

# Asset Management Report for 12<sup>th</sup> Period

(Semi-Annual Report for 12<sup>th</sup> Period)

From January 1, 2012 to June 30, 2012



**Japan Excellent, Inc.**

## **I. Greetings**

### **To Our Unitholders**

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

We have announced our financial results for the twelfth period started January 1, 2012 and ended June 30, 2012.

JEI recorded total revenues of 7,740 million yen and net income of 2,434 million yen. Distribution per unit marked 12,200 yen, an increase of 346 yen compared with the last period, as expected in our forecast at the beginning of the period.

Whilst the office market remains softened, we realized solid expansion of our asset portfolio through property acquisitions leveraging the support of our sponsors. In addition, the interim average occupancy rate of the portfolio improved to 94.8 percent from 93.8 percent, as a result of our proactive leasing activities.

Looking at the financial strength, we maintain sound financial management through promotion of conversion of floating-rate debts to fixed-rate debts and diversification of maturity dates.

### **About Future Asset Management**

In the office leasing market, a temporary rise in the vacancy rate is anticipated due to the current one-time large supply of office buildings. Yet future supply of new buildings is expected to slide and the demand and supply will improve gradually following a period of ups and downs in a narrow range.

Based on these projections, Japan Excellent, Inc. (JEI) will further enhance interactions with our property management companies, seek for stable portfolio management and enhanced profitability, and look at appropriate investment opportunities for quality properties.

In financing, we will consistently strive for stable and sound financial operation through diversifying and standardizing maturity dates, converting floating-rate debts to fixed-rate debts, and lengthening borrowing spans.

JEI will further promote our compliance system through strict conformance with the Financial Instruments and Exchange Act and other applicable laws and regulations. In addition, we will be always paying attention to provide information about our financial conditions and asset management performance to our unitholders in an accurate and straightforward manner.

We kindly ask for your continued cooperation and support.

Chifumi Toda  
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		8th Period January 1, 2010 to June 30, 2010	9th Period July 1, 2010 to December 31, 2010	10th Period January 1, 2011 to June 30, 2011	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012
Revenues	(Millions of yen)	7,302	7,094	7,337	7,085	7,740
(Rental revenues)	(Millions of yen)	7,302	7,094	7,034	7,085	7,587
Operating expenses	(Millions of yen)	4,050	4,040	4,117	4,116	4,400
(Property operating expenses)	(Millions of yen)	3,516	3,494	3,555	3,645	3,901
Operating income	(Millions of yen)	3,252	3,053	3,220	2,969	3,340
Ordinary income	(Millions of yen)	2,367	2,219	2,362	2,237	2,435
Net income	(Millions of yen)	2,366	2,218	2,313	2,236	2,434
Total assets	(Millions of yen)	194,710	199,186	209,142	227,249	228,818
(Period-on-period change) (Note 1)	(%)	(-0.1)	(2.2)	(4.9)	(8.6)	(0.6)
Net assets	(Millions of yen)	89,389	89,272	104,366	104,338	104,537
(Period-on-period change) (Note 1)	(%)	(0.0)	(-0.1)	(16.9)	(0.0)	(0.1)
Unitholders' capital	(Millions of yen)	87,083	87,083	102,052	102,052	102,052
Outstanding investment units	(units)	154,550	154,550	188,650	188,650	188,650
Net assets per unit	(yen)	578,387	577,629	553,227	553,081	554,134
Net income per unit (Note 2)	(yen)	15,314	14,353	12,677	11,853	12,906
Total distribution	(Millions of yen)	2,366	2,218	2,263	2,236	2,301
Distribution per unit	(yen)	15,315	14,353	12,000	11,854	12,200
(Profit distribution per unit)	(yen)	15,315	14,353	12,000	11,854	12,200
(Distribution in excess of earnings per unit)	(yen)	(—)	(—)	(—)	(—)	(—)
Return on assets (Note 3)	(%)	1.2	1.1	1.2	1.0	1.1
(Annualized rate)	(%)	(2.5)	(2.2)	(2.3)	(2.0)	(2.1)
Return on equity (Note 4)	(%)	2.6	2.5	2.4	2.1	2.3
(Annualized rate)	(%)	(5.3)	(4.9)	(4.8)	(4.3)	(4.7)
Capital ratio (Note 5)	(%)	45.9	44.8	49.9	45.9	45.7
(Period-on-period change)	(%)	(0.0)	(-1.1)	(5.1)	(-4.0)	(-0.2)
Payout ratio (Note 6)	(%)	100.0	99.9	97.8	100.0	94.5
Number of investment properties	(properties)	18	19	19	23	24
Number of tenants	(tenants)	124	108	109	124	136

Total leasable space	(m <sup>2</sup> )	220,474	228,177	234,547	262,464	266,981
Occupancy rate	(%)	97.4	91.7	92.4	93.8	94.7
Depreciation	(Millions of yen)	992	993	1,080	1,156	1,260
Capital expenditure	(Millions of yen)	248	328	347	357	393
Net operating income (NOI) (Note 7)	(Millions of yen)	4,778	4,593	4,559	4,595	4,946
Funds from operation (FFO) per unit (Note 8)	(yen)	21,737	20,780	16,391	17,982	18,780
FFO multiples (Note 9)	(times)	9.6	13.0	12.2	8.4	10.5
Debt service coverage ratio (DSCR) (Note 10)	(times)	4.4	4.3	4.5	4.3	4.2
Interest-bearing debt	(Millions of yen)	95,500	100,400	95,500	112,800	113,800
Loan-to-value (Note 11)	(%)	49.0	50.4	45.7	49.6	49.7
Number of days in operation	(days)	181	184	181	184	182

(Note 1) Period-on-period change of total assets and net assets are rounded down to one decimal place.

(Note 2) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.

(Note 3) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 4) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 5) Capital ratio = Period end net assets / Period end total assets × 100 (The ratio is rounded to one decimal place.)

(Note 6) Payout ratio = Total distribution / Net income × 100 (The ratio is rounded down to one decimal place.)

(Note 7) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 8) 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.)

(Note 9) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 10) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds) (The ratio is rounded one first decimal place.)

(Note 11) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100 (The ratio is rounded to one decimal place.)

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 in accordance with 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 to maintain sound corporate growth and stable revenues based on the medium- and long-term perspectives. On June 30, 2012, we settled our twelfth period.

## 1) Business Conditions and Results

The domestic economy for the period showed a slight rebound in demand, primarily driven by the immediate needs for the recovery from the Great East Japan Earthquake. Still, the economic sentiment in Japan remains as difficult as ever among concerns over European debt crisis, downturn in the US and Chinese economies and softened manufacturing and export, casting continued uncertainties.

In the office leasing market, a demand increase can be seen in some favorable industries such as information and telecommunications, yet generally the demand and supply has shown a back and forth state on the fear of continuing uncertainties. In the Tokyo metropolitan area, the current large supply in office buildings has caused the occupancy rate to the bottoming out. Also the rent level in the market has been moving at a rock bottom state. While a slightly healthy demand has been tentatively indicated in Osaka and Nagoya areas, the rent level remains weakened given the near-term forecast of loosening demand and supply in the office leasing market.

In these severe business conditions, JEI worked on thoughtful control over asset management expenses and stimulated leasing activities, particularly through close interactions with respective property management companies. As a result, the interim average occupancy rate for our holding properties as a whole improved to 94.8 percent from 93.8 percent. Precisely, to realize an effective and efficient property management operation, we monitored the service level of each property, performed the corresponding control measures and reviewed the fee structure that aligns with the leasing environment (i.e., simultaneous implementation of the cost reduction and incentive program).

In the real estate investment market, amid a number of reported capital increase through public offering and new listing by realty investors, trading led by these companies has been continuing steadily. Under these circumstances, JEI acquired two properties, Hiroshima Hacchobori Dai-ichi Seimei Building and Shintomicho Building, during the period.

The entire asset portfolio held by JEI as of the end of the period recorded 24 properties in the investment amount of 217 billion yen (on the acquisition price basis) with total leasable space of 266,981.61m<sup>2</sup> (80,761.93 tsubo) at a 94.7 percent occupancy rate (an increase of 0.9 percentage points from the last period).

## 2) Fund Raising Highlight

We have made efforts consistently since the previous period to raise funds, focusing on conversion of floating-rate debts to fixed-rate debts, diversification of maturity dates and lengthening of interest-bearing debts.

For refinancing a short-term loan of 9 billion yen which matured on January 31, 2012, JEI managed to raise long-term loan in the same amount (Breakdown: 2 billion yen of 8-year fixed interest loan, 5-billion yen of 5-year floating interest loan, and 2 billion yen of 3.8-year floating interest loan). As for floating interest loans (totaled 7 billion yen), we promoted the conversion of floating-rate debts to fixed-rate debts through interest rate swaps.

JEI entered into a short-term loan of 1 billion yen on a revolving credit line basis on May 7, 2012

to apply to part of funds for the acquisition of Shintomicho Building.

