

Asset Management Report for 16th Period

(Semi-Annual Report for 16th Period)

From January 1, 2014 to June 30, 2014



Japan Excellent, Inc.

I. Greetings

To Our Unitholders

We would like to express our sincere gratitude for your continued support of Japan Excellent, Inc. (JEI) and Japan Excellent Asset Management Co., Ltd.

We hereby report the financial results of JEI for the 16th period (from January 1, 2014 to June 30, 2014).

JEI recorded total revenues of 9,558 million yen and net income of 3,010 million yen. The distribution per unit for the period was 2,482 yen, surpassing the previous period and initial forecast and realizing increase in distribution.

JEI has expanded its asset size through continuous property acquisitions since the 9th period and further promoted asset size growth by continuously implementing a public offering during the 16th period. JEI acquired “HAMARIKYU INTERCITY (Additional Acquisition of Co-ownership Interest)” located in central Tokyo and two other properties through the public offering. In addition, JEI conducted acquisition of “NHK Nagoya Housou-Center Building (Additional Acquisition of Co-ownership Interest)” later on. JEI has continued quality growth through acquisitions of properties (totaling 19.8 billion yen) which boast well-balanced growth potential and profitability.

Although a large tenant vacated during the 16th period, JEI successfully progressed with prompt leasing up and maintained the high occupancy rate of 98% level observed in the previous period.

About Future Asset Management

In the office building leasing market, demand for offices has increased backed by the economic recovery and expectations for improvement in corporate performance and the vacancy rate is expected to continue to be on an improving trend. Furthermore, the progress in eliminating vacancies centering on large-scale, excellent buildings in central Tokyo is likely to result in gradual rent rise.

With this perspective, in addition to maintaining a high occupancy rate, JEI will endeavor to improve profitability of the entire portfolio by keeping and raising the rent level based on market trends. Furthermore, JEI will pursue opportunities to invest in excellent real estate properties, including asset replacements, for increasing asset size over the medium- to long-term and continue growth.

In terms of finance, we will continue our efforts in conducting stable financial operations by promoting conversion to fixed interest rates in preparation for the risk of interest rate rises, as well as striving to diversify maturity dates and minimize financing costs.

In addition, JEI remains committed to strict adherence to the Financial Instruments and Exchange Act and other laws and regulations to promote compliance, as well as to accurate and easy-to-understand disclosure of the status of our operations and asset management to our unitholders.

We kindly ask for your continued understanding and support.

Hidehiko Ogawa
Executive Director, Japan Excellent, Inc.
President, Japan Excellent Asset Management Co., Ltd.

II. Asset Management Report

1. Outline of asset management operation

(1) Operating results and financial position of the Investment Corporation

Fiscal period		12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014
Revenues	(Millions of yen)	7,740	7,599	8,418	8,850	9,558
(Rental revenues)	(Millions of yen)	7,587	7,597	8,409	8,848	(9,558)
Operating expenses	(Millions of yen)	4,400	4,427	4,871	5,140	5,592
(Property operating expenses)	(Millions of yen)	3,901	3,950	4,350	4,605	(5,022)
Operating income	(Millions of yen)	3,340	3,172	3,546	3,709	3,966
Ordinary income	(Millions of yen)	2,435	2,310	2,589	2,775	3,011
Net income	(Millions of yen)	2,434	2,309	2,598	2,774	3,010
Total assets	(Millions of yen)	228,818	228,020	257,613	257,901	277,842
(Period-on-period change)	(%)	(0.6)	(-0.3)	(12.9)	(0.1)	(7.7)
Net assets	(Millions of yen)	104,537	104,545	120,683	120,713	130,998
(Period-on-period change)	(%)	(0.1)	(0.0)	(15.4)	(0.0)	(8.5)
Unitholders' capital	(Millions of yen)	102,052	102,052	117,901	117,901	127,950
Outstanding investment units	(units)	188,650	188,650	224,950	224,950	1,212,750
Net assets per unit (Note 2)	(yen)	554,134	554,175	107,297	107,324	108,017
Net income per unit (Note 3)	(yen)	12,906	12,241	2,376	2,466	2,511
Total distribution	(Millions of yen)	2,301	2,309	2,744	2,774	3,010
Distribution per unit						
(Distribution per unit after split)	(yen)	12,200	12,242	12,200	12,334	2,482
(Note 4)				(2,440)	(2,466)	
(Profit distribution per unit)						
(Of this, profit distribution per unit after split)	(yen)	12,200	12,242	12,200	12,334	2,482
(Note 4)				(2,440)	(2,466)	
(Distribution in excess of earnings per unit)						
(Of this, distribution in excess of earnings per unit after split)	(yen)	(-)	(-)	(-)	(-)	(-)
(Note 4)				(-)	(-)	
Return on assets (Note 5)	(%)	1.1	1.0	1.1	1.1	1.1
(Annualized rate)	(%)	(2.1)	(2.0)	(2.2)	(2.1)	(2.3)
Return on equity (Note 6)	(%)	2.3	2.2	2.3	2.3	2.4
(Annualized rate)	(%)	(4.7)	(4.4)	(4.7)	(4.6)	(4.8)
Capital ratio (Note 7)	(%)	45.7	45.8	46.8	46.8	47.1
(Period-on-period change)	(%)	(-0.2)	(0.1)	(1.0)	(-0.0)	(0.3)
Payout ratio (Note 8)	(%)	94.5	100.0	105.6	99.9	99.9
Number of investment properties	(properties)	24	24	28	28	30
Number of tenants	(tenants)	136	134	152	157	206
Total leasable space	(㎡)	266,981	266,915	302,505	302,505	330,285

Occupancy rate	(%)	94.7	94.0	97.1	98.7	98.3
Depreciation	(Millions of yen)	1,260	1,284	1,433	1,504	1,624
Capital expenditure	(Millions of yen)	393	283	572	775	558
Net operating income (NOI) (Note 9)	(Millions of yen)	4,946	4,932	5,493	5,747	6,160
Funds from operation (FFO) per unit (Note 10)	(yen)	18,780	19,050	3,584	3,804	3,822
FFO multiples (Note 11, 12)	(times)	10.5	12.7	15.4	16.3	17.4
Debt service coverage ratio (DSCR) (Note 13)	(times)	4.2	4.0	4.4	4.4	4.8
Interest-bearing debt	(Millions of yen)	113,800	113,300	125,400	125,400	133,900
Loan-to-value (Note 14)	(%)	49.7	49.7	48.7	48.6	48.2
Number of days in operation	(days)	182	184	181	184	181

(Note 1) Unless otherwise specified, amounts are rounded down to the nearest specified unit, and space and ratio are rounded to the nearest specified unit. The same applies hereinafter.

(Note 2) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Net assets per unit is calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 3) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period. Moreover, a five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Net income per unit is calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 4) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Distribution per unit after split, of this, profit distribution per unit after split and of this, distribution in excess of earnings per unit after split are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period (figures are rounded down to the nearest whole number).

(Note 5) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100

(Note 6) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100

(Note 7) Capital ratio = Period end net assets / Period end total assets × 100

(Note 8) Payout ratio = Total distribution / Net income × 100

(Note 9) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 10) FFO per unit = (Net income + Depreciation – Gain on sale real estate + Loss on sale of real estate) / Number of Outstanding investment units (the figure is rounded down to the whole number). Moreover, a five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Outstanding investment units are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 11) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 12) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. FFO multiples are calculated based on the period end investment unit price calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 13) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds)

(Note 14) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On June 30, 2014, we settled our sixteenth period.

1) Business conditions and results

During the period, although some weakening of personal consumption due to the backlash following rush demand ahead of the consumption tax hike was observed, the Japanese economy has been coming out of the stagnation. The economy continues to be on a mild recovery trend combined with an improving trend in corporate performance and employment situation.

In the office building leasing market, tenant needs for floor area increase in the same building and relocation for expansion have become apparent backed by economic recovery and expectations for improvement in corporate performance, and the vacancy rate continues to be on an improving trend. Along with the decrease in vacancy rate, some excellent buildings in central Tokyo have begun to see rents make an upturn after bottoming out. However the pace of rent rise in the leasing market as a whole is expected to be slow.

Although a large tenant vacated at JEI Hamamatsucho Building, JEI worked to promptly lease up vacancy and succeeded in making occupancy rate decline of the portfolio slight, at 98.3% at the end of the period under review from 98.7% at the end of the previous period.

In the real estate investment market, rise in real estate transaction prices due mainly to decrease in expected yields is observed amid the continuing favorable fund procurement environment. Not only the ongoing new listings of J-REITs and procuring funds through public offerings, but more overseas investors, private funds, private REITs, etc. are also beginning to participate in the market, creating active real estate transactions. However, there is some sense of overheating as well.

JEI acquired HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership), Aoba-dori Plaza and Daiwa Minami-morimachi Building with funds procured through public offering and borrowings conducted in January 2014, then later acquired NHK Nagoya Housou-Center Building (additional acquisition of compartmentalized ownership). The entire real estate portfolio of JEI at the end of the period was 30 properties in terms of the number of properties held, 265.4 billion yen in investment amount (on an acquisition price basis) and 330,284.81m² (99,911.16 tsubo) in total leasable space at a period-end.

2) Fund raising highlights

During the period, JEI resolved the issuance of investment units through public offering and the issuance of new investment units through third-party allotment, and procured 9.1 billion yen on January 27, 2014 and 900 million yen on February 26, 2014 through these issuances. Along with funds raised through these issuances of new investment units, JEI issued investment corporation bonds of 13 billion yen (5 billion yen for 5 years and 8 billion yen for 10 years) on March 10, 2014, and conducted 7.5 billion yen of long-term loans with floating-rate. The funds are allocated to funds for acquisitions of HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership), Aoba-dori Plaza and Daiwa Minami-morimachi Building and to funds for redemption of investment corporation bonds with redemption date of March 11, 2014. Furthermore, the interest rates of the long-term loans were fixed through interest rate swap transactions.

During the period, JEI also aimed to reduce borrowing costs and convert floating-rate debts to fixed rate debts by taking advantage of financing environment with low interest rate while continuing to make efforts as during the previous period to extend borrowing period and diversify maturity dates.

As a result, as of the end of the period, JEI had the average remaining debt maturity of interest-bearing debts at 3.24 years, long-term borrowing ratio at 100.0 percent, fixed rate ratio at 91.4 percent, and weighted average interest rate for loans purchased at 1.17 percent. Outstanding interest-bearing debts totaled 133.9 billion yen, 103.9 billion yen in long-term loans (of which, including 20.5 billion yen in long-term loans due within one year) and 30.0 billion yen in investment corporation bonds (of which, including 5.0 billion yen of investment corporation bonds scheduled to be redeemed within one year). (The loan to value ratio to the total assets was 48.2 percent as of the end of the period.)

