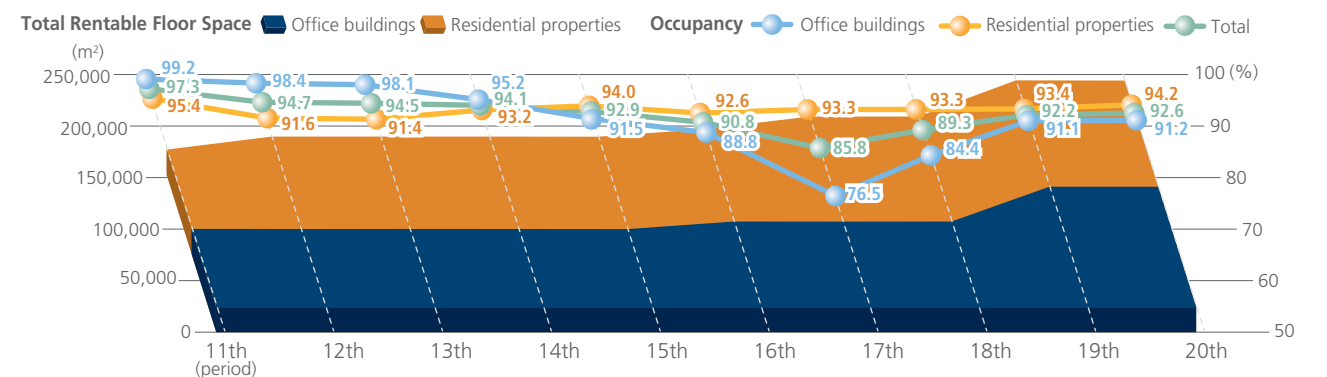
## Increase/Decrease of Rents upon Contract Renewal



## Management Status of Residential Properties

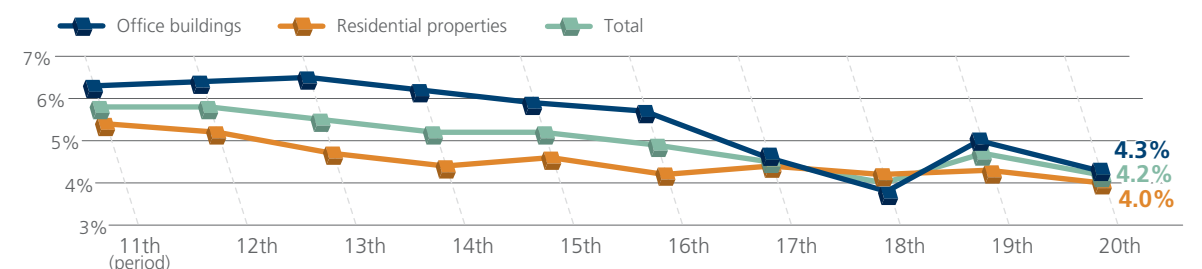
- The period average occupancy rate decreased slightly to 92.8% from 93.7% for the 19th fiscal period partly due to seasonal factors.
- Stable and solid operations continued both in terms of rent levels and the occupancy rate at properties with Single and DINKs units that have monthly rents of less than 300,000 yen and occupy approximately 70% of owned units. In addition, PIC had increased opportunities to receive key money and contract renewal fees from tenants.
- For properties with WIDE units, demand did not recover fully from expatriates, some of whom had left Japan due to the impact of the earthquake and the nuclear power plant incident, and there was a trend of Japanese high-net-worth individuals moving into the vacated units. However, as such individuals are not able to pay rent on the same level as expatriates, who are based on corporate contracts, PIC had to reduce rent levels to raise occupancy rates. This led to a period-on-period decrease in revenue and profits from the rental business of residential properties.
- During the 20th fiscal period, 11.2% of total leasable floor space was due for rent revision, and 96.2% of the relevant space had unchanged rent at the time of contract renewal.

## Changes in Rentable Floor Space and Occupancy Rate of the Portfolio (at period ends)



(Note) Calculations of occupancy rates for respective asset types do not include the occupancy rate of the property (Akihabara UDX) backing the Preferred Securities.

## Changes in NOI Return on Portfolio



Calculation of the NOI return by using the formula described in Note 1 below resulted in a sharp drop in the figures for the 20th fiscal period, because of the large change in the investment amount between the beginning (November 2011) and end (April 2012) of the 19th fiscal period, as PIC made large asset acquisitions using funds procured through public offerings, etc., in November 2011 (there were no acquisitions or sales of properties in the 20th fiscal period).

For reference, the table to the right indicates the NOI return of the 19th and 20th fiscal periods when calculated using the investment amount at period end.

	19th Period	20th Period
Office buildings	4.3%	4.3%
Residential properties	4.3%	4.0%
Total	4.3%	4.2%

(Note 1) The "rental NOI return" is the annualized figure of "rental NOI divided by investment amount" rounded down to the first decimal place. The rental NOI and investment amount figures have been obtained using the following formulas.

■ Rental NOI = (Real estate rental revenues - Real estate rental expenses) + Depreciation (limited to depreciation covering leased properties)

■ Investment amount = Average of (Book values + Accumulated depreciation) covering leased properties at the beginning and end of each fiscal period

(Note 2) The rental NOI returns of respective asset types do not include the value of the property (Akihabara UDX) backing the Preferred Securities.

## 20th Fiscal Period Results

■ PIC did not conduct any new procurement of funds either through equity financing or debt financing, except for refinancing.

### Refinance

- PIC refinanced 5,500 million yen in two short-term loans for the same amount in a short-term loan.
- PIC refinanced 10,000 million yen in the 2nd Unsecured Corporate Bond, which was redeemed on September 7, 2012, for the same amount into two long-term loans.
  - 5,000 million yen for 5 years at a fixed interest rate of 0.95375% per annum, unsecured and non-guaranteed
  - 5,000 million yen for 6 years at a fixed interest rate of 1.21000% per annum, unsecured and non-guaranteed

The 5-year loan of 5,000 million yen is the first syndicated loan for PIC. The borrowing cost of the loan was successfully reduced by having the syndicate primarily composed of regional banks, a sector that features a relatively high lending capacity in Japan.

### Repayment before Maturity

Of the 6,400 million yen in short-term loans borrowed in November 2011 and coupled with the public offering (initial loan amount of 7,600 million yen less 1,200 million yen repaid by using the paid-in amount through the exercise of the greenshoe option in December 2011), PIC repaid 1,000 million yen using cash on hand to lower the LTV.

### Repayment as Agreed Upon

PIC repaid 75 million yen in the fiscal period.

Through the endeavors mentioned above, PIC worked to diversify repayment dates (Figure 1), extend the average number of years remaining (Figure 2), reduce the average interest rate for debt financing (Figure 2) and decrease the interest-bearing liabilities ratio (Figure 3).

Figure 1: Diversification of Repayment Dates for Interest-Bearing Liabilities

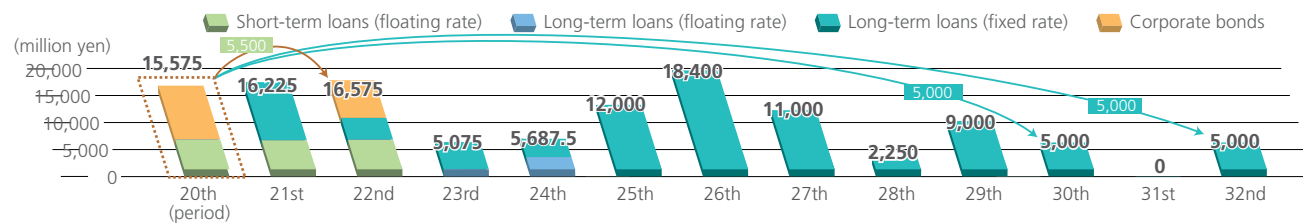
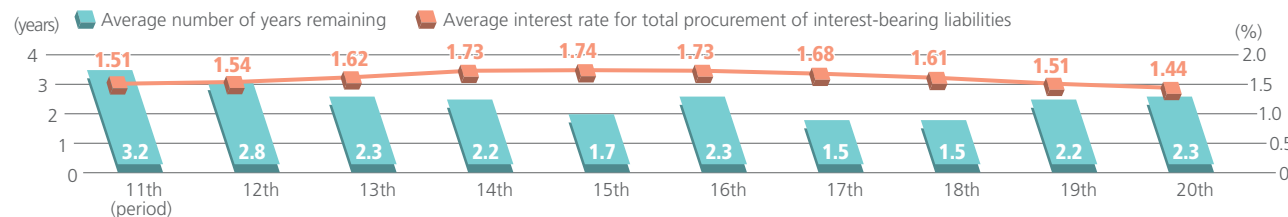
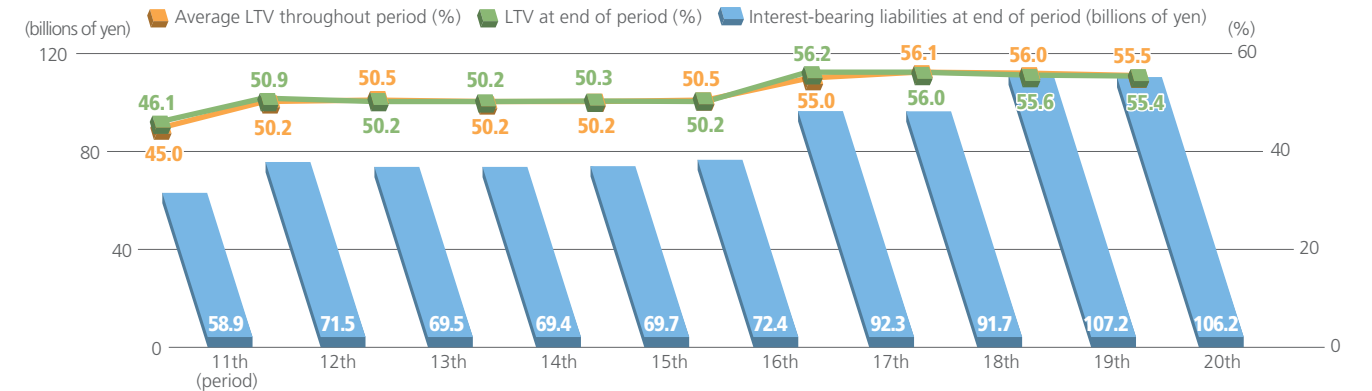


Figure 2: Average Interest Rate for Procurement and Remaining Years of Interest-Bearing Liabilities



(Note) The average number of years remaining have been rounded to the first decimal place, and the average interest rates for procurement of interest-bearing liabilities have been rounded to the second decimal place.

Figure 3: Changes in Interest-Bearing Liabilities Ratio (LTV)



(Note) Interest-bearing liabilities ratio (%) = Interest-bearing liabilities / (Interest-bearing liabilities + Unitholders' capital) x 100

### Status of Ratings

Rating Agency	Rating
Rating and Investment Information, Inc. (R&I)	Issuer rating: A
	Rating outlook: Stable
Moody's Japan K.K. (Moody's)	Issuer rating: Baa1
	Rating outlook: Stable

On September 14, 2012, Rating and Investment Information, Inc. (R&I) made a one-notch downgrade of PIC's issuer rating from A+ to A. The rationale for the downgrade was that, with PIC's interest-bearing liabilities ratio remaining at a high level, it would take some time before PIC can lower its debt ratio significantly in the face of the continuing severe earnings environment and the persistently challenging capital market.

However, R&I set the outlook after the change in PIC's rating at "Stable" due to not expecting any adverse impact on PIC's funding even if high leverage continues, considering the fact that PIC's average maturity has improved to more than two years and the maturity profile is more diversified as well as taking into account PIC's portfolio of creditor financial institutions.

### PIC's Perspective on LTV

- With the management environment remaining harsh and profitability being reduced, PIC is tactically maintaining a relatively high leverage based on its policy of maintaining the level of its distributions.
- PIC can maintain a relatively high leverage since it has held discussions and obtained the understanding of its creditor financial institutions. What underlies this support is the high creditworthiness of NTTUD, the main sponsor. PIC has had no trouble in conducting new borrowings and refinancing, and the terms and conditions of the borrowings have continued to be more favorable to PIC, with procurement costs steadily decreasing.
- PIC will continue to avoid raising LTV beyond the current level, and there is no difference of opinion between PIC and R&I concerning how PIC will conduct its asset management under the current leverage level.