As a result, as of the end of the period, the average remaining debt maturity of interest-bearing debts became 2.83 years, long-term borrowing ratio was 99.1percent, fixed rate ratio was 69.7 percent, and weighted average interest rate for loans purchased recorded 1.36 percent. Outstanding interest-bearing debts totaled 113.8 billion yen, of which 1 billion yen was for short-term loans, 88.8 billion yen was for long-term loans (including those of 21 billion yen with the maturity of less than one year) and 24 billion yen for investment corporation bonds (loan to value ratio for the total assets was 49.7 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	Estimated amount of issuance	Scheduled period for issuance
Investment corporation bond	100 billion yen	From February 9, 2012 to February 8, 2014

The ratings for JEI provided by the following rating agencies are shown below:

(Ratings as of June 30, 2012)

	Rating and Investment Information, Inc. (R&I)	Moody's Japan
Issuer rating (outlook)	AA- (Stable)	A3 (Stable)
Individual debt issue rating <sup>(Note)</sup>	AA-	-

(Note) Ratings for unsecured investment corporation bonds (No.1 through No.4).

### 3) Financial Results and Distribution Highlight

As a result of the above investments, JEI recorded 7,740 million yen in total revenues, 3,340 million yen in operating income, 2,435 million yen in ordinary income and 2,434 million yen in net income for the period under review.

As for distributions, JEI determined to retain part of retained earnings at the end of period as reserve for advanced depreciation, applying Special Measure Concerning Taxation for Advance Acquisition of Land, etc. During the Period from Calendar Year 2009 to 2010 (Section 66.2 of the Special Taxation Measures Law).

JEI also determined to distribute most of the balance of retained earnings at the end of period by deducting the reserve for advanced depreciation stipulated in Section 66.2 of the Law (rounding down the amount of investment unit to the nearest yen). As a result, JEI determined the amount of distribution per investment unit to be 12,200 yen.

### (3) Capital Increase

JEI had no changes in the number of outstanding investment units for the period under review. The outline of the changes is as follows:

Paid-up Date	Capital transaction	Outstanding investment units (units)		Unitholders' capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for corporation	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)

(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 a price of 520,000 yen per unit (subscription price of 501,800 yen per unit) through a public offering in order to raise funds for purchasing new properties which were acquired at the time of the listing.

(Note 3) New investment units were issued at a price of 501,800 yen per unit through an allocation of investment units to a third party in order to apply to certain part of funds for new property acquisitions.

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

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

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

(Note 7) New investment units were issued at a price of 438,984 yen per unit through an allocation of investment units to a third party in order to refund the short-term loans procured to acquire new

properties in the ninth period and to raise funds to acquire a new property which was acquired in the tenth period.

[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 are as follows:

Investment unit market price	Fiscal period (closing date)	8th period (June 2010)	9th period (December 2010)	10th period (June 2011)	11th period (December 2011)	12th period (June 2012)
	Highest (yen)	496,500	570,000	543,000	408,000	430,000
	Lowest (yen)	386,500	397,000	363,500	295,500	297,600

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

#### (4) Distributions Paid

The distributions for the twelfth fiscal period were determined to be 12,200 yen per unit. The Investment Corporation has determined to distribute most of retained earnings at the end of period, less reserve for advanced depreciation stipulated in Section 66.2 of the Special Taxation Measures Law, rounding down the portion less than 1 yen of distribution per investment unit, with the intent to apply the Special Taxation Measures Law (Section 67.15 of the Law on the Special Taxation Measures Law) and Special Taxation Measures for Advance Acquisition of Land, etc. During the Period from Calendar Year from 2009 to 2010 (Section 66.2 of the Special Taxation Measures Law) in which the amount equivalent to distributions from profits is deducted from taxable corporate income as a deductible expense.

Fiscal period	8th period	9th period	10th period	11th period	12th period
Accounting Term	January 1, 2010 to June 30, 2010	July 1, 2010 to December 31, 2010	January 1, 2011 to June 30, 2011	July 1, 2011 to December 31, 2011	January 1, 2012 to June 30, 2012
Retained earnings at end of period(Thousands of yen)	2,366,962	2,218,333	2,314,032	2,236,262	2,434,824
Retained earnings(Thousands of yen)	29	76	50,232	5	133,294
Total profit distributions(Thousands of yen)	2,366,933	2,218,256	2,263,800	2,236,257	2,301,530
(Distributions per unit)(yen)	(15,315)	(14,353)	(12,000)	(11,854)	(12,200)
Total profit distributions(Thousands of yen)	2,366,933	2,218,256	2,263,800	2,236,257	2,301,530
(Profit distribution per unit)(yen)	(15,315)	(14,353)	(12,000)	(11,854)	(12,200)
Total refund of investment	—	—	—	—	—



equity					
(Refund of investment per unit)	(-)	(-)	(-)	(-)	(-)

## **(5) Policy and issues on future investment management**

### **1) Outlook for investment environment**

Looking ahead, the domestic economy is expected for a slight recovery and growth given the demand for restoration associated with the Great East Japan Earthquake. However, it will take some time towards a full scale economic recovery due to the slowdown of the US and Chinese economies and concerns for a potential resurfacing of European financial crisis. In the office leasing market in the Tokyo metropolitan area, a rise in the vacancy rate is anticipated due to the recent one-time oversupply of office buildings. Yet the future supply and demand is expected to trend in a consistent to slightly increasing level, based on the anticipated decrease in supply of new buildings in the months ahead. Though rent level for certain buildings in the center of Tokyo seems to bottom out, the recovery momentum in general is not expected to come anytime soon.

In Osaka and Nagoya areas, amid extended trend in moderate supply and demand due to scheduled supply of major office buildings, the current difficult situations will remain for the time being.

In the real estate investment market, sale and purchase transactions are expected to increase as easing trend of fund-raising conditions and needs of realty investment enterprises and other investors are likely to continue. Based on the fact, however, that there is a gap in target price and interest rate between sellers and buyers, supply in quality properties that meet the expectations for asset size or envisioned price of the both parties will remain limited.

### **2) Policy and issues on future investment management**

Amid a delay in recovery in the office leasing market, JEI works to improve our profitability in the overall asset portfolio through improvement of occupancy rate of existing properties and other appropriate measures. We will continue to strive for realizing more efficient property management operation, focusing on retaining new tenants as early as possible, particularly for properties with low occupancy rate such as Ebina Prime Tower and Kawasaki Nissincho Building through simultaneous implementation of cost reduction measures and incentive program, etc. In order to maintain the asset value of our portfolio and improve competitive position of our properties on the medium- to long-term basis, we will consistently implement additional strategic investment plans including the placement of an emergency power generator placement based on the needs stipulated in the business continuity plans.

For external growth, we will plan and implement well-balanced investments based on the size, profitability and target area, including asset replacements, to increase asset size and realize stable profitabilities in our portfolio on the medium- to long-term basis. To this end, we will continue enhancing further interaction and collaboration with sponsor companies, have our asset management companies to cultivate and refine property information sources, and seek business opportunities with efforts to proactively gain access to market information.

As for the financial environment, the fund-raising environment is generally favorable for realty investment enterprises. Still, we will consistently work on stable and sound financial operation to address uncertainties for the future in the financial market due to arising out of the European

financial crisis that may become more severe and other factors, through taking appropriate measures on converting floating-rate debts to fixed-rate debts, diversifying maturity dates, lengthening borrowing spans, maintaining liquidity by renewing commitment lines and ensuring appropriate ratio of interest-bearing debts.

#### (6) Subsequent events

None.

## 2. Outline of the Investment Corporation

### (1) Investment unit

Fiscal period	8th As of June 30, 2010	9th As of December 31, 2010	10th As of June 30, 2011	11th As of December 31, 2011	12th As of June 30, 2012
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units
Number of units issued and outstanding	154,550 units	154,550 units	188,650 units	188,650 units	188,650 units
Unitholders' capital	87,083 million yen	87,083 million yen	102,052 million yen	102,052 million yen	102,052 million yen
Number of unitholders	5,469 individuals	5,495 individuals	7,411 individuals	7,875 individuals	7,447 individuals

### (2) Unitholders

Major unitholders as of June 30, 2012 are as follows:

Name	Address	Number of units owned (Units)	Ratio of number of units owned to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	45,614	24.18
Kowa Real Estate Co., Ltd.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	14,312	7.59
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	11,704	6.20
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	11,184	5.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	7,569	4.01
NOMURA BANK (LUXEMBOURG) S.A.	Batiment A, 33, Rue de Gasperich, L-5826, Luxembourg	5,294	2.81
North Pacific Bank, LTD.	3-7 Odori-Nishi, Chuo-ku, Sapporo-shi, Hokkaido	4,590	2.43
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	4,132	2.19
The Chugoku Bank, LTD.	1-15-20 Marunouchi, Kita-ku, Okayama-shi, Okayama	3,405	1.80

The Gibraltar Life Insurance Co., Ltd. (General Account J-REIT)	2-13-10 Nagata-cho, Chiyoda-ku, Tokyo	2,225	1.18
Total		110,029	58.32

(Note) Ratio of number of units owned to outstanding investment units is rounded to two decimal places.

### (3) Officers

#### 1) Directors and Accounting Auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2012 (Thousands of yen)
Executive Director	Chifumi Toda	President and Director, Japan Excellent Asset Management Co., Ltd.	-
Supervisory Director	Makoto Sakagami	Makoto Sakagami Certified Public Accounting Office	6,540
Supervisory Director	Tsuyoshi Nagahana	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Accounting Auditor	Ernst & Young ShinNihon LLC	—	13,000 (Note 2)

(Note 1) There is no investment unit of JEI held by the Executive Director nor the Supervisory Directors.

Although Supervisory Directors may have additional post in other company than listed above, there is no conflict of interests between those companies including listed above and JEI.

