

Asset Management Report for 22nd Period

(Semi-Annual Report for 22nd Period)

From January 1, 2017 to June 30, 2017



Japan Excellent, Inc.

I. Greetings

To Our Unitholders

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

We hereby report the financial results of JEI for the 22nd period (from January 1, 2017 to June 30, 2017).

During the 22nd period and as with the previous period, we worked to attract new tenants while prioritizing the increase of the rent level and conclude upward rent revisions, promoting an increase of rental revenues.

In terms of finance, we increased financial stability by extending borrowing periods through large and long-term investment corporation bond issuance and refinancing while also reducing financial costs.

As a result, JEI recorded operating revenue of 10,642 million yen and operating income of 4,154 million yen for the period. The net income of 3,459 million yen was a new record high. Distribution per unit increased by 41 yen from the previous period to 2,650 yen.

Besides this, in August 2017 JEI additionally acquired urban high-spec properties Kowa Nishi-Shimbashi Building and Akasaka Garden City to continue high-quality growth in the periods to come.

About Future Asset Management

The real estate transaction market is expected to see real estate transaction prices remaining high, backed by the continuing favorable fund procurement environment, strong appetite for investment by market participants and other factors. In the office building transaction market, the vacancy rate and rent levels are projected to continue to improve centering on competitive buildings due to strong office demand. On the other hand, market trends must be watched more carefully as an increase in supply of office space is expected especially in central Tokyo.

With this perspective, JEI will continue with growth through pursuit of opportunities to invest in prime real estate, including replacement of assets, with an aim to expand its asset size over the medium to long term. Furthermore, JEI will endeavor to enhance profitability of the entire portfolio by not only maintaining the high occupancy rate but also by improving the rent level based on market trends and proactively implementing renovation work to maintain and improve competitiveness going forward. In terms of finance, JEI will strive to conduct stable financial management by working to reduce financing costs, while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

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

We kindly ask for your continued understanding and support.

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

II. Asset Management Report

1. Outline of asset management operation

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

Fiscal period		18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period, January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017
Operating revenue	(Millions of yen)	10,121	10,839	10,223	10,653	10,642
(Rental revenues)	(Millions of yen)	(10,121)	(10,669)	(10,223)	(10,653)	(10,642)
Operating expenses	(Millions of yen)	6,102	6,537	6,240	6,431	6,488
(Property operating expenses)	(Millions of yen)	(5,533)	(5,916)	(5,655)	(5,849)	(5,890)
Operating income	(Millions of yen)	4,018	4,301	3,982	4,221	4,154
Ordinary income	(Millions of yen)	3,098	3,385	3,113	3,407	3,460
Net income	(Millions of yen)	3,097	3,384	3,112	3,406	3,459
Total assets	(Millions of yen)	300,976	284,443	283,653	296,081	297,177
(Period-on-period change)	(%)	(8.3)	(-5.5)	(-0.3)	(4.4)	(0.4)
Net assets	(Millions of yen)	131,085	137,857	137,808	143,640	143,693
(Period-on-period change)	(%)	(0.0)	(5.2)	(Δ0.0)	(4.2)	(0.0)
Unitholders' capital	(Millions of yen)	127,950	134,434	134,434	139,972	139,972
Total outstanding investment units	(units)	1,212,750	1,264,450	1,264,450	1,305,700	1,305,700
Net assets per unit	(yen)	108,089	109,025	108,987	110,010	110,050
Net income per unit (Note 1)	(yen)	2,554	2,685	2,461	2,614	2,649
Total distribution	(Millions of yen)	3,097	3,161	3,113	3,406	3,460
Distribution per unit	(yen)	2,554	2,500	2,462	2,609	2,650
(Profit distribution per unit)	(yen)	2,554	2,500	2,462	2,609	(2,650)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.1	1.2	1.1	1.2	1.2
(Annualized rate)	(%)	(2.2)	(2.3)	(2.2)	(2.3)	(2.4)
Return on equity (Note 3)	(%)	2.4	2.5	2.3	2.4	2.4
(Annualized rate)	(%)	(4.8)	(5.0)	(4.5)	(4.8)	(4.9)
Capital ratio (Note 4)	(%)	43.6	48.5	48.6	48.5	48.4
(Period-on-period change)	(%)	(-3.6)	(4.9)	(0.1)	(-0.1)	(-0.2)
Payout ratio (Note 5)	(%)	100.0	93.4	100.0	100.0	100.0
Number of investment properties	(properties)	31	30	30	31	31
Number of tenants	(tenants)	219	224	228	237	242
Total leasable space (Note 6, 7)	(m ²)	370,671	356,918	356,884	362,305	362,292
Occupancy rate	(%)	97.9	98.5	99.1	99.0	99.4
Depreciation	(Millions of yen)	1,786	1,908	1,899	1,956	1,967
Capital expenditure	(Millions of yen)	790	635	729	1,294	1,056
Net operating income (NOI) (Note 8)	(Millions of yen)	6,374	6,662	6,467	6,760	6,719
Funds from operation (FFO) per unit (Note 9)	(yen)	4,027	4,051	3,964	4,107	4,156
FFO multiples (Note 10)	(times)	17.4	16.5	17.6	18.2	14.9

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Debt service coverage ratio (DSCR) (Note 11)	(times)	7.3	8.1	8.2	9.4	10.7
Interest-bearing debt	(Millions of yen)	155,400	131,900	131,900	137,900	137,900
Loan-to-value (Note 12)	(%)	51.6	46.4	46.5	46.6	46.4
Number of days in operation	(days)	181	184	182	184	181

(Note 1) 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 2) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100

(Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100

(Note 4) Capital ratio = Period end net assets / Period end total assets × 100

(Note 5) Payout ratio for this fiscal period and for the past four periods is calculated with the following formula.

Payout ratio = (Distribution per unit (not including distribution in excess of earnings per unit) / Net income per unit) × 100
(Figures are rounded to the first decimal place.)

The payout ratio for the 19th and 21st periods are calculated with the following formula as new investment units were issued.

Payout ratio = Total distributions (not including distribution in excess of earnings per unit) / Net income × 100

Payout ratio for earlier periods are calculated with the following formula.

Payout ratio = (Total distribution / Net income) × 100 (figures for the 18th period and before are rounded down to the first decimal place while figures for the 19th period and after are rounded to the first decimal place.)

(Note 6) For properties with joint ownership, a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.

(Note 7) Spaces are rounded to the nearest specified unit. The same applies hereinafter.

(Note 8) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 9) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Total number of outstanding investment units (the figure is rounded down to the whole number).

(Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to the first decimal place for the 18th period.)

(Note 11) The debt service coverage ratio for this fiscal period and for the past four periods is calculated with the following formula.

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

The debt service coverage ratio for earlier periods are calculated with the following formula.

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

(Note 12) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On June 30, 2017, we settled our twenty-second period.

1) Business conditions and results

The Japanese economy during the 22nd period (ended June 2017) continues to be on a moderate recovery trend against the backdrop of the pickup in consumer spending and improvement of corporate earnings as well as improvement in the employment situation.

In the real estate transaction market, transaction yields were at low level amid the continuing favorable fund procurement environment, and real estate transaction prices remain high. Market participation of overseas investors, private funds, private REITs and general companies, etc. is also continuing.

In the office building leasing market, tenant needs for floor area increase in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and asking rent levels are steadily improving. JEI has conducted leasing activities emphasizing rent levels and has promoted upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities of upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result of these efforts, the portfolio occupancy rate at the end of the current period stood at 99.4% (99.0% at the end of the previous period).

The total number of properties owned and managed by JEI at the end of the current period was 31 with total acquisition price of 286.9 billion yen and total leasable space of 362,291.56 m² (109,593.20 tsubo).