# PERFORMANCE FORECASTS

For the 21st fiscal period, PIC's residential properties are expected to maintain stable operations and their period average occupancy rate is forecasted to rise to 93.8% (versus 92.8% achieved for the 20th period), partly due to seasonal factors (early spring being the high season for moving). However, for office buildings, tenant move-outs (approximately 5,500m<sup>2</sup>) currently surpass move-ins (approximately 2,300 m<sup>2</sup>) and PIC forecasts the period average occupancy rate at 89.7% (versus 91.0% in the 20th period). In addition, with the rent levels of office buildings decreasing as a result of contract renewals with downward revisions for existing tenants, the operating income of the entire portfolio is anticipated

to fall below the 6,172 million yen forecasted at the end of the 19th fiscal period.

Nevertheless, PIC expects net income to surpass the 1,850 million yen forecasted at the end of the 19th fiscal period by working to reduce real estate rental expenses (such as decreasing utility expenses through revised assumptions and cutting property management fees) and non-operating expenses (by decreasing interest expenses on borrowings). Moreover, PIC intends to secure a distribution per unit (DPU) of 10,000 yen by partially reversing the 100 million yen in reserve for reduction entry, which was not reversed in the 20th fiscal period and carried forward, and adding it to

net income and distributing the combined amount.

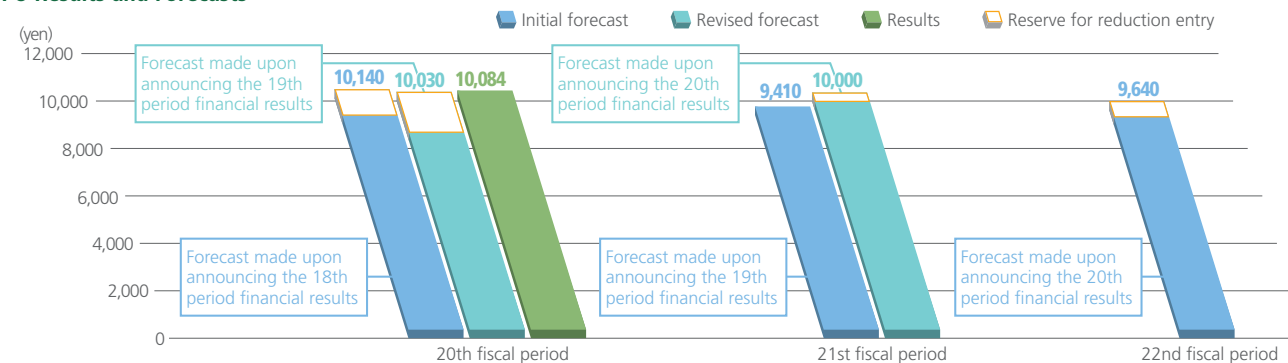
As for the 22nd fiscal period (ending October 2013), PIC currently forecasts a period-on-period decrease both in revenues and profits, on the premise of revenues decreasing due to the lowered occupancy rates of office buildings (based on the assumptions for the forecast of the 21st fiscal period) and of residential properties (due to seasonal factors). Accordingly, the forecast DPU is 9,640 yen which is to be obtained by fully reversing the balance of the reserve for reduction entry and using it for distributions by adding it to net income for the fiscal period.

## Forecasts for the 21st and 22nd Fiscal Periods

	20th Fiscal Period (results)	21st Fiscal Period		Change (2) – (1)	22nd Fiscal Period (forecast)
		(forecast at end of 19th period) (1)	(forecast at end of 20th period) (2)		
Operating revenues (mm yen)	6,210	6,172	6,148	-23	6,104
Operating income (mm yen)	2,772	2,623	2,651	27	2,593
Ordinary income (mm yen)	1,985	1,852	1,896	44	1,868
Rental NOI (mm yen)	4,048	3,955	3,965	9	3,901
Net income (mm yen)	1,983	1,850	1,895	44	1,867
Distribution per unit (yen)	10,084	9,410	10,000	590	9,640
No. of investment assets	54	54	54	-	54

(Note) Amounts of less than one million yen have been rounded down.

## DPU Results and Forecasts



## Assumptions for the Forecasts

	21st Fiscal Period (ending April 2013)	22nd Fiscal Period (ending October 2013)
No. of investment assets	It is assumed that the number of investment assets owned will remain unchanged from the end of the 20th fiscal period, comprising 53 properties and preferred securities of an SPC	It is assumed that the number of investment assets will remain unchanged from the end of the 21st fiscal period.
No. of investment units outstanding	It is assumed that the number of outstanding investment units will remain unchanged from the end of the 20th fiscal period, totaling 196,699 units.	It is assumed that the number of outstanding investment units will remain unchanged from the end of the 21st fiscal period.
Interest-bearing liabilities	<p>It is assumed that the following changes will be made to the balance of interest-bearing liabilities, which was 106,212.5 million yen as of the end of the 20th fiscal period:</p> <p><b>1. Refinancing of existing loans maturing during the fiscal period</b></p> <ul style="list-style-type: none"> <li>Of the 5,400 million yen in short-term loans maturing on November 16, 2012, 400 million yen was repaid and 5,000 million yen was refinanced for 2,000 million yen in short-term loans and 3,000 million yen in long-term loans.</li> <li>It is planned that 2,850 million yen in long-term loans maturing on February 28, 2013 will be refinanced for the same amount.</li> <li>It is planned that 7,900 million yen in long-term loans maturing on March 27, 2013 will be refinanced for the same amount.</li> </ul> <p><b>2. Partial repayment of long-term loans as agreed upon</b></p> <ul style="list-style-type: none"> <li>75 million yen will be repaid during the fiscal period.</li> </ul> <p>Other than these, no repayment dates will arrive in the fiscal period and PIC assumes no new borrowings, etc. (The scheduled balance of the interest-bearing liabilities at the end of the fiscal period will be 105,737.5 million yen)</p>	<p>It is assumed that the following changes will be made to the balance of interest-bearing liabilities, which will be 105,737.5 million yen as of the end of the 21st period:</p> <p><b>1. Refinancing of existing loans and investment corporate bonds maturing during the fiscal period</b></p> <ul style="list-style-type: none"> <li>It is planned that 2,000 million yen in short-term loans maturing on May 17, 2013 will be refinanced for the same amount.</li> <li>It is planned that 3,000 million yen in long-term loans maturing on May 22, 2013 will be refinanced for the same amount.</li> <li>It is planned that 3,500 million yen in short-term loans maturing on July 26, 2013 will be refinanced for the same amount.</li> <li>It is planned that 1,000 million yen in long-term loans maturing on July 31, 2013 will be refinanced for the same amount.</li> <li>It is planned that 7,000 million yen in 3rd Unsecured Corporate Bond, which is to be redeemed on August 16, 2013, will be refinanced for the same amount by issuing investment corporate bonds or through borrowings.</li> </ul> <p><b>2. Partial repayment of long-term loans as agreed upon</b></p> <ul style="list-style-type: none"> <li>75 million yen will be repaid during the fiscal period.</li> </ul> <p>Other than these, no repayment dates will arrive in the fiscal period and PIC assumes no new borrowings, etc. (The scheduled balance of the interest-bearing liabilities at the end of the fiscal period will be 105,662.5 million yen)</p>
Period average occupancy rate	<p>Office buildings: 89.7% (results in the 20th fiscal period: 91.0%)</p> <p>Residential properties: 93.8% (results in the 20th fiscal period: 92.8%)</p> <p>Total: 91.6% (results in the 20th fiscal period: 91.9%)</p>	N/A
Others	<p><b>(Operating revenues)</b></p> <p>Calculations for office buildings have been made on the premise that no spaces will be filled during the fiscal period to replace tenants that have notified PIC of contract termination (except for spaces for which new contracts have already been confirmed).</p> <p>For residences, occupancy rates of respective properties have been assumed, with their current occupancies as well as past occupancy results taken into consideration.</p> <p><b>(Operating expenses)</b></p> <p>Major items include:</p> <ul style="list-style-type: none"> <li>Outsourcing fees: 692 million yen</li> <li>Tax and public dues: 416 million yen</li> <li>Depreciation expenses: 1,120 million yen</li> <li>Operating expenses (excluding rental expenses): 465 million yen</li> </ul> <p><b>(Non-operating expenses)</b></p> <ul style="list-style-type: none"> <li>Interest expenses (including interest for corporate bonds): 743 million yen</li> </ul> <p><b>(Capital expenditures)</b> 201 million yen</p> <p><b>(Distribution)</b></p> <p>It is assumed that, of the 100 million yen reserved in the 19th fiscal period as "reserve for reduction entry," 71 million yen is reversed (with the balance after reversal being 28 million yen) and added to net income, and the combined amount is distributed.</p>	<p><b>(Operating revenues)</b></p> <p>Calculations for office buildings have been made on the premise that some properties will have new lease-up results, with notices of termination taken into consideration.</p> <p>For residences, occupancy rates of respective properties have been assumed, with their current occupancies as well as past occupancy results taken into consideration.</p> <p><b>(Operating expenses)</b></p> <p>Major items include:</p> <ul style="list-style-type: none"> <li>Outsourcing fees: 700 million yen</li> <li>Tax and public dues: 428 million yen</li> <li>Depreciation expenses: 1,122 million yen</li> <li>Operating expenses (excluding rental expenses): 452 million yen</li> </ul> <p><b>(Non-operating expenses)</b></p> <ul style="list-style-type: none"> <li>Interest expenses (including interest for corporate bonds): 717 million yen</li> </ul> <p><b>(Capital expenditures)</b> 250 million yen</p> <p><b>(Distribution)</b></p> <p>It is assumed that the remaining 28 million yen in the "reserve for reduction entry" is reversed and added to net income, and the combined amount is distributed.</p>

# O VERVIEW OF ASSET MANAGEMENT

		Unit	16th Fiscal Period (May 1, 2010 – October 31, 2010)	17th Fiscal Period (November 1, 2010 – April 30, 2011)	18th Fiscal Period (May 1, 2011 – October 31, 2011)	19th Fiscal Period (November 1, 2011 – April 30, 2012)	20th Fiscal Period (May 1, 2012 – October 31, 2012)
Business Results							
Operating Revenues		Thousands of yen	5,237,765	5,171,445	4,963,346	6,318,704	6,210,446
(Real estate rental revenues)		Thousands of yen	(5,237,765)	(5,022,768)	(4,715,752)	(5,860,014)	(5,926,147)
Operating Expenses		Thousands of yen	2,811,567	2,899,766	2,898,669	3,305,616	3,437,462
(Real estate rental expenses)		Thousands of yen	(2,396,183)	(2,479,011)	(2,526,964)	(2,860,979)	(2,994,557)
Operating Income		Thousands of yen	2,426,197	2,271,678	2,064,677	3,013,088	2,772,984
Ordinary Income		Thousands of yen	1,776,539	1,531,930	1,311,489	2,178,976	1,985,078
Net Income	(a)	Thousands of yen	1,774,814	1,519,501	1,309,232	2,178,973	1,983,482
Assets, etc. (as of end of period)							
Total Assets	(b)	Thousands of yen	152,370,359	171,586,194	170,766,247	202,605,716	201,305,265
(Period-on-period variation)		%	(+3.8)	(+12.6)	(-0.5)	(+18.6)	(-0.6)
Interest-bearing Liabilities		Thousands of yen	72,422,500	92,347,500	91,762,500	107,287,500	106,212,500
Net Assets	(c)	Thousands of yen	73,732,767	73,477,481	73,267,189	87,823,472	87,728,633
(Period-on-period variation)		%	(+4.2)	(-0.3)	(-0.3)	(+19.9)	(-0.1)
Unitholders’ Capital		Thousands of yen	71,957,904	71,957,904	71,957,904	85,644,448	85,644,448
Distribution							
Total Distributions	(d)	Thousands of yen	1,774,786	1,519,524	1,309,234	2,078,321	1,983,512
Distribution Payout Ratio (Note 1)	(d)/(a)	%	99.9	100.0	100.0	95.3	100.0
Per Unit Information							
Number of Units Outstanding	(e)	Units	140,100	140,100	140,100	196,699	196,699
Net Assets per Unit	(c)/(e)	Yen	526,286	524,464	522,963	446,486	446,004
Distribution per Unit	(d)/(e)	Yen	12,668	10,846	9,345	10,566	10,084
(Earnings distribution per unit)		Yen	(12,668)	(10,846)	(9,345)	(10,566)	(10,084)
(Distribution in excess of earnings per unit)		Yen	(-)	(-)	(-)	(-)	(-)
Financial Indices							
Ordinary Income on Total Assets (Note 2)		%	1.2 (2.4)	0.9 (1.9)	0.8 (1.5)	1.2 (2.3)	1.0 (1.9)
Return on Unitholders' Equity (Note 3)		%	2.5 (4.9)	2.1 (4.2)	1.8 (3.5)	2.7 (5.4)	2.3 (4.5)
Net Assets Ratio	(c)/(b)	%	48.4	42.8	42.9	43.3	43.6
(Period-on-period variation)			(+0.2)	(-5.6)	(+0.1)	(+0.4)	(+0.3)
Rental NOI (Net operating income) (Note 4)		Thousands of yen	3,760,367	3,516,442	3,177,808	4,115,729	4,048,008

(Note 1) Distribution payout ratios have been rounded down to the tenth place.