(Note 2) Total of compensations is an estimated amount and include fees for English financial statement audit.

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

The board of directors deliberate dismissal of accounting auditor in accordance with the provisions set out in the Act on Investment Trust and Investment Corporation and deliberate discontinuation of re-election 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, 2012 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 Corporate Bank, Ltd.

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area	11th Period (December 31, 2011)		12th Period (June 30, 2012)	
			Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)	Acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)
Real estate property (Note 3)	Office	Area II <sup>(Note 4)</sup>	4,377	1.9	4,480	2.0
Trust beneficiary interest in real estate (Note 3)		Area I <sup>(Note 4)</sup>	114,242	50.3	112,923	49.3
		Area II <sup>(Note 4)</sup>	7,461	3.3	7,443	3.2
		Area III <sup>(Note 4)</sup>	74,629	32.8	74,119	32.4
		Area IV <sup>(Note 4)</sup>	3,395	1.5	6,168	2.7
Trust beneficiary interest in real estate	Others	Area I <sup>(Note 4)</sup>	7,096	3.1	7,044	3.1
Total			211,203	92.9	212,178	92.7
Deposits in bank and other assets			16,046	7.1	16,639	7.3
Total assets			227,249	100.0	228,818	100.0

(Note 1) Acquisition price is based on the amounts accounted for in the balance sheet as of the closing date (amounts of real estate and trust beneficiary interest in real estate are based on the book value after adjusting depreciations).

(Note 2) Investment ratio in portfolio is rounded to one decimal place.

(Note 3) Leasehold rights held combined with buildings and other structures are indicated in real estate property and trust beneficiary interest in real estate at the combined amount.

(Note 4) 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.)

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.

## (2) Major Property

The principal properties (top ten properties in net book value) held by JEI as of June 30, 2012 are as follows:

Name	Book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	30,419	38,332.15	36,281.92	94.7	12.0	Office
Akasaka Garden City	22,824	8,769.53	7,992.53	91.1	4.7	Office
Omori Bellport D	21,867	25,828.29	24,748.26	95.8	13.0	Office
AKASAKA INTERCITY	17,494	5,622.98	5,622.98	100.0	4.2	Office
Musashikosugi Tower Place	13,004	25,217.28	25,217.28	100.0	10.5	Office
Daiba Garden City Building	10,877	12,122.85	12,122.85	100.0	4.5	Office
Kowa Kawasaki Higashiguchi Building	10,229	18,612.72	18,612.72	100.0	(Note 5)	Office
Shiba 2-Chome Building	9,172	11,749.30	11,749.30	100.0	4.9	Office
No. 35 Kowa Building	8,300	9,377.16	9,377.16	100.0	(Note 5)	Office
JEI Hamamatsucho Building	8,272	6,411.26	6,411.26	100.0	3.4	Office
Total	152,463	162,043.52	158,136.26	97.6	66.8	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2012 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after 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 arrangements between end tenants as of June 30, 2012 and is rounded to two decimal places. If the property is a joint ownership property, the value is obtained after multiplying the total leased space of the shared real estate by the percentage of the interest owned by JEI. The leased space of end tenants who terminated their lease arrangement but not yet removed as of the end of period is included in the leased space. This also applies to the calculations of occupancy rate in (Note 3) below and the total number of tenants in (Note 1) in (3) Portfolio Ownership Breakdown.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2012 and rounded to one decimal place.

(Note 4) Ratio of rental revenue to total rental revenues is rounded to one decimal place.

(Note 5) The values of Kowa Kawasaki Higashiguchi Building and No. 35 Kowa Building are undisclosed because the consent from the tenants have not obtained.

### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2012 are as follows:

Property No.	Name of property	Location (Displayed Address)	Form of ownership	Appraisal value at the end of period (Millions of yen) (Note 1)	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	24,110	21,867
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,900	9,172
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,470	8,272
I-4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,080	7,396
I-7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,700	22,824
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,500	17,494
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,090	4,904
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,730	10,877
I-11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,110	8,300
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,550	7,044
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,806	1,812
Area I				115,046	119,967
II-1	NHK Nagoya Housou Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	4,250	4,480

II-2	JEI Building	Nishi-Honmachi	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,420	7,443
Area II					8,670	11,923
III-1	Musashikosugi Place	Tower	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,400	13,004
III-2	Kowa Higashiguchi Building	Kawasaki	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,380	10,229
III-3	JEI Hongo Building		2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,560	5,248
III-5	Kawasaki Building	Nisshincho	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	3,570	4,063
III-6	No. 44 Kowa Building		1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,540	993
III-7	JEI Ryogoku Building		3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,136	2,379
III-8	Ebina Prime Tower		2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,690	6,116
III-9	Kowa Kawasaki Building	Nishiguchi	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,500	30,419
III-10	Pacific Square Sengoku		2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,638	1,664
Area III					66,414	74,119
IV-2	JEI Kyobashi Building		2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	3,510	3,365
IV-3	Hiroshima Dai-ichi Seimei Building	Hacchobori	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,770	2,803
Area IV					6,280	6,168
Total					196,410	212,178

(Note 1) Appraisal value at the end of period indicates the appraisal value described in the real estate appraisal report prepared by a real estate appraiser belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., and Japan Valuers Co., Ltd. as of June 30, 2012 based on the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. When there is a joint ownership property in the current portfolio, its value is obtained after multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.



Property No.	Name of property	11th Period July 1, 2011 to December 31, 2011				12th Period January 1, 2012 to June 30, 2012			
		Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)	Total number of tenants (At the end of period) (Note 1)	Occupancy rate (At the end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%) (Note 2)
I-1	Omori Bellport D	1	100.0	1,028	14.5	1	95.8	989	13.0
I-2	Shiba 2-Chome Building	2	97.6	372	5.3	2	100.0	371	4.9
I-3	JEI Hamamatsucho Building	1	100.0	295	4.2	1	100.0	254	3.4
I-4	No. 32 Kowa Building	1	97.4	276	3.9	1	98.2	274	3.6
I-6	No. 28 Kowa Building (Note 4)	1	100.0	120	1.7	—	—	39	0.5
I-7	Akasaka Garden City	1	82.3	357	5.0	1	91.1	359	4.7
I-8	AKASAKA INTERCITY	13	100.0	312	4.4	13	100.0	318	4.2
I-9	Kowa Shirokanedai Building	1	100.0	205	2.9	1	80.4	191	2.5
I-10	Daiba Garden City Building	1	100.0	338	4.8	1	100.0	338	4.5
I-11	No. 35 Kowa Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
I-12	HAMARIKYU INTERCITY	4	87.2	15	0.2	7	98.6	260	3.4
I-13	Shintomicho Building	-	-	-	-	9	100.0	37	0.5
Area I		27	97.1	-	-	38	96.9	-	-
II-1	NHK Nagoya Housou Center Building	32	90.6	291	4.1	30	96.0	292	3.9
II-2	JEI Nishi-Honmachi Building	1	90.0	229	3.2	1	90.0	208	2.7
Area II		33	90.3	-	-	31	92.7	-	-
III-1	Musashikosugi Tower Place	36	100.0	796	11.2	36	100.0	794	10.5
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III-3	JEI Hongo Building	1	100.0	174	2.5	1	100.0	174	2.3
III-5	Kawasaki Nisshincho Building	1	96.7	223	3.2	1	96.1	217	2.9
III-6	No. 44 Kowa Building	1	99.1	91	1.3	1	100.0	90	1.2

III-7	JEI Building	Ryogoku	1	100.0	109	1.5	1	100.0	108	1.4
III-8	Ebina Tower	Prime	15	69.3	323	4.6	17	75.9	324	4.3
III-9	Kowa Building	Kawasaki Nishiguchi	1	92.6	886	12.5	1	94.7	913	12.0
III-10	Pacific Sengoku	Square	6	100.0	5	0.1	6	100.0	80	1.1
Area III			63	91.6	-	-	65	93.4	-	-
IV-2	JEI Building	Kyobashi	1	96.3	124	1.8	1	96.2	185	2.4
IV-3	Hiroshima Dai-ichi Building	Hacchobori Seimei	-	-	-	-	1	90.5	33	0.4
Area IV			1	96.3	-	-	2	93.5	-	-
Total			124	93.8	7,085	100.0	136	94.7	7,587	100.0

(Note 1) Total number of tenants indicates total number of tenants in each property as of the end of each period. A property entered into a master lease arrangement is counted as one tenant. A tenant who has multiple tenancies in one property is counted as one tenant. A tenant who has tenancies in multiple properties is counted as one tenant for each property.

(Note 2) Ratio of rental revenue to total rental revenues is rounded to one decimal place.

(Note 3) The values of Kowa Kawasaki Higashiguchi Building and No. 35 Kowa Building are undisclosed because the consent from the tenants have not obtained.

(Note 4) No. 28 Kowa Building was sold on February 29, 2012.

#### (4) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) <sup>(Note 1)</sup>		Fair value (Thousands of yen) <sup>(Note 2)</sup>
			Over one year	
Over-the-counter transaction	Interest rate swap contracts with floating-rate to fixed-rate interest	28,300,000	28,300,000	—

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

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

#### 4. Capital Expenditures for Holding Properties

##### (1) Scheduled Capital Expenditures

The following table shows major planned capital expenditures associated with planned maintenance and repair for the properties held by JEI as of June 30, 2012. The values below include those to be expensed for accounting purposes.