2) Fund procurement highlights

Given the favorable environment for issuance of investment corporation bonds in the 22nd period, JEI issued 10-year investment corporation bonds totaling 7 billion yen, thereby extending borrowing periods.

Moreover, JEI refinanced the total of 12 billion yen of loans maturing during the 22nd period (average borrowing period: 4.7 years; average interest rate: 1.1%) with loans with an average borrowing period of 2.4 years and an average interest rate of 0.25%.

As a result of the above, as of the end of the 22nd period the average remaining period of interest-bearing debts (Note 1) was 3.7 years (extended by 0.2 years from the end of the previous period) and the period end average interest-bearing debt interest rate (Note 2) was 0.82% (down 0.06% from the end of the previous period), showing an extension of debts and a decrease of interest rates.

In addition, JEI continues to have commitment lines of 14.0 billion yen to reduce refinancing risk, enhance stability for fund procurement, etc.

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

(Ratings as of June 30, 2017)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 3)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Rating and Investment Information, Inc. (R&I)	Issuer rating A+ (Stable)	A+
Moody's Japan	Issuer rating A3 (Stable)	—

3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,642 million yen in operating revenue, 4,154 million yen in operating income, 3,460 million yen in ordinary income and 3,459 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated *Asset Management Report for 22nd period (Semi-Annual Report for 22nd Period)*

retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,650 yen.

- (Note 1) Average remaining period of interest-bearing debts = Remaining period of borrowings and investment corporation bonds before repayment dates and maturity dates as of the end of the period ÷ Balance of relevant borrowings and investment corporation bonds as of the end of the period (weighted average)
- (Note 2) The period end average interest-bearing debt interest rate is calculated by using a weighted-average of the interest at the end of the current period, by balance of respective interest-bearing debt with all the interest-bearing debts.
- (Note 3) The rating of JCR is for the 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds and 11th series unsecured investment corporation bonds. The rating of R&I is for the 4th series unsecured investment corporation bonds.

3) Capital Increase

JEI had no changes in the total number of outstanding investment units for the period under review. The outline of the changes in the total number of outstanding investment units and unitholders' capital until the end of the period under review are as follows:

Paid-up Date	Capital transaction	Capital transaction (units)		Unitholders' capital (Millions of yen)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for incorporation	400	400	200	200	(Note 1)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 2)
July 21, 2006	Allocation of investment units to a third party	6,400	134,800	3,211	67,641	(Note 3)
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	(Note 4)
August 8, 2007	Allocation of investment units to a third party	750	154,550	738	87,083	(Note 5)
January 31, 2011	Public offering	31,000	185,550	13,608	100,691	(Note 6)
February 28, 2011	Allocation of investment units to a third party	3,100	188,650	1,360	102,052	(Note 7)
January 30, 2013	Public offering	33,000	221,650	14,408	116,460	(Note 8)
February 27, 2013	Allocation of investment units to a third party	3,300	224,950	1,440	117,901	(Note 9)
January 1, 2014	Split of investment unit	899,800	1,124,750	–	117,901	(Note 10)
January 27, 2014	Public offering	80,000	1,204,750	9,135	127,036	(Note 11)
February 26, 2014	Allocation of investment units to a third party	8,000	1,212,750	913	127,950	(Note 12)
July 13, 2015	Public offering	47,000	1,259,750	5,894	133,845	(Note 13)
August 12, 2015	Allocation of investment units to a third party	4,700	1,264,450	589	134,434	(Note 14)
July 11, 2016	Public offering	37,500	1,301,950	5,034	139,469	(Note 15)
August 10, 2016	Allocation of investment units to a third party	3,750	1,305,700	503	139,972	(Note 16)

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

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

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

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

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

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

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

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

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

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

(Note 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a

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- public offering in order to fund acquisition of new properties which were acquired at the sixteenth period.
- (Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.
- (Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the eighteenth period.
- (Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 15) New investment units were issued at an offer price of 138,742 yen per unit (issue price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the twenty-first period.
- (Note 16) New investment units were issued at an issue price of 134,259 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 17) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of the twenty-second 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 is as follows:

Investment unit market price	Fiscal period (closing date)	18th period (June 2015)	19th period (December 2015)	20th period (June 2016)	21st period (December 2016)	22nd period (June 2017)
	Highest (yen)	168,400	141,900	161,000	149,200	147,200
	Lowest (yen)	141,400	122,400	123,200	132,900	125,100

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

(4) Distributions Paid

The distribution per unit for the period (the 22nd period) was 2,650 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	18th period	19th period	20th period	21st period	22nd period
Accounting period	January 1, 2015 to June 30, 2015	July 1, 2015 to December 31, 2015	January 1, 2016 to June 30, 2016	July 1, 2016 to December 31, 2016	January 1, 2017 to June 30, 2017
Unappropriated retained earnings at end of period (Thousands of yen)	3,098,080	3,385,019	3,113,717	3,406,981	3,460,111
Retained income (Thousands of yen)	717	261,241	641	409	6
Total cash distribution amount (Thousands of yen)	3,097,363	3,161,125	3,113,075	3,406,571	3,460,105
(Cash distributions per unit) (yen)	(2,554)	(2,500)	(2,462)	(2,609)	(2,650)
Of which, total profit distributions (Thousands of yen)	3,097,363	3,161,125	3,113,075	3,406,571	3,460,105
(Profit distribution per unit) (yen)	(2,554)	(2,500)	(2,462)	(2,609)	(2,650)
Total refund of investment equity	—	—	—	—	—
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

In the real estate market, while transaction yields are drawing closer to the level where room for further lowering is scarce, real estate transaction prices are expected to remain high backed by factors such as the favorable fund procurement environment and vigorous appetite for investment by market participants.

In the office building leasing market, the vacancy rate and the asking rent level are forecasted to improve centering on competitive buildings for the time being, as the office demand is strong. However, focusing on market trends including corporate performances seems necessary going forward as increase in the amount of office floor supply is expected mainly in central Tokyo.

2) Policy and issues on future investment management

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to promptly gain access to market information on disposition of properties and thereby keep seizing the right business opportunities. Furthermore, on August 1, 2017 we additionally acquired ownership interest, etc. of Kowa Nishi-Shimbashi Building from Nippon Steel Kowa Real Estate Co., Ltd., a sponsor.

For internal growth, JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. JEI will aim to enhance earnings of the entire portfolio by continuously making additional strategic investments in order to maintain asset value and improve property competitiveness over the medium to long term while setting new rents based on market trends as well as promoting upward rent revisions to realize rents that are more suitable for the property value, along with the aforementioned initiatives.

Regarding financial operations, while fund procurement for long-term and with fixed interest rates will remain as our basic policies, JEI will consistently work on stable and sound financial operations. While watching the trends of the financial environment as well as considering the interest rate level according to periods and the status of debt redemption balance of each period, JEI will implement agile decisions.

(6) Subsequent Events

None

(Reference Material)

1. Acquisition of an Asset (Kowa Nishi-Shimbashi Building (Additional Acquisition of Ownership Interest, etc.))

JEI concluded the real estate transaction agreement as of July 26, 2017 and received the property as of August 1, 2017 as described below.

(Overview of acquired asset)

Acquired asset	Real estate
Name of asset	Kowa Nishi-Shimbashi Building (additional acquisition of ownership interest)
Location	2-1-1 Nishi Shimbashi, Minato-ku, Tokyo
Acquisition price (Note)	7,500,000,000 yen
Date of conclusion of agreement	July 26, 2017
Acquisition date	August 1, 2017
Seller	Nippon Steel Kowa Real Estate Co., Ltd.

(Note) The acquisition price does not include consumption tax, local consumption tax or fees required for the acquisition.