(Note 2) Ordinary income on total assets: Ordinary income/Average total assets × 100

Average total assets = (Total assets at beginning of period + Total assets at end of period) / 2

(Note 3) Return on unitholders' equity: Net income/Average net assets × 100

Average net assets = (Net assets at beginning of period + Net assets at end of period) / 2

Furthermore, figures in parentheses are annualized figures based on accounting calculation periods of 184 days for the 16th fiscal period, 181 days for the 17th fiscal period, 184 days for the 18th fiscal period, 182 days for the 19th fiscal period and 184 days for the 20th fiscal period. This is true concerning both Note 2 and Note 3.

(Note 4) Rental NOI: (Real estate rental revenues – Real estate rental expenses) + Depreciation (limited to depreciation covering leased properties)

# P ORTFOLIO STATUS

PIC made no acquisition of properties in the 20th fiscal period. As of October 31, 2012, PIC owns 54 properties comprised of 21 office buildings, 32 residential properties and preferred securities of an SPC (Note), with the acquisition price totaling 196,544 million yen. Under the policy of investing in office buildings

and residential properties in the Tokyo Economic Bloc, PIC has focused on constructing a portfolio of investment assets comprised of 60% of offices and 40% of residences by use since its inception. As a result of having proactively acquired office buildings since NTTUD became its main sponsor, PIC has almost achieved

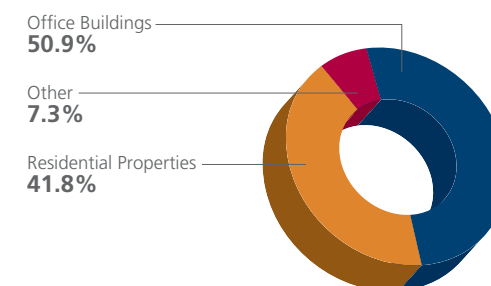
its target investment ratio by asset type, with office buildings currently standing at 58.2% and residential properties at 41.8% when preferred securities are classified into the office category.

(Note) PIC owns 39,480 units (14.0% equity) of the preferred securities (282,000 units in total) issued by UDX Special Purpose Company and backed by the cash flow from the underlying property, Akihabara UDX (an entire office building and its site, located in Chiyoda Ward, Tokyo).

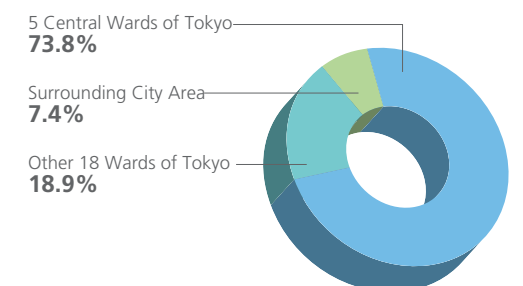
## Portfolio Diversification Status

(Note) Each ratio indicated in the graphs is based on the acquisition price. Furthermore, the calculation of the ratios by area and by building age does not include the acquisition price of the preferred securities.

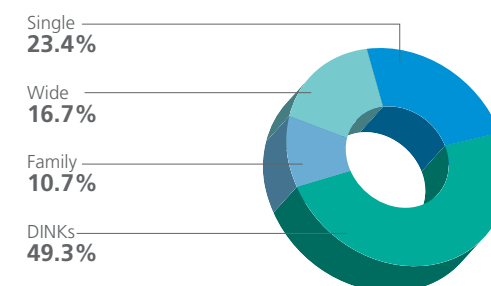
### By Asset Type



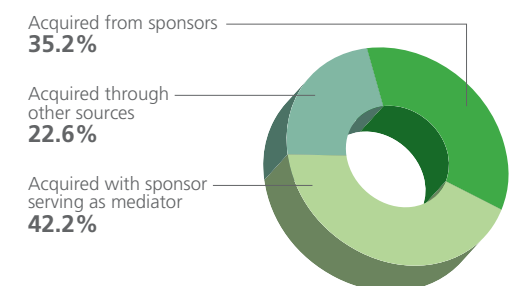
### By Area



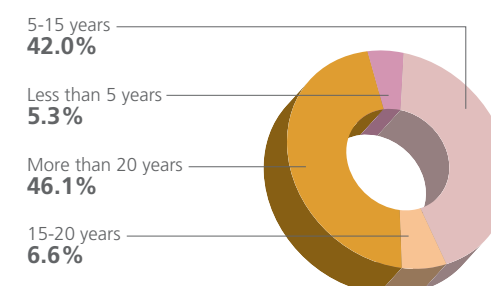
### By Unit Type



### By Acquisition Pipeline



### By Building Age



### Average Building Age by Asset Type (end of 20th period)

Office buildings	23.7 years
Residential properties	9.2 years
Total	17.2 years

(Note) The average building age by asset type is the acquisition price-weighted average building age of each property. Figures in the first decimal place have been rounded down. The calculation of the average building age does not include the building age of the property underlying the preferred securities.

Area	Property Number	Property Name (Note 1)	Acquisition Price (mm yen) (Note 2)	Share (%) (Note 3)	Occupancy Rate (%)	Real Estate Rental Income			PML Value (%) (Note 4)
						Revenues (mm yen)	Expenses (mm yen)	Income (mm yen)	
OFFICE BUILDINGS									
5 Central Wards of Tokyo	A1	Landic Shimbashi Building 1	6,341	3.2	57.7	113	69	44	10.6
	A2	Landic Shimbashi 2 Building	7,045	3.6	100.0	148	89	58	12.9
	A3	Fuji Building No.37	1,727	0.9	83.0	70	54	15	5.5
	A4	KN Shibuya No.3	5,348	2.7	100.0	(Note 5)	(Note 5)	123	10.6
	A5	Takadanobaba Center Building	5,118	2.6	91.1	230	102	127	2.0
	A6	Rokubancho Building	7,860	4.0	100.0	(Note 5)	(Note 5)	199	10.8
	A7	Ougaku Building	1,796	0.9	100.0	69	28	40	14.2
	A8	YS Kaigan Building	5,100	2.6	79.8	115	84	31	10.6
	A9	Iwamotocho Building	6,700	3.4	89.7	244	89	155	12.2
	A10	Urbannet Mita Building	10,300	5.2	97.0	359	122	236	7.2
	A11	Urbannet Azabu Building	5,000	2.5	100.0	(Note 5)	(Note 5)	100	10.5
	A12	Urbannet Ichigaya Building	1,650	0.8	100.0	(Note 5)	(Note 5)	47	7.0
	A13	Kanda Chuodori Building	2,450	1.2	100.0	89	30	58	14.0
Other 18 Wards of Tokyo	B1	IPB Ochanomizu Building	1,456	0.7	66.2	46	20	25	8.7
	B2	Premier Toyochō Building	4,310	2.2	31.7	(Note 5)	(Note 5)	-12	16.2
	B3	Ueno TH Building	4,380	2.2	100.0	139	67	71	12.8
	B4	Gotanda NT Building	4,100	2.1	82.6	87	40	46	14.3
	B5	Ueno Tosei Building	5,900	3.0	100.0	195	94	101	10.7
Surrounding City Area	C1	Nisso No.3 Building	3,558	1.8	100.0	167	69	98	10.2
	C2	The Kanagawa Science Park R&D Building	6,556	3.3	96.8	403	279	123	10.4
	C4	NU Kannai Building	3,300	1.7	96.0	176	84	91	14.3
SUBTOTAL			99,995	50.9	91.2	3,453	1,666	1,787	-
RESIDENTIAL PROPERTIES									
5 Central Wards of Tokyo	D1	Park Axis Yotsuya Stage	5,208	2.6	97.3	153	78	74	7.4
	D2	Park Axis Meiji-Jingumae	2,604	1.3	92.3	53	22	31	9.9
	D3	Sun Palace Minami-Azabu	1,150	0.6	92.7	29	20	9	5.3
	D4	Cabin Arena Akasaka	1,330	0.7	91.2	38	17	21	10.1
	D5	Cabin Arena Minami-Aoyama	1,070	0.5	100.0	38	16	21	11.2
	D6	Bureau Kioicho	1,840	0.9	100.0	62	14	47	11.6
	D7	Homat Woodville	5,090	2.6	95.7	124	73	51	7.4
	D8	Roppongi Green Terrace	4,678	2.4	97.1	113	63	49	10.3
	D9	Premier Stage Shibakoen II	2,181	1.1	96.7	53	28	25	11.5
	D11	Langue Tower Kyobashi	927	0.5	94.9	34	16	18	12.5
	D12	Premier Stage MitaKeidaimae	1,580	0.8	98.4	54	19	34	14.3
	D13	Premier Rosso	1,662	0.8	96.0	50	23	26	14.0
	D14	Premier Blanc Yoyogikouen	2,330	1.2	91.3	62	30	32	13.1
	D15	Premier Stage Uchikanda	1,723	0.9	82.5	54	22	31	13.8
	D16	Premier Stage Ichigayakawadacho	1,460	0.7	95.5	44	18	26	13.1
	D17	Walk Akasaka	2,043	1.0	96.6	44	28	15	13.9
	D18	Premier Stage Shibakoen	1,585	0.8	97.7	43	18	25	16.1
	D19	MEW	1,556	0.8	78.4	32	22	9	13.9
	D20	Shibaura Island Air Tower	7,590	3.9	96.0	324	223	100	11.2
	D21	Storia Akasaka	3,930	2.0	89.7	82	43	39	11.7
	D22	Renai Shinjuku-Gyoen Tower	6,500	3.3	90.1	185	101	84	7.2
	D23	Shibaura Island Bloom Tower	5,500	2.8	95.4	262	161	101	10.0
	D24	Questcourt Harajuku	4,500	2.3	88.1	122	54	67	12.7
	Other 18 Wards of Tokyo	E1	B-Site Osaki	1,072	0.5	100.0	29	10	18
E2		Premier Garden Hongo	975	0.5	86.2	29	13	16	12.1
E3		Premier Grande Magome	1,560	0.8	90.4	40	21	18	15.7
E4		Premier Nozze Yutenji	1,525	0.8	100.0	39	19	19	13.6
E5		Premier Stage Yushima	1,803	0.9	96.0	51	28	22	17.2
E6		Premier Stage Komagome	1,830	0.9	96.0	49	27	22	18.0
E7		Premier Stage Otsuka	1,310	0.7	96.8	42	21	21	22.5
E8		Premier Stage Honjo-Azumabashi	2,640	1.3	97.0	79	39	39	14.7
SUBTOTAL			82,249	41.8	94.2	2,472	1,327	1,145	-
OTHER									
-	UDX Special Purpose Company Preferred Securities (Note 6)		14,300	7.3	-	-	-	-	-
SUBTOTAL			14,300	7.3	-	-	-	-	-
TOTAL			196,544	100.0	92.6	5,926	2,993	2,932	8.6

(Note 1) PIC has acquired the assets listed in the table to the left in the form of either real estate trust beneficial interest or preferred securities.

(Note 2) The acquisition price of respective properties indicates the value (transaction price depicted in the sales agreement, etc.) that does not include incidental expenses accompanying the acquisition of the relevant real estate or preferred securities (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.