Name of property	Location	Purpose	Scheduled term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2012	Total of advance payment
NHK Nagoya Housou Center Buiding	Higashi-ku, Nagoya-shi	Fire prevention monitoring system renewal construction	From July 2011 To July 2012	51	—	—
Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki-shi	Utility renovation	From June 2012 To August 2012	42	—	—
JEI Nishi-Honmachi Building	Nishi-ku, Osaka-shi	Air-conditioning system renewal construction (2nd term)	From September 2012 To November 2012	29	—	—

##### (2) Capital expenditures for the six months ended June 30, 2012

The following table shows constructions completed during the period and to be expensed as capital expenditure pertaining to our portfolio held as of June 30, 2012. During the period, the amount of constructions completed totaled 580 million yen, composed of 393 million yen of capital expenditure and 186 million yen of maintenance and repair classified as expenditure for the six months ended June 30, 2012.

Name	Location	Purpose	Scheduled term	Amounts paid (Millions of yen)
NHK Nagoya Housou Center Buiding	Higashi-ku, Nagoya-shi	Air-conditioning system renewal construction (4th term)	From August 2011 to May 2012	97
JEI Hamamatsucho Building	Minato-ku, Tokyo	Air-conditioning system renewal construction (2nd term)	From April 2012 to May 2012	34
JEI Hongo Building	Bunkyo-ku, Tokyo	Air-conditioning system renewal construction (3rd term)	From April 2012 to May 2012	33
NHK Nagoya Housou Center Buiding	Higashi-ku, Nagoya-shi	Sprinkler maintenance and repair (3rd term)	From August 2011 to March 2012	30
Other constructions			—	197
Total				393

### (3) Reserved funds for long-term maintenance and repair plan

JEI has reserved funds for maintenance and repair as below to appropriate for future expenditures on large-scale maintenance and repair, taking out from depreciation and other excess cash flow based on our long-term maintenance and repair plan developed for each property.

(Unit: Millions of yen)

Item	8th Period January 1, 2010 to June 30, 2010	9th Period July 1, 2010 to December 31, 2010	10th Period January 1, 2011 to June 30, 2011	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012
Reserved funds at beginning of period	254	254	259	251	299
Increase	—	5	5	48	14
Decrease	—	—	13	—	47
Reserved funds at the end of period	254	259	251	299	267

## 5. Expenses and Liabilities

### (1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012
(a) Asset management fees	337,980	356,378
(b) Custodian fees	15,939	17,207
(c) Administrative service fees	33,092	34,199
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,500	11,000
(f) Other	65,436	73,297
Total	470,489	498,623

## (2) Borrowings

Borrowings by each financing source as of the end of the 12th period (ended June 30, 2012) are as follows:

Classification	Lender	Borrowing date	Balance at beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Short-term loans	Mizuho Corporate Bank, Ltd.	December 20, 2011	4,000,000	—	—	January 31, 2012	Lump-sum	To appropriate for acquisition of real estate	Unsecured and unguaranteed	
	Mitsubishi UFJ Trust and Banking Corporation		3,000,000	—						
	Sumitomo Mitsui Banking Corporation		2,000,000	—						
	Mizuho Trust & Banking Co., Ltd.	May 7, 2012	—	500,000	0.68000	October 31, 2012				
	Mizuho Trust & Banking Co., Ltd.	—	500,000	0.68000	February 28, 2013					
Sub Total			9,000,000	1,000,000	0.68000	—	—	—	—	
Long-term loans with maturity of less than one year	Mitsubishi UFJ Trust and Banking Corporation	July 31, 2007	2,300,000	2,300,000	0.68615	July 31, 2012	Lump-sum	For repayment of other borrowing	Unsecured and unguaranteed	
	Sumitomo Mitsui Banking Corporation		2,200,000	2,200,000						
	The Norinchukin Bank		2,000,000	2,000,000						
	Risona Bank, Ltd.		500,000	500,000						
	Mizuho Corporate Bank, Ltd.	July 31, 2007	2,500,000	2,500,000	1.96907 (Note 2)					
	Mizuho Trust & Banking Co., Ltd.		1,500,000	1,500,000						
	Sompo Japan Insurance Inc.		2,000,000	2,000,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Mizuho Corporate Bank, Ltd.	October 24, 2008	—	6,000,000	1.03615					June 28, 2013
	Mitsubishi UFJ Trust and Banking Corporation		—	1,000,000						
Sub Total			14,000,000	21,000,000	1.23046	—	—	—	—	
Long-term loans (Note 4)	Mizuho Corporate Bank, Ltd.	October 24, 2008	6,000,000	—	—	June 28, 2013	Lump-sum	For repayment of other borrowing	Unsecured and unguaranteed	
	Mitsubishi UFJ Trust and Banking Corporation		1,000,000	—						
	The Norinchukin Bank	June 29, 2010	3,100,000	3,100,000	1.08667	December 27, 2013				
	Mizuho Corporate Bank, Ltd.		1,800,000	1,800,000						
	Mitsubishi UFJ Trust and Banking Corporation		1,800,000	1,800,000						
	Mizuho Trust & Banking Co., Ltd.		1,300,000	1,300,000						

	Classification	Borrowing date	Balance at beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lenders								
Long-term loans (Note 4)	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	To appropriate for 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 Corporation	June 29, 2011	4,000,000	4,000,000	0.98667	December 29, 2014		For repayment of other borrowing	
	Mizuho Corporate Bank, Ltd.		3,900,000	3,900,000					
	Mizuho Trust & Banking Co., Ltd.		2,400,000	2,400,000					
	Risona Bank, Ltd.		1,200,000	1,200,000					
	The Dai-ichi Life Insurance Company Limited	October 24, 2008	3,000,000	3,000,000	2.27344 (Note 2)	June 30, 2015			
	Development Bank of Japan Inc.		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.13750 (Note 2)	November 30, 2015		To appropriate for acquisition of real estate	
	Aozora Bank, Ltd.		1,620,000	1,620,000					
	Aozora Bank, Ltd.		650,000	650,000					
	Mizuho Corporate Bank, Ltd.		370,000	370,000					
	Sumitomo Mitsui Banking Corporation		280,000	280,000					
	Mizuho Corporate Bank, Ltd.	January 31, 2012	—	500,000	1.14125 (Note 2)			For repayment of other borrowing	
	Mitsubishi UFJ Trust and Banking Corporation		—	500,000					
	Risona Bank, Ltd.		—	500,000					
	Aozora Bank, Ltd.		—	200,000					
	The Bank of Fukuoka		—	300,000					
	Mitsubishi UFJ Trust and Banking Corporation		June 29, 2011	4,600,000					
	Mizuho Corporate Bank, Ltd.		4,400,000	4,400,000	1.36375 (Note 2)	June 29, 2016			
Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000						

Classification	Lenders	Borrowing date	Balance at beginning of period (Thousands of yen)	Balance at the end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date			Remarks
						Repayment method	Use		
Long-term loans (Note 4)	Sumitomo Mitsui Trust Bank, Limited (Note 3)	November 29, 2011	1,620,000	1,620,000	1.24375 (Note 2)	November 29, 2016	Lump-sum	For repayment of other borrowing	Unsecured and unguaranteed
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Mitsubishi UFJ Trust and Banking Corporation		540,000	540,000					
	Mizuho Corporate Bank, Ltd.		520,000	520,000					
	Mizuho Corporate Bank, Ltd.	January 31, 2012	—	2,000,000	1.24750 (Note 2)	January 31, 2017			
	Mitsubishi UFJ Trust and Banking Corporation		—	1,500,000					
	Sumitomo Mitsui Banking Corporation		—	1,500,000					
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note 2)	November 30, 2017			
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125 (Note 2)	June 29, 2018			
	Development Bank of Japan Inc.	January 31, 2012	—	2,000,000	1.60000 (Note 2)	January 31, 2020			
Sub Total			65,800,000	67,800,000	1.40367	—	—	—	
Total			88,800,000	89,800,000	1.35526	—	—	—	

(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, rounding to five decimal places. 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) Sumitomo Mitsui Trust Bank, Limited was established through a merger among the Chuo Mitsui Trust and Banking Company, Chuo Mitsui Asset Trust and Banking Company, and Sumitomo Trust and Banking Co., Ltd. (company surviving absorption-type merger) on April 1, 2012. (Note 4) The following table shows annual total amount of long-term loans (excluding those with maturity date of less than one year) for each year after the balance sheet date.

(Unit: Thousands of yen)

Classification	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Long-term loans	8,000,000	20,500,000	19,540,000	8,760,000	11,000,000

### (3) Investment Corporation Bonds

Investment corporation bonds issued as of June 30, 2012 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at the 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	12,000,000	1.52000	March 11, 2014	Lump-sum	(Note 2)	(Note 4)
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	5,000,000	1.29000	June 26, 2015	Lump-sum	(Note 2)	(Note 4)
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016	Lump-sum	(Note 3)	(Note 4)
4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	2,000,000	1.40000	November 2, 2018	Lump-sum	(Note 3)	(Note 4)
Total		24,000,000	24,000,000	1.35583				

(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, rounding to five decimal places.

(Note 2) The funds were appropriated to repayments of borrowings.

(Note 3) The funds were appropriated to new property acquisitions.

(Note 4) The bonds are with special pari passu conditions among specified investment corporate bonds.

### (4) Short-term investment corporation bonds

JEI has no outstanding short-term investment corporation bonds as of June 30, 2012.