JEI has registered the issuance of investment corporation bonds for the purpose of dynamic arrangement of long-term funds as follows:

(Bond Issuance Registration Highlight)

Type	Scheduled issue amount	Scheduled period for issuance
Investment corporation bond	100 billion yen	From February 9, 2014 to February 8, 2016

The ratings granted to JEI by the following rating agencies are shown below:

(Ratings as of June 30, 2014)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Rating and Investment Information, Inc. (R&I)	Issuer rating A+ (Stable)	A+
Moody's Japan	Issuer rating A3 (Stable)	—

(Note) The rating of JRC is for the 2nd series unsecured investment corporation bonds, 3rd series unsecured investment corporation bonds, 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds and 7th series unsecured investment corporation bonds. The rating of R&I is for the 2nd series unsecured investment corporation bonds, 3rd series unsecured investment corporation bonds and 4th series unsecured investment corporation bonds.

3) Financial results and distribution highlights

As a result of the above management, JEI posted 9,558 million yen in total revenues, 3,966 million yen in operating income, 3,011 million yen in ordinary income and 3,010 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,482 yen.

3) Capital Increase

The outline of the changes in the number of outstanding investment units and unitholders' capital since inception until the end of the period under review is as follows:

Paid-up Date	Capital transaction	Capital transaction (units)		Unitholders' capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for incorporation	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Allocation of investment units to a third party	6,400	134,800	3,211	67,641	(Note 3)
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	(Note 4)
August 8, 2007	Allocation of investment units to a third party	750	154,550	738	87,083	(Note 5)
January 31, 2011	Public offering	31,000	185,550	13,608	100,691	(Note 6)
February 28, 2011	Allocation of investment units to a third party	3,100	188,650	1,360	102,052	(Note 7)
January 30, 2013	Public offering	33,000	221,650	14,408	116,460	(Note 8)
February 27, 2013	Allocation of investment units to a third party	3,300	224,950	1,440	117,901	(Note 9)
January 1, 2014	Split of investment unit	899,800	1,124,750	—	117,901	(Note 10)
January 27, 2014	Public offering	80,000	1,204,750	9,135	127,036	(Note 11)
February 26, 2014	Allocation of investment units to a third party	8,000	1,212,750	913	127,950	(Note 12)

(Note 1) JEI was incorporated through private placement at a price of 500,000 yen per unit.

(Note 2) New investment units were issued at an offer price of 520,000 yen per unit (issue price of 501,800 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the time of the listing.

(Note 3) New investment units were issued at an issue price of 501,800 yen per unit through an allocation of investment units to a third party in order to partially fund new property acquisitions.

(Note 4) New investment units were issued at an offer price of 1,019,200 yen per unit (issue price of 984,360 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the second period.

(Note 5) New investment units were issued at an issue price of 984,360 yen per unit through an allocation of investment units to a third party in order to partially repay debts procured to acquire properties in the second period.

(Note 6) New investment units were issued at an offer price of 454,930 yen per unit (issue price of 438,984 yen per unit) through a public offering in order to repay short-term loans procured to acquire properties in the ninth period and to fund acquisition of a new property which was acquired in the tenth period.

(Note 7) New investment units were issued at an issue price of 438,984 yen per unit through an allocation of investment units to a third party in order to repay short-term loans procured to acquire new properties in the ninth period and to fund acquisition of a new property which was acquired in the tenth period.

(Note 8) New investment units were issued at an offer price of 451,425 yen per unit (issue price of 436,609 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the fourteenth period.

(Note 9) New investment units were issued at an issue price of 436,609 yen per unit through an allocation of investment units to a third party in order to fund acquisition of properties acquired in the fourteenth period.

(Note 10) With December 31, 2013 as the record date, JEI implemented a 5-for-1 split of its investment units held by Unitholders stated or recorded on that date's final unitholder registry with January 1, 2014 as the effective date.

(Note 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the sixteenth period.

(Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets, repayment of loans and redemption of investment corporation bonds.

[Market price of the investment securities]

The period-on-period fluctuations in the highest and lowest (closing) prices of JEI's investment units listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange during each period is as follows:

Investment unit market price	Fiscal period (closing date)	12th period (June 2012)	13th period (December 2012)	14th period (June 2013)	15th period (December 2013)		16th period (June 2014)
					Before ex-rights date	After ex-rights date	
	Highest (yen)		430,000	511,000	739,000	639,000	123,300
Lowest (yen)		297,600	371,000	463,000	515,000	117,600	114,200

(Note 1) The highest and lowest prices of investment units refer to the closing prices on the Real Estate Investment Trust Section of the Tokyo Stock Exchange.

(Note 2) JEI implemented a 5-for-1 split of its investment units with January 1, 2014 as the effective date.

(4) Distributions Paid

The distribution per unit for the period (the sixteenth period) was 2,482 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	12th period	13th period	14th period	15th period	16th period
Accounting period	January 1, 2012 to June 30, 2012	July 1, 2012 to December 31, 2012	January 1, 2013 to June 30, 2013	July 1, 2013 to December 31, 2013	January 1, 2014 to June 30, 2014
Retained earnings at end of period (Thousands of yen)	2,434,824	2,309,504	2,598,369	2,774,683	3,010,447
Retained income (Thousands of yen)	133,294	51	—	149	402
Total cash distribution amount (Thousands of yen)	2,301,530	2,309,453	2,744,390	2,774,533	3,010,045
(Cash distributions per unit) (yen)	(12,200)	(12,242)	(12,200)	(12,334)	(2,482)
(Distribution per unit after split) (yen) (Note)			(2,440)	(2,466)	
Of which, total profit distributions (Thousands of yen)	2,301,530	2,309,453	2,744,390	2,774,533	3,010,045
(Profit distribution per unit) (yen)	(12,200)	(12,242)	(12,200)	(12,334)	(2,482)
(Profit distribution per unit after split) (yen) (Note)			(2,440)	(2,466)	
Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)
(Refund of investment per unit after split) (yen) (Note)			(—)	(—)	

(Note) JEI implemented a five-for-one split of investment units with January 1, 2014 as the effective date. Distribution per unit after split, profit distribution per unit after split and refund of investment per unit after split are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

In the Japanese economy ahead, mild recovery is expected to continue along with gradual easing of the rebound of rush demand ahead of the consumption tax hike. Improvements in employment and income situations are likely to bring underlying strength in personal consumption and housing investments while mild recovery of capital investment buoyed by improvements in corporate earnings is forecast. However, future trends must be carefully watched since risks remain that slowdown in overseas economy, mainly in emerging nations and resource-rich nations, turmoil in overseas financial and capital markets and heightening geopolitical tension could affect Japanese economy.

In the office building leasing market, the vacancy rate is expected to continue to be on an ongoing trend of improving since office demand is on the rise due to improvement in employment situation and increased drive for capital investment by companies, etc. Furthermore, new rents have made a turnaround at properties whose vacancies are being eliminated centering on large-scale, excellent building in central Tokyo, and such movements are beginning to be observed in wider areas. In addition, some existing tenants that moved in with discounted rents are being consulted for increase of rent, bringing an expectation that the rent level will gradually make a turnaround.

In the real estate investment market, real estate transaction prices are expected to increase particularly in central Tokyo and metropolitan areas against the backdrop of the favorable fund procurement environment and increase in market players. Since anticipation for high prices has grown for property prices and prices sellers are seeking are on the rising trend as well, close attention for further overheatedness in the real estate investment market is needed.

2) Policy and issues on future investment management

Based on the above outlook, in addition to maintaining a high occupancy rate, JEI will strive to maintain and improve earnings of the entire portfolio by keeping and raising the rent level based on market trends. Moreover, in order to maintain asset value and improve property competitiveness over the medium to long term, JEI will consistently implement additional strategic investment plans.

For external growth, we will continue to keep aiming for acquisition of competitive properties, including asset replacements, with well-balanced investments based on size, concentration and target area in mind to increase asset size and realize stable profitability in our portfolio over the medium- to long-term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have our asset management company cultivate and refine property information sources in an effort to proactively gain access to market information and thereby keep seizing the right business opportunities. On a further note, among the properties acquired during the period under review, HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership), Aoba-dori Plaza and Daiwa Minami-morimachi Building are from either sponsors or a bridge fund formed by sponsors.

Regarding financial operations, the fund-raising environment is generally favorable for REITs. Still, JEI will consistently work, with an aim to reduce borrowing costs by realizing long-term fixed interest rates taking advantage of current low interest financing environment, on stable and sound financial operations to address future changes in situations in and outside Japan through endeavoring to convert floating-rate debts to fixed-rate debts, diversify maturity dates, lengthen the remaining period of debts, ensure liquidity by renewing commitment lines and maintain appropriate ratio of interest-bearing debts.

(6) Subsequent Events

None

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	12th As of June 30, 2012	13th As of December 31, 2012	14th As of June 30, 2013	15th As of December 31, 2013	16th As of June 30, 2014
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units	10,000,000 units
Number of units issued and outstanding	188,650 units	188,650 units	224,950 units	224,950 units	1,212,750 units
Unitholders' capital	102,052 million yen	102,052 million yen	117,901 million yen	117,901 million yen	127,950 million yen
Number of unitholders	7,447 individuals	6,760 individuals	7,361 individuals	6,846 individuals	8,451 individuals

(Note) JEI implemented a five-for-one split of its investment units held by unitholders stated on the record date's final unitholder registry with December 31, 2013 as the record date and January 1, 2014 as the effective date.

(2) Unitholders

Major unitholders as of June 30, 2014 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	327,097	26.97
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	77,860	6.42
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.90
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	69,090	5.70
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	55,548	4.58
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.70
NOMURA BANK (LUXEMBOURG) S.A.	BATIMENT A, 33, RUE DE GASPERICH, L-5826, LUXEMBOURG	20,563	1.70
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A	19,303	1.59
Bank of Kyoto, Ltd.	700 Yakushimaemachi, Karasuma-dori, Matsubara Noboru, Shimogyo-ku, Kyoto-shi, Kyoto	13,574	1.12
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka-shi, Osaka	12,400	1.02
Total		687,655	56.70

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2014 (Thousands of yen)
Executive Director	Hidehiko Ogawa (Note 2)	President, Japan Excellent Asset Management Co., Ltd.	—
Supervisory Director	Tsuyoshi Nagahana	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	—	22,000 (Note 3)

(Note 1) There is no investment unit of JEI held by the Executive Director nor the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there is no conflict of interests between those companies, including those listed above, and JEI.

(Note 2) Hidehiko Ogawa assumed the post of President of Japan Excellent Asset Management Co., Ltd., an asset management company of JEI, on March 3, 2014.

(Note 3) The total amount of compensation or fee shown above is an estimated amount and includes the fee for the English financial statements audit and the fee for the preparation of a comfort letter and other services upon the issuances of the 6th and 7th series unsecured investment corporation bonds in March 2014.