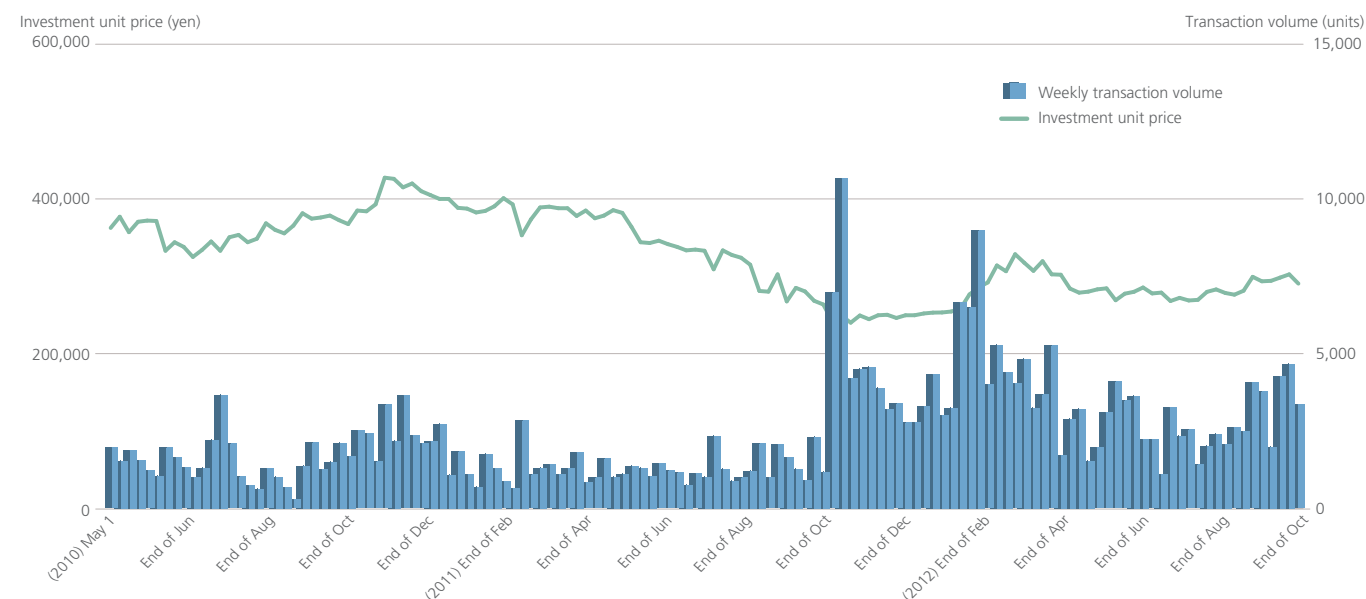
(Note 5) The rental revenues from a leasing contract with a single major tenant constitute more than 80% of the total rental revenues for this property, and the major tenant has not agreed to disclose the rental revenues. Accordingly, PIC does not indicate these figures due to this unavoidable reason.

(Note 6) 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.

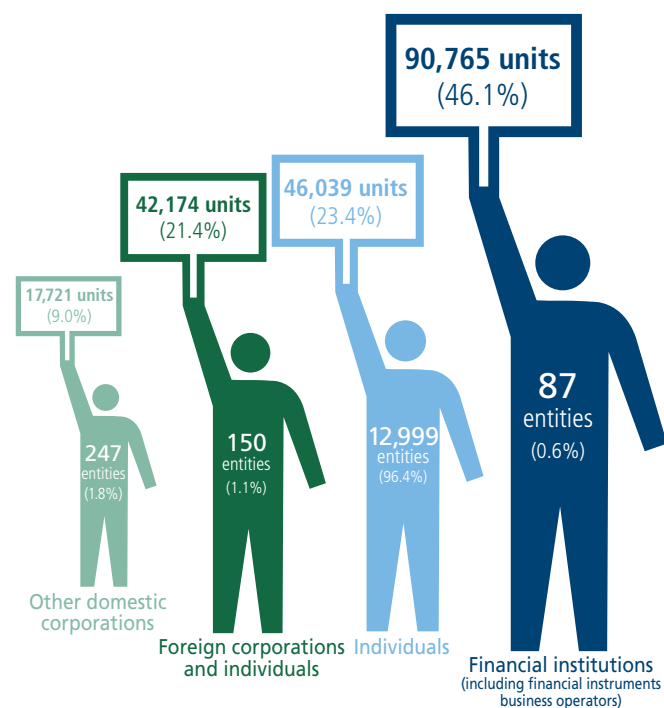
# INVESTMENT UNIT STATUS

## Historical Unit Price

The following is the history of investment unit prices and weekly transaction volumes of PIC on the Tokyo Stock Exchange from the start of the 16th fiscal period (May 1, 2010) to the end of the 20th fiscal period (October 31, 2012).



## Breakdown of Unitholders as of October 31, 2012



(Note) Ratios have been rounded down to the tenth place.

## Top 10 Unitholders as of October 31, 2012

	Name of Unitholder	Number of Investment Units Held (units)	Share (%)
1	Japan Trustee Services Bank, Ltd. (Trust Account)	39,993	20.33
2	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	10,672	5.42
3	Trust & Custody Service Bank, Ltd. (Securities Investment Trust Account)	9,625	4.89
4	NTT Urban Development Corporation	8,700	4.42
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	8,033	4.08
6	UBS AG HONG KONG	5,998	3.04
7	NOMURA BANK (LUXEMBOURG) S.A.	3,580	1.82
8	ASAHI FIRE & MARINE INSURANCE	3,000	1.52
9	GOLDMAN SACHS INTERNATIONAL	2,936	1.49
10	State Street Bank & Trust Company 505223	2,228	1.13
	<b>Total</b>	<b>94,765</b>	<b>48.17</b>

# STRATEGIC POLICIES

## I. INVESTMENT POLICY

### 1. Basic Policy

PIC shall invest in real estate, office buildings and residential properties located primarily in the Tokyo Economic Bloc of the Tokyo metropolitan area, their lots, securities and trust beneficial interests and other assets that are backed by the said real estate. PIC shall also make investments to ensure solid growth and stable earnings over the medium to long term. PRA has established Asset Management Guidelines based on the Articles of Incorporation of PIC. PRA believes that such Asset Management Guidelines provide the most appropriate basic policy for managing the investment assets 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

#### Holding Period

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

#### Acquisition Standards

##### A) Acquisition Standards

In acquiring investment assets, PIC shall fully consider numerous factors including 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, capability to withstand earthquakes, 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, and status of insurance. Investments shall be selected after considering such factors and the importance of these assets in the portfolio structure, and steps shall be taken to construct a portfolio that clearly classifies the strategic position of these investment assets.

##### B) Use

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 Assets"), 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 the following page, PIC aims 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 in order to minimize the adverse effects of changes in social or economic conditions on PIC's income and ensure 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 acquire the Investment Assets as planned.

##### C) Areas

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.

b. Specifically, by dividing the Tokyo Economic Bloc into the categories of the 5 Central Wards of Tokyo, the Other 18 Wards of Tokyo and the Surrounding City Area, and by considering the balance between those categories while concentrating on the 5 Central Wards, PIC seeks to achieve a diversified portfolio of office buildings and residential properties. The ideal portfolio balance over the medium to long term is 60% of invested funds in office buildings and 40% in residential properties. The table on page 20 outlines the geographical split PIC aims for with its asset investments.

##### D) Asset Size per Property

a. Office buildings

In principle, office buildings with available space for lease of approximately 2,000m<sup>2</sup>

Use

Use	Key Investment Points <small>(Note 1)</small>
Office Buildings	<div><div>a.</div><div>In the real estate market of Japan, office buildings are relatively less individualized and are in greater supply 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 said real estate as its primary investment target.</div></div> <div><div>b.</div><div>Tenant demand for office space may fluctuate in response to economic trends that include business cycles. This might adversely affect PIC's earnings derived from office buildings. However, compared to real estate for other uses, office buildings are generally expected to provide relatively higher levels of profitability.</div></div> <div><div>c.</div><div>PIC will acquire large-scale office buildings with great care, after thoroughly considering future supply and demand trends and location characteristics.</div></div>
Residential Properties	<div><div>a.</div><div>PIC invests in relatively high-quality Japanese rental residential properties with regard to designs of exteriors, entrances and other common areas; specifications of story height, exterior walls and other similar areas; total floor space, floor plans, and other aspects.</div></div> <div><div>b.</div><div>Rental residential properties are relatively resistant to the adverse effects of changes in social or economic conditions compared to real estate for other uses, and thus are expected to yield relatively stable earnings. For these reasons, PIC has positioned such rental residential properties as part of the main investment target with the goals of establishing cash flow and diversifying assets.</div></div> <div><div>c.</div><div>PRA expects that the market for rental residential properties in the Tokyo Economic Bloc will grow and expand over the medium to long term due to the effects of the recent demand for urban revitalization and lifestyle changes. However, if PRA determines that the aforementioned trends have changed due to changes in the market or other reasons, PIC may make different investment decisions.</div></div> <div><div>d.</div><div>Since tenants of rental residential properties are particularly selective about location, 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 for different types of properties.</div></div>
<div>(Classification by type of residential properties)</div> <div>Wide</div>	<div><div>a.</div><div>Targeted investment area: Five Central Wards of Tokyo and adjacent wards.</div></div> <div><div>b.</div><div>This type refers to residential properties primarily intended for foreigners (i.e., executives dispatched or assigned by Western and multinational companies from overseas to offices located in the Tokyo Economic Bloc), specially planned in specific locations according to the demands of foreign residents' lifestyles.</div></div> <div><div>c.</div><div>Recently, the demand for these properties has increased among wealthy Japanese families as well. Like those described in b. above, these tenants are highly reliable compared to those of other types of residences, and the risk of delinquent rent and similar problems with regard to such tenants tends to be low.</div></div> <div><div>d.</div><div>Because this type of property is in shorter supply than office buildings, residential properties intended for Japanese residents and real estate for other uses, stable income is expected. Also, differences in profitability may arise regarding investments in said properties due to management performance.</div></div>
Family	<div><div>a.</div><div>Targeted investment area: The 23 Wards of Tokyo and surrounding city area.</div></div> <div><div>b.</div><div>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.</div></div> <div><div>c.</div><div>Generally, these families tend to place emphasis on neighborhood 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.</div></div>
DINKs	<div><div>a.</div><div>Targeted investment area: Five Central Wards of Tokyo and adjacent wards.</div></div> <div><div>b.</div><div>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.")</div></div> <div><div>c.</div><div>Demand of these tenants tends to focus on areas with convenient commuter access to the center of Tokyo. Since those properties are in short supply in such areas and said households earn high levels of income, these properties have a scarcity value, and are expected to yield relatively high profitability.</div></div>
Single	<div><div>a.</div><div>Targeted investment area: Five Central Wards of Tokyo and adjacent wards.</div></div> <div><div>b.</div><div>This type refers to residential properties intended for persons living alone, and are designed to meet their lifestyles.</div></div> <div><div>c.</div><div>Together with diversifying lifestyles, the market for more spacious and higher-quality residential properties targeting singles is growing steadily, and such properties may be considered stable targets for future investments as well.</div></div> <div><div>d.</div><div>Since the 5 Central Wards of Tokyo, especially Minato, Shibuya and Shinjuku 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.</div></div>

(Note 1) The "Key Investment Points" in the table above reflect the current views of PRA. 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 Five Central Wards of Tokyo in this Semiannual Report refer to Chiyoda, Chuo, Minato, Shinjuku and Shibuya Wards (hereinafter the same).

(approximately 700 tsubos) or more, and standard floor sizes of approximately 300m<sup>2</sup> (approximately 90 tsubos) or more, are the investment targets.

b. Residential properties

In principle, residential properties of the sizes and numbers of rooms indicated in the table below are the investment targets (in accordance with the classifications by type of use).

Based on the standards above and additionally considering the regional characteristics of the location and the compatibility of asset size with the location for each property, PIC will determine the appropriate size with respect to both office buildings and residential properties.

E) Due Diligence [▶see table on page 21](#)

PIC decides on the acquisition of investment assets after considering all the results of economic, physical and legal inspections of the assets. The table on the following page lists the items that are, in principle, investigated in such inspections. However, since the importance of each

item in deciding on the acquisition of investment assets may differ depending on the use of the Investment Assets or the type and nature of the investment assets, PIC will not necessarily examine all of the items before acquiring the investment assets. In addition, the investment assets acquired by PIC may not satisfy all of the standards of the items.