## 6. Condition of Investment Transactions

### (1) Transactions of property and asset-backed securities, etc.

(Unit: Millions of yen)

Type of assets	Name of real property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount (Note 1)	Net book value	Gain (loss) on transfer (Note 2)
Trust beneficiary interest in real estate	No. 28 Kowa Building	—	—	February 29, 2012	2,960	2,798	152
Trust beneficiary interest in real estate	Shintomicho Building	March 28, 2012	1,750	—	—	—	—
Trust beneficiary interest in real estate	Hiroshima Hacchobori Dai-ichi Seimei Building	May 22, 2012	2,760	—	—	—	—
		—	4,510	—	2,960	2,798	152



(Note 1) The acquisition price and transfer amount indicate each contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.)

(Note 2) Gain (loss) on transfer indicates the amount of transfer deducting the net book value and other costs to sell.

## (2) Transactions of other assets

Other assets than property or asset-backed securities, etc. above are mainly bank deposits and bank deposits in trust.

## (3) Appraisal and research for specified asset value, etc.

### 1) Appraisal

(Unit: Millions of yen)

Acquisition or transfer	Property name	Type of assets	Acquisition date	Acquisition price (Note 1)	Property appraisal value (Note 2)	Property appraiser	Valuation date
Acquisition	Shintomicho Building	Trust beneficiary interest in real estate	March 28, 2012	1,750	1,787	Chuo Real Estate Appraisal Co., Ltd.	March 1, 2012
Acquisition	Hiroshima Hacchobori Dai-ichi Seimei Building	Trust beneficiary interest in real estate	May 22, 2012	2,760	2,760	Japan Real Estate Institute	January 1, 2012

(Note 1) The acquisition price and transfer amount indicate each contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.), rounding to the million yen.

(Note 2) The appraisals were performed based on Chapter 3 Appraisals Regarding Values of Real Estate Property Subject to Securitization indicated in each section in the Real Estate Appraisal Standards.

### 2) Research for specified assets value, etc.

Transactions of JEI that are subject to research for specified assets value and other particulars under Section 201 of the Investment Law are researched and reported by Ernst & Young ShinNihon LLC.

Two interest rate swap contracts were subject to the research during the period from January 1, 2012 to June 30, 2012 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is supposed to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap contracts.

#### (4) Transactions with interested parties or major shareholders

##### 1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	4,510 million yen	2,960 million yen
	Acquisition price from interested parties and major shareholders 2,760 million yen (61.2%)	Disposal amount to interested parties and major shareholders 2,960 million yen (100.0%)
Breakdown for transactions with interested parties and major shareholders		
KW Emerald Specific Purpose Company	- million yen (-%)	2,960 million yen (100.0%)
The Dai-ichi Life Insurance Company Limited	2,760 million yen (61.2%)	- million yen (-%)
Total	2,760 million yen (61.2%)	2,960 million yen (100.0%)

(Note) Above transactions indicate transactions made between interested parties and major shareholders for the six months ended June 30, 2012. "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.

##### 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 (Note 2)	1,023,049	Kowa Real Estate Co., Ltd.	387,348	37.9%
		Sekisui House, Ltd.	55,521	5.4%
Property transaction brokerage fees	55,188	Kowa Real Estate Co., Ltd.	55,188	100%
Total	1,078,237	-	498,057	46.2%

(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 2012.

(Note 2) Property management costs and fees include construction management fees that were not expensed but capitalized in property management fees and expenses.

(Note 3) The amounts do not include consumption tax and other taxes.

#### (5) Transactions with asset management companies concerning the additional businesses of the asset management companies

The Asset Management Company (Japan Excellent Asset Management Co., Ltd.) does not run any additional businesses classified in the type I financial instruments business, type II financial instruments business, building lots and buildings transaction business, or real estate specified joint enterprise and did not have 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 Sheet, Statement of Income and Retained Earnings, Statement of Changes in Net Asset, 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

Not applicable during the period.

### (2) Scheduled meetings

#### 1) Unitholders' meeting

Not applicable during the period.

#### 2) Board of directors meeting

Outline of major contracts to be entered into or revised which were approved by the board of directors of JEI during the six months ended June 30, 2012 is as follows:

Approval date	Approved agenda	Description
February 14, 2012	Entering into revised agreement for ongoing asset management agreement	Provisions on cost sharing between the Asset Management Company and the Investment Corporation were partially revised.
February 14, 2012	Entrusting administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on the issuance of investment corporation bonds for the period from February 15, 2012 to February 14, 2013. In addition, it selected and approved respective general administrators for "subscription of investment corporation bonds" and "acceptance of claims for exercising the rights and other inquiries from creditors of the Investment Corporation and other administrative duties concerning investment corporation bonds during the fiscal period", and assigned decisions on all other necessary matters to the Executive Directors.

### (3) Other

Figures less than unit indicated in each statement have been rounded down for amounts and rounded for ratio unless otherwise indicated in this Report.

**Financial Statements**

**Japan Excellent, Inc.**

*For the six-month periods ended  
June 30, 2012 and December 31, 2011  
with Independent Auditor's Report*

## 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, 2012, 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, 2012, 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 21, 2012  
Tokyo, Japan

# Japan Excellent, Inc.

## Balance Sheets

As of June 30, 2012 and December 31, 2011

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	¥ 15,383,755	¥ 14,708,786	\$ 193,969,932
Rental receivables	539,343	453,875	6,800,439
Consumption taxes refundable	—	227,660	—
Other current assets	156,814	118,216	1,977,223
<b>Total current assets</b>	<b>16,079,912</b>	<b>15,508,537</b>	<b>202,747,594</b>
<b>Property and equipment <i>(Note 7)</i>:</b>			
Buildings and building improvements	3,755,620	3,605,649	47,353,672
Machinery and equipment	265	265	3,343
Furniture and fixtures	2,285	1,850	28,807
Construction in progress	12,233	12,233	154,240
Buildings and building improvements for trust accounts	82,573,706	81,146,718	1,041,151,252
Machinery and equipment for trust accounts	428,169	416,916	5,398,680
Furniture and fixtures for trust accounts	79,349	76,706	1,000,498
Land for trust accounts	128,008,244	127,497,971	1,614,024,005
Construction in progress for trust accounts	8,416	—	106,118
Less: accumulated depreciation	(11,254,423)	(10,120,288)	(141,904,208)
<b>Net property and equipment</b>	<b>203,613,864</b>	<b>202,638,020</b>	<b>2,567,316,407</b>
<b>Investments and other assets:</b>			
Leasehold rights	1,185,045	1,185,045	14,941,935
Leasehold rights for trust accounts	7,380,017	7,380,017	93,052,790
Security deposits	15,182	15,182	191,422
Long-term prepaid expenses	385,828	355,240	4,864,814
Investment corporation bond issuance costs	79,695	93,387	1,004,860
Other assets	79,148	73,787	997,960
<b>Total investments and other assets</b>	<b>9,124,915</b>	<b>9,102,658</b>	<b>115,053,781</b>
<b>Total assets</b>	<b>¥ 228,818,691</b>	<b>¥ 227,249,215</b>	<b>\$ 2,885,117,782</b>

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

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable – trade	¥ 587,879	¥ 583,762	\$ 7,412,418
Short-term loans <i>(Notes 5 and 8)</i>	1,000,000	9,000,000	12,608,751
Long-term debt due within one year <i>(Notes 5 and 8)</i>	21,000,000	14,000,000	264,783,760
Accounts payable – other	381,713	303,706	4,812,924
Unpaid consumption taxes	155,102	–	1,955,640
Provision for loss on disaster	–	56	–
Other current liabilities	328,977	271,276	4,147,989
Total current liabilities	<u>23,453,671</u>	<u>24,158,800</u>	<u>295,721,482</u>
Long-term liabilities:			
Investment corporation bonds <i>(Notes 5 and 9)</i>	24,000,000	24,000,000	302,610,011
Long-term debt <i>(Notes 5 and 8)</i>	67,800,000	65,800,000	854,873,282
Security deposits from tenants <i>(Note 5)</i>	425,044	415,626	5,359,277
Security deposits from tenants for trust accounts <i>(Note 5)</i>	8,602,586	8,535,962	108,467,866
Total long-term liabilities	<u>100,827,630</u>	<u>98,751,588</u>	<u>1,271,310,436</u>
Total liabilities	<u>124,281,301</u>	<u>122,910,388</u>	<u>1,567,031,918</u>
<b>Net assets <i>(Note 10)</i>:</b>			
Unitholders' equity:			
Unitholders' capital:			
Units authorized: 2,000,000 units			
Units issued and outstanding: 188,650 units as of June 30, 2012 and December 31, 2011	102,052,384	102,052,384	1,286,753,050
Surplus			
Voluntary reserve			
Reserve for advanced depreciation of non-current assets	50,181	50,181	632,719
Retained earnings	2,434,825	2,236,262	30,700,095
Total surplus	<u>2,485,006</u>	<u>2,286,443</u>	<u>31,332,814</u>
Total unitholders' equity	<u>104,537,390</u>	<u>104,338,827</u>	<u>1,318,085,864</u>
Total net assets	<u>104,537,390</u>	<u>104,338,827</u>	<u>1,318,085,864</u>
Total liabilities and net assets	<u>¥ 228,818,691</u>	<u>¥ 227,249,215</u>	<u>\$ 2,885,117,782</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, 2012 to June 30, 2012  
and from July 1, 2011 to December 31, 2011