2) Policy on dismissal and discontinuation of re-election of accounting auditor

The board of directors of JEI shall deliberate dismissal of accounting auditor in accordance with the provisions set out in the Law Concerning Investment Trusts and Investment Corporations, and deliberate discontinuation of reelection based on circumstances in all respects.

(4) Name of Asset Management Company, Asset Custodian and Administrative Agents

Our asset management company, asset custodian and administrative agents as of June 30, 2014 are as follows:

Classification	Name
Asset management company	Japan Excellent Asset Management Co., Ltd.
Asset custodian	Mizuho Trust & Banking Co., Ltd.
Administrative agent (Transfer agent and other administrative work for accounting and institution operation)	Mizuho Trust & Banking Co., Ltd.
Administrative agent (Investment corporation bonds)	Mizuho Bank, Ltd. (Note)

3. Investment Portfolio of the Investment Corporation

(1) Investment Portfolio by Area

Classification	Use	Area	15th Period (December 31, 2013)		16th Period (June 30, 2014)	
			Total acquisition price (Millions of yen)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen)	Investment ratio in portfolio (%)
Real estate property (Note 2)	Office	Area I)	3,853	1.5	3,844	1.4
		Area II	4,510	1.7	5,826	2.1
Trust beneficiary interest in real estate (Note 2)		Area I	122,234	47.4	121,910	43.9
		Area II	9,256	3.6	9,229	3.3
		Area III	79,925	31.0	79,475	28.6
		Area IV	11,440	4.4	17,960	6.5
Trust beneficiary interest in real estate	Others	Area I	6,882	2.7	18,853	6.8
Total			238,103	92.3	257,099	92.5
Ownership interests in an anonymous association (Note 3)			114	0.0	-	-
Deposits in bank and other assets			19,683	7.6	20,742	7.5
Total assets			257,901	100.0	277,842	100.0

(Note 1) Areas are classified as follows:

Area I: Six central wards of Tokyo (Chiyoda, Chuo, Minato, Shinjuku, Shinagawa and Shibuya)

Area II: Central Osaka (Umeda, Dojima, Nakanoshima, Yodoyabashi, Honmachi, etc.) (*), Central Nagoya (Meieki, Fushimi, Sakae, etc.) (*) and Central Fukuoka (Tenjin, Hakata-ekimae, etc.) (*).

*Central Osaka refers to the areas within about a 10-minute walk from JR Osaka Station, Umeda Station (Hankyu Railway, Hanshin Electric Railway, and Osaka City Subway), Yodoyabashi Station (Osaka City Subway) or Hommachi Station (Osaka City Subway), respectively. Central Nagoya refers to the areas within about a 10-minute walk from Nagoya Station (JR, Nagoya City Subway, and Nagoya Railroad), Fushimi Station (Nagoya City Subway), or Sakae Station (Nagoya City Subway and Nagoya Railroad), respectively. Central Fukuoka refers to the areas within about a 10-minute walk from Hakata Station (JR and Fukuoka City Subway), Tenjin Station (Fukuoka City Subway) and Nishitetsu Fukuoka Station (Nishi-Nippon Railroad), respectively. They are, however, not always in line with administrative districts.

Area III: Tokyo other than Area I, and its vicinity (Kanagawa, Saitama, and Chiba)

Area IV: Areas in Osaka, Nagoya and Fukuoka other than Area II, and other government designated cities.

The same applies hereinafter.

(Note 2) Leasehold rights owned in combination with buildings and other structures are included in real estate property and trust beneficiary interest in real estate at the combined amount.

(Note 3) This represents the ownership interests in an anonymous association managed by Bois Vert LLC.

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2014 are as follows:

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	29,964	38,375.66	38,205.96	99.6	9.9	Office
AKASAKA INTERCITY	27,560	11,021.03	11,021.03	100.0	5.4	Office
Akasaka Garden City	22,600	8,769.53	8,769.53	100.0	3.8	Office
Omori Bellport D	21,453	25,801.66	25,801.66	100.0	9.7	Office
HAMARIKYU INTERCITY	18,853	19,718.11	19,590.21	99.4	6.7	Other
Musashikosugi Tower Place	12,659	25,159.49	25,159.49	100.0	8.2	Office
Daiba Garden City Building	10,546	12,122.85	12,122.85	100.0	3.5	Office
Kowa Kawasaki Higashiguchi Building	9,905	18,612.72	18,612.72	100.0	(Note 4)	Office
Shiba 2-Chome Building	9,063	11,749.30	11,749.30	100.0	3.9	Office
JEI Hamamatsucho Building	8,432	6,411.26	5,583.03	87.1	2.5	Office
Total	171,040	177,741.61	176,615.78	99.4	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2014. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased space refers to space with lease contracts concluded with end tenants as of June 30, 2014. For properties with joint ownership, the value is obtained by multiplying the total leased space of the shared real estate by the percentage of the interest owned by JEI. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2014.

(Note 4) The values of Kowa Kawasaki Higashiguchi Building are not disclosed as consent on disclosure from the end tenants have not been obtained.

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2014 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I -1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	23,300	21,453
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,400	9,063
I -3	JEI Hamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,170	8,432
I -4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,690	7,378
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	16,700	22,600
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,100	27,560
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,030	4,853
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,800	10,546
I -11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,210	8,230
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	20,800	18,853
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,790	1,790
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,230	3,844
Area I				142,220	144,608
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,530	5,826
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,290	7,364
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	1,850	1,865
Area II				11,670	15,055
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,800	12,659
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,450	9,905
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,580	5,161
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real	3,870	4,523

			estate		
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,520	965
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,130	2,323
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,700	5,930
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,900	29,964
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,510	1,653
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	6,900	6,387
Area III				74,360	79,475
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	3,950	3,200
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,680	2,726
IV-4	SE Sapporo Building (Note 2)	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,020	5,439
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	2,750	2,187
IV-6	Daiwa Minami-morimachi Building	2-2-6 Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,740	4,405
Area IV				20,140	17,960
Total				248,390	257,099

(Note 1) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2014 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

(Note 2) SE Sankyo Building has changed its name to SE Sapporo Building on July 1, 2014. The same shall apply hereinafter.

Property No.	Property name	15th Period July 1, 2013 to December 31, 2013				16th Period January 1, 2014 to June 30, 2014			
		Total number of tenants (At end of period) <small>(Note 1)</small>	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) <small>(Note 1)</small>	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	100.0	934	10.6	1	100.0	923	9.7
I -2	Shiba 2-Chome Building	2	98.4	370	4.2	2	100.0	370	3.9
I -3	JEI Hamamatsucho Building	1	100.0	255	2.9	1	87.1	237	2.5
I -4	No. 32 Kowa Building	1	100.0	253	2.9	1	100.0	249	2.6
I -7	Akasaka Garden City	1	100.0	342	3.9	1	100.0	366	3.8
I -8	AKASAKA INTERCITY	12	91.9	592	6.7	13	100.0	516	5.4
I -9	Kowa Shirokanedai Building	1	100.0	177	2.0	1	100.0	175	1.8
I -10	Daiba Garden City Building	1	100.0	336	3.8	1	100.0	336	3.5
I -11	No. 35 Kowa Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I -12	HAMARIKYU INTERCITY	6	99.1	284	3.2	1	99.4	637	6.7
I -13	Shintomicho Building	9	100.0	71	0.8	11	100.0	71	0.8
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
Area I		42	99.0	-	-	40	99.2	-	-
II -1	NHK Nagoya Housou Center	29	95.9	297	3.4	29	97.0	349	3.7
II -2	JEI Nishi-Honmachi Building	1	100.0	219	2.5	1	100.0	208	2.2
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.9	1	100.0	83	0.9
Area II		31	98.4	-	-	31	98.6	-	-
III -1	Musashikosugi Tower Place	37	100.0	800	9.0	36	100.0	787	8.2
III -2	Kowa Kawasaki Higashiguchi	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -5	Kawasaki Nisshincho Building	1	100.0	192	2.2	1	100.0	193	2.0
III -6	No. 44 Kowa Building	1	100.0	92	1.0	1	100.0	91	1.0
III -7	JEI Ryogoku Building	1	100.0	105	1.2	1	98.0	102	1.1
III -8	Ebina Prime Tower	30	94.8	372	4.2	33	97.2	477	5.0
III -9	Kowa Kawasaki Nishiguchi Building	1	99.6	952	10.8	1	99.6	945	9.9
III -10	Pacific Square Sengoku	7	94.9	67	0.8	5	69.1	67	0.7
III -11	Core City Tachikawa	1	96.1	296	3.4	1	87.7	363	3.8
Area III		81	98.6	-	-	81	97.9	-	-
IV -2	JEI Kyobashi Building	1	100.0	187	2.1	1	100.0	182	1.9
IV -3	JEI Hiroshima Hacchobori Building	1	99.0	145	1.6	1	98.5	142	1.5

IV-4	SE Sapporo Building	1	98.5	373	4.2	1	99.2	363	3.8
IV-5	Aoba-dori Plaza	-	-	-	-	42	84.7	137	1.4
IV-6	Daiwa Minami-morimachi Building	-	-	-	-	9	97.7	162	1.7
Area IV		3	99.0	-	-	54	96.8	-	-
Total		157	98.7	8,848	100.0	206	98.3	9,558	100.0

(Note 1) Total number of tenants indicates the total number of tenants in each property as of the end of each period. For properties for which master lease agreements have been concluded, the number of tenants is counted as one per property. When a tenant has multiple tenancies in the same property, it is counted as one tenant, and when in multiple properties, it is counted as multiple tenants. As for Osaka Kogin Building (Land with Leasehold Interest), total number of tenants is counted as one based on the lease agreement for the leased land.

(Note 2) No. 35 Kowa Building, Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi and JEI Hongo Building are not disclosed as consents on disclosure from the end tenants have not been obtained.

(4) Securities Portfolio
None

(5) Other Assets

1) Contract amount and fair value of specified transactions and foreign exchange forwards transactions

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Fixed interest rate payable Floating interest rate receivable	65,400,000	65,400,000	—

(Note 1) Contract amount of swap transactions is calculated based on notional principal.

(Note 2) Fair value is omitted for presentation as over-the-counter transactions meet requirements for special accounting under the Accounting Standard for Financial Instruments.