2. Borrowing of Funds

JEI concluded an individual commitment line agreement as of July 26, 2017 in order to allot the funds to part of the funds for the acquisition of the asset as indicated in 1. above and the related expenses, etc. as described below.

(Overview of borrowing)

Lender	Mizuho Bank, Ltd.
Loan amount	7,700,000,000 yen
Interest rate	Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) +0.20%
Drawdown date	August 1, 2017
Principal repayment date	September 29, 2017
Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
Collateral	Unsecured / Non-guaranteed

3. Acquisition of an Asset (Akasaka Garden City (Additional Acquisition of Co-ownership Interest))

JEI concluded the real estate transaction agreement with multiple sellers as of August 7, 2017 and received the property as of August 10, 2017 as described below.

(Overview of acquired asset)

Acquired asset (Note 1)	Real estate
Name of asset	Akasaka Garden City (additional acquisition of co-ownership interest)
Location	4-15-1 Akasaka, Minato-ku, Tokyo
Acquisition price (Note 2)	869,591,115 yen
Date of conclusion of agreement	August 7, 2017
Acquisition date	August 10, 2017
Seller	Not disclosed as consent from sellers has not been obtained.

(Note 1) JEI already held trust beneficiary interest in part of Akasaka Garden City as a major trust asset, for which Mizuho Trust & Banking Co., Ltd. has been acting as the trustee. JEI placed the above asset in trust, adding it to the said trust asset, immediately after the additional acquisition. As of the date of this document, JEI owns trust beneficiary interest in one trust including the ownership interest additionally acquired.

(Note 2) The acquisition price does not include consumption tax, local consumption tax or fees required for the acquisition.

4. Borrowing of Funds

JEI concluded an individual commitment line agreement as of August 7, 2017 in order to allot the funds to part of the funds for the acquisition of the asset as indicated in 3. above and the related expenses, etc. as described below.

(Overview of borrowing)

Lender	Mizuho Bank, Ltd.
Loan amount	900,000,000 yen
Interest rate	Base interest rate (Japanese Bankers Association (JBA) three-month Yen-TIBOR) +0.20%
Drawdown date	August 10, 2017
Principal repayment date	July 31, 2018
Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
Collateral	Unsecured / Non-guaranteed

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	18th As of June 30, 2015	19th As of December 31, 2015	20th As of June 30, 2016	21st As of December 31, 2016	22nd As of June 30, 2017
Total number of units authorized	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	1,212,750 units	1,264,450 units	1,264,450 units	1,305,700 units	1,305,700 units
Unitholders' capital	127,950 million yen	134,434 million yen	134,434 million yen	139,972 million yen	139,972 million yen
Number of unitholders	7,848 individuals	8,465 individuals	7,686 individuals	7,850 individuals	8,086 individuals

(2) Unitholders

Major unitholders as of June 30, 2017 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	338,434	25.92
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	115,474	8.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	99,880	7.65
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.48
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	54,364	4.16
STATE STREET BANK AND TRUST COMPANY 505012	ONE LINCOLN STREET, BOSTON MA USA 02111	29,202	2.24
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.58
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	19,386	1.48
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	16,279	1.25
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A.	15,602	1.19
Total		780,841	59.80

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2017 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	14,500 (Note 2)

(Note 1) There are no investment units of JEI held by either the Executive Director or the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there is no conflict of interests between those companies, including those listed above, and JEI.

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 22nd period (11,000 thousand yen), the fee for the English financial statements audit and the preparation of a comfort letter upon the issuance of the 11th Series Unsecured Investment Corporation Bonds in April 2017.

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

The board of directors of JEI shall deliberate dismissal of accounting auditor in accordance with the provisions set out in the Investment Trust Law, and deliberate discontinuation of re-election based on circumstances in all respects.

3) Matters concerning an entity which received a business suspension order in the past two years

The accounting auditor of JEI received an order to suspend accepting new engagements for 3 months (from January 1, 2016, to March 31, 2016) from the Financial Services Agency on December 22, 2015.

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

Our asset management company, asset custodian and administrative agents as of June 30, 2017 are as follows:

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

3. Investment Portfolio of the Investment Corporation

(1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	21st Period (December 31, 2016)		22nd Period (June 30, 2017)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,808	1.3	3,796	1.3
		Area II	5,645	1.9	5,650	1.9
Area I		116,091	39.2	116,027	39.0	
Area II		9,107	3.1	9,111	3.1	
Area III		102,242	34.5	101,644	34.2	
Area IV		18,896	6.4	18,883	6.4	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,166	6.1	18,025	6.1
Total			273,958	92.5	273,139	91.9
Deposits in bank and other assets			22,122	7.5	24,037	8.1
Total assets			296,081	100.0	297,177	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

(Note 2) Total acquisition price is based on the amounts accounted for in the balance sheets as of the settlement date (amounts of real estate property and trust beneficiary interest in real estate are based on the book value after depreciations).

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2017 are as follows:

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	28,773	38,375.65	38,375.65	100.0	8.8	Office building
AKASAKA INTERCITY	27,194	11,021.03	11,021.03	100.0	5.4	Office building
Nisseki Yokohama Building	24,141	40,440.73	40,314.38	99.7	10.7	Office building
Akasaka Garden City	22,265	8,769.53	8,769.53	100.0	3.7	Office building
Omori Bellport D	21,119	25,801.66	25,801.66	100.0	8.8	Office building
HAMARIKYU INTERCITY	18,025	19,718.11	19,500.96	98.9	6.8	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,750	25,043.93	25,043.93	100.0	7.3	Office building
Mansard Daikanyama	11,437	5,420.80	5,278.26	97.4	2.7	Office building
Daiba Garden City Building	10,066	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,553	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	185,326	205,327.01	204,840.97	99.8	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2017. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2017. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2017.

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

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2017 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	25,700	21,119
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,900	9,142
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,350	8,250
I-7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,700	22,265
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	26,700	27,194
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,090	4,787
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	10,066
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	22,400	18,025
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,040	1,763
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,040	3,796
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	12,100	11,437
Area I				147,020	137,849
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,710	5,650
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,690	7,245
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,140	1,865
Area II				12,540	14,761
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	20,300	12,750
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,450	9,553
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,690	5,115
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,150	4,377
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,750	1,007
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,230	2,257
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	4,290	5,792
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,400	28,773
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,310	1,655
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	8,270	6,220
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	26,700	24,141
Area III				108,540	101,644
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,150	2,975
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,280	2,627
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,970	5,358
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,570	2,188
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,140	4,284
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,580	1,448
Area IV				24,690	18,883
Total				292,790	273,139