	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2011 to December 31, 2011</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Revenues:</b>			
Rental revenues <i>(Note 13)</i>	¥7,046,224	¥6,569,425	\$88,844,078
Other <i>(Note 13)</i>	541,770	515,944	6,831,048
Gain on sale of real estate <i>(Note 14)</i>	152,695	–	1,925,293
<b>Total revenues</b>	<b>7,740,689</b>	<b>7,085,369</b>	<b>97,600,419</b>
<b>Operating expenses:</b>			
Property operating expenses <i>(Note 13)</i>	3,901,998	3,645,610	49,199,322
Asset management fees	356,379	337,980	4,493,492
Custodian fees	17,207	15,940	216,965
Administrative service fees	34,200	33,093	431,213
Compensation for directors	6,540	6,540	82,461
Other	84,298	76,936	1,062,890
<b>Total operating expenses</b>	<b>4,400,622</b>	<b>4,116,099</b>	<b>55,486,343</b>
<b>Operating income</b>	<b>3,340,067</b>	<b>2,969,270</b>	<b>42,114,076</b>
<b>Other income:</b>			
Interest income	1,578	1,841	19,896
Gain on adjustment for property rental business profit	–	61,354	–
Other	8,207	12,829	103,479
<b>Other expenses:</b>			
Interest expense	599,796	551,628	7,562,677
Loan arrangement fees	138,538	101,837	1,746,788
Interest expense on investment corporation bonds	161,785	136,523	2,039,914
Amortization of investment corporation bond issuance costs	13,692	11,128	172,636
Other	180	6,846	2,276
<b>Ordinary income</b>	<b>2,435,861</b>	<b>2,237,332</b>	<b>30,713,160</b>
<b>Extraordinary income:</b>			
Reversal of provision for loss on disaster	56	–	706
<b>Extraordinary losses:</b>			
Loss on disaster	–	64	–
<b>Income before income taxes</b>	<b>2,435,917</b>	<b>2,237,268</b>	<b>30,713,866</b>
<b>Income taxes <i>(Note 12)</i>:</b>			
Current	1,097	1,062	13,835
Deferred	(0)	(4)	(1)
<b>Net income</b>	<b>2,434,820</b>	<b>2,236,210</b>	<b>30,700,032</b>
Retained earnings at beginning of period	5	52	63
<b>Retained earnings at end of period</b>	<b>¥2,434,825</b>	<b>¥2,236,262</b>	<b>\$30,700,095</b>

*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, 2012 to June 30, 2012  
and from July 1, 2011 to December 31, 2011

For the period from July 1, 2011 to December 31, 2011							
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
(Thousands of yen)							
<b>Balance as of June 30, 2011</b>	188,650	¥102,052,384	¥ –	¥ 2,314,033	¥ 2,314,033	¥104,366,417	¥104,366,417
Changes during the fiscal period:							
Provision for reserve for reduction	–	–	50,181	(50,181)	–	–	–
Distributions from retained earnings	–	–	–	(2,263,800)	(2,263,800)	(2,263,800)	(2,263,800)
Net income	–	–	–	2,236,210	2,236,210	2,236,210	2,236,210
Total changes during the fiscal period	–	–	50,181	(77,771)	(27,590)	(27,590)	(27,590)
<b>Balance as of December 31, 2011</b>	<b>188,650</b>	<b>¥102,052,384</b>	<b>¥ 50,181</b>	<b>¥ 2,236,262</b>	<b>¥ 2,286,443</b>	<b>¥104,338,827</b>	<b>¥104,338,827</b>

  

For the period from January 1, 2012 to June 30, 2012							
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
(Thousands of yen)							
<b>Balance as of December 31, 2011</b>	188,650	¥102,052,384	¥50,181	¥ 2,236,262	¥ 2,286,443	¥104,338,827	¥104,338,827
Changes during the fiscal period:							
Distributions from retained earnings	–	–	–	(2,236,257)	(2,236,257)	(2,236,257)	(2,236,257)
Net income	–	–	–	2,434,820	2,434,820	2,434,820	2,434,820
Total changes during the fiscal period	–	–	–	198,563	198,563	198,563	198,563
<b>Balance as of June 30, 2012</b>	<b>188,650</b>	<b>¥102,052,384</b>	<b>¥50,181</b>	<b>¥ 2,434,825</b>	<b>¥ 2,485,006</b>	<b>¥104,537,390</b>	<b>¥104,537,390</b>

  

For the period from January 1, 2012 to June 30, 2012							
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
(U.S. dollars) (Note 2)							
<b>Balance as of December 31, 2011</b>	188,650	\$1,286,753,050	\$632,719	\$ 28,196,471	\$ 28,829,190	\$1,315,582,240	\$1,315,582,240
Changes during the fiscal period:							
Distributions from retained earnings	–	–	–	(28,196,408)	(28,196,408)	(28,196,408)	(28,196,408)
Net income	–	–	–	30,700,032	30,700,032	30,700,032	30,700,032
Total changes during the fiscal period	–	–	–	2,503,624	2,503,624	2,503,624	2,503,624
<b>Balance as of June 30, 2012</b>	<b>188,650</b>	<b>\$1,286,753,050</b>	<b>\$632,719</b>	<b>\$ 30,700,095</b>	<b>\$ 31,332,814</b>	<b>\$1,318,085,864</b>	<b>\$1,318,085,864</b>

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

# Japan Excellent, Inc.

## Statements of Cash Flows

For the periods from January 1, 2012 to June 30, 2012  
and from July 1, 2011 to December 31, 2011

	For the period from January 1, 2012 to June 30, 2012	For the period from July 1, 2011 to December 31, 2011	For the period from January 1, 2012 to June 30, 2012
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,435,917	¥ 2,237,268	\$ 30,713,866
Depreciation and amortization	1,260,724	1,156,168	15,896,161
Amortization of investment corporation bond issuance costs	13,692	11,128	172,636
Decrease in provision for loss on disaster	(56)	(16,374)	(706)
Interest income	(1,578)	(1,841)	(19,896)
Interest expense	761,582	688,151	9,602,591
Increase in rental receivables	(85,468)	(78,527)	(1,077,642)
Decrease (increase) in consumption taxes refundable	227,659	(34,286)	2,870,502
Increase in prepaid expenses	(37,877)	(12,180)	(477,582)
Increase (decrease) in accounts payable – trade	72,874	(29,064)	918,853
Increase (decrease) in accounts payable – other	92,835	(44,199)	1,170,531
Increase in unpaid consumption taxes	155,102	–	1,955,640
Increase (decrease) in advances received	6,137	(8,978)	77,378
(Increase) decrease in long-term prepaid expenses	(30,588)	7,595	(385,679)
Decrease in property and equipment for trust accounts due to sale	2,798,378	–	35,284,053
Other, net	(12,016)	4,203	(151,507)
Subtotal	7,657,317	3,879,064	96,549,199
Interest received	1,578	1,841	19,896
Interest paid	(710,751)	(672,394)	(8,961,682)
Income taxes paid	(1,009)	(995)	(12,721)
Net cash provided by operating activities	6,947,135	3,207,516	87,594,692
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(263,348)	(34,787)	(3,320,491)
Purchases of property and equipment for trust accounts	(4,850,934)	(20,830,784)	(61,164,221)
Proceeds from security deposits from tenants	22,853	681	288,145
Payments for security deposits to tenants	(13,435)	(6,701)	(169,391)
Proceeds from security deposits from tenants for trust accounts	503,743	1,154,787	6,351,574
Payments for security deposits to tenants for trust accounts	(437,118)	(272,665)	(5,511,517)
Net cash used in investing activities	(5,038,239)	(19,989,469)	(63,525,901)
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	1,000,000	10,300,000	12,608,750
Repayment for short-term loans	(9,000,000)	(1,300,000)	(113,478,754)
Proceeds from long-term debt	9,000,000	8,300,000	113,478,754
Repayment for long-term debt	–	(7,000,000)	–
Proceeds from issuance of investment corporation bonds	–	7,000,000	–
Payments for investment corporation bond issuance costs	–	(43,500)	–
Distributions to unitholders	(2,233,927)	(2,262,553)	(28,167,020)
Net cash (used in) provided by financing activities	(1,233,927)	14,993,947	(15,558,270)
Net increase (decrease) in cash and cash equivalents	674,969	(1,788,006)	8,510,521
Cash and cash equivalents at beginning of period	14,708,786	16,496,792	185,459,411
Cash and cash equivalents at end of period	¥ 15,383,755	¥ 14,708,786	\$ 193,969,932

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

# Japan Excellent, Inc.

## Notes to Financial Statements

For the periods from January 1, 2012 to June 30, 2012  
and from July 1, 2011 to December 31, 2011

### **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 is owned 45% by Kowa Real Estate Co., Ltd., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 20% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2012, JEI held 24 properties with 266,981 square meters of total leasable space and had leases with 136 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 ¥79.31 = U.S.\$1.00, the foreign exchange rate prevailing on June 30, 2012, 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, a negotiable certificate of deposit 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	7 – 16 years
Furniture and fixtures	3 – 10 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.

#### ***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).

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 amounts for the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011 were ¥37,298 thousand (\$470,287) and ¥15,667 thousand, respectively.

