

Asset Management Report for the 33rd Period (Semi-Annual Report for the 33rd Period)

From July 1, 2022, to December 31, 2022



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 33rd period (from July 1, 2022, to December 31, 2022).

In terms of external growth, we acquired Bizcore Shibuya as part of the strategy to expand asset size. This is the third acquisition from the Bizcore series of medium-sized, high-grade office buildings developed by Nippon Steel Kowa Real Estate Co., Ltd. We also decided on postdated sale of Shintomicho Building, an old property, in order to secure qualitative improvement of the portfolio as well as financial strength from the standpoint of stable management of distributions. We executed the settlement split into the 33rd period (40% equivalent) and the 34th period (60% equivalent), securing approximately 1.3 billion yen in gain on sale.

In addition, in the 34th period, we decided on a new asset replacement of selling Pacific Square Sengoku and acquiring Shin-Yokohama Arena-dori Building near Shin-Yokohama Station from the standpoint of improvement in location conditions and building age. The acquisition is scheduled for the end of March 2023 and the sale for the beginning of July 2023.

On the leasing front, the period-end occupancy rate of the entire portfolio turned around from the 32nd period's 90.8% to 93.0% as a result of steady progress in refilling of vacated floors amid the tenant departure rate decreasing with the end of the departure of a large tenant. In addition, for rent revisions, prevention of tenant departures through flexible negotiation of terms and conditions and other strategic rent revision negotiations were conducted in order to maintain and enhance occupancy rates.

On the financial front, we pursued reduction of financial costs through such means as utilization of floating-rate loans amid long-term interest rates rising and reduction of fees by switching to bilateral loans. In addition, we utilized sustainable financing upon refinancing, resulting in sustainable financing accounting for 21.2%, a level that is top class for office J-REITs. For ESG, we made progress in initiatives, including setting "net zero CO₂ emissions by fiscal 2050" as a new target for reduction of CO₂ emissions and implementing and disclosing quantitative financial analysis based on TCFD recommendations. As a result, in the 33rd period, JEI recorded operating revenue of 10,699 million yen, operating income of 4,132 million yen, net income of 3,502 million yen, and distribution per unit of 2,800 yen as initially planned (same amount as the previous period).

About Future Asset Management

In the real estate transaction market, while transaction prices are expected to remain steady for the time being backed by factors such as vigorous appetite for investment by market participants, JEI will continue to set the sponsor pipeline as the main source of property acquisition and advance talks with the sponsors. At the same time, JEI intends to earnestly work on acquisition from third parties as well.

In the office building leasing market, while trending toward inquiries and contracts gradually increasing for even large floor space in mainly central Tokyo due to the emergence of moves to review office functions with an eye to post COVID and such, there are concerns that the uncertainty over the office sector will not be dispelled for the time being given the factors such as the state of entrenchment of remote work and the possibility of even further consolidation among mainly large companies. Full-fledged recovery in office demand being expected to take a little more time and an increase in new supply in central Tokyo in 2023 lead to the forecast that the vacancy rate will be in the mid 6% range, or in some cases in the 7% range, and newly concluded rents will soften.

Under such circumstances, JEI believes that, headed for increasingly further polarization by the superiority/inferiority in terms of conditions, such as location, environmental performance and comfort, in response to the discussion of "new work styles," large buildings that are superior in terms of conditions will fit into the new office strategy and thus attract demand as core offices.

As to the policy on leasing activities for the time being, JEI will place utmost priority on "early refilling of vacated floors" and "prevention of departure" of existing tenants. Especially with the vacated floors, JEI will work to achieve early refilling of vacated floors by cooperating with the sponsors, setting flexible terms and conditions taking into account the level of difficulty by property and other efforts.

As for rent renewal/revision, JEI will keep up initiatives for upward rent revisions, centering on regional properties, for those with substantial negative rent gaps, while prioritizing prevention of tenant departures through flexible negotiation of terms and conditions.