4. Capital Expenditures for Owned Properties

(1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of June 30, 2014. The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2014	Total of advance payment
SE Sapporo Building	Kita-ku, Sapporo-shi	Replacement of multi-level parking lot no. 2 pallet floorboard	From July 2014 To December 2014	49	—	—
Daiwa Minami-morimachi Building	Kita-ku, Osaka-shi	Renewal of air-conditioning systems	From April 2014 To July 2014	47	—	—

(2) Capital Expenditures for the Six months Ended June 30, 2014

The following table shows constructions conducted by JEI during the period for properties it owned as of June 30, 2014 and expensed as capital expenditures. Capital expenditures for the period ended June 30, 2014 were 558 million yen and, when combined with repairs and maintenance costs of 189 million yen classified as expenses, the amount of constructions completed totaled 747 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi	Renewal of air-conditioning systems (2nd term)	From March, 2013 To January 2014	50
Ebina Prime Tower	Ebina-shi, Kanagawa	Installation of emergency power generator	From January 2014 To March 2014	50
SE Sapporo Building	Kita-ku, Sapporo-shi	Replacement of multi-level parking lot no. 4 pallet floorboard	From January 2014 To June 2014	49
JEI Hamatsucho Building	Minato-ku, Tokyo	Renewal of air-conditioning systems (5th term)	From April 2014 To May 2014	46
Other constructions			—	361
Total				558

(3) Reserved Funds for Long-term Repairs and Maintenance Plans

Based on our long-term repairs and maintenance plans developed for each property, JEI has set aside the following cash reserves, derived from depreciation and other excess cash flows, in order to fund large-scale repairs and maintenance and other construction.

(Unit: Millions of yen)

Item	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014
Reserved funds at beginning of period	299	267	281	299	309
Increase	14	14	25	364	143
Decrease	47	—	7	354	83
Reserved funds at the end of period	267	281	299	309	368

5. Expenses and Liabilities
(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014
(a) Asset management fees	389,209	397,206
(b) Custodian fees	19,332	19,353
(c) Administrative service fees	38,363	37,294
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	71,071	98,152
Total	535,516	569,545

(2) Borrowings

Borrowings by each financing source as of the end of the 16th period (ended June 30, 2014) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans due within one year	The Dai-ichi Life Insurance Company Limited	July 31, 2007	2,000,000	2,000,000	2.25875 (Note 2)	July 31, 2014	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
	Development Bank of Japan Inc.		2,000,000	2,000,000	2.28417 (Note 2)				
	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,000,000	4,000,000	0.86000	December 29, 2014		Repayment of existing borrowing	
	Mizuho Bank, Ltd.		3,900,000	3,900,000					
	Mizuho Trust & Banking Co., Ltd.		2,400,000	2,400,000					
	Resona Bank, Ltd.		1,200,000	1,200,000					
	The Dai-ichi Life Insurance Company Limited	October 24, 2008	-	3,000,000	2.27344 (Note 2)	June 30, 2015			
	Development Bank of Japan Inc.		-	2,000,000					
Sub Total			15,500,000	20,500,000	1.48015				
Long-term loans (Note 4)	The Dai-ichi Life Insurance Company Limited	October 24, 2008	3,000,000	-	-	June 30, 2015	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Development Bank of Japan Inc.		2,000,000	-					
	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.13750 (Note 2)	November 30, 2015		Acquisition of real estate	
	Aozora Bank, Ltd.		1,620,000	1,620,000					
	Aozora Bank, Ltd.		650,000	650,000					
	Mizuho Bank, Ltd.		370,000	370,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2012	280,000	280,000	1.14125 (Note 2)	November 30, 2015			
	Mizuho Bank, Ltd.		500,000	500,000					
	Mitsubishi UFJ Trust and Banking		500,000	500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Aozora Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka		300,000	300,000					
	The Norinchukin Bank	July 31, 2012	2,000,000	2,000,000	0.97125 (Note 2)	November 30, 2015			
	Mizuho Trust & Banking Co., Ltd.		1,500,000	1,500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,600,000	4,600,000	1.36375 (Note 2)	June 29, 2016		Repayment of existing borrowing	
	Mizuho Bank, Ltd.		4,400,000	4,400,000					
	Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000					
	Sumitomo Mitsui Trust Bank, Limited	November 29, 2011	1,620,000	1,620,000	1.24375 (Note 2)	November 29, 2016			
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Mitsubishi UFJ Trust and Banking		540,000	540,000					
	Mizuho Bank, Ltd.		520,000	520,000					
	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	2,000,000	1.24750 (Note 2)	January 31, 2017			
	Mitsubishi UFJ Trust and Banking		1,500,000	1,500,000					
Sumitomo Mitsui Banking Corporation	1,500,000		1,500,000						
Mizuho Bank, Ltd.	July 31, 2012	1,500,000	1,500,000	1.03000 (Note 2)	January 31, 2017				
Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000						
Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000						

Long-term loans (Note 4)	Sompo Japan Nipponkoa Insurance Inc. (Note 3)		2,000,000	2,000,000	1.09734 (Note 2)	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed		
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note 2)					
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	1,000,000	1.08375 (Note 2)				November 30, 2017	
	Mitsubishi UFJ Trust and Banking		1,000,000	1,000,000						
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	1,000,000	1.04550 (Note 2)					
	Aozora Bank, Ltd.		500,000	500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Sompo Japan Nipponkoa Insurance Inc. (Note 3)		500,000	500,000						1.19212 (Note 2)
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	500,000	500,000							
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125 (Note 2)					June 29, 2018
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225 (Note 2)					June 30, 2018
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000						
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000						
	The Norinchukin Bank		1,000,000	1,000,000						
	Resona Bank, Ltd.		200,000	200,000						
	The Bank of Fukuoka		700,000	700,000						
	Shinkin Central Bank		1,000,000	1,000,000						
	The Norinchukin Bank	March 11, 2014	-	1,450,000	0.74500 (Note 2)				November 1, 2018	
	Mizuho Bank, Ltd.		-	850,000						
	Mitsubishi UFJ Trust and Banking		-	850,000						
	Mizuho Trust & Banking Co., Ltd.		-	600,000						
	The Norinchukin Bank	March 8, 2019	-	1,450,000	0.77500 (Note 2)					
	Mizuho Bank, Ltd.		-	850,000						
	Mitsubishi UFJ Trust and Banking		-	850,000						
	Mizuho Trust & Banking Co., Ltd.		-	600,000						
	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)				January 31, 2020	
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 2)					
	Mitsubishi UFJ Trust and Banking		500,000	500,000						
Sumitomo Mitsui Banking Corporation	1,000,000		1,000,000							
Mizuho Trust & Banking Co., Ltd.	600,000		600,000							
The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.31261 (Note 2)						
The Norinchukin Bank	December 27, 2013	1,162,500	1,162,500	1.00000 (Note 2)						
Mizuho Bank, Ltd.		675,000	675,000							
Mitsubishi UFJ Trust and Banking		675,000	675,000							
Mizuho Trust & Banking Co., Ltd.		487,500	487,500							
Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021					
Sub Total		80,900,000	83,400,000	1.17765						
Total		96,400,000	103,900,000	1.23733						

Asset Management Report for 16th period (Semi-Annual Report for 16th Period)

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance at the end of period by multiplying the interest rate of each loan agreement as of period-end. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted average rate adjusting the effect of the interest rate swaps.

(Note 2) The loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(Note 3) Sompo Japan Insurance Inc. changed its trade name to Sompo Japan Nipponkoa Insurance Inc. on September 1, 2014.

(Note 4) The following table shows annual total amount of long-term loans (excluding those due within one year) for each year after the balance sheet date.

(Unit: Thousands of yen)

Classification	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans	23,540,000	15,760,000	26,000,000	7,500,000	10,600,000

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2014 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (Note 1) (%)	Maturity date	Repayment method	Use	Remarks
1st series unsecured investment corporation bonds	March 11, 2010	12,000,000	—	—	March 11, 2014	Lump-sum	(Note 2)	(Note 5)
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	5,000,000	1.29000	June 26, 2015			
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016		(Note 3)	
4th series unsecured investment corporation bonds		2,000,000	2,000,000	1.40000	November 2, 2018			
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000			(Note 2)	
6th series unsecured investment corporation bonds	March 30, 2014	—	5,000,000	0.46000	March 11, 2019		(Note 4)	
7th series unsecured investment corporation bonds		—	8,000,000	1.13000	March 11, 2024			
Total		29,000,000	30,000,000	0.93133				

(Note 1) The interest rate indicated in the total column is calculated using a weighted average of the balance at the end of period by multiplying the loan interest rate of each investment corporation bond.

(Note 2) The funds were used for repaying existing borrowings.

(Note 3) The funds were used for acquiring new properties.

(Note 4) The funds are used for redeeming existing investment corporation bonds and repaying existing borrowings.

(Note 5) The bonds are with special pari passu conditions among specified investment corporation bonds.

(4) Short-Term Investment Corporation Bonds

JEI has no outstanding short-term investment corporation bonds as of June 30, 2014.

6. Condition of Investment Transactions

(1) Transactions of Property and Asset-Backed Securities, Etc.

(Unit: Millions of yen)

Type of assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note)	Transfer date	Transfer amount	Net book value	Gain (loss) on transfer
Trust beneficiary interest in real estate	HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership)	February 4, 2014	12,000	—	—	—	—
Trust beneficiary interest in real estate	Aoba-dori Plaza	February 4, 2014	2,120	—	—	—	—
Trust beneficiary interest in real estate	Daiwa Minami-morimachi Building	February 4, 2014	4,410	—	—	—	—
Real Estate	NHK Nagoya Housou-Center Building (additional acquisition of compartmentalized ownership)	March 24, 2014	1,310	—	—	—	—
Total			19,840		—	—	—

(Note) The acquisition price indicates each contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.).

(2) Transactions of Other Assets

Other than those described above, major assets transacted are mainly bank deposits and bank deposits in trust.

(3) Appraisal and Research for Specified Asset Value, Etc.

1) Real estate, etc.

(Unit: Millions of yen)

Acquisition or transfer	Name of property	Type of assets	Acquisition date	Acquisition price (Note)	Appraisal value at end of period	Appraiser	Date of appraisal
Acquisition	HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership)	Trust beneficiary interest in real estate	February 4, 2014	12,000	12,000	Japan Real Estate Institute	November 30, 2013
Acquisition	Aoba-dori Plaza	Trust beneficiary interest in real estate	February 4, 2014	2,120	2,560	Japan Real Estate Institute	August 1, 2013
Acquisition	Daiwa Minami-morimachi Building	Trust beneficiary interest in real estate	February 4, 2014	4,410	4,520	Japan Real Estate Institute	August 1, 2013
Acquisition	NHK Nagoya Housou-Center Building (additional acquisition of compartmentalized ownership)	Real Estate	March 24, 2014	1,310	1,310	Japan Real Estate Institute	November 30, 2013

(Note) The acquisition price is the purchase price of the property stated in the purchase agreement (excluding the amount equivalent to consumption taxes, etc.).

3) Others

Of the transactions of JEI that are subject to research for specified assets value and other particulars under Section 201 of the Investment Trust Law, those other than what are described in 1) Real estate, etc. are researched and reported by Ernst & Young ShinNihon LLC.

Two interest rate swap transaction was subject to the research during the period from January 1, 2014 to June 30, 2014 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is requested to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap transactions.