### 3. Summary of Significant Accounting Policies (continued)

#### *Provision for loss on disaster*

Provision for loss on disaster is recorded at the amount estimated as of December 31, 2011 to provide for possible repair and recovery costs arising from the Great East Japan Earthquake.

#### *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, 2012 and December 31, 2011 consisted of the following:

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 3,490,795	¥ 2,940,334	\$ 44,014,569
Cash in trust and deposits in trust	11,892,960	11,768,452	149,955,363
Cash and cash equivalents including trust accounts	<u>¥15,383,755</u>	<u>¥14,708,786</u>	<u>\$193,969,932</u>

## 5. Financial Instruments

**For the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011**

### *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, 2012), 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, 2012 and December 31, 2011 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, 2012			As of December 31, 2011			As of June 30, 2012		
	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	¥ 3,490,795	¥ 3,490,795	¥ -	¥ 2,940,334	¥ 2,940,334	¥ -	\$ 44,014,569	\$ 44,014,569	\$ -
(2) Cash in trust and deposits in trust	11,892,960	11,892,960	-	11,768,452	11,768,452	-	149,955,363	149,955,363	-
Total assets	<u>¥ 15,383,755</u>	<u>¥ 15,383,755</u>	<u>¥ -</u>	<u>¥ 14,708,786</u>	<u>¥ 14,708,786</u>	<u>¥ -</u>	<u>\$ 193,969,932</u>	<u>\$ 193,969,932</u>	<u>\$ -</u>
(3) Short-term loans	¥ 1,000,000	¥ 1,000,000	¥ -	¥ 9,000,000	¥ 9,000,000	¥ -	\$ 12,608,751	\$ 12,608,751	\$ -
(4) Long-term debt due within one year	21,000,000	21,006,518	6,518	14,000,000	14,039,015	39,015	264,783,760	264,865,942	82,182
(5) Investment corporation bonds	24,000,000	24,209,900	209,900	24,000,000	24,188,000	188,000	302,610,011	305,256,588	2,646,577
(6) Long-term debt	67,800,000	68,602,364	802,364	65,800,000	66,178,742	378,742	854,873,282	864,990,095	10,116,813
Total liabilities	<u>¥ 113,800,000</u>	<u>¥ 114,818,782</u>	<u>¥ 1,018,782</u>	<u>¥ 112,800,000</u>	<u>¥ 113,405,757</u>	<u>¥ 605,757</u>	<u>\$ 1,434,875,804</u>	<u>\$ 1,447,721,376</u>	<u>\$ 12,845,572</u>
(7) 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,
- (4) Long-term debt due within one year and
- (6) Long-term debt

Where floating rates apply, fair value is based on book value. The fair value of such liabilities is considered to be close to book value because 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 discounting the combined value of principal and interest of the applicable long-term debt by a reasonable rate assuming the same amount were to be borrowed anew.

## 5. Financial Instruments (continued)

### (5) Investment corporation bonds

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

### (7) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

(Note 2)

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

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Security deposits from tenants *	¥ 425,044	¥ 415,626	\$ 5,359,277
(2) Security deposits from tenants for trust accounts *	¥8,602,586	¥8,535,962	\$108,467,866

\* Security deposits from tenants and security deposits from tenants for trust accounts in leased properties are not subject to fair value disclosure because such deposits have no market price. Moreover, it is difficult to calculate the actual period of time on deposit, namely, from the time the tenant moves in until the time the tenant vacates, and it is extremely difficult to rationally estimate cash flow.

(Note 3)

*Planned redemption amounts after settlement date of financial assets*

	<b>As of June 30, 2012</b>					
	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	¥ 3,490,795	¥ –	¥ –	¥ –	¥ –	¥ –
Cash in trust and deposits in trust	11,892,960	–	–	–	–	–
Total	<u>¥15,383,755</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

	<b>As of June 30, 2012</b>					
	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	\$ 44,014,569	\$ –	\$ –	\$ –	\$ –	\$ –
Cash in trust and deposits in trust	149,955,363	–	–	–	–	–
Total	<u>\$193,969,932</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

	<b>As of December 31, 2011</b>					
	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	¥ 2,940,334	¥ –	¥ –	¥ –	¥ –	¥ –
Cash in trust and deposits in trust	11,768,452	–	–	–	–	–
Total	<u>¥14,708,786</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>



## 5. Financial Instruments (continued)

(Note 4)

Planned redemption amounts after settlement date of borrowings, investment corporation bonds and other interest-bearing debt

	As of June 30, 2012					
	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	¥ 1,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt due within one year	21,000,000	-	-	-	-	-
Investment corporation bonds	-	12,000,000	5,000,000	-	5,000,000	2,000,000
Long-term debt	-	8,000,000	20,500,000	19,540,000	8,760,000	11,000,000
Total	<u>¥22,000,000</u>	<u>¥20,000,000</u>	<u>¥25,500,000</u>	<u>¥19,540,000</u>	<u>¥13,760,000</u>	<u>¥13,000,000</u>

	As of June 30, 2012					
	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	\$ 12,608,750	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt due within one year	264,783,760	-	-	-	-	-
Investment corporation bonds	-	151,305,006	63,043,752	-	63,043,753	25,217,501
Long-term debt	-	100,870,004	258,479,385	246,374,984	110,452,654	138,696,255
Total	<u>\$277,392,510</u>	<u>\$252,175,010</u>	<u>\$321,523,137</u>	<u>\$246,374,984</u>	<u>\$173,496,407</u>	<u>\$163,913,756</u>

	As of December 31, 2011					
	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	¥ 9,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term debt due within one year	14,000,000	-	-	-	-	-
Investment corporation bonds	-	-	12,000,000	5,000,000	5,000,000	2,000,000
Long-term debt	-	15,000,000	15,500,000	9,540,000	16,760,000	9,000,000
Total	<u>¥23,000,000</u>	<u>¥15,000,000</u>	<u>¥27,500,000</u>	<u>¥14,540,000</u>	<u>¥21,760,000</u>	<u>¥11,000,000</u>

## 6. Investment and Rental Property

For the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011

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, 2012 and December 31, 2011 for such real estate for lease.

As of December 31, 2011	Carrying value Change during period <sup>(*)</sup>	As of June 30, 2012	Fair value As of June 30, 2012
(Thousands of yen)			
¥211,203,082	¥975,844	¥212,178,926	¥196,410,000

## 6. Investment and Rental Property (continued)

As of December 31, 2011	Carrying value		Fair value As of June 30, 2012
	Change during period <sup>(*)</sup>	As of June 30, 2012	
<i>(U.S. dollars)</i>			
\$2,663,006,954	\$12,304,178	\$2,675,311,132	\$2,476,484,680

  

As of June 30, 2011	Carrying value		Fair value As of December 31, 2011
	Change during period <sup>(*)</sup>	As of December 31, 2011	
<i>(Thousands of yen)</i>			
¥191,455,003	¥19,748,079	¥211,203,082	¥196,794,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(\*1) Changes during period comprise increases of ¥1,820,798 thousand (\$22,957,989) related to the acquisition of Shintomicho Building, ¥2,810,335 thousand (\$35,434,812) related to the acquisition of Hiroshima Hacchobori Dai-ichi Seimei Building and decreases of ¥2,798,378 thousand (\$35,284,053) related to the disposition of No. 28 Kowa Building and ¥1,260,668 thousand (\$15,895,443) for depreciation costs.

(\*2) Changes during period comprise increases of ¥8,324,100 thousand related to the acquisition of No. 35 Kowa Building, ¥7,105,754 thousand related to the acquisition of HAMARIKYU INTERCITY, ¥3,431,797 thousand related to the acquisition of MID Kyobashi Building, ¥1,680,304 thousand related to the acquisition of Pacific Square Sengoku and a decrease of ¥1,156,110 thousand for depreciation costs.

(Note 3)

Fair value as of June 30, 2012 and December 31, 2011 is appraisal value provided by third-party real estate appraisers.

## 7. Property and Equipment

Property and equipment at June 30, 2012 and December 31, 2011 consisted of the following:

	As of June 30, 2012			As of December 31, 2011			As of June 30, 2012		
	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>									
Buildings and building improvements	¥ 3,755,620	¥ (474,436)	¥ 3,281,184	¥ 3,605,649	¥ (426,972)	¥ 3,178,677	\$ 47,353,672	\$ (5,982,049)	\$ 41,371,623
Machinery and equipment	265	(48)	217	265	(36)	229	3,343	(602)	2,741
Furniture and fixtures	2,285	(423)	1,862	1,850	(312)	1,538	28,807	(5,330)	23,477
Construction in progress	12,233	–	12,233	12,233	–	12,233	154,240	–	154,240
Buildings and building improvements for trust accounts	82,573,706	(10,585,614)	71,988,091	81,146,718	(9,518,760)	71,627,958	1,041,151,252	(133,471,371)	907,679,881
Machinery and equipment for trust accounts	428,169	(160,413)	267,756	416,916	(146,202)	270,714	5,398,680	(2,022,607)	3,376,072
Furniture and fixtures for trust accounts	79,349	(33,489)	45,861	76,706	(28,006)	48,700	1,000,498	(422,249)	578,250
Land for trust accounts	128,008,244	–	128,008,244	127,497,971	–	127,497,971	1,614,024,005	–	1,614,024,005
Construction in progress for trust accounts	8,416	–	8,416	–	–	–	106,118	–	106,118
Total	¥ 214,868,287	¥ (11,254,423)	¥ 203,613,864	¥ 212,758,308	¥ (10,120,288)	¥ 202,638,020	\$ 2,709,220,615	\$ (141,904,208)	\$ 2,567,316,407