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2017 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Property name	21st Period July 1, 2016 to December 31, 2016				22nd Period January 1, 2017 to June 30, 2017			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	100.0	938	8.8	1	100.0	940	8.8
I -2	Shiba 2-Chome Building	2	100.0	373	3.5	2	100.0	371	3.5
I -3	JEI Hamamatsucho Building	1	100.0	210	2.0	1	100.0	209	2.0
I -7	Akasaka Garden City	1	100.0	395	3.7	1	100.0	390	3.7
I -8	AKASAKA INTERCITY	14	100.0	581	5.5	14	100.0	578	5.4
I -9	Kowa Shirokanedai Building	1	100.0	165	1.6	1	100.0	170	1.6
I -10	Daiba Garden City Building	1	100.0	334	3.1	1	100.0	334	3.1
I -12	HAMARIKYU INTERCITY	1	98.3	713	6.7	1	98.9	719	6.8
I -13	Shintomicho Building	11	100.0	69	0.7	11	100.0	71	0.7
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
I -15	Mansard Daikanyama	7	97.4	299	2.8	7	97.4	291	2.7
Area I		46	99.6	-	-	45	99.7	-	-
II -1	NHK Nagoya Housou-Center Building	31	95.3	372	3.5	31	94.2	366	3.4
II -2	JEI Nishi-Honmachi Building	1	100.0	196	1.8	1	100.0	193	1.8
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	83	0.8
Area II		33	97.9	-	-	33	97.3	-	-
III -1	Musashikosugi Tower Place	37	100.0	797	7.5	40	100.0	778	7.3
III -2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -5	Kawasaki Nisshincho Building	1	100.0	191	1.8	1	100.0	190	1.8
III -6	No. 44 Kowa Building	1	100.0	88	0.8	1	100.0	90	0.8
III -7	JEI Ryogoku Building	1	100.0	104	1.0	1	95.8	104	1.0
III -8	Ebina Prime Tower	37	98.8	413	3.9	39	99.6	429	4.0
III -9	Kowa Kawasaki Nishiguchi Building	1	99.1	923	8.7	1	100.0	938	8.8
III -10	Pacific Square Sengoku	9	95.5	49	0.5	10	100.0	54	0.5
III -11	Core City Tachikawa	1	98.5	309	2.9	1	98.5	308	2.9
III -12	Nisseki Yokohama Building	1	98.3	1,134	10.7	1	99.7	1,138	10.7
Area III		91	99.1	-	-	97	99.7	-	-
IV -2	JEI Kyobashi Building	1	91.8	166	1.6	1	100.0	168	1.6
IV -3	JEI Hiroshima Hacchobori Building	1	98.2	149	1.4	1	98.0	141	1.3
IV -4	SE Sapporo Building	1	99.2	369	3.5	1	98.6	361	3.4
IV -5	Aoba-dori Plaza	53	99.4	188	1.8	53	98.5	189	1.8
IV -6	Daiwa Minami-morimachi Building	10	100.0	198	1.9	10	100.0	195	1.8
IV -7	JEI Naha Building	1	95.8	74	0.7	1	91.7	74	0.7
Area IV		67	97.6	-	-	67	98.5	-	-
Total		237	99.0	10,653	100.0	242	99.4	10,642	100.0

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

(Note 2) Rental revenue (interim) and ratio of rental revenue to total rental revenues for Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi Building and JEI Hongo Building are not disclosed as consents on disclosure of rents from the end tenants have not been obtained.

(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Floating interest rate receivable Fixed interest rate payable	51,140,000	35,140,000	—

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

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

(8) Status of JEI's properties by country and region

None for JEI's properties in countries or regions other than Japan.

4. Capital Expenditures for Owned Properties

(1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 22nd period (ended June 30, 2017). The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2017	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Kawasaki, Kanagawa	Renewal of common space	From March 2017 To December 2017	378	—	—
Ebina Prime Tower	Ebina, Kanagawa	Update of automatic fire alarm system	From April 2017 To December 2017	103	—	—
Shiba 2-Chome Building	Minato, Tokyo	Renovation of common spaces of entire office building	From April 2017 To July 2017	94	37	37
Kowa Kawasaki Nishiguchi Building	Kawasaki, Kanagawa	Repair of refractory coating alongside update of passenger elevators	From July 2017 To December 2017	90	—	—
Omori Bellport D	Shinagawa, Tokyo	Update of automatic air conditioning control equipment (1/5th term)	From July 2017 To December 2017	56	—	—
HAMARIKYU INTERCITY	Minato, Tokyo	Repair of common space lighting	From July 2017 To December 2017	36	—	—

(2) Capital Expenditures for the Six Months Ended June 30, 2017

The following table shows constructions conducted by JEI during the period ended June 2017 and expensed as capital expenditures. Capital expenditures for the period ended June 2017 were 1,056 million yen and, when combined with repairs and maintenance costs of 271 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,328 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Shiba 2-Chome Building	Minato, Tokyo	Renewal of wall-through type air conditioner	From April 2017 To June 2017	244
SE Sapporo Building	Sapporo-shi, Hokkaido	Renewal of common space	From February 2017 To June 2017	159
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (5/5th term)	From January 2017 To March 2017	85
NHK Nagoya Housou- Center Building	Nagoya-shi, Aichi	Renewal of air conditioners in lower floors	From July 2016 To March 2017	61
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Replacement of integrating electricity meter	From October 2016 To February 2017	38

JEI Nishi-honmachi Building	Osaka-shi, Osaka	Renewal of heat source chiller	From April 2017 To June 2017	36
Omori Bellport D	Shinagawa, Tokyo	Replacement of external wall ceiling and repair of roof waterproofing (6/7th term)	From March 2017 To June 2017	30
Other constructions			–	399
Total				1,056

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

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

(Unit: Millions of yen)

Item	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017
Reserved funds at beginning of period	316	317	310	436	450
Increase	119	65	619	675	468
Decrease	118	72	492	662	371
Reserved funds at the end of period	317	310	436	450	546

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017
(a) Asset management fees	442,497	442,866
(b) Custodian fees	21,155	22,025
(c) Administrative service fees	40,025	41,489
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	61,502	73,724
Total	582,721	597,646

(2) Borrowings

Borrowings by each financing source as of the end of the 22nd period (ended June 30, 2017) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks				
Short-term loans	Mizuho Bank, Ltd.	November 2, 2016	1,000,000	—	0.23000	September 29, 2017 (Note 2)	Lump-sum	Redemption of investment corporation bonds	Unsecured and unguaranteed				
Sub Total			1,000,000	—									
Long-term loans due within one year	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	—	1.24750 (Note 3)	January 31, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed				
	Mitsubishi UFJ Trust and Banking		1,500,000	—									
	Sumitomo Mitsui Banking Corporation		1,500,000	—									
	Mizuho Bank, Ltd.	July 31, 2012	1,500,000	—	1.03000 (Note 3)								
	Mitsubishi UFJ Trust and Banking		1,300,000	—									
	Sumitomo Mitsui Banking Corporation		1,200,000	—									
	Sompo Japan Nipponkoa Insurance Inc.		2,000,000	—									
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	—	1.09734 (Note 3)								
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note 3)					November 30, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	1,000,000	1.08375 (Note 3)								
	Mitsubishi UFJ Trust and Banking		1,000,000	1,000,000									
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000									
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	1,000,000	1.04550 (Note 3)								
	Aozora Bank, Ltd.		500,000	500,000									
	Resona Bank, Ltd.		500,000	500,000									
	Sompo Japan Nipponkoa Insurance Inc.		500,000	500,000									
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000	1.19212 (Note 3)								
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	—	3,000,000	1.65125 (Note 3)	June 29, 2018							
	Mizuho Bank, Ltd.	June 28, 2013	—	5,000,000	0.81225 (Note 3)	June 30, 2018							
	Mitsubishi UFJ Trust and Banking		—	2,000,000									
Sumitomo Mitsui Banking Corporation	—		1,100,000										
Shinkin Central Bank	—		1,000,000										
The Norinchukin Bank	—		1,000,000										
The Bank of Fukuoka	—		700,000										
Resona Bank, Ltd.	—		200,000										
Sub Total			24,000,000	26,000,000									