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 below. With respect to corporate tenants, when their credit status cannot be determined from the materials obtained or when otherwise deemed necessary, databases of outside research agencies and other materials will be used. When examination results of credit checks and other matters are satisfactory, the decision on executing a lease agreement will be made after fully considering the following matters: 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 will generally attempt 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 advance notice.

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 generally be one billion yen (¥1,000,000,000) (which only covers the purchase price and excludes taxes, acquisition fees, etc.).

b. The maximum ratio of the investment amount of a single investment asset will generally be 25% of the total amount invested in the investment assets after investing in that single asset, and an

Areas

	Area	5 Central Wards of Tokyo	Other 18 Wards of Tokyo	Surrounding City Area
Office buildings		50% or more	0% - 20%	0% - 40%
Residential properties		50% or more	0% - 40%	0% - 20%

(Note) 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.

Standards for Tenant Selection

Classification	Details Checked
Corporations	<div><div>1.</div><div>Business purpose, business history, financial details (i.e., financial soundness), etc.</div></div> <div><div>2.</div><div>Purpose of lease (e.g., purpose of use, period)</div></div> <div><div>3.</div><div>Existence or non-existence of joint and several guarantors and attributes of such guarantors</div></div>
Individuals	<div><div>1.</div><div>Office and details of employment, service years, etc.</div></div> <div><div>2.</div><div>Annual income (and the proportion of the total amount of rent to annual income, etc.)</div></div> <div><div>3.</div><div>Purpose of lease (e.g., purpose of use, period and number of residents)</div></div> <div><div>4.</div><div>Existence or non-existence of joint and several guarantors and attributes of such guarantors (e.g., relationship with such individuals)</div></div> <div><div>5.</div><div>Age, gender, family structure, etc.</div></div>

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

Due Diligence

Item		Details
Economic Inspection	Tenant inspection	1. Financial credibility, status of rent collection, etc. of tenants 2. Tenants' business types, number of tenants, purposes of use, etc. (including household conditions for residential properties) 3. Past occupancy rates, rent trends and future expectations 4. Proportion occupied by each tenant, diversification of tenants, etc.
	Market research	1. Market rents, occupancy rates, trends in competitive properties and tenant demand, etc.
	Income-related	1. Inspection of competitive strength, including ability to attract tenants and resale potential 2. Lease agreement levels, lease agreement structures, and possibility of renewal of such agreements 3. Expense levels, arrangements for agreements related to expenses, and possibility of renewal of such agreements 4. Inspection of appropriate levels of rents and expenses, and possibility of projected future expense burdens 5. Comparison of renovation plans with actual funds accumulated
Physical Inspection	Location	1. Condition of roadways, access to primary means of transport (e.g., passenger trains), numbers of users of primary means of transport 2. Location 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) 3. Sunlight, vistas, views, noise, etc. (all of which are specific to residential properties) 4. Area's name value, reputation, scale, etc.
	Construction, facilities and specifications	1. For both office buildings and residential properties: Design, primary structure, age of construction, construction companies, etc. 2. Conditions of interior and exterior components Office buildings: Configuration of rented floors, free-access floors (e.g., OA floors), subdivision measures, ceiling heights, electrical capacity, air-conditioning system, floor excess weight, illuminance, security measures, water supply and drainage facilities, elevator facilities, parking, other common facilities, etc. Residential properties: Configuration of 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.
	Earthquake resistance	1. Achievement of abilities in line with new earthquake-resistant construction standards or equivalent or higher standards 2. In principle, the probable maximum loss (PML) 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.
	Property management	1. Compliance with applicable laws and regulations (specifically, the Fire Service Law, City Planning Law and other laws and regulations in relation to structure), etc. 2. Estimates of future maintenance and repair expenses (for the next ten years or so) based on building condition reports 3. Quality of property management, existence or non-existence of and terms of owner's agreement, and the quality and financial credibility of a property management company
	Environment, land quality, etc.	1. Status of use and management of hazardous materials such as asbestos, chlorofluorocarbons, and PCBs 2. Soil quality, land use history, status of soil contamination, etc.
		Matters relating to rights in a property, including the following items, will be carefully investigated, considering the 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 the building ownership or the said rights independently (e.g., properties which are owned with the arrangement of tenancy in common, compartmentalized or leased, by PIC). 1. Completion or incompleteness of the perfection of a leasehold interest and review of other interests or rights superseding the leasehold interest 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 3. Measures for securing the repayment of deposit money, and policies and measures concerning reserve funds accumulated for long-term renovation plans 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 5. Compartmentalization of a property 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 7. Terms of agreements, special agreements, etc. which are executed with a lessor of a co-owner, compartmentalized owners, co-owner and other related parties (particularly, existence or non-existence of first refusal right, and details of such right) 8. Attributes of a lessor of a leasehold interest, compartmentalized owners, co-owner and other related parties (either corporations or individuals) 9. Terms of trust agreements in the case of trust beneficial interests of real estate in trust
Legal Inspection	Title, etc.	
	Property line inspection	1. Status of confirmation of boundaries, existence or non-existence of any assets extending beyond boundaries, and related circumstances
	Tenant attributes	1. Purpose of use by tenants, and terms of agreements with tenants 2. Existence or non-existence of any disputes with tenants

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 acquired investment assets over the medium to long term. In principle, PIC does not plan to sell the acquired investment assets over the short term.

B) The sale of a property may be considered in the medium to long term, after a portfolio structure is strategically classified, fully taking into consideration 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

Core Assets
<b>[Strategic significance]</b> 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
<b>[Strategic significance]</b> 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-up) from the increase in the income gains after acquisition, are also independently and actively sought.

- The targets of the investment assets classified by PIC as active assets are as follows: The amount of investment per 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.
- The upper limit on active assets as a proportion of the portfolio shall generally be 20%.

b. Specific cases where sale will be considered

- 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.

- 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 appraised value by 10% or more or otherwise exceeds the estimated value in the surrounding area due to such prospective purchaser's special circumstances.
- When the property has lost strategic importance:  
**[Example 1]** 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.
- Aside from the above, there may be cases in which PIC conducts sale of properties from the perspective of its financial strategy. For example, PIC may raise funds through selling some of its owned properties in a policy to prepare for repayment of interest-bearing liabilities, including redemption of corporate bonds, while taking care to minimize losses from the sale.

C) The Investment Assets 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 rent or similar earnings. PIC does not intend to acquire undeveloped land and construct buildings thereon. However, PIC may invest in a property yet to be constructed by a third party if, for example, it is determined that such property to be constructed is likely to attract sufficient 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 the 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 borne by PIC in connection with acquiring the investment asset.

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

A) The Investment Assets underlying the Real Estate Backed Securities, etc. shall be assets compliant with the provisions of PIC's Articles of Incorporation.

B) To realize the purpose of investing in Real Estate Backed Securities, etc., that is, securing opportunities to acquire blue-chip properties, PIC shall in principle be given an opportunity to acquire the underlying Investment Assets when they are sold.

C) The same policy as indicated in the above subparagraph shall be followed when PIC invests in the Real Estate Backed Securities, etc. The underlying Investment Assets of which are 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 of the entire portfolio as a basis. If any individual property has a high PML, 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. There are two kinds of PML, i.e., PML for individual buildings and PML for the entire portfolio. Although there is no single precise definition of PML, as used here, PML refers to the ratio (in terms of percentage) of projected recovery expenses to replacement price, which indicates the degree of damage sustained from the strongest earthquake (a major earthquake occurring once every 475 years on average, with more than a 10% probability of occurrence during every fifty-year period) expected to occur during the estimated projected term of use (a fifty-year period, which is considered to be the service life of an ordinary building).

7. Financial Policy

A) Borrowings and Corporate Bonds

- a. In order to contribute to the steady growth of assets under management and efficient and stable operation of investments, PIC may borrow funds (including borrowings via the call market) or issue corporate bonds, by which funds will be raised to acquire or repair assets, pay distributions, or repay funds or debts (including repayment of deposit money, loans and obligations of its corporate bonds) necessary for PIC's operations. However, the respective and combined maximum limit of the loans and bond issuances shall be one trillion yen (¥1,000,000,000,000).
- 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 Enforcement Ordinance Concerning the Special Taxation Measures Law.
- d. PIC may offer its assets under management 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 at 60% or less. However, in connection with the acquisition of new 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. 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 the book values of those assets at the end of the fiscal period to calculate total assets.

B) Issuance of Additional Investment Units

To raise funds, PIC may, upon approval of the Board of Directors, flexibly issue additional investment units. Issuance of additional investment units shall be determined by considering PIC's financial situation, including the interest-bearing liabilities ratio, and the dilution of the investment units.

II. MANAGEMENT POLICY

In managing real estate, PIC intends to maintain and improve the value and competitiveness through continuous capital expenditures made from a medium to long-term perspective, and aims to achieve stable growth in 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 expenses paid to outside service providers, utility expenses and other fees and expenses).

■ PRA shall select the best possible party to contract with for the provision of property management services for each acquired investment property by considering 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. ➡see table below

■ 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 the value of the acquired Investment Assets.

■ PIC will endeavor to take measures such as maintaining an appropriate allocation 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 and loss of tenants.

■ To achieve stable earnings over the medium to long term, PIC shall, in principle, lease all Investment Assets (including facilities such as parking lots and signage). At the time of leasing, PIC may collect deposit money, security money, and other similar monies. The said monies shall be invested pursuant to the provisions of PIC's Articles of Incorporation. 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.

III. DISCLOSURE POLICY

- a. Our policy is to disclose as much information as possible to investors, thus providing investors with a financial product that can be easily understood.
- b. We 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 Law Concerning Investment Trusts and Investment Corporations, the Financial Instruments and Exchange Act, guidelines of the Tokyo Stock Exchange and Investment Trusts Association of Japan, etc.

Standards for Selection of Property Manager

Item	Details
Details and results of business	1. Experience and results as a property manager 2. Reputation and consistency of management policies 3. Soundness of company finances
Capabilities and corporate system	1. 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



IV. DISTRIBUTION POLICY

■ Distribution of Profits

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

- a. 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 as of the end of PIC's fiscal period) shall be calculated based on generally accepted accounting principles of Japan.
- b. 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.

■ 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 Law Concerning Investment Trusts and Investment Corporations. However, this amount shall not exceed the upper limit stipulated in the regulations of the Investment Trusts Association of Japan or other regulations.

■ 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 unitholders (including the final register of beneficiary unitholders) as of the date of settlement of accounts, in proportion to investment units held by each unitholder.

■ Matters Concerning 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.

■ Other Matters

In principle, when applicable tax laws and regulations 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 the Distribution Policy stipulated 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 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 applicable 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 of special tax measures for an investment corporation as stipulated under Article 67-15 of the Special Taxation Measures Law of Japan).

Independent Auditor's Report

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 October 31, 2012, and the profit and loss statements, statements of changes in unitholders' equity and statements of cash flows for the six months period then ended, all expressed in Japanese yen, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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, but 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 October 31, 2012, and its financial performance and cash flows for the six months period then ended in accordance with accounting principles generally accepted in Japan.