## 8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2012 and December 31, 2011 consisted of the following:

	As of June 30, 2012		As of December 31, 2011		As of June 30, 2012
	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*1)</sup>	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*1)</sup>	Amount (U.S. dollars)
Short-term loans:					
Unsecured loans from banks due on January 31, 2012	¥ –	–	¥ 9,000,000	0.68000%	\$ –
Unsecured loans from a bank due on October 31, 2012	500,000	0.68000%	–	–	6,304,375
Unsecured loans from a bank due on February 28, 2013	500,000	0.68000%	–	–	6,304,376
Subtotal	<u>1,000,000</u>		<u>9,000,000</u>		<u>12,608,751</u>
Long-term debt due within one year:					
Unsecured loans from banks due on July 31, 2012	7,000,000	0.68615%	7,000,000	0.68643%	88,261,253
Unsecured loans from banks and insurance companies due on July 31, 2012	7,000,000	1.96907% <sup>(*2)</sup>	7,000,000	1.96907% <sup>(*2)</sup>	88,261,254
Unsecured loans from banks due on June 28, 2013	7,000,000	1.03615%	–	–	88,261,253
Subtotal	<u>21,000,000</u>		<u>14,000,000</u>		<u>264,783,760</u>
Long-term debt:					
Unsecured loans from banks due on June 28, 2013	–	–	7,000,000	1.03643%	–
Unsecured loans from banks due on December 27, 2013	8,000,000	1.08667%	8,000,000	1.08643%	100,870,004
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875% <sup>(*2)</sup>	2,000,000	2.25875% <sup>(*2)</sup>	25,217,501
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417% <sup>(*2)</sup>	2,000,000	2.28417% <sup>(*2)</sup>	25,217,501
Unsecured loans from banks due on December 29, 2014	11,500,000	0.98667%	11,500,000	0.98643%	145,000,631
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344% <sup>(*2)</sup>	5,000,000	2.27344% <sup>(*2)</sup>	63,043,752
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% <sup>(*2)</sup>	4,540,000	1.13750% <sup>(*2)</sup>	57,243,727
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% <sup>(*2)</sup>	–	–	25,217,501
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% <sup>(*2)</sup>	13,000,000	1.36375% <sup>(*2)</sup>	163,913,756
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% <sup>(*2)</sup>	3,760,000	1.24375% <sup>(*2)</sup>	47,408,902
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% <sup>(*2)</sup>	–	–	63,043,752
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% <sup>(*2)</sup>	6,000,000	1.73875% <sup>(*2)</sup>	75,652,503
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% <sup>(*2)</sup>	3,000,000	1.65125% <sup>(*2)</sup>	37,826,251
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% <sup>(*2)</sup>	–	–	25,217,501
Subtotal	<u>67,800,000</u>		<u>65,800,000</u>		<u>854,873,282</u>
Total	<u>¥ 89,800,000</u>		<u>¥ 88,800,000</u>		<u>\$ 1,132,265,792</u>

(\*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 avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate the weighted average of interest.

(\*2) These are fixed-rate debt. (Fixed-rate debt by the interest-rate swaps agreement is included.)

## 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	¥8,000,000	¥20,500,000	¥19,540,000	¥8,760,000	¥11,000,000
	<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	\$100,870,004	\$258,479,385	\$246,374,984	\$110,452,654	\$138,696,255

JEI has commitment lines of ¥14,000 million (\$176,523 thousand) with three financial institutions to reduce refinancing risk and enhance financial stability. The full amount of such commitment lines was unused at June 30, 2012.

## 9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2012 and December 31, 2011 are summarized as follows:

	<u>As of June 30, 2012</u>		<u>As of December 31, 2011</u>		<u>As of June 30, 2012</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 due on March 11, 2014	¥12,000,000	1.52000%	¥12,000,000	1.52000%	\$151,305,006
Unsecured bond due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	63,043,752
Unsecured bond due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%	63,043,752
Unsecured bond due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%	25,217,501
Total	<u>¥24,000,000</u>		<u>¥24,000,000</u>		<u>\$302,610,011</u>

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	–	¥12,000,000	¥5,000,000	–	¥5,000,000	¥2,000,000
	<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	–	\$151,305,006	\$63,043,752	–	\$63,043,752	\$25,217,501

## 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

Net assets per unit were ¥554,134 (\$6,987) as of June 30, 2012 and ¥553,081 as of December 31, 2011. Net income per unit was ¥12,906 (\$163) for the period from January 1, 2012 to June 30, 2012 and ¥11,853 for the period from July 1, 2011 to December 31, 2011 and was computed based on the weighted-average number of units outstanding during the respective periods.

## 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, 2012 and December 31, 2011 are summarized as follows:

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>	<i>(Thousands of yen)</i>	<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥22	¥22	\$282
Total deferred tax assets	22	22	282
Net deferred tax assets	¥22	¥22	\$282

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011 is as follows:

	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2011 to December 31, 2011</b>
Statutory tax rate	39.33%	39.33%
Reconciliation:		
Deductible distributions paid	(37.16)	(39.31)
Other	(2.13)	0.03
Effective tax rate	0.04%	0.05%

## 12. Income Taxes (continued)

### *Adjustments to deferred tax assets and deferred tax liabilities due to tax rate change*

On December 2, 2011, two tax bills were promulgated: the “Reform Bill for Partial Revision of Income Tax Law, etc. in Response to the Changing Economic Structure” (Act No. 114 of 2011), which includes an approximately 5% reduction of the effective statutory corporate tax rate, and the “Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011), which introduced a 10% surtax on the corporate national tax for 3 years. This resulted 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 reverse from the six-month period ending December 31, 2012 (the 13th fiscal period) through the six-month period ending June 30, 2015 (the 18th fiscal period) to 36.59%, and with respect to the temporary differences that are expected to reverse during or after the six-month period ending December 31, 2015 (the 19th fiscal period) to 34.16%. The impact on JEI as a result of these changes was immaterial for the period ended June 30, 2012.

## 13. Breakdown of Property Rental Business Revenues and Expenses

	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2011 to December 31, 2011</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥7,046,224	¥6,569,425	\$88,844,078
Other	541,770	515,944	6,831,048
Total rental business revenues	<u>7,587,994</u>	<u>7,085,369</u>	<u>95,675,126</u>
Property operating expenses:			
Property management costs and fees	1,016,241	1,014,099	12,813,524
Utilities	668,123	627,237	8,424,199
Property and other taxes	592,943	556,563	7,476,269
Insurance	25,198	21,817	317,722
Repairs and maintenance	186,950	96,459	2,357,206
Depreciation	1,260,668	1,156,111	15,895,443
Other	151,875	173,324	1,914,959
Total property operating expenses	<u>3,901,998</u>	<u>3,645,610</u>	<u>49,199,322</u>
Profit	<u>¥3,685,996</u>	<u>¥3,439,759</u>	<u>\$46,475,804</u>

#### 14. Breakdown of Gain on Sale of Real Estate

Gain on sale of real estate for the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011 is as follows:

	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2011 to December 31, 2011</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
No. 28 Kowa Building			
Proceeds from sale of real estate	¥2,960,000	¥ –	\$37,321,901
Cost of sale of real estate	2,798,378	–	35,284,053
Other related sale expenses	8,927	–	112,555
Gain on sale of real estate	<u>¥ 152,695</u>	<u>¥ –</u>	<u>\$ 1,925,293</u>

#### 15. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2012 and December 31, 2011, future lease revenues under non-cancelable operating leases are summarized as follows:

	<b>As of June 30, 2012</b>	<b>As of December 31, 2011</b>	<b>As of June 30, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥625,206	¥ 703,710	\$7,883,072
Due after one year	156,537	362,902	1,973,731
Total	<u>¥781,743</u>	<u>¥1,066,612</u>	<u>\$9,856,803</u>

## 16. Derivative Transactions

### Derivative Transactions as of June 30, 2012

(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, 2012 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	¥28,300,000	¥28,300,000	*		\$356,827,638	\$356,827,638	*	

\* 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, 2011

(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, 2011 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	¥21,300,000	¥21,300,000	*	

\* 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."



## 17. Related Party Transactions

### For the period from January 1, 2012 to June 30, 2012

- (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	¥356,379	\$4,493,492	Accounts payable	¥226,556	\$2,856,590

### For the period from July 1, 2011 to December 31, 2011

- (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)		(Thousands of yen)
Chifumi Toda	Payment of asset management fees to JEAM	¥337,980	Accounts payable	¥214,971

## **18. Segment Information**

**For the periods from January 1, 2012 to June 30, 2012 and from July 1, 2011 to December 31, 2011**

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.

## **19. 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 ¥2,301,530,000 (\$29,019,417), which is the maximum integral multiple of the 188,650 units issued not exceeding the amount of the retained earnings remaining after deducting the amount that was appropriated to the reserve for advanced depreciation of non-current assets as stipulated in Section 66.2 of the Special Taxation Measures Law. In addition, no cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 13, 2012, the Board of Directors approved a resolution to make a cash distribution of ¥12,200 (\$154) per unit aggregating to ¥2,301,530,000 (\$29,019,417) to unitholders of record as of June 30, 2012.

## **20. Significant Subsequent Events**

Not applicable.