(4) Transactions with Interested Parties or Major Shareholders

1) Transactions

(Unit: Millions of yen)

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total	19,840 million yen	– million yen
	Acquisition price from interested parties and major shareholders 12,000 million yen (60.5%)	Disposal amount to interested parties and major shareholders – million yen (–%)
Breakdown for transactions with interested parties and major shareholders		
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	12,000 million yen (60.5%)	– million yen (–%)
Total	12,000 million yen (60.5%)	– million yen (–%)

(Note) Above transactions indicate transactions made with interested parties and major shareholders for the six months ended December 31, 2010. “Interested parties” means the interested parties related to the asset management company of JEI as prescribed in Section 26, Paragraph 1, Item 27 of the Regulations for Management Reports Concerning Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan. “Major shareholders” means the major shareholders as defined in Section 29-4, Paragraph 2 of the Financial Instruments and Exchange Act. “Interested parties” include “interested parties” as defined in Section 201 of the Investment Trust Law as well as such juridical persons, etc. as in the case where the majority interest of them is owned by or the majority of their officers come from said interested parties and major shareholders. (The same applies hereinafter in this section).

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,272,706	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	168,128	13.2%
		Kowa Real Estate Facilities, Co., Ltd.	275,605	21.7%
		Sekisui House, Ltd. (Note 2)	14,869	1.2%
Total	1,272,706	–	458,603	36.0%

(Note 1) Figures indicate fees paid to interested parties and major shareholders of asset management companies with whom JEI had transactions during the six months ended June 30, 2014.

(Note 2) Sekisui House, Ltd. became no longer the major shareholder of the Asset Management Company as of May 12, 2014.

Therefore, transactions during the period when it was a major shareholder of the Asset Management Company are indicated.

(Note 3) Other than the Total amount paid indicated above, the following payments were made for maintenance and repair work, etc. which were ordered to interested parties and major shareholders during the period.

NIPPON STEEL KOWA REAL ESTATE CO., LTD.. 9,475 thousand yen

KOWA REAL ESTATE FACILITIES CO., LTD. 74,286 thousand yen

(5) Transactions with Asset Management Company Concerning the Additional Businesses of the Asset Management Company

The Asset Management Company (Japan Excellent Asset Management Co., Ltd.) does not conduct any additional business falling under the categories of the type I financial instruments business, type II financial instruments business, building lots and buildings transaction business, or real estate specified joint enterprise, and had no applicable transactions.

7. Accounting

(1) Assets, Liabilities, Principal, and Profit and Loss

For assets, liabilities, principal, and profit and loss, please refer to the attached Balance Sheets, Statements of Income and Retained Earnings, Statements of Changes in Net Assets, Notes to Financial Statements and Distribution Information.

(2) Change in Depreciation Calculation Method

No changes were made during the period.

(3) Change in Asset Valuation Method

No changes were made during the period

8. Others

(1) Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

(2) Scheduled Meetings

1) General unitholders' meeting

There were no applicable items during the period.

2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2014 is summarized below.

Approval date	Approved agenda	Description
January 20, 2014	Conclusion of new investment units underwriting agreement (agreement for entrustment of general administrative duties concerning offering of investment units)	With issuance of new investment units, an underwriting agreement for the new investment units was concluded with Mizuho Securities Co., Ltd., Nomura Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., SMBC Nikko Securities Inc. and Mito Securities Co., Ltd., entrusting them with general administrative duties concerning the offering of investment units.
February 17, 2014	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 18, 2014 to February 17, 2015. The board of directors approved the respective candidate general administrator for "administrative duties concerning offering of investment corporation bonds" and "administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period," and assigned decisions on all other necessary matters to the Executive Director.
May 12, 2014	Conclusion of cancellation memorandum of a service provision contract regarding property information, etc.	In line with the withdrawal of Sekisui House, Ltd. as a shareholder of JEI's asset management company, cancellation memorandum of a service contract regarding property information, etc. was concluded among Sekisui House, Ltd., JEI and the Asset Management Company.

(3) Other

Unless otherwise stated, monetary amounts have been rounded down and percentage figures have been rounded off to the nearest indicated unit in this Report.

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
June 30, 2014 and December 31, 2013
with Independent Auditor's Report*



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Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2014, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2014, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

September 19, 2014
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2014 and December 31, 2013

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Assets			
Current assets:			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	¥ 18,431,014	¥ 17,914,434	\$ 181,944,860
Rental receivables	857,232	833,899	8,462,309
Consumption taxes refundable	374,253	–	3,694,505
Prepaid expenses and other current assets	253,502	157,471	2,502,487
Total current assets	<u>19,916,001</u>	<u>18,905,804</u>	<u>196,604,161</u>
Property and equipment <i>(Note 7)</i> :			
Buildings and building improvements	5,637,229	4,798,600	55,648,856
Machinery and equipment	6,253	5,125	61,731
Furniture and fixtures	10,716	8,860	105,786
Land	3,022,966	3,022,966	29,841,721
Construction in progress	11,266	3,241	111,212
Buildings and building improvements for trust accounts	103,368,528	92,745,310	1,020,419,823
Machinery and equipment for trust accounts	590,461	518,882	5,828,836
Furniture and fixtures for trust accounts	152,432	146,763	1,504,757
Land for trust accounts	152,290,671	143,748,477	1,503,362,991
Construction in progress for trust accounts	9,469	16,835	93,471
Less: accumulated depreciation	(17,101,867)	(15,477,022)	(168,823,961)
Net property and equipment	<u>247,998,124</u>	<u>229,538,037</u>	<u>2,448,155,223</u>
Intangible assets:			
Leasehold rights	1,721,403	1,185,045	16,993,125
Brand and trademark	366	422	3,609
Leasehold rights for trust accounts	7,380,017	7,380,017	72,853,078
Total intangible assets	<u>9,101,786</u>	<u>8,565,484</u>	<u>89,849,812</u>
Investments and other assets:			
Investment securities	–	114,513	–
Security deposits	15,182	15,181	149,868
Long-term prepaid expenses	370,695	393,471	3,659,382
Other assets	315,397	303,244	3,113,489
Total investments and other assets	<u>701,274</u>	<u>826,409</u>	<u>6,922,739</u>
Deferred assets:			
Investment corporation bond issuance costs	125,301	65,606	1,236,929
Total deferred assets	<u>125,301</u>	<u>65,606</u>	<u>1,236,929</u>
Total assets	<u>¥277,842,486</u>	<u>¥257,901,340</u>	<u>\$2,742,768,864</u>

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

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Liabilities			
Current liabilities:			
Accounts payable – trade	¥ 900,124	¥ 762,932	\$ 8,885,728
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	5,000,000	12,000,000	49,358,341
Long-term debt due within one year <i>(Notes 5 and 8)</i>	20,500,000	15,500,000	202,369,200
Accounts payable – other	332,909	337,804	3,286,367
Accrued expenses	236,686	254,981	2,336,488
Accrued corporation taxes	33	252	320
Accrued consumption taxes	—	243,808	—
Advances received	98,801	136,801	975,332
Total current liabilities	<u>27,068,553</u>	<u>29,236,578</u>	<u>267,211,776</u>
Long-term liabilities:			
Investment corporation bonds <i>(Notes 5 and 9)</i>	25,000,000	17,000,000	246,791,708
Long-term debt <i>(Notes 5 and 8)</i>	83,400,000	80,900,000	823,297,137
Security deposits from tenants <i>(Note 5)</i>	775,322	638,826	7,653,724
Security deposits from tenants for trust accounts <i>(Note 5)</i>	10,600,277	9,412,615	104,642,419
Total long-term liabilities	<u>119,775,599</u>	<u>107,951,441</u>	<u>1,182,384,988</u>
Total liabilities	<u>146,844,152</u>	<u>137,188,019</u>	<u>1,449,596,764</u>
Net assets (Note 10):			
Unitholders' equity:			
Unitholders' capital	127,950,539	117,901,291	1,263,085,282
Units authorized:			
10,000,000 units as of June 30, 2014 and 2,000,000 units as of December 31, 2013			
Units issued and outstanding:			
1,212,750 units as of June 30, 2014 and 224,950 units as of December 31, 2013			
Surplus			
Voluntary reserve			
Reserve for advanced depreciation of non-current assets	37,347	37,347	368,678
Retained earnings	3,010,448	2,774,683	29,718,140
Total surplus	<u>3,047,795</u>	<u>2,812,030</u>	<u>30,086,818</u>
Total unitholders' equity	<u>130,998,334</u>	<u>120,713,321</u>	<u>1,293,172,100</u>
Total net assets	<u>130,998,334</u>	<u>120,713,321</u>	<u>1,293,172,100</u>
Total liabilities and net assets	<u>¥277,842,486</u>	<u>¥257,901,340</u>	<u>\$2,742,768,864</u>

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

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2014 to June 30, 2014
and from July 1, 2013 to December 31, 2013

	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2013 to December 31, 2013	For the period from January 1, 2014 to June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Revenues:			
Rental revenues <i>(Note 13)</i>	¥8,599,070	¥7,957,889	\$84,887,170
Other <i>(Note 13)</i>	959,325	890,351	9,470,142
Dividend income from investment in anonymous association	—	2,139	—
Total revenues	9,558,395	8,850,379	94,357,312
Operating expenses:			
Property operating expenses <i>(Note 13)</i>	5,022,564	4,605,010	49,581,085
Asset management fees	397,206	389,209	3,921,087
Custodian fees	19,353	19,333	191,047
Administrative service fees	37,294	38,363	368,155
Compensation for directors	6,540	6,540	64,561
Other	109,152	82,071	1,077,513
Total operating expenses	5,592,109	5,140,526	55,203,448
Operating income	3,966,286	3,709,853	39,153,864
Other income:			
Interest income <i>(Note 13)</i>	1,760	1,937	17,378
Other	1,849	3,401	18,250
Other expenses:			
Interest expense	632,100	644,155	6,239,878
Loan arrangement fees	115,117	108,127	1,136,396
New investment unit issuance costs	35,702	—	352,438
Interest expense on investment corporation bonds	151,857	166,580	1,499,085
Amortization of investment corporation bond issuance costs	16,304	14,607	160,953
Other	7,416	5,965	73,210
Ordinary income	3,011,399	2,775,757	29,727,532
Income before income taxes	3,011,399	2,775,757	29,727,532
Income taxes <i>(Note 12)</i>:			
Current	1,100	1,082	10,863
Deferred	1	(8)	7
Net income	3,010,298	2,774,683	29,716,662
Retained earnings at beginning of period	150	—	1,478
Retained earnings at end of period	¥3,010,448	¥2,774,683	\$29,718,140

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

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2014 to June 30, 2014
and from July 1, 2013 to December 31, 2013