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Mizuho Bank, Ltd.	November 29, 2016	1,500,000	—	0.23000	May 29, 2017 (Note 2)	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mitsubishi UFJ Trust and Banking		2,500,000	—					
	Sumitomo Mitsui Banking Corporation		2,000,000	—					
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	—	1.65125 (Note 3)	June 29, 2018			
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	—	0.81225 (Note 3)	June 30, 2018			
	Mitsubishi UFJ Trust and Banking		2,000,000	—					
	Sumitomo Mitsui Banking Corporation		1,100,000	—					
	Shinkin Central Bank		1,000,000	—					
	The Norinchukin Bank		1,000,000	—					
	The Bank of Fukuoka		700,000	—					
	Resona Bank, Ltd.		200,000	—					
	Mizuho Bank, Ltd.		—	3,500,000					
	Mitsubishi UFJ Trust and Banking	—	2,800,000						
	Sumitomo Mitsui Banking Corporation	—	2,700,000						
	Mizuho Bank, Ltd.	March 11, 2014	850,000	850,000	0.74500 (Note 3)	November 1, 2018			
	The Norinchukin Bank		1,450,000	1,450,000					
	Mitsubishi UFJ Trust and Banking		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	Mizuho Bank, Ltd.		850,000	850,000	0.77500 (Note 3)	March 8, 2019			
	The Norinchukin Bank		1,450,000	1,450,000					
	Mitsubishi UFJ Trust and Banking		850,000	850,000					
	Mizuho Bank, Ltd.		600,000	600,000					
	Nippon Life Insurance Company	December 12, 2016	1,000,000	1,000,000	0.25000 (Note 3)	December 12, 2019			
Mizuho Bank, Ltd.	June 29, 2016	4,400,000	4,400,000	0.28000	December 30, 2019				
Mitsubishi UFJ Trust and Banking		4,600,000	4,600,000						
Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000						

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 3)	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 3)				
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	Mitsubishi UFJ Trust and Banking		500,000	500,000					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.31261 (Note 3)				
	Mizuho Bank, Ltd.	December 27, 2013	675,000	675,000	1.00000 (Note 3)				
	The Norinchukin Bank		1,162,500	1,162,500					
	Mitsubishi UFJ Trust and Banking		675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500					
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 3)	June 30, 2021			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 3)				
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.40727	November 29, 2021			
	Mitsubishi UFJ Trust and Banking		540,000	540,000					
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Sumitomo Mitsui Trust Bank Limited		1,620,000	1,620,000					
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.81875 (Note 3)	December 30, 2021			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000					
	Resona Bank, Ltd.		600,000	600,000					
	Sompo Japan Nipponkoa Insurance Inc.	January 31, 2017	—	2,000,000	0.35000 (Note 3)	January 31, 2022			
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		—	1,000,000					
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 3)	June 30, 2022			
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 3)	December 30, 2022			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000					
	Resona Bank, Ltd.		600,000	600,000					
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 3)	June 30, 2023			
	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.84375 (Note 3)	November 30, 2023			
	Mitsubishi UFJ Trust and Banking		250,000	250,000					
Sumitomo Mitsui Banking Corporation	140,000		140,000						
Mizuho Trust & Banking Co., Ltd.	1,560,000		1,560,000						
The Norinchukin Bank	1,500,000		1,500,000						
Resona Bank, Ltd.	500,000		500,000						
Aozora Bank, Ltd.	750,000		750,000						
The Bank of Fukuoka	150,000		150,000						
Mizuho Bank, Ltd.	870,000		870,000	0.96275 (Note 3)	November 30, 2024				
Mitsubishi UFJ Trust and Banking	590,000		590,000						
Sumitomo Mitsui Banking	350,000	350,000							

Corporation								
Mizuho Trust & Banking Co., Ltd.	November 30, 2015	1,560,000	1,560,000					
Resona Bank, Ltd.		1,000,000	1,000,000					
Aozora Bank, Ltd.		750,000	750,000					
The Bank of Fukuoka		150,000	150,000					
Sub Total		83,900,000	75,900,000					
Total		108,900,000	101,900,000					

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance during the period. 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) Conducted early repayment in full on April 28, 2017.

(Note 3) Loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2017 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks	
4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	2,000,000	1.40000	November 2, 2018	Lump-sum	(Note 1)	(Note 5)	
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000					
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2019		(Note 2)		
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024		(Note 3)		
8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 3)		
9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 2)		
10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 4)		
11th series unsecured investment corporation bonds	April 25, 2017	—	7,000,000	0.65000	April 23, 2027		(Note 2)		
Total		29,000,000	36,000,000						

(Note 1) The funds were used for acquiring new properties.

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

(Note 3) The funds are used for redeeming existing investment corporation bonds and repaying existing borrowings.

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

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

(4) Short-Term Investment Corporation Bonds

None

(5) Subscription rights for New Investment Units

None

6. Condition of Investment Transactions

(1) Transactions of Property, Asset-Backed Securities, etc. and Infrastructure Assets, etc. and Infrastructure Related Assets

None

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

None

2) Others

None

(4) Transactions with Interested Parties

1) Transactions

None

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,477,096	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	167,526	11.3%
		Kowa Real Estate Facilities, Co., Ltd.	266,710	18.1%
		Nippon Steel Community Service Co., Ltd.	81	0.0%
Total	1,477,096	—	434,318	29.4%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2017.

(Note 2) Other than the Total amount paid indicated above, the following payments were made for maintenance and repair work, etc. which were ordered to interested parties during the period.

NIPPON STEEL KOWA REAL ESTATE CO., LTD. 4,954 thousand yen

KOWA REAL ESTATE FACILITIES CO., LTD. 196,017 thousand yen

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

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

7. Accounting

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

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

(2) Change in Depreciation Calculation Method

No changes were made during the period.

(3) Change in Asset and Infrastructure Assets, etc. Valuation Method

No changes were made during the period

8. Others

(1) Notice

1) General unitholders’ meeting

There were no applicable items during the period.

2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2017 is summarized below.

Approval date	Approved agenda	Description
February 16, 2017	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 20, 2017 to February 8, 2018. The board of directors approved the respective candidate general administrator for “administrative duties concerning offering of investment corporation bonds” and “administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period,” and assigned decisions on all other necessary matters to the Executive Director.

(2) Disclosure of Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

(3) Disclosure of Juridical Persons Owning Overseas Real Estate and Status of the Owned Real Estate

There were no applicable items during the period.

(4) Other

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

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
June 30, 2017 and December 31, 2016
with Independent Auditor's Report*



Building a better
working world

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Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2017, 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, 2017, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

September 20, 2017
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2017 and December 31, 2016

	As of June 30, 2017	As of December 31, 2016
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	22,182,030	20,096,382
Rental receivables	486,122	559,458
Consumption taxes refundable	—	58,187
Prepaid expenses and other current assets	196,472	183,753
Total current assets	<u>22,864,624</u>	<u>20,897,782</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	5,922,283	5,849,052
Machinery and equipment	6,253	6,253
Furniture and fixtures	12,270	12,270
Land	3,032,788	3,032,788
Construction in progress	12,606	3,812
Buildings and building improvements for trust accounts	121,130,825	120,173,335
Machinery and equipment for trust accounts	797,332	772,751
Furniture and fixtures for trust accounts	194,343	193,087
Land for trust accounts	160,660,425	160,660,425
Construction in progress for trust accounts	139,031	55,969
Less: accumulated depreciation	<u>(27,877,107)</u>	<u>(25,909,714)</u>
Net property and equipment	<u>264,031,052</u>	<u>264,850,033</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	113	138
Leasehold rights for trust accounts	7,382,016	7,382,016
Other intangible assets for trust accounts	4,848	4,562
Total intangible assets	<u>9,108,586</u>	<u>9,108,325</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	628,970	705,216
Other assets	379,051	382,193
Total investments and other assets	<u>1,023,203</u>	<u>1,102,591</u>
Deferred assets:		
Investment corporation bond issuance costs	149,786	122,341
Total deferred assets	<u>149,786</u>	<u>122,341</u>
Total assets	<u><u>297,177,254</u></u>	<u><u>296,081,074</u></u>