PricewaterhouseCoopers Aarata

January 29, 2013

PricewaterhouseCoopers Aarata  
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# BALANCE SHEETS

AS OF OCTOBER 31, 2012 AND APRIL 30, 2012

	Thousands of yen	
	October 31, 2012	April 30, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and deposits (Note-3) (Note-14)	¥ 1,282,239	¥ 1,054,340
Cash and deposits held in trust (Note-3) (Note-14)	9,100,170	9,450,900
Tenant receivables	96,807	89,195
Prepaid expenses	166,608	165,872
Income taxes refund receivables	57,014	57,459
Consumption taxes refund receivables	-	261,724
Deferred tax assets (Note-10)	1,492	2,483
Other current assets	26,026	572
<b>TOTAL CURRENT ASSETS</b>	<b>10,730,358</b>	<b>11,082,548</b>
<b>LONG-TERM ASSETS</b>		
Property and equipment		
Tools, furniture and fixtures	145	145
Buildings held in trust (Note-4)	73,204,552	73,050,985
Structures held in trust (Note-4)	1,613,541	1,582,438
Tools, furniture and fixtures held in trust (Note-4)	192,922	187,083
Less accumulated depreciation	(14,790,243)	(13,674,125)
Land held in trust (Note-4)	113,319,930	113,311,635
Property and equipment, net	173,540,848	174,458,163
Intangible fixed asset		
Leasehold held in trust (Note-4)	1,777,602	1,777,602
Other intangible fixed assets held in trust (Note-4)	2,691	2,992
Intangible fixed assets	3,130	4,171
Total intangible fixed assets	1,783,424	1,784,766
Investment and other assets		
Investment Securities (Note-14) (Note-15)	14,378,482	14,378,482
Other deposits	10,000	10,000
Long-term prepaid expenses	231,179	234,140
Other deposits held in trust	604,365	619,226
New investment unit issuance costs	18,122	24,244
Corporate bond issuance costs	8,485	14,143
Total investment and other assets	15,250,634	15,280,237
<b>TOTAL LONG-TERM ASSETS</b>	<b>190,574,907</b>	<b>191,523,167</b>
<b>TOTAL ASSETS</b>	<b>¥ 201,305,265</b>	<b>¥ 202,605,716</b>

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

	Thousands of yen	
	October 31, 2012	April 30, 2012
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	¥ 538,288	¥ 582,956
Short-term loan payable (Note-7) (Note-14)	10,900,000	11,900,000
Long-term loan payable due within one year (Note-7) (Note-14)	14,900,000	10,900,000
Corporate bonds payable due within one year (Note-6) (Note-14)	7,000,000	10,000,000
Accrued expenses	232,061	239,915
Distributions payable	11,706	10,553
Income taxes payable	553	713
Consumption taxes payable	111,858	-
Business office taxes payable	4,078	6,715
Rents received in advance	813,851	862,875
Deposits received	33,002	32,975
Total current liabilities	34,545,401	34,536,704
<b>LONG-TERM LIABILITIES</b>		
Corporate bonds (Note-6) (Note-14)	-	7,000,000
Long-term loan payable (Note-7) (Note-14)	73,412,500	67,487,500
Tenant security deposits held in trust	5,618,730	5,758,038
Total long-term liabilities	79,031,230	80,245,538
<b>TOTAL LIABILITIES</b>	<b>113,576,632</b>	<b>114,782,243</b>
<b>NET ASSETS</b>		
<b>UNITHOLDERS' EQUITY (Note-5)</b>		
Unitholders' capital	85,644,448	85,644,448
Units authorized - 2,000,000 units		
Units issued and outstanding - 196,699 units as of October 31, 2012 and April 30, 2012		
Retained earnings		
Reserve for reduction entry	100,653	-
Unappropriated income	1,983,531	2,179,024
Total unitholders' equity	87,728,633	87,823,472
<b>TOTAL NET ASSETS</b>	<b>87,728,633</b>	<b>87,823,472</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥ 201,305,265</b>	<b>¥ 202,605,716</b>

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

# P

## ROFIT AND LOSS STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2012 AND APRIL 30, 2012

	Thousands of yen	
	October 31, 2012	April 30, 2012
<b>OPERATING INCOME AND EXPENSES</b>		
Operating revenues		
Rental revenue (Note-8)	¥ 5,284,720	¥ 5,306,321
Other revenue (Note-8)	641,426	553,692
Gains from sale of properties (Note-9)	-	170,045
Dividend income	284,299	288,644
Operating expenses		
Property-operating expenses (Note-8)	2,994,557	2,860,979
Asset management fees	239,496	245,546
Directors' compensation	9,000	9,000
Custodian fees	9,502	9,604
Administration fees	72,497	69,836
Audit fees	8,500	8,500
Other expenses	103,907	102,150
Operating income	2,772,984	3,013,088
<b>NON-OPERATING INCOME AND EXPENSES</b>		
Non-operating income		
Interest income	1,028	984
Return of unclaimed distribution	1,380	1,521
Other non-operating income	823	157
Non-operating expenses		
Interest expense	694,564	707,384
Interest expenses on corporate bonds	83,871	104,114
Amortization of corporate bond issuance costs	5,657	5,657
Public listing related costs of new investment units	-	12,711
Amortization of new investment unit issuance costs	6,122	6,122
Other non-operating expenses	922	784
Ordinary income	1,985,078	2,178,976
Income before income taxes	1,985,078	2,178,976
Income taxes (Note-10)		
Current	605	1,177
Deferred	990	(1,174)
Net income	1,983,482	2,178,973
Income carried forward	49	50
<b>UNAPPROPRIATED INCOME</b>	¥ 1,983,531	¥ 2,179,024

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

# S

## TATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED OCTOBER 31, 2012 AND APRIL 30, 2012

	Thousands of yen	
	October 31, 2012	April 30, 2012
<b>UNITHOLDERS' EQUITY</b>		
<b>UNITHOLDERS' CAPITAL</b>		
Balance at the beginning of the period	¥ 85,644,448	¥ 71,957,904
Changes during the period		
Issuance of new investment units	-	13,686,543
Total changes during the period	-	13,686,543
(Note-1) Balance at the end of the period	85,644,448	85,644,448
<b>RETAINED EARNINGS</b>		
Reserve for reduction entry		
Balance at the beginning of the period	-	-
Changes during the period		
Provision of reserve for reduction entry	100,653	-
Total changes during the period	100,653	-
Balance at the end of the period	100,653	-
Unappropriated Income		
Balance at the beginning of the period	2,179,024	1,309,285
Changes during the period		
Provision of reserve for reduction entry	(100,653)	-
Cash distributions paid	(2,078,321)	(1,309,234)
Net income	1,983,482	2,178,973
Total changes during the period	(195,492)	869,739
Balance at the end of the period	1,983,531	2,179,024
Total retained Earnings		
Balance at the beginning of the period	2,179,024	1,309,285
Changes during the period		
Cash distributions paid	(2,078,321)	(1,309,234)
Net income	1,983,482	2,178,973
Total changes during the period	(94,839)	869,739
Balance at the end of the period	2,084,185	2,179,024
<b>TOTAL UNITHOLDERS' EQUITY</b>		
Balance at the beginning of the period	87,823,472	73,267,189
Changes during the period		
Issuance of new investment units	-	13,686,543
Cash distributions paid	(2,078,321)	(1,309,234)
Net income	1,983,482	2,178,973
Total changes during the period	(94,839)	14,556,283
Balance at the end of the period	87,728,633	87,823,472
<b>TOTAL NET ASSETS</b>		
Balance at the beginning of the period	87,823,472	73,267,189
Changes during the period		
Issuance of new investment units	-	13,686,543
Cash distributions paid	(2,078,321)	(1,309,234)
Net income	1,983,482	2,178,973
Total changes during the period	(94,839)	14,556,283
Balance at the end of the period	¥ 87,728,633	¥ 87,823,472

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

# CASH FLOW STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2012 AND APRIL 30, 2012

	Thousands of yen	
	October 31, 2012	April 30, 2012
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Income before income taxes	¥ 1,985,078	¥ 2,178,976
Depreciation	1,117,459	1,117,734
Amortization of corporate bond issuance costs	5,657	5,657
Amortization of new investment unit issuance costs	6,122	6,122
Interest income	(1,028)	(984)
Refund of unpaid distributions	(1,380)	(1,521)
Interest expenses	778,435	811,499
Increase in tenant receivables	(7,612)	(35,518)
(Decrease) Increase in accounts payable	(17,591)	107,831
Decrease (Increase) in consumption taxes refund receivables	261,724	(261,724)
Increase (Decrease) in consumption taxes payable	111,858	(68,253)
(Decrease) Increase in rent received in advance	(49,023)	236,393
Decrease in carrying amounts of property and equipment due to sale	-	2,214,242
Other	(36,085)	5,621
<b>SUBTOTAL</b>	<b>4,153,614</b>	<b>6,316,077</b>
Interest received	1,028	984
Interest paid	(776,040)	(876,849)
Income taxes paid	(318)	(8,831)
Net cash provided by operating activities	3,378,283	5,431,380
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments for purchases of property and equipment held in trust	(225,880)	(33,720,951)
Proceeds from tenant security deposits held in trust	276,262	1,882,601
Payments of tenant security deposits held in trust	(415,570)	(369,220)
Other	14,861	-
Net cash used in investing activities	(350,326)	(32,207,570)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term loan payable	5,500,000	7,600,000
Proceeds from long-term loan payable	10,000,000	39,250,000
Repayments of short-term loan payable	(6,500,000)	(21,200,000)
Repayments of long-term loan payable	(75,000)	(10,125,000)
Redemption of corporate bonds	(10,000,000)	-
Payments of distributions	(2,075,787)	(1,309,030)
Proceeds from issuance of new investment units	-	13,686,543
Payments of new investment unit issuance costs	-	(23,999)
Net cash (used in) provided by financing activities	(3,150,787)	27,878,514
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(122,830)</b>	<b>1,102,324</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>10,505,240</b>	<b>9,402,916</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>¥ 10,382,410</b>	<b>¥ 10,505,240</b>

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

# NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED OCTOBER 31, 2012 AND APRIL 30, 2012

## Note-1. Organization and basis of presentation

**(a) Organization** – Premier Investment Corporation (hereinafter, “PIC”) is an investment corporation established in May 2002 under the Law Concerning Investment Trusts and Investment Corporations (hereinafter, “Investment Trust Law”) 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 (thousands of yen)	
		Increase (Decrease)	Balance	Increase (Decrease)	Balance
May 2, 2002	Incorporation through private placement	400 units	400 units	200,000	200,000
September 10, 2002	Capital increase through public offering	59,000 units	59,400 units	27,187,200	27,387,200
November 15, 2003	Capital increase through public offering	18,000 units	77,400 units	8,699,904	36,087,104
December 10, 2003	Capital increase through third-party allotment	2,000 units	79,400 units	966,656	37,053,760
May 31, 2005	Capital increase through public offering	22,000 units	101,400 units	14,381,092	51,434,852
November 26, 2007	Capital increase through public offering	30,000 units	131,400 units	17,510,460	68,945,312
May 14, 2010	Capital increase through third-party allotment	8,700 units	140,100 units	3,012,592	71,957,904
November 14, 2011	Capital increase through public offering	53,000 units	193,100 units	12,816,248	84,774,152
December 12, 2011	Capital increase through third-party allotment	3,599 units	196,699 units	870,295	85,644,448

As of October 31, 2012, PIC had total unitholders' capital of 85,644,448 thousand yen with 196,699 units outstanding.

As of October 31, 2012, PIC owned a portfolio of 21 office buildings, 32 residential properties and preferred securities of an SPC (54 properties in total). Total acquisition costs of those properties were 196,544,826 thousand 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 Law 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 Law. 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 0 yen and 23,820 thousand yen for the six months ended October 31, 2012 and April 30, 2012, respectively.

**(f) 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.

**(g) Accounting treatment of beneficiary interest in trust accounts, including real estate –** For trust beneficiary interests in real estate, 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.

**(h) 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, 2012 and April 30, 2012 consisted of the following:

	Thousands of yen	
	October 31, 2012	April 30, 2012
Cash and deposits	¥ 1,282,239	¥ 1,054,340
Cash and deposits held in trust	9,100,170	9,450,900
CASH AND CASH EQUIVALENTS	¥ 10,382,410	¥ 10,505,240

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, 2012 and April 30, 2012 consisted of the following:

	Thousands of yen					
	October 31, 2012			April 30, 2012		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Property and equipment held in trust						
Buildings and structures						
Buildings	¥ 73,204,552	¥ 14,078,163	¥ 59,126,388	¥ 73,050,985	¥ 13,010,477	¥ 60,040,508
Structures	1,613,541	562,929	1,050,612	1,582,438	525,460	1,056,978
Tools, furniture and fixtures	192,922	149,005	43,917	187,083	138,041	49,041
Land	113,319,930	-	113,319,930	113,311,635	-	113,311,635
SUBTOTAL	188,330,946	14,790,098	173,540,848	188,132,143	13,673,980	174,458,163
Intangible fixed assets held in trust						
Leasehold held in trust	1,777,602	-	1,777,602	1,777,602	-	1,777,602
Other intangible fixed assets held in trust	4,462	1,771	2,691	4,462	1,470	2,992
SUBTOTAL	1,782,065	1,771	1,780,293	1,782,065	1,470	1,780,594
TOTAL	¥ 190,113,011	¥ 14,791,869	¥ 175,321,142	¥ 189,914,208	¥ 13,675,450	¥ 176,238,758

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 Trust Law. 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 Trust Law.