For the period from July 1, 2013 to December 31, 2013							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
Balance as of June 30, 2013	224,950	¥117,901,291	¥183,368	¥ 2,598,369	¥ 2,781,737	¥120,683,028	¥120,683,028
Changes during the fiscal period:							
Reversal of reserve for advanced depreciation of non-current assets	–	–	(146,021)	–	(146,021)	(146,021)	(146,021)
Distributions from retained earnings	–	–	–	(2,598,369)	(2,598,369)	(2,598,369)	(2,598,369)
Net income	–	–	–	2,774,683	2,774,683	2,774,683	2,774,683
Total changes during the fiscal period	–	–	(146,021)	176,314	30,293	30,293	30,293
Balance as of December 31, 2013	<u>224,950</u>	<u>¥117,901,291</u>	<u>¥ 37,347</u>	<u>¥ 2,774,683</u>	<u>¥ 2,812,030</u>	<u>¥120,713,321</u>	<u>¥120,713,321</u>

For the period from January 1, 2014 to June 30, 2014							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
Balance as of December 31, 2013	224,950	¥117,901,291	¥ 37,347	¥ 2,774,683	¥ 2,812,030	¥120,713,321	¥120,713,321
Changes during the fiscal period:							
Split of units	899,800	–	–	–	–	–	–
Issuance of new units	88,000	10,049,248	–	–	–	10,049,248	10,049,248
Distributions from retained earnings	–	–	–	(2,774,533)	(2,774,533)	(2,774,533)	(2,774,533)
Net income	–	–	–	3,010,298	3,010,298	3,010,298	3,010,298
Total changes during the fiscal period	987,800	10,049,248	–	235,765	235,765	10,285,013	10,285,013
Balance as of June 30, 2014	<u>1,212,750</u>	<u>¥127,950,539</u>	<u>¥37,347</u>	<u>¥ 3,010,448</u>	<u>¥ 3,047,795</u>	<u>¥130,998,334</u>	<u>¥130,998,334</u>

For the period from January 1, 2014 to June 30, 2014							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
Balance as of December 31, 2013	224,950	\$1,163,882,439	\$ 368,678	\$ 27,390,750	\$ 27,759,428	\$1,191,641,867	\$1,191,641,867
Changes during the fiscal period:							
Split of units	899,800	–	–	–	–	–	–
Issuance of new units	88,000	99,202,843	–	–	–	99,202,843	99,202,843
Distributions from retained earnings	–	–	–	(27,389,272)	(27,389,272)	(27,389,272)	(27,389,272)
Net income	–	–	–	29,716,662	29,716,662	29,716,662	29,716,662
Total changes during the fiscal period	987,800	99,202,843	–	2,327,390	2,327,390	101,530,233	101,530,233
Balance as of June 30, 2014	<u>1,212,750</u>	<u>\$1,263,085,282</u>	<u>\$ 368,678</u>	<u>\$ 29,718,140</u>	<u>\$ 30,086,818</u>	<u>\$1,293,172,100</u>	<u>\$1,293,172,100</u>

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2014 to June 30, 2014
and from July 1, 2013 to December 31, 2013

	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2013 to December 31, 2013	For the period from January 1, 2014 to June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Cash flows from operating activities			
Income before income taxes	¥ 3,011,399	¥ 2,775,757	\$ 29,727,532
Depreciation and amortization	1,624,902	1,504,417	16,040,496
Amortization of investment corporation bond issuance costs	16,304	14,607	160,953
New unit issuance costs	35,702	—	352,438
Interest income	(1,760)	(1,937)	(17,378)
Interest expense	783,957	810,735	7,738,963
Increase in rental receivables	(23,332)	(104,972)	(230,329)
(Increase) decrease in consumption taxes refundable	(374,253)	397,252	(3,694,505)
(Increase) decrease in prepaid expenses	(108,871)	44,977	(1,074,734)
Increase in accounts payable – trade	136,074	25,457	1,343,278
(Decrease) increase in accounts payable – other	(4,094)	24,566	(40,412)
(Decrease) increase in unpaid consumption taxes	(243,807)	243,807	(2,406,784)
(Decrease) in advances received	(38,000)	(15,458)	(375,123)
Decrease in long-term prepaid expenses	22,776	24,128	224,833
Other, net	17,540	(4,104)	173,150
Subtotal	4,854,537	5,739,232	47,922,378
Interest received	1,760	1,937	17,378
Interest paid	(802,252)	(790,680)	(7,919,563)
Income taxes paid	(1,722)	(1,441)	(16,997)
Net cash provided by operating activities	4,052,323	4,949,048	40,003,196
Cash flows from investing activities			
Purchases of investment securities	—	(113,020)	—
Proceeds from redemption of investment securities	97,285	2,715	960,364
Purchases of property and equipment	(866,748)	(27,134)	(8,556,247)
Purchases of property and equipment for trust accounts	(19,217,065)	(700,319)	(189,704,498)
Purchases of intangible assets	(536,359)	—	(5,294,755)
Proceeds from security deposits from tenants	136,497	3,931	1,347,447
Payments for security deposits to tenants	—	(5,280)	—
Proceeds from security deposits in trust accounts from tenants	1,515,515	192,759	14,960,665
Payments for security deposits in trust accounts to tenants	(327,854)	(246,217)	(3,236,464)
Net cash used in investing activities	(19,198,729)	(892,565)	(189,523,488)
Cash flows from financing activities			
Proceeds from short-term loans	9,000,000	—	88,845,015
Repayment for short-term loans	(9,000,000)	—	(88,845,015)
Proceeds from long-term debt	7,500,000	3,000,000	74,037,512
Repayment for long-term debt	—	(8,000,000)	—
Proceeds from issuance of new units	10,049,248	—	99,202,843
Proceeds from issuance of investment corporation bonds	13,000,000	5,000,000	128,331,688
Payments for investment corporation bond redemption	(12,000,000)	—	(118,460,020)
Payments for investment corporation bond issuance costs	(76,000)	(27,900)	(750,247)
Payments for new unit issuance costs	(35,702)	—	(352,438)
Distributions to unitholders	(2,774,560)	(2,746,542)	(27,389,533)
Net cash provided by (used in) financing activities	15,662,986	(2,774,442)	154,619,805

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

	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2013 to December 31, 2013	For the period from January 1, 2014 to June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Net increase (decrease) in cash and cash equivalents	516,580	1,282,041	5,099,513
Cash and cash equivalents at beginning of period	17,914,434	16,632,393	176,845,347
Cash and cash equivalents at end of period	<u>¥18,431,014</u>	<u>¥ 17,914,434</u>	<u>\$ 181,944,860</u>

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2014 to June 30, 2014
and from July 1, 2013 to December 31, 2013

1. Organization

Japan Excellent, Inc. (hereinafter, "JEI"), established on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (the "Investment Trust Law"), is a real estate investment corporation which primarily invests in office buildings.

JEI is externally managed by a licensed asset management company, Japan Excellent Asset Management ("JEAM"). JEAM was originally owned 45% by NIPPON STEEL KOWA REAL ESTATE CO., LTD., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 20% by other corporations. Due to the transfer of ownership by Sekisui House on May 12, 2014, ownership interests of 9% and 6% were each acquired by NIPPON STEEL KOWA REAL ESTATE CO., LTD., and The Dai-ichi Life Insurance Company, Limited, respectively.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2014, JEI held 30 properties with 330,284.81 square meters of total leasable space and had leases with 206 tenants excluding residential tenants.

2. Basis of Presentation

JEI maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), including provisions set forth in the Investment Trust Law, the Corporation Law of Japan, the Financial Instruments and Exchange Law of Japan and related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are a translation of the financial statements of JEI, which were prepared in accordance with Japanese GAAP and presented in the securities report of JEI filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made for the convenience of readers outside Japan. In addition, the notes to the financial statements include information that might not be required under Japanese GAAP but is presented herein as additional information. Amounts have been rounded to the nearest thousand yen in the accompanying financial statements and in the notes thereto, whereas amounts were truncated in the Japanese financial statements prepared in accordance with Japanese GAAP.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥101.30 = U.S.\$1.00, the foreign exchange rate prevailing on June 30, 2014, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

3. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks and short-term investments which are highly liquid, readily convertible into cash with an insignificant risk of price fluctuation and with an original maturity of three months or less.

Property and equipment including trust accounts and trademark rights

Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	2 – 60 years
Building improvements	2 – 59 years
Machinery and equipment	6 – 16 years
Furniture and fixtures	3 – 15 years

Amortization of trademark rights is computed using the straight-line method over a period of 10 years.

Deferred assets

Investment corporation bond issuance costs are amortized using the straight-line method over the amortization periods.

New investment unit issuance costs are charged to income as incurred.

Income taxes

Income taxes are accounted for on the basis of taxable income for financial statement purposes. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Consumption taxes

Consumption taxes received and paid are not included in the accompanying statements of income and retained earnings. Consumption tax related to properties, which has not been deducted, is included in the cost of the properties.

Property-related taxes

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 13).

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from January 1, 2014 to June 30, 2014 was ¥121,674 thousand (\$1,201,125). No property-related taxes were capitalized for the period from July 1, 2013 to December 31, 2013.

Revenue recognition

Rental revenues are generally recognized on an accrual basis over the life of each lease.

Derivatives and hedge accounting

JEI utilizes interest-rate swap agreements as derivative financial instruments solely for the purpose of hedging its exposure to fluctuation in interest rates. JEI has entered into certain interest-rate swap contracts to hedge variable rates for its long-term debt obligations.

The corresponding interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP, and it is therefore not recorded at fair value.

The amounts paid or received via the swap transaction are recognized as interest adjustments. An assessment of hedge effectiveness is omitted accordingly.

Properties in trust accounts

All assets and liabilities held in trust, for which real estate in possession of JEI was entrusted, and all earnings and expenses resulting from such trust, are properly reflected in the accompanying balance sheets and statements of income and retained earnings, respectively.

4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2014 and December 31, 2013 consisted of the following:

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 3,967,721	¥ 4,707,845	\$ 39,168,028
Cash in trust and deposits in trust	14,463,293	13,206,589	142,776,832
Cash and cash equivalents including trust accounts	<u>¥18,431,014</u>	<u>¥17,914,434</u>	<u>\$181,944,860</u>

5. Financial Instruments

For the periods from January 1, 2014 to June 30, 2014 and from July 1, 2013 to December 31, 2013

Overview

(1) Policy for Financial Instruments

JEI borrows from banks, issues investment corporation bonds and issues investment units to procure funds required to grow its assets under management and to repay liabilities, based on the financial policy set forth by JEAM and the Company's Annual Funds Procurement Plan. When procuring funds by means of interest-bearing debt, matters such as seeking longer durations and maturities, securing fixed interest rates and diversifying maturity dates are taken into consideration to achieve a more stable financial situation and avoid the risk of future interest rate hikes. Surplus funds may be invested in deposits and safe, liquid financial assets and investment securities, but are, in principle, placed in deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and the like.