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

	As of June 30, 2017	As of December 31, 2016
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,465,612	1,204,829
Short-term loans <i>(Notes 5 and 8)</i>	—	1,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	26,000,000	24,000,000
Accounts payable – other	438,800	434,187
Accrued expenses	133,136	182,273
Accrued corporation taxes	678	764
Accrued consumption taxes	289,887	—
Advances received	83,886	76,142
Other current liabilities	—	105
Total current liabilities	<u>28,412,001</u>	<u>26,898,303</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	36,000,000	29,000,000
Long-term debt <i>(Notes 5 and 8)</i>	75,900,000	83,900,000
Security deposits from tenants <i>(Note 5)</i>	723,098	733,092
Security deposits from tenants for trust accounts <i>(Note 5)</i>	12,448,681	11,909,335
Total long-term liabilities	<u>125,071,779</u>	<u>125,542,427</u>
Total liabilities	<u>153,483,781</u>	<u>152,440,731</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	139,972,885	139,972,885
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	260,476	260,476
Retained earnings	3,460,111	3,406,981
Total surplus	<u>3,720,588</u>	<u>3,667,457</u>
Total unitholders' equity	<u>143,693,473</u>	<u>143,640,343</u>
Total net assets	<u>143,693,473</u>	<u>143,640,343</u>
Total liabilities and net assets	<u>297,177,254</u>	<u>296,081,074</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, 2017 to June 30, 2017
and from July 1, 2016 to December 31, 2016

	For the period from January 1, 2017 to June 30, 2017	For the period from July 1, 2016 to December 31, 2016
	<i>(Thousands of yen)</i>	
Revenues <i>(Note 13)</i> :		
Rental business revenues	9,760,176	9,702,024
Other	882,490	951,062
Total revenues	10,642,667	10,653,086
Operating expenses <i>(Note 13)</i> :		
Property operating expenses	5,890,983	5,849,144
Asset management fees	442,866	442,497
Custodian fees	22,025	21,155
Administrative service fees	41,489	40,025
Compensation for directors	6,540	6,540
Other	84,724	72,502
Total operating expenses	6,488,630	6,431,865
Operating income	4,154,037	4,221,220
Other income:		
Interest income	98	158
Other	1,034	713
Other expenses:		
Interest expense	437,910	506,703
Loan arrangement fees	114,622	142,818
New investment unit issuance costs	—	13,965
Interest expense on investment corporation bonds	123,538	128,180
Amortization of investment corporation bond issuance costs	13,554	13,592
Other	5,143	9,699
Ordinary income	3,460,399	3,407,130
Income before income taxes	3,460,399	3,407,130
Income taxes <i>(Note 12)</i> :		
Current	693	788
Deferred	4	1
Net income	3,459,701	3,406,339
Retained earnings at beginning of period	409	641
Retained earnings at end of period	3,460,111	3,406,981

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, 2017 to June 30, 2017
and from July 1, 2016 to December 31, 2016

	For the period from January 1, 2017 to June 30, 2017							
	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
<i>(Thousands of yen)</i>								
Balance as of December 31, 2016	1,305,700	139,972,885	260,476	3,406,981	3,667,457	143,640,343	143,640,343	
Changes during the fiscal period:								
Issuance of new units	—	—	—	—	—	—	—	
Distributions from retained earnings	—	—	—	(3,406,571)	(3,406,571)	(3,406,571)	(3,406,571)	
Net income	—	—	—	3,459,701	3,459,701	3,459,701	3,459,701	
Total changes during the fiscal period	—	—	—	53,130	53,130	53,130	53,130	
Balance as of June 30, 2017	1,305,700	139,972,885	260,476	3,460,111	3,720,588	143,693,473	143,693,473	
	For the period from July 1, 2016 to December 31, 2016							
	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
<i>(Thousands of yen)</i>								
Balance as of June 30, 2016	1,264,450	134,434,701	260,476	3,113,717	3,374,193	137,808,895	137,808,895	
Changes during the fiscal period:								
Issuance of new units	41,250	5,538,183	—	—	—	5,538,183	5,538,183	
Distributions from retained earnings	—	—	—	(3,113,075)	(3,113,075)	(3,113,075)	(3,113,075)	
Net income	—	—	—	3,406,339	3,406,339	3,406,339	3,406,339	
Total changes during the fiscal period	41,250	5,538,183	—	293,264	293,264	5,831,447	5,831,447	
Balance as of December 31, 2016	1,305,700	139,972,885	260,476	3,406,981	3,667,457	143,640,343	143,640,343	

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2017 to June 30, 2017
and from July 1, 2016 to December 31, 2016

	For the period from January 1, 2017 to June 30, 2017	For the period from July 1, 2016 to December 31, 2016
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,460,399	3,407,130
Depreciation and amortization	1,967,549	1,956,920
Amortization of investment corporation bond issuance costs	13,554	13,592
New unit issuance costs	—	13,965
Interest income	(98)	(158)
Interest expense	561,449	634,884
Decrease (increase) in rental receivables	73,336	93,587
Decrease (increase) in consumption taxes refundable	58,187	(58,187)
Decrease (increase) in prepaid expense	(7,422)	(53,299)
Increase (decrease) in accounts payable – trade	124,373	75,659
Increase (decrease) in accounts payable – other	5,780	17,248
Increase (decrease) in unpaid consumption taxes	289,887	(98,318)
Increase (decrease) in advances received	7,744	(6,394)
Decrease (increase) in long-term prepaid expenses	76,246	34,713
Other, net	(2,806)	(39,653)
Subtotal	6,628,182	5,991,692
Interest received	98	158
Interest paid	(610,586)	(639,938)
Income taxes paid	(779)	(546)
Net cash provided by operating activities	6,016,915	5,351,365
Cash flows from investing activities		
Purchases of property and equipment	(102,514)	(8,933)
Purchases of property and equipment for trust accounts	(909,906)	(12,513,882)
Proceeds from security deposits from tenants	13,393	6,369
Payments for security deposits to tenants	(23,387)	(13,607)
Proceeds from security deposits in trust accounts from tenants	628,846	680,893
Payments for security deposits in trust accounts to tenants	(89,501)	(143,788)
Net cash used in investing activities	(483,068)	(11,992,949)
Cash flows from financing activities		
Proceeds from short-term loans	—	14,500,000
Repayment for short-term loans	(1,000,000)	(14,500,000)
Proceeds from long-term debt	12,000,000	10,760,000
Repayment for long-term debt	(18,000,000)	(3,760,000)
Proceeds from issuance of investment corporation bonds	6,959,000	3,969,500
Payments for redemption of investment corporation bonds	—	(5,000,000)
Proceeds from issuance of investment units	—	5,506,766
Distributions to unitholders	(3,407,199)	(3,112,259)
Net cash provided by (used in) financing activities	(3,448,199)	8,364,006
Net increase (decrease) in cash and cash equivalents	2,085,647	1,722,422
Cash and cash equivalents at beginning of period	20,096,382	18,373,960
Cash and cash equivalents at end of period (<i>Note 4</i>)	22,182,030	20,096,382

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2017 to June 30, 2017
and from July 1, 2016 to December 31, 2016

1. Organization

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2017, JEI held 31 properties with 362,291.56 square meters of total leasable space and had leases with 242 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.

The amounts have been rounded down to the nearest thousand yen in the accompanying financial statements in accordance with the financial statements originally prepared in Japanese and filed with the regulatory authorities in Japan.

3. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Property and equipment including trust accounts and trademark rights

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

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

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

Deferred assets

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

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from July 1, 2016 to December 31, 2016 was ¥27,726 thousand. No property-related taxes were capitalized for the period from January 1, 2017 to June 30, 2017.

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 against fluctuation risk in interest rates. JEI has therefore entered into certain interest-rate swap contracts in order to hedge the risk of variable rates for its long-term debt obligations.