Note-6. Corporate bonds

Corporate bonds for the six months ended October 31, 2012 and April 30, 2012 were as follows:

	Thousands of yen		Interest rate (%)
	October 31, 2012 (Amount)	April 30, 2012 (Amount)	
Unsecured bond No.2 (issued on September 8, 2005 and due on September 7, 2012)	¥ -	¥ 10,000,000	1.41
Unsecured bond No.3 (issued on August 18, 2010 and due on August 16, 2013)	7,000,000	7,000,000	0.97
TOTAL	¥ 7,000,000	¥ 17,000,000	-

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

Short-term and long-term loans as of October 31, 2012 and April 30, 2012 consisted of the following:

	October 31, 2012		April 30, 2012	
	Amount (Thousands of yen)	Interest rate (%)	Amount (Thousands of yen)	Interest rate (%)
SHORT-TERM LOANS				
Unsecured loan due on May 18, 2012 with floating rate	¥ -	-	¥ 2,000,000	1.03643
Unsecured loan due on July 27, 2012 with floating rate	-	-	3,500,000	0.93643
Unsecured loan due on November 16, 2012 with floating rate	*1 5,400,000	0.93902	6,400,000	0.89383
Unsecured loan due on May 17, 2013 with floating rate	2,000,000	0.90380	-	-
Unsecured loan due on July 26, 2013 with floating rate	3,500,000	0.79926	-	-
SUBTOTAL	10,900,000	-	11,900,000	-
LONG-TERM LOAN PAYABLE DUE WITHIN ONE YEAR				
Unsecured loan due on May 22, 2014 with floating rate	*2 150,000	1.93360	150,000	1.93643
Unsecured loan due on February 28, 2013 with fixed rate	2,850,000	2.08000	2,850,000	2.08000
Unsecured loan due on July 31, 2013 with fixed rate	1,000,000	2.23875	-	-
Unsecured loan due on March 27, 2013 with fixed rate	7,900,000	1.60500	7,900,000	1.60500
Unsecured loan due on May 22, 2013 with fixed rate	3,000,000	2.08125	-	-
SUBTOTAL	14,900,000	-	10,900,000	-
LONG-TERM LOANS				
Unsecured loan due on July 31, 2013 with fixed rate	-	-	1,000,000	2.23875
Unsecured loan due on May 22, 2013 with fixed rate	-	-	3,000,000	2.08125
Unsecured loan due on May 22, 2014 with floating rate	*2 *3 2,362,500	1.93360	2,437,500	1.93643
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 May 20, 2014 with fixed rate	3,400,000	1.36125	3,400,000	1.36125
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	12,000,000	1.16500
Unsecured loan due on December 8, 2015 with fixed rate	11,000,000	1.29375	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 March 7, 2014 with fixed rate	5,000,000	1.05500	5,000,000	1.05500
Unsecured loan due on September 5, 2018 with fixed rate	5,000,000	1.21000	-	-
Unsecured loan due on September 5, 2017 with fixed rate	5,000,000	0.95375	-	-
SUBTOTAL	73,412,500	-	67,487,500	-
TOTAL	¥ 99,212,500	-	¥ 90,287,500	-

\*1 PIC repaid 1,200 million yen on December 16, 2011 and 1,000 million yen on August 31, 2012, before their maturity date (7,600 million yen in total).

\*2 The loan calls for divided repayments upon arranged dates, and thus has been separated into Long-term loans payable due within one year and Long-term loans in accordance with the principal repayment conditions described in\*3. The average interest rate of the loan has been entered in the relevant column for the Long-term loans.

\*3 Repayment of 37.5 million yen at the end of February, May, August and November each year, starting at the end of August 2009, and ending with the repayment of 2,287.5 million yen on May 22, 2014 (or the business day immediately before the date if the date is not a business day).

Floating interest rates in the table on the left represents the weighted average interest rate for the period.

The anticipated maturities of long-term loans for the following 5 years beginning November 1, starting in 2013 are as follows:

(thousands of yen)		
2013	¥	10,762,500
2014		30,400,000
2015		13,250,000
2016		14,000,000
2017		5,000,000

Note-8. Rental revenues and expenses

Rental revenues and expenses for the six months ended October 31, 2012 and April 30, 2012 were as follows:

	Thousands of yen	
	October 31, 2012	April 30, 2012
REAL ESTATE RENTAL REVENUE		
Rental revenue		
Rents	¥ 4,464,957	¥ 4,547,702
Common area charge	819,762	758,619
Subtotal	5,284,720	5,306,321
Other revenue		
Parking fees	153,066	151,782
Facility fees	36,115	36,364
Incidental revenue	336,895	277,585
Miscellaneous income	115,349	87,960
Subtotal	641,426	553,692
TOTAL REAL ESTATE RENTAL REVENUE	5,926,147	5,860,014
REAL ESTATE RENTAL EXPENSES		
Property operating expenses		
Property management fees	688,575	699,124
Utilities	379,428	324,077
Real estate taxes	416,671	340,092
Insurance	13,685	14,278
Maintenance and repairs	200,242	178,864
Trust fees	50,008	57,582
Depreciation	1,116,419	1,116,694
Miscellaneous expenses	129,527	130,264
TOTAL REAL ESTATE RENTAL EXPENSES	2,994,557	2,860,979
REAL ESTATE RENTAL INCOME	¥ 2,931,589	¥ 2,999,035

Note-9. Gains from sale of properties

Gains from sale of properties for the six months ended October 31, 2012 and April 30, 2012 were as follows:

(Premier Stage Nihonbashi Kayabacho)	Thousands of yen	
	October 31, 2012	April 30, 2012
Revenue from sale of properties	¥ -	¥ 2,400,000
Cost of properties	-	2,214,277
Other expenses for sale	-	15,676
<b>GAINS FROM SALE OF PROPERTIES</b>	<b>¥ -</b>	<b>¥ 170,045</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, 2012 and April 30, 2012:

	October 31, 2012	April 30, 2012
Statutory tax rate	36.59%	36.59%
Adjustments		
Deductible cash distributions	(36.54)	(34.90)
Other	0.03	(1.69)
<b>EFFECTIVE TAX RATE</b>	<b>0.08%</b>	<b>0.00%</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 tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of October 31, 2012 and April 30, 2012 were as follows:

	Thousands of yen	
	October 31, 2012	April 30, 2012
Deferred tax assets		
Enterprise taxes	¥ 1,492	¥ 2,483
Total of deferred tax assets	1,492	2,483
<b>NET DEFERRED TAX ASSETS</b>	<b>¥ 1,492</b>	<b>¥ 2,483</b>

Note-11. Per unit information

The following table summarizes the net assets per unit as of October 31, 2012 and April 30, 2012 and the net income per unit for the six months ended October 31, 2012 and April 30, 2012:

	October 31, 2012	April 30, 2012
Net assets per unit	¥ 446,004	¥ 446,486
Net income per unit	10,083	11,342

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, 2012	April 30, 2012
Net income	¥ 1,983,482	¥ 2,178,973
Amount not available to ordinary unitholders	-	-
Net income related to ordinary unitholders	1,983,482	2,178,973
Average number of units during the period	196,699 units	192,103 units

Diluted net income per unit is not presented since no warrants and convertible bonds were outstanding during the six months ended October 31, 2012 and April 30, 2012.

Note-12. Leases

PIC leases some properties to tenants under non-cancellable operating leases. As of October 31, 2012 and April 30, 2012, the future lease revenues under the non-cancellable operating leases were as follows:

	Thousands of yen	
	October 31, 2012	April 30, 2012
Due within one year	¥ 358,838	¥ 492,615
Due after one year	2,283,290	2,402,367
<b>TOTAL</b>	<b>¥ 2,642,129</b>	<b>¥ 2,894,982</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.

In accordance with this policy, PIC declared on a total distribution of 1,983,512,716 yen as distribution of income (payment to start on January 15, 2013) for the 20th fiscal period. This is the maximum value arrived at when the number of units outstanding (196,699 units) is multiplied by an integer, within the limit of the unappropriated retained earnings for the fiscal period. And PIC declared a total distribution of 2,078,321,634 yen as distribution of income for the 19th fiscal period (payment starting on July 6, 2012), it was the maximum value arrived at when the number of units outstanding (196,699 units) was multiplied by an integer, within the balance of the unappropriated retained earnings as of the end of the 19th fiscal period after deducting the reserve for reduction entry, which is defined in Article 66-2 of the Special Taxation Measures Law.

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, 2012 and April 30, 2012 were as follows:

	October 31, 2012	April 30, 2012
Unappropriated income	¥ 1,983,531,894	¥ 2,179,024,633
Cash distributions declared	1,983,512,716	2,078,321,634
(Cash distribution declared per unit)	(10,084)	(10,566)
Provision of reserve for reduction entry	-	100,653,294
INCOME CARRIED FORWARD	¥ 19,178	¥ 49,705

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 in the future to hedge against interest rate fluctuations and other risks. However, PIC did not conduct derivative transactions in the fiscal periods under review.

*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 such measures as adjusting the ratio of the balance of loans with floating interest rates to the entire borrowings in accordance with the financing environment.

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.

(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, 2012 and April 30, 2012 were as follows:

	Thousands of yen					
	October 31, 2012			April 30, 2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets						
(1) Cash and deposits	¥ 1,282,239	¥ 1,282,239	¥ -	¥ 1,054,340	¥ 1,054,340	¥ -
(2) Cash and deposits held in trust	9,100,170	9,100,170	-	9,450,900	9,450,900	-
TOTAL ASSETS	¥ 10,382,410	¥ 10,382,410	¥ -	¥ 10,505,240	¥ 10,505,240	¥ -
Liabilities						
(3) Short-term loans	¥ 10,900,000	¥ 10,900,000	¥ -	¥ 11,900,000	¥ 11,900,000	¥ -
(4) Long-term loans payable due within one year	14,900,000	15,009,294	109,294	10,900,000	10,997,864	97,864
(5) Corporate bonds payable due within one year	7,000,000	7,016,730	16,730	10,000,000	10,030,900	30,900
(6) Long-term loans	73,412,500	73,997,396	584,896	67,487,500	67,634,090	146,590
(7) Corporate bonds	-	-	-	7,000,000	7,023,100	23,100
TOTAL LIABILITIES	¥ 106,212,500	¥ 106,923,421	¥ 710,921	¥ 107,287,500	¥ 107,585,955	¥ 298,455

\*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** - 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 (6) long-term loans** - 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.  
**(5) Corporate bonds payable due within one year and (7) corporate bonds** - Fair values of these instruments are calculated based on their market prices.  
\*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 14,378,482 thousand yen) 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 for the following five years as of October 31, 2012 and April 30, 2012 are as follows:

	Thousands of yen					
	October 31, 2012					
	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	¥ 1,282,239	¥ -	¥ -	¥ -	¥ -	¥ -
(2) Cash and deposits held in trust	9,100,170	-	-	-	-	-
TOTAL	¥ 10,382,410	¥ -	¥ -	¥ -	¥ -	¥ -

	Thousands of yen					
	April 30, 2012					
	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	¥ 1,054,340	¥ -	¥ -	¥ -	¥ -	¥ -
(2) Cash and deposits held in trust	9,450,900	-	-	-	-	-
TOTAL	¥ 10,505,240	¥ -	¥ -	¥ -	¥ -	¥ -

\*4 Planned repayment and redemption amounts of loans and corporate bonds for the following five years as of October 31, 2012 and April 30, 2012, are as follows:

	Thousands of yen					
	October 31, 2012					
	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	¥ 10,900,000	¥ -	¥ -	¥ -	¥ -	¥ -
(4) Long-term loans payable due within one year	14,900,000	-	-	-	-	-
(5) Corporate bonds payable due within one year	7,000,000	-	-	-	-	-
(6) Long-term loans	-	10,762,500	30,400,000	13,250,000	14,000,000	5,000,000
TOTAL	¥ 32,800,000	¥ 10,762,500	¥ 30,400,000	¥ 13,250,000	¥ 14,000,000	¥ 5,000,000

	Thousands of yen					
	April 30, 2012					
	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	¥ 11,900,000	¥ -	¥ -	¥ -	¥ -	¥ -
(4) Long-term loans payable due within one year	10,900,000	-	-	-	-	-
(5) Corporate bonds payable due within one year	10,000,000	-	-	-	-	-
(6) Long-term loans	-	9,150,000	17,687,500	29,400,000	11,250,000	-
(7) Corporate bonds	-	7,000,000	-	-	-	-
TOTAL	¥ 32,800,000	¥ 16,150,000	¥ 17,687,500	¥ 29,400,000	¥ 11,250,000	¥ -

Note-15. Investment securities

Investment securities represent the preferred securities issued by UDX Special Purpose Company, which are backed by cash flow from Real Estate Property managed by UDX Special Purpose Company.