(2) Types of Financial Instruments, Related Risks and Risk Management System

(a) Market Risks (Interest Rate Fluctuation Risks)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings. Some of such debt are floating rate instruments and thus are exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant monitoring activities, JEI hedges against the risk of interest rate fluctuations using derivative transactions (interest-rate swaps), which swap a floating interest rate for a fixed interest rate. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions having a high credit rating. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

(b) Liquidity Risk (the risk of being unable to procure funds required for repayments)

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced by diversifying maturity dates and funding sources, executing commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of June 30, 2014), and liquidity risk is managed through the constant management of liquidity on hand.

(3) Supplementary Explanation of the Estimated Fair Value of Financial Instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

5. Financial Instruments (continued)

Fair value of financial instruments

The following are carrying values and fair values as of June 30, 2014 and December 31, 2013 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note 2).

	As of June 30, 2014			As of December 31, 2013			As of June 30, 2014		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 3,967,721	¥ 3,967,721	¥ -	¥ 4,707,845	¥ 4,707,845	¥ -	\$ 39,168,028	\$ 39,168,028	\$ -
(2) Cash in trust and deposits in trust	14,463,293	14,463,293	-	13,206,589	13,206,589	-	142,776,832	142,776,832	-
Total assets	¥ 18,431,014	¥ 18,431,014	¥ -	¥ 17,914,434	¥ 17,914,434	¥ -	\$ 181,944,860	\$ 181,944,860	\$ -
(3) Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
(4) Investment corporation bonds due within one year	5,000,000	5,049,400	49,400	12,000,000	12,030,000	30,000	49,358,342	49,846,002	487,660
(5) Long-term debt due within one year	20,500,000	20,644,680	144,680	15,500,000	15,537,316	37,316	202,369,200	203,797,436	1,428,236
(6) Investment corporation bonds	25,000,000	25,302,410	302,410	17,000,000	17,204,445	204,445	246,791,708	249,776,999	2,985,291
(7) Long-term debt	83,400,000	84,827,154	1,427,154	80,900,000	82,082,964	1,182,964	823,297,137	837,385,526	14,088,389
Total liabilities	¥ 133,900,000	¥ 135,823,644	¥ 1,923,644	¥ 125,400,000	¥ 126,854,725	¥ 1,454,725	\$ 1,321,816,387	\$ 1,340,805,963	\$ 18,989,576
(8) Derivative transactions *	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -

* The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

(Note 1)

Methods for calculating the fair value of financial instruments and matters related to derivatives transactions

Assets

- (1) Cash and cash deposits and
- (2) Cash in trust and deposits in trust

Carrying value approximates fair value because of the short maturities of these instruments.

Liabilities

- (3) Short-term loans,
- (5) Long-term debt due within one year and
- (7) Long-term debt

Where floating rates apply, book value is generally considered appropriate as fair value. The fair value of such liabilities is considered to be close to book value, since floating rates reflect market interest rates within a short period of time.

If the loan is part of long-term debt, in the case of floating-rate debt hedged by an interest-rate swap, the fair value is calculated in a similar manner using the total principal and interest amount, treated in combination with the interest-rate swap, given that the interest-rate swap is subject to the special treatment of interest-rate swaps under Japanese GAAP.

The fair value of long-term fixed-rate debt and long-term fixed-rate debt due within one year are calculated by applying a reasonably assumed interest rate as a discount rate, which was determined to be applicable for the borrowings under similar conditions.

5. Financial Instruments (continued)

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

The fair value of investment corporation bonds issued by JEI is based on quoted market prices.

(8) Derivative transactions

Please refer to Note 15, "Derivative Transactions."

(Note 2)

Financial instruments for which fair value is deemed extremely difficult to determine

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Investment securities ^(*1)	¥ —	¥ 114,513	\$ —
(2) Security deposits from tenants ^(*2)	¥ 775,322	¥ 638,826	\$ 7,653,724
(3) Security deposits from tenants for trust accounts ^(*2)	¥10,600,277	¥9,412,615	\$104,642,419

(*1) As for investment securities (ownership interests in an anonymous association) without available market price and reasonable estimates of cash flows from the underlying properties, the fair value is deemed extremely difficult to determine. Accordingly, they are excluded from fair value disclosures.

(*2) Security deposits from tenants and security deposits in trust accounts from tenants in leased properties are not subject to fair value disclosure, since such deposits have no market price. Furthermore, it is extremely difficult to calculate the whole cash flow from the time the tenant moves in until the time the tenant vacates, i.e., it is extremely difficult to rationally estimate the actual period of time on this kind of security deposit.

(Note 3)

The scheduled redemption amounts of financial assets after the balance sheet date

	As of June 30, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	¥ 3,967,721	¥ —	¥ —	¥ —	¥ —	¥ —
Cash in trust and deposits in trust	14,463,293	—	—	—	—	—
Total	<u>¥18,431,014</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>

	As of June 30, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(U.S. dollars)</i>					
Cash and cash deposits	\$ 39,168,028	\$ —	\$ —	\$ —	\$ —	\$ —
Cash in trust and deposits in trust	142,776,832	—	—	—	—	—
Total	<u>\$181,944,860</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

5. Financial Instruments (continued)

	As of December 31, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	¥ 4,707,845	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	13,206,589	-	-	-	-	-
Total	<u>¥17,914,434</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>

(Note 4)

The scheduled redemption amounts of borrowings, investment corporation bonds and other interest-bearing debt after the balance sheet date

	As of June 30, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds due within one year	5,000,000	-	-	-	-	-
Long-term debt due within one year	20,500,000	-	-	-	-	-
Investment corporation bonds	-	-	5,000,000	-	12,000,000	8,000,000
Long-term debt	-	23,540,000	15,760,000	26,000,000	7,500,000	10,600,000
Total	<u>¥25,500,000</u>	<u>¥23,540,000</u>	<u>¥20,760,000</u>	<u>¥26,000,000</u>	<u>¥19,500,000</u>	<u>¥18,600,000</u>

	As of June 30, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(U.S. dollars)					
Short-term loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment corporation bonds due within one year	49,358,341	-	-	-	-	-
Long-term debt due within one year	202,369,200	-	-	-	-	-
Investment corporation bonds	-	-	49,358,341	-	118,460,020	78,973,347
Long-term debt	-	232,379,072	155,577,493	256,663,376	74,037,512	104,639,684
Total	<u>\$251,727,541</u>	<u>\$232,379,072</u>	<u>\$204,935,834</u>	<u>\$256,663,376</u>	<u>\$192,497,532</u>	<u>\$183,613,031</u>

	As of December 31, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds due within one year	12,000,000	-	-	-	-	-
Long-term debt due within one year	15,500,000	-	-	-	-	-
Investment corporation bonds	-	5,000,000	5,000,000	-	7,000,000	-
Long-term debt	-	15,540,000	16,760,000	24,000,000	14,000,000	10,600,000
Total	<u>¥27,500,000</u>	<u>¥20,540,000</u>	<u>¥21,760,000</u>	<u>¥24,000,000</u>	<u>¥21,000,000</u>	<u>¥10,600,000</u>

6. Investment and Rental Property

For the periods from January 1, 2014 to June 30, 2014 and from July 1, 2013 to December 31, 2013

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2014 and December 31, 2013 for such real estate for lease.

Carrying value		Fair value	
As of December 31, 2013	Change during period ^(*)	As of June 30, 2014	As of June 30, 2014
<i>(Thousands of yen)</i>			
¥238,103,099	¥18,996,445	¥257,099,544	¥248,390,000

Carrying value		Fair value	
As of December 31, 2013	Change during period ^(*)	As of June 30, 2014	As of June 30, 2014
<i>(U.S. dollars)</i>			
\$2,350,474,816	\$187,526,610	\$2,538,001,426	\$2,452,023,692

Carrying value		Fair value	
As of June 30, 2013	Change during period ^(*)	As of December 31, 2013	As of December 31, 2013
<i>(Thousands of yen)</i>			
¥238,861,898	¥ (758,799)	¥238,103,099	¥226,440,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(*1) Changes during period comprise increases of ¥12,099,982 thousand (\$119,447,010) related to the acquisition of HAMARIKYU INTERCITY (Additional acquisition of compartmentalized ownership), ¥2,190,578 thousand (\$21,624,658) related to the acquisition of Aoba-dori Plaza, ¥4,435,960 thousand (\$43,790,326) related to the acquisition of Daiwa Minami-morimachi Building, ¥1,335,694 thousand (\$13,185,528) related to the acquisition of NHK Nagoya Housou-Center Building (Additional acquisition of co-ownership interest), and a decrease of ¥1,624,845 thousand (\$16,039,933) for depreciation costs.

(*2) Changes during period comprise an increase of ¥396,969 thousand related to the capital expenditure for the Kowa Kawasaki-Nishiguchi Building and a decrease of ¥1,504,360 thousand for depreciation costs.

(Note 3)

Fair value as of June 30, 2014 and December 31, 2013 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2014 and December 31, 2013 consisted of the following:

	As of June 30, 2014			As of December 31, 2013			As of June 30, 2014		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
Buildings and building improvements	¥ 5,637,229	¥ (737,078)	¥ 4,900,151	¥ 4,798,600	¥ (658,713)	¥ 4,139,887	\$ 55,648,856	\$ (7,276,195)	\$ 48,372,661
Machinery and equipment	6,253	(566)	5,687	5,125	(302)	4,823	61,731	(5,594)	56,137
Furniture and fixtures	10,716	(1,429)	9,287	8,860	(859)	8,001	105,786	(14,107)	91,679
Land	3,022,966	–	3,022,966	3,022,966	–	3,022,966	29,841,721	–	29,841,721
Construction in progress	11,266	–	11,266	3,241	–	3,241	111,212	–	111,212
Buildings and building improvements for trust accounts	103,368,528	(16,075,495)	87,293,033	92,745,310	(14,556,797)	78,188,513	1,020,419,823	(158,691,953)	861,727,870
Machinery and equipment for trust accounts	590,461	(223,973)	366,488	518,882	(206,234)	312,648	5,828,836	(2,210,983)	3,617,853
Furniture and fixtures for trust accounts	152,432	(63,326)	89,106	146,763	(54,117)	92,646	1,504,757	(625,129)	879,628
Land for trust accounts	152,290,671	–	152,290,671	143,748,477	–	143,748,477	1,503,362,991	–	1,503,362,991
Construction in progress for trust accounts	9,469	–	9,469	16,835	–	16,835	93,471	–	93,471
Total	¥ 265,099,991	¥ (17,101,867)	¥ 247,998,124	¥ 245,015,059	¥ (15,477,022)	¥ 229,538,037	\$ 2,616,979,184	\$ (168,823,961)	\$ 2,448,155,223

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2014 and December 31, 2013 consisted of the following:

	As of June 30, 2014		As of December 31, 2013		As of June 30, 2014
	Amount (Thousands of yen)	Weighted-average interest rate ^{(*)1}	Amount (Thousands of yen)	Weighted-average interest rate ^{(*)1}	Amount (U.S. dollars)
Long-term debt due within one year:					
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875% ^{(*)2}	2,000,000	2.25875% ^{(*)2}	19,743,337
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417% ^{(*)2}	2,000,000	2.28417% ^{(*)2}	19,743,337
Unsecured loans from banks due on December 29, 2014	11,500,000	0.86000%	11,500,000	0.87091%	113,524,185
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344% ^{(*)2}	–	–	49,358,341
Subtotal	20,500,000		15,500,000		202,369,200
Long-term debt:					
Unsecured loans from an insurance company and a bank due on June 30, 2015	–	–	5,000,000	2.27344% ^{(*)2}	–
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% ^{(*)2}	4,540,000	1.13750% ^{(*)2}	44,817,374
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% ^{(*)2}	2,000,000	1.14125% ^{(*)2}	19,743,337
Unsecured loans from banks due on November 30, 2015	4,000,000	0.97125% ^{(*)2}	4,000,000	0.97125% ^{(*)2}	39,486,673
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% ^{(*)2}	13,000,000	1.36375% ^{(*)2}	128,331,689
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% ^{(*)2}	3,760,000	1.24375% ^{(*)2}	37,117,473
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% ^{(*)2}	5,000,000	1.24750% ^{(*)2}	49,358,341
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% ^{(*)2}	4,000,000	1.03000% ^{(*)2}	39,486,673
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% ^{(*)2}	3,000,000	1.09734% ^{(*)2}	29,615,005
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% ^{(*)2}	6,000,000	1.73875% ^{(*)2}	59,230,010
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% ^{(*)2}	3,000,000	1.08375% ^{(*)2}	29,615,005
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% ^{(*)2}	2,000,000	1.04550% ^{(*)2}	19,743,337
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% ^{(*)2}	1,000,000	1.19212% ^{(*)2}	9,871,668
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% ^{(*)2}	3,000,000	1.65125% ^{(*)2}	29,615,005
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% ^{(*)2}	11,000,000	0.81225% ^{(*)2}	108,588,352
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% ^{(*)2}	–	–	37,018,756
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% ^{(*)2}	–	–	37,018,756
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% ^{(*)2}	2,000,000	1.60000% ^{(*)2}	19,743,337
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% ^{(*)2}	2,600,000	1.36400% ^{(*)2}	25,666,337
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% ^{(*)2}	1,000,000	1.31261% ^{(*)2}	9,871,668
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% ^{(*)2}	3,000,000	1.00000% ^{(*)2}	29,615,005
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% ^{(*)2}	2,000,000	1.60750% ^{(*)2}	19,743,336
Subtotal	83,400,000		80,900,000		823,297,137
Total	¥103,900,000		¥ 96,400,000		\$ 1,025,666,337

(*1) The weighted-average interest rate is weighted by the balance of each borrowing at the end of the period and rounded to the nearest fifth decimal place. As for the borrowings, which were hedged by interest-rate swaps for the purpose of mitigating interest rate fluctuation risk, the fixed interest rates after entering into the interest rate swap transactions are used to calculate the weighted-average interest rate.

(*2) These are fixed-rate debts (incl. Fixed-rate debts through each interest-rate swap agreement).

8. Short-Term Loans and Long-Term Debt (continued)

The scheduled repayment amounts of long-term debt after the balance sheet date (excluding the long-term debt due within one year) are as follows:

	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>				
Long-term debt	¥23,540,000	¥15,760,000	¥26,000,000	¥7,500,000	¥10,600,000
	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>				
Long-term debt	\$232,379,072	\$155,577,493	\$256,663,376	\$74,037,512	\$104,639,684

JEI has commitment lines of ¥14,000 million (\$138,203 thousand) with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2014, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2014 and December 31, 2013 are summarized as follows:

	<u>As of June 30, 2014</u>		<u>As of December 31, 2013</u>		<u>As of June 30, 2014</u>
	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Unsecured bond #1 due on March 11, 2014	¥ —	—	¥12,000,000	1.52000%	\$ —
Unsecured bond #2 due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	49,358,341
Unsecured bond #3 due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%	49,358,341
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%	19,743,337
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%	49,358,341
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	—	—	49,358,342
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	—	—	78,973,347
Total	<u>¥30,000,000</u>		<u>¥29,000,000</u>		<u>\$296,150,049</u>

9. Investment Corporation Bonds (continued)

The scheduled redemption amounts of investment corporation bonds after the balance sheet date are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Investment corporation bonds	¥5,000,000	–	¥5,000,000	–	¥12,000,000	¥8,000,000

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>					
Investment corporation bonds	\$49,358,341	–	\$49,358,341	–	\$118,460,020	\$78,973,347

10. Net Assets

In accordance with the Investment Trust Law, JEI issues only non-par value investment units and maintains net assets of at least ¥50 million.

11. Per Unit Information

JEI implemented a five-for-one split of its investment units with January 1, 2014 as the effective date.

Net assets per unit as of June 30, 2014 were calculated based on the number of units outstanding as of June 30, 2014, i.e. 1,212,750 units after completion of the abovementioned five-for-one split of its investment units.

Net income per unit for the period from January 1, 2014 to June 30, 2014 was calculated based on the weighted-average number of units outstanding during the respective period, i.e. 1,198,783 units.

Net assets per unit as of December 31, 2013 and net income per unit for the period from July 1, 2013 to December 31, 2013 were calculated based on the number of units of 1,124,750, which would have been outstanding if the abovementioned five-for-one split of its investment units had been implemented at the beginning of this period.

Accordingly, net assets per unit were ¥108,017 (\$1,066) as of June 30, 2014 and ¥107,324 as of December 31, 2013. Net income per unit was ¥2,511 (\$25) for the period from January 1, 2014 to June 30, 2014, and ¥2,466 for the period from July 1, 2013 to December 31, 2013.

12. Income Taxes

JEI is subject to income taxes in Japan.

JEI's policy is to make dividend distributions in excess of 90% of distributable income for each fiscal period in order to meet the condition set forth in the Special Taxation Measures Law of Japan concerning the deductibility of cash dividends paid for income tax purposes.

Details of significant components of deferred tax assets and liabilities as of June 30, 2014 and December 31, 2013 are summarized as follows:

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥23	¥23	\$223
Total deferred tax assets	23	23	223
Net deferred tax assets	¥23	¥23	\$223

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2014 to June 30, 2014 and from July 1, 2013 to December 31, 2013 is as follows:

	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2013 to December 31, 2013
Statutory tax rate	36.59%	36.59%
Reconciliation:		
Deductible distributions paid	(36.57)	(36.57)
Other	0.02	0.02
Effective tax rate	0.04%	0.04%

Adjustment in deferred tax assets and deferred tax liabilities due to tax rate change

The "Act for Partial Revision of Income Tax Act" (Act No.10 of 2014) promulgated on March 31, 2014 partially revised the "Special Measures to Secure the Funds to Realize the Restoration of the Damages following the Great East Japan Earthquake" (Act No.117 of 2011) to limit the taxation period of the special corporate tax for restoration to March 31, 2014, resulting in a change of the statutory tax rate applicable to the deferred tax assets and deferred tax liabilities arising from the temporary differences that are expected to be resolved in the fiscal period starting on April 1, 2014 and after to 34.16%. The impact of this change is minimal.

13. Breakdown of Property Rental Business Revenues and Expenses

	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2013 to December 31, 2013	For the period from January 1, 2014 to June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥8,599,070	¥7,957,889	\$84,887,170
Other	959,325	890,351	9,470,142
Total rental business revenues	<u>9,558,395</u>	<u>8,848,240</u>	<u>94,357,312</u>
Property operating expenses:			
Property management costs and fees	1,272,707	1,110,059	12,563,740
Utilities	1,013,223	1,005,469	10,002,200
Property and other taxes	699,483	632,315	6,905,066
Insurance	27,459	24,956	271,064
Repairs and maintenance	189,162	121,725	1,867,340
Depreciation	1,624,845	1,504,360	16,039,933
Other	195,685	206,126	1,931,742
Total property operating expenses	<u>5,022,564</u>	<u>4,605,010</u>	<u>49,581,085</u>
Profit	<u>¥4,535,831</u>	<u>¥4,243,230</u>	<u>\$44,776,227</u>

14. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2014 and December 31, 2013, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2014	As of December 31, 2013	As of June 30, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥ 606,136	¥ 442,335	\$ 5,983,574
Due after one year	489,252	517,255	4,829,734
Total	<u>¥ 1,095,388</u>	<u>¥ 959,590</u>	<u>\$ 10,813,308</u>

15. Derivative Transactions

Derivative Transactions as of June 30, 2014

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of June 30, 2014 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value	Contract amount		Fair value	Method of calculating the fair value
				More than one year				More than one year		
						<i>(Thousands of yen)</i>				
						<i>(U.S. dollars)</i>				
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥65,400,000	¥65,400,000	*	/	\$645,607,108	\$645,608,108	*	/

* Since the above interest-rate swap qualifies for hedge accounting and meets certain matching criteria, the swap is not recorded at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 5, "Financial Instruments."

Derivative Transactions as of December 31, 2013

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of December 31, 2013 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥57,900,000	¥57,900,000	*	/

* Since the above interest-rate swap qualifies for hedge accounting and meets certain matching criteria, the swap is not recorded at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 5, "Financial Instruments."

16. Related Party Transactions

For the period from January 1, 2014 to June 30, 2014

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Hidehiko Ogawa	Payment of asset management fees to JEAM	¥397,206	\$3,921,087	Accounts payable	¥269,840	\$2,663,768

For the period from July 1, 2013 to December 31, 2013

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Chifumi Toda	Payment of asset management fees to JEAM	¥389,209		Accounts payable	¥250,277	

17. Segment Information

For the periods from January 1, 2014 to June 30, 2014 and from July 1, 2013 to December 31, 2013

Since JEI has been engaged in the real-estate leasing business as a single segment, segment information has been omitted.

Information about products and services

Since revenues from external customers for a single segment of similar products and services accounted for more than 90% of total operating revenues, information about products and services has been omitted.

Information about geographic area

(1) Revenues

Since 100% of the total operating revenues were generated from external customers within Japan, geographical breakdown of revenues has been omitted.

(2) Property and equipment

Since 100% of total property and equipment on the balance sheet are located within Japan, geographical breakdown of such property and equipment has been omitted.

Information about major clients

Since no single external client represents 10% or more of JEI's total operating revenues, information about major clients has been omitted.

18. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,010,045,500 (\$29,714,171), which is the maximum integral multiple of the 1,212,750 units issued not exceeding unappropriated retained earnings at June 30, 2014. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 18, 2014, the Board of Directors approved a resolution to make a cash distribution of ¥2,482 (\$25) per unit aggregating to ¥3,010,045,500 (\$29,714,171) to unitholders of record as of June 30, 2014.

19. Significant Subsequent Events

Not applicable.