Each corresponding interest-rate swap is not required to be re-measured to fair value, because it meets the criteria for the special hedge accounting treatment under Japanese GAAP, which JEI applies to each interest-rate swap agreement.

Under this special hedge accounting treatment, the differentials paid or received under the swap agreements are recognized and included in interest expense of the hedged loans, and the interest-rate swaps are not required to be measured at fair value separately. For interest-rate swaps that meet the specific criteria for the special accounting treatment, assessments of hedge effectiveness are not performed.

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, 2017 and December 31, 2016 consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	<i>(Thousands of yen)</i>	
Cash and cash deposits	5,373,222	3,790,935
Cash and deposits in trust	16,808,808	16,305,446
Cash and cash equivalents including trust accounts	<u>22,182,030</u>	<u>20,096,382</u>

5. Financial Instruments

For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016

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 JEI's Annual Funding Procurement Plan. When procuring funds by means of interest-bearing debt, matters such as seeking longer durations and maturities, securing fixed interest rates over the entire term of the instrument in order to benefit from the recent favorable financial environment with low 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 fixed-rate term deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and investment corporation bonds.

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations principally using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 81.3% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2017. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of 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, 2017). Liquidity risk is also mitigated through the constant management of liquidity on hand.

5. Financial Instruments (continued)

(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.

Fair value of financial instruments

The following are carrying values and fair values as of June 30, 2017 and December 31, 2016 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of June 30, 2017			As of December 31, 2016		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	5,373,222	5,373,222	—	3,790,935	3,790,935	—
(2) Cash and deposits in trust	16,808,808	16,808,808	—	16,305,446	16,305,446	—
Total assets	<u>22,182,030</u>	<u>22,182,030</u>	<u>—</u>	<u>20,096,382</u>	<u>20,096,382</u>	<u>—</u>
(3) Short-term loans (Note C)	—	—	—	1,000,000	1,000,000	—
(4) Investment corporation bonds due within one year (Note C)	—	—	—	—	—	—
(5) Long-term debt due within one year (Note C)	26,000,000	26,171,999	171,999	24,000,000	24,207,439	207,439
(6) Investment corporation bonds (Note C)	36,000,000	36,436,630	436,630	29,000,000	29,596,890	596,890
(7) Long-term debt (Note C)	75,900,000	76,886,676	986,676	83,900,000	85,175,932	1,275,932
Total liabilities	<u>137,900,000</u>	<u>139,495,305</u>	<u>1,595,305</u>	<u>137,900,000</u>	<u>139,980,262</u>	<u>2,080,262</u>
(8) Derivative transactions *	—	—	—	—	—	—

* The value of assets and liabilities arising from derivative transactions is shown at net value.

(Note A)

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

Assets

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

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

Liabilities

- (3) Short-term loans

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

5. Financial Instruments (continued)

(5) Long-term debt due within one year and

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 15, "Derivative Transactions."

(Note B)

- *Financial instruments for which fair value is deemed extremely difficult to determine*
The fair values of security deposits from tenants and security deposits from tenants for trust accounts are as follows:

	<u>As of</u> <u>June 30, 2017</u>	<u>As of</u> <u>December 31, 2016</u>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	723,098	733,092
② Security deposits from tenants for trust accounts*	12,448,681	11,909,335

- * Security deposits from tenants and security deposits for trust accounts from tenants in leased properties are not subject to fair value disclosure, since such deposits have no market price. Furthermore, due to their characteristics, it is extremely difficult to estimate the fair value of security deposits in advance because of the uncertainty of the timing when the tenant vacates. As a result, it is therefore impossible to rationally estimate the exact cash flow from such security deposits.

5. Financial Instruments (continued)

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

As of June 30, 2017						
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	5,373,222	—	—	—	—	—
Cash and deposits in trust	16,808,808	—	—	—	—	—
Total	<u>22,182,030</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As of December 31, 2016						
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	3,790,935	—	—	—	—	—
Cash and deposits in trust	16,305,446	—	—	—	—	—
Total	<u>20,096,382</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(Note C)

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

As of June 30, 2017						
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>						
Short-term loans	—	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	26,000,000	—	—	—	—	—
Investment corporation bonds	—	12,000,000	—	—	—	24,000,000
Long-term debt	—	16,500,000	22,600,000	4,000,000	14,510,000	18,290,000
Total	<u>26,000,000</u>	<u>28,500,000</u>	<u>22,600,000</u>	<u>4,000,000</u>	<u>14,510,000</u>	<u>42,290,000</u>
As of December 31, 2016						
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>						
Short-term loans	1,000,000	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	24,000,000	—	—	—	—	—
Investment corporation bonds	—	7,000,000	5,000,000	—	—	17,000,000
Long-term debt	—	23,750,000	17,750,000	8,600,000	13,510,000	20,290,000
Total	<u>25,000,000</u>	<u>30,750,000</u>	<u>22,750,000</u>	<u>8,600,000</u>	<u>13,510,000</u>	<u>37,290,000</u>

6. Investment and Rental Property

For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016

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, 2017 and December 31, 2016 for such real estate for lease.

Carrying value			Fair value
As of January 1, 2017	Change during period (*1)	As of June 30, 2017	As of June 30, 2017
<i>(Thousands of yen)</i>			
273,958,219	(818,694)	273,139,525	292,790,000

Carrying value			Fair value
As of July 1, 2016	Change during period (*2)	As of December 31, 2016	As of December 31, 2016
<i>(Thousands of yen)</i>			
263,249,595	10,708,624	273,958,219	286,880,000

A) Carrying value represents the acquisition cost less accumulated depreciation.

B) Details of change during period:

(*1) The decrease of ¥818,694 thousand during the period is mainly due to a decrease of ¥1,967,524 thousand for depreciation costs.

(*2) The increase of ¥10,708,624 thousand during the period is mainly due to an increase of ¥11,514,768 thousand related to the acquisition of Mansarde Daikanyama Building offset by a decrease of ¥1,956,895 thousand for depreciation costs.

C) Fair value

Fair value as of June 30, 2017 and December 31, 2016 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2017 and December 31, 2016 consisted of the following:

	As of June 30, 2017			As of December 31, 2016		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	5,922,283	(1,253,386)	4,668,896	5,849,052	(1,165,549)	4,683,503
Machinery and equipment	6,253	(2,255)	3,998	6,253	(1,973)	4,279
Furniture and fixtures	12,270	(5,035)	7,234	12,270	(4,384)	7,885
Land	3,032,788	—	3,032,788	3,032,788	—	3,032,788
Construction in progress	12,606	—	12,606	3,812	—	3,812
Buildings and building improvements for trust accounts	121,130,825	(26,126,326)	95,004,498	120,173,335	(24,284,695)	95,888,639
Machinery and equipment for trust accounts	797,332	(375,536)	421,796	772,751	(346,901)	425,850
Furniture and fixtures for trust accounts	194,343	(114,567)	79,775	193,087	(106,209)	86,878
Land for trust accounts	160,660,425	—	160,660,425	160,660,425	—	160,660,425
Construction in progress for trust accounts	139,031	—	139,031	55,969	—	55,969
Total	<u>291,908,160</u>	<u>(27,877,107)</u>	<u>264,031,052</u>	<u>290,759,747</u>	<u>(25,909,714)</u>	<u>264,850,033</u>

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2017 and December 31, 2016 consisted of the following:

	As of June 30, 2017		As of December 31, 2016	
	Amount	Weighted-average interest rate (*1)	Amount	Weighted-average interest rate (*1)
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Short-term loans:				
Unsecured loans from a bank due on September 29, 2017 (*2)	—	—	1,000,000	0.23000%
Subtotal	—		<u>1,000,000</u>	
Long-term debt due within one year:				
Unsecured loans from banks due on January 31, 2017	—	—	5,000,000	1.24750% (*3)
Unsecured loans from banks due on January 31, 2017	—	—	4,000,000	1.03000% (*3)
Unsecured loans from insurance companies due on January 31, 2017	—	—	3,000,000	1.09734% (*3)
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.738750% (*3)	6,000,000	1.73875% (*3)
Unsecured loans from banks due on November 30, 2017	3,000,000	1.083750% (*3)	3,000,000	1.08375% (*3)
Unsecured loans from banks due on November 30, 2017	2,000,000	1.045500% (*3)	2,000,000	1.04550% (*3)
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.192120% (*3)	1,000,000	1.19212% (*3)
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.651250% (*3)	—	—
Unsecured loans from banks due on June 30, 2018	<u>11,000,000</u>	0.812250% (*3)	—	—
Subtotal	<u>26,000,000</u>		<u>24,000,000</u>	

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

Long-term debt:

Unsecured loans from banks due on May 29, 2018 (*2)	—	—	6,000,000	0.23000%
Unsecured loans from an insurance company due on June 29, 2018	—	—	3,000,000	1.65125% (*3)
Unsecured loans from banks due on June 30, 2018	—	—	11,000,000	0.81225% (*3)
Unsecured loans from banks due on July 31, 2018	9,000,000	0.21000%	—	—
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% (*3)	3,750,000	0.74500% (*3)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% (*3)	3,750,000	0.77500% (*3)
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% (*3)	1,000,000	0.25000% (*3)
Unsecured loans from banks due on December 30, 2019	13,000,000	0.28000%	13,000,000	0.28120%
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% (*3)	2,000,000	1.60000% (*3)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*3)	2,600,000	1.36400% (*3)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*3)	1,000,000	1.31261% (*3)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*3)	3,000,000	1.00000% (*3)
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*3)	2,000,000	1.60750% (*3)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*3)	2,000,000	0.98834% (*3)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.40727%	3,760,000	0.40727%
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% (*3)	5,750,000	0.81875% (*3)
Unsecured loans from insurance companies due on January 31, 2022	3,000,000	0.35000% (*3)	—	—
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% (*3)	2,000,000	1.15417% (*3)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% (*3)	5,750,000	0.93625% (*3)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*3)	2,000,000	1.20250% (*3)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*3)	5,270,000	0.84375% (*3)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*3)	5,270,000	0.96275% (*3)
Subtotal	75,900,000		83,900,000	
Total	101,900,000		108,900,000	

(*1) The weighted-average interest rate is weighted-average figures during the period. As for the borrowings hedged by interest-rate swaps for the purpose of mitigating interest rate fluctuation risk, the fixed interest rates after entering into the interest rate swap transactions are used to calculate the weighted-average interest rate.

(*2) JEI made a partial early repayment of this borrowing on April 28, 2017.

(*3) These are fixed-rate debt (incl. fixed-rate debt through each interest-rate swap agreement).

The scheduled repayment amounts of long-term debt as of June 30, 2017 are as follows:

	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>					
Long-term debt	26,000,000	16,500,000	22,600,000	4,000,000	14,510,000	18,290,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2017, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2017 and December 31, 2016 are summarized as follows:

	As of June 30, 2017		As of December 31, 2016	
	Amount (Thousands of yen)	Weighted-average interest rate	Amount (Thousands of yen)	Weighted-average interest rate
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	2,000,000	0.45000%
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	2,000,000	0.39000%
Unsecured bond #11 due on April 23, 2027	7,000,000	0.65000%	—	—
Total	<u>36,000,000</u>		<u>29,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of June 30, 2017 are as follows:

	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)					
Investment corporation bonds	—	12,000,000	—	—	—	24,000,000

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 ¥50,000 thousand.

11. Per Unit Information

Net assets per unit as of June 30, 2017 and December 31, 2016 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,305,700 units), respectively.

Net income per unit for the periods from January 1, 2017 to June 30, 2017 and July 1, 2016 to December 31, 2016 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,305,700 units) and (1,302,847 units), respectively.

Accordingly, net assets per unit were ¥110,050 as of June 30, 2017 and ¥110,010 as of December 31, 2016. Net income per unit was ¥2,649 for the period from January 1, 2017 to June 30, 2017 and ¥2,614 for the period from July 1, 2016 to December 31, 2016.

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, 2017 and December 31, 2016 are summarized as follows:

	As of June 30, 2017	As of December 31, 2016
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	4	8
Total deferred tax assets	4	8
Net deferred tax assets	4	8

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016 is as follows:

	For the period from January 1, 2017 to June 30, 2017	For the period from July 1, 2016 to December 31, 2016
Statutory tax rate	31.74%	31.74%
Reconciliation:		
Deductible distributions paid	(31.74)	(31.73)
Other	0.02	0.02
Effective tax rate	0.02%	0.02%

13. Breakdown of Revenues and Expenses

	For the period from January 1, 2017 to June 30, 2017	For the period from July 1, 2016 to December 31, 2016
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,044,157	7,969,256
Common area revenues	1,447,214	1,459,895
Other rental revenues	268,805	272,872
Subtotal	<u>9,760,176</u>	<u>9,702,024</u>
Other		
Utilities revenues	758,214	838,617
Other revenues	124,276	112,444
Subtotal	<u>882,490</u>	<u>951,062</u>
Total rental revenues	<u>10,642,667</u>	<u>10,653,086</u>
Property operating expenses:		
Property management costs and fees	1,477,096	1,422,920
Utilities expenses	1,004,220	1,064,241
Property and other taxes	915,948	891,506
Insurance	25,047	25,281
Repairs and maintenance	271,949	267,395
Depreciation	1,967,524	1,956,895
Other	229,197	220,903
Total property operating expenses	<u>5,890,983</u>	<u>5,849,144</u>
Profit	<u>4,751,684</u>	<u>4,803,941</u>

14. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2017 and December 31, 2016, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2017	As of December 31, 2016
	<i>(Thousands of yen)</i>	
Due within one year	600,494	845,244
Due after one year	780,089	899,010
Total	<u>1,380,583</u>	<u>1,744,254</u>

15. Derivative Transactions

Derivative Transactions as of June 30, 2017

(1) Transactions to which hedge accounting is not applied:

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2017 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	51,140,000	35,140,000	*	/

* Since the above interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP and therefore qualifies for hedge accounting, the swap is not revalued 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, 2016

(1) Transactions to which hedge accounting is not applied

Not applicable.

(2) Transactions to which hedge accounting is applied

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2016 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	60,140,000	46,140,000	*	/

* Since the above interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP and therefore qualifies for hedge accounting, the swap is not revalued at fair value on the accompanying balance sheets, as described in the summary of significant accounting policies.

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

16. Related Party Transactions

For the period from January 1, 2017 to June 30, 2017

- (1) Parent Company and Major Corporate Unitholders
Not applicable.
- (2) Subsidiaries and Affiliated Companies
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)
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,866	Accounts payable	361,935

For the period from July 1, 2016 to December 31, 2016

- (1) Parent Company and Major Corporate Unitholders
Not applicable.
- (2) Subsidiaries and Affiliated Companies
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)
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,497	Accounts payable	360,428

17. Segment Information

For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016

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.

17. Segment Information (continued)

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

18. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,406,105,000, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,460,111,693, which is the amount of retained earnings at June 30, 2017. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 17, 2017, the Board of Directors approved a resolution to make a cash distribution of ¥2,650 per unit aggregating to ¥3,460,105,000 to unitholders of record as of June 30, 2017.

19. Significant Subsequent Event

Not applicable.