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, accordingly they are excluded from the disclosure of fair value.

Note-16. 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 sheet as of October 31, 2012 and April 30, 2012, the variations during the fiscal period and their fair values are as follows:

	Thousands of yen							
	October 31, 2012				April 30, 2012			
	Book value at May 1, 2012 <sup>*1</sup>	Increase and Decrease during the period <sup>*2</sup>	Book value at October 31, 2012	Fair value at October 31, 2012 <sup>*3</sup>	Book value at November 1, 2011 <sup>*1</sup>	Increase and Decrease during the period <sup>*2</sup>	Book value at April 30, 2012 <sup>*1</sup>	Fair value at April 30, 2012 <sup>*3</sup>
Office buildings	¥ 97,779,724	¥ (331,024)	¥ 97,448,700	¥ 95,190,000	¥ 69,146,477	¥ 28,633,247	¥ 97,779,724	¥ 95,440,000
Residential properties	78,455,986	(586,236)	77,869,750	68,259,000	76,742,294	1,713,692	78,455,986	68,054,000
TOTAL	¥ 176,235,711	¥ (917,260)	¥ 175,318,450	¥ 163,449,000	¥ 145,888,772	¥ 30,346,939	¥ 176,235,711	¥ 163,494,000

\*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 acquisition). Other intangible fixed assets held in trust (totaling 2,691 thousand yen and 2,992 thousand yen as of October 31, 2012 and April 30, 2012) are not included.

\*2 Major increases in the fiscal period ended October 31, 2012 are due to the capital expenditures (198,803 thousand yen) for renewal of the entrance hall at Landic Shimbashi 2 Building, and major decreases are due to depreciation (1,116,117 thousand yen). Major increases in the fiscal period ended April 30, 2012 are due to the acquisition of Urbannet Mita Building and other 6 properties (33,458,394 thousand yen) and the capital expenditures (219,374 thousand yen), and major decreases are due to transfer of Premier Stage Nihonbashi Kayabacho (2,214,296 thousand yen) and depreciation (1,116,393 thousand yen).

\*3 The fair values at the end of the fiscal period 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, 2012 and April 30, 2012 are as follows:

	Thousands of yen					
	May 1, 2012 to October 31, 2012			November 1, 2011 to April 30, 2012		
	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	¥ 3,453,797	¥ 1,666,478	¥ 1,787,319	¥ 3,307,066	¥ 1,533,712	¥ 1,773,353
Residential properties	2,472,349	1,328,079	1,144,270	2,552,948	1,327,266	1,225,681
TOTAL	¥ 5,926,147	¥ 2,994,557	¥ 2,931,589	¥ 5,860,014	¥ 2,860,979	¥ 2,999,035

\* 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-17. 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 operating revenues from a single external customer account for less than 10% of the operating revenues on the profit and loss statements.

# OTHER INFORMATION (UNAUDITED)

FOR THE SIX MONTHS ENDED OCTOBER 31, 2012 AND APRIL 30, 2012

## 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 20th Fiscal Period	Amount Paid before the 20th Fiscal Period
YS Kaigan Building	Minato Ward, Tokyo	Renovation of air conditioning systems	October 2011 – December 2012	143,789	19,934	107,949
Homat Woodville	Minato Ward, Tokyo	Renovation of air conditioning systems, etc.	October 2007 – October 2013	129,041	-	80,550
IPB Ochanomizu Building	Bunkyo Ward, Tokyo	Renovation of air conditioning systems	September 2012 – November 2012	62,500	-	-
Renai Shinjuku-Gyoen Tower	Shinjuku Ward, Tokyo	Change of residential unit specifications	April 2010 – April 2015	33,750	-	12,212
Fuji Building No.37	Shibuya Ward, Tokyo	Renovation of air conditioning systems	April 2012 – January 2013	26,164	19,877	-
Ougaku Building	Chiyoda Ward, Tokyo	Renovation of sanitary facilities	November 2012 – December 2012	18,400	-	-
Landic Shimbashi 2 Building	Minato Ward, Tokyo	Renovation of air conditioning systems	November 2012 – January 2013	16,500	-	-
Landic Shimbashi Building 1	Minato Ward, Tokyo	Renovation of sanitary facilities, etc.	October 2012 - November 2012	12,000	-	-

### 2. Capital Expenditures during the 20th Fiscal Period

The following is an overview of major construction classified as capital expenditures during the 20th fiscal period (May 1, 2012 – October 31, 2012) for the portfolio owned by PIC. Capital expenditures during the period totaled 198,803 thousand yen. This, combined with maintenance and repair expenditures of 200,242 thousand yen that were classified as operating expenses for the period, aggregating a total of 399,045 thousand yen was spent on construction.

Name	Address	Purpose	Period	Amount Paid (thousands of yen)
Landic Shimbashi 2 Building	Minato Ward, Tokyo	Renovation of entrance hall	July 2012 - October 2012	26,621
Nisso No.3 Building	Yokohama City, Kanagawa	Renovation of mechanical parking system	August 2012 - September 2012	21,471
YS Kaigan Building	Minato Ward, Tokyo	Renovation of air conditioning systems	March 2012 - May 2012	19,934
Fuji Building No.37	Shibuya Ward, Tokyo	Renovation of air conditioning systems	April 2012 - September 2012	19,877
Gotanda NT Building	Shinagawa Ward, Tokyo	Renovation of air conditioning systems	March 2012 - May 2012	13,929
Other construction	-	-	-	96,969
Total				198,803

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

Item	Fiscal Period	16th Fiscal Period (May 1, 2010 – October 31, 2010)	17th Fiscal Period (November 1, 2010 – April 30, 2011)	18th Fiscal Period (May 1, 2011 – October 31, 2011)	19th Fiscal Period (November 1, 2011 – April 30, 2012)	20th Fiscal Period (May 1, 2012 – October 31, 2012)
Deposits at end of the preceding period		291,695	297,445	345,941	360,264	375,917
Deposits made during the period		5,750	48,496	14,323	15,983	14,323
Amounts used from deposits during the period		-	-	-	330	-
Deposits carried forward to the next period		297,445	345,941	360,264	375,917	390,240

## OVERVIEW OF FUND PROCUREMENT

### 1. Borrowing for Redemption of Corporate Bonds

On September 5, 2012, PIC borrowed 10,000 million yen through two long-term loans to fund the redemption of Unsecured Bond No.2 (10,000 million yen) that matured on September 7, 2012.

### 2. Refinance and Repayment of Borrowings

- (i) On May 18, 2012, PIC refinanced 2,000 million yen in a short-term loan borrowed on May 20, 2011 into a short-term loan.
- (ii) On July 27, 2012, PIC refinanced 3,500 million yen in a short-term loan borrowed on July 29, 2011 into a short-term loan.
- (ii) On August 31, 2012, PIC made a partial early repayment (1,000 million yen) of the short-term loan borrowed on November 18, 2011, by using cash on hand.

### 3. Other Repayments

On May 31, 2012 and August 31, 2012, PIC respectively repaid 37.5 million yen in long-term loans (divided repayments as agreed of a long-term loan borrowed from Development Bank of Japan Inc. on May 22, 2009) by using cash on hand.

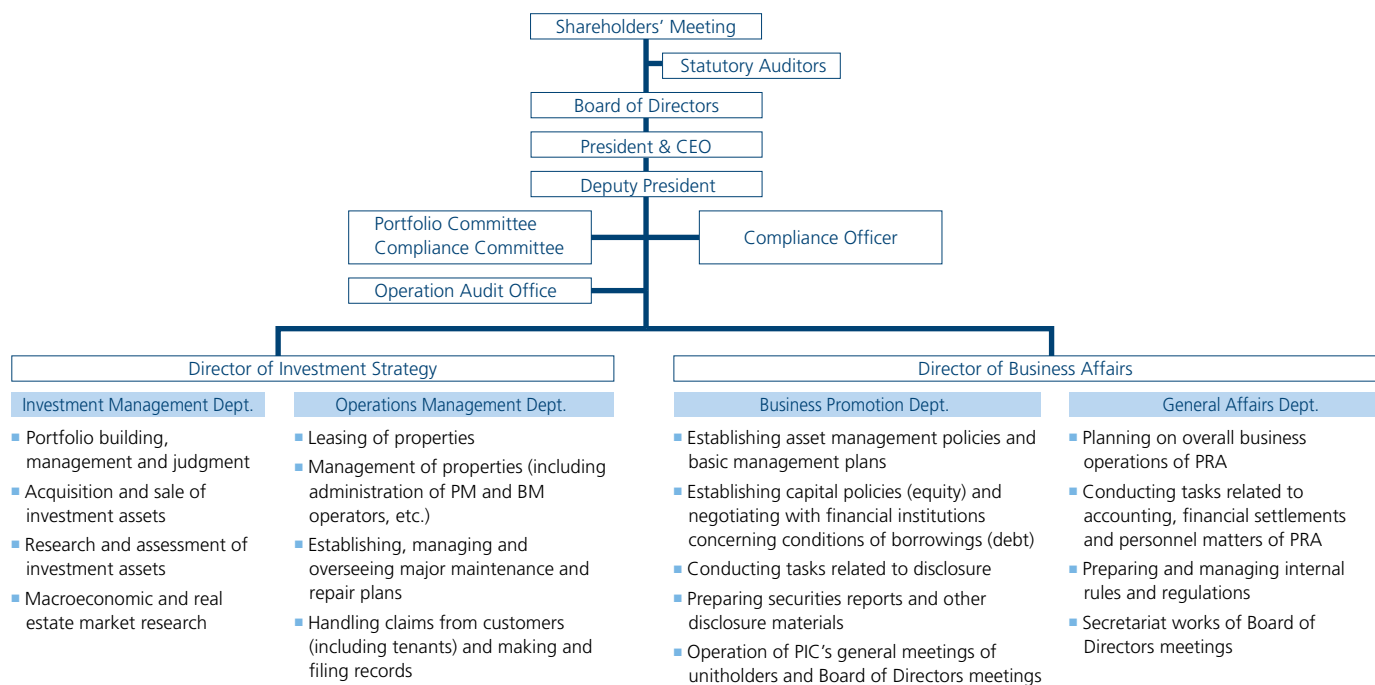
As a result of the above, PIC's interest-bearing liabilities totaled 106,212.5 million yen as of October 31, 2012. The breakdown is as follows:

10,900 million yen in short-term loans, 88,312.5 million yen in long-term loans (including long-term loans due within one year) and 7,000 million yen in corporate bond due within one year. Of the total interest-bearing liabilities, long-term interest-bearing liabilities accounted for 89.7%.

# ASSET MANAGER OVERVIEW

Trade name	Premier REIT Advisors Co., Ltd.
Line of business	Asset management business in accordance with the Financial Instruments and Exchange Act
President & CEO	Kimito Muragishi
Establishment	July 17, 2001
Address	8-4-14 Akasaka, Minato Ward, Tokyo
Paid-in capital	300 million yen (as of March 31, 2012)
Major shareholders and their shareholdings	<b>NTT Urban Development Corporation (shareholding: 53.1%)</b> The sole general real estate company within the NTT (Nippon Telegraph and Telephone Corporation) Group, with a stable financial base and high credibility as an NTT Group company.
	<b>Ken Corporation Ltd. (shareholding: 30.0%)</b> An integrated real estate think tank with strong expertise in brokerage, planning and management of high-grade rental residences primarily in central Tokyo.
	<b>SOHGOH REAL ESTATE CO., LTD. (shareholding: 10.0%)</b> A total solution provider in real estate that provides prime living spaces by taking advantage of its Group's comprehensive capabilities centering on condominium development services.
	<b>Sumitomo Mitsui Trust Bank, Limited (shareholding: 4.9%)</b> A leading trust bank claiming achievements in structured finance operations that are of the highest level among Japanese banks, and boasting brokerage results at the forefront of the real estate industry.

## Organization Chart of Premier REIT Advisors (PRA) and Major Assignments



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