In terms of finance, JEI will strive for stable and sound financial operations by continuing to work to reduce financial costs, extend average remaining period and diversify maturity dates with a basic policy of procuring funds for the long term at fixed interest rates. Furthermore, from the standpoint of maintaining and strengthening financing base through diversification of fund procurement means, JEI will work on environmentally or socially conscious or new methods of funding, including sustainable finance.

With regard to ESG, JEI intends to strive to further evolve and deepen its initiatives by keeping on taking on challenges with priority themes being "net zero CO₂ emissions by fiscal 2050," a long-term target for carbon neutrality set in January 2023, and TCFD, based on which we have disclosed qualitative and quantitative financial analyses, in addition to steadily carrying out previous efforts.

Finally, as always, JEI remains committed to strict adherence to the Financial Instruments and Exchange Act and other laws and regulations, and in addition to promoting compliance, we also disclose information on the status of our operations to our unitholders in an accurate and easy-to-understand manner.

We kindly ask for your continued understanding and support.

Asset Management Report for the 33rd Period (Semi-Annual Report for the 33rd Period)

II. Asset Management Report

1. Outline of Asset Management Operation

(1) Operating Results and Financial Position of the Investment Corporation

Fiscal period		29th Period July 1, 2020, to December 31, 2020	30th Period January 1, 2021, to June 30, 2021	31st Period July 1, 2021, to December 31, 2021	32nd Period January 1, 2022, to June 30, 2022	33rd Period July 1, 2022, to December 31, 2022
Operating revenue	(Millions of yen)	11,043	10,567	10,666	11,065	10,699
(Rental revenues)	(Millions of yen)	(10,729)	(10,567)	(10,666)	(10,267)	(10,141)
Operating expenses	(Millions of yen)	6,119	5,977	6,180	6,353	6,567
(Property operating expenses)	(Millions of yen)	(5,487)	(5,355)	(5,563)	(5,699)	(5,944)
Operating income	(Millions of yen)	4,924	4,590	4,485	4,711	4,132
Ordinary income	(Millions of yen)	4,291	3,976	3,846	4,102	3,503
Net income	(Millions of yen)	4,290	3,975	3,846	4,101	3,502
Total assets	(Millions of yen)	294,004	293,970	293,960	291,430	294,540
(Period-on-period change)	(%)	(0.2)	(-0.0)	(-0.0)	(-0.9)	(1.1)
Net assets	(Millions of yen)	152,418	152,335	152,206	150,461	150,218
(Period-on-period change)	(%)	(0.2)	(-0.1)	(-0.1)	(-1.1)	(-0.2)
Unitholders' capital, net (Note 1)	(Millions of yen)	147,907	147,907	147,907	145,907	145,907
Total outstanding investment units	(units)	1,353,000	1,353,000	1,353,000	1,337,598	1,337,598
Net assets per unit	(yen)	112,652	112,590	112,495	112,486	112,304
Net income per unit (Note 2)	(yen)	3,171	2,938	2,842	3,052	2,618
Total distribution	(Millions of yen)	4,059	3,975	3,846	3,745	3,745
Distribution per unit	(yen)	3,000	2,938	2,843	2,800	2,800
(Profit distribution per unit)	(yen)	(3,000)	(2,938)	(2,843)	(2,800)	(2,800)
(Distribution in excess of earnings per unit)	(yen)	(—)	(—)	(—)	(—)	(—)
Return on assets (Note 3)	(%)	1.5	1.4	1.3	1.4	1.2
(Annualized rate)	(%)	(2.9)	(2.7)	(2.6)	(2.8)	(2.4)
Return on equity (Note 4)	(%)	2.8	2.6	2.5	2.7	2.3
(Annualized rate)	(%)	(5.6)	(5.3)	(5.0)	(5.5)	(4.6)
Capital ratio (Note 5)	(%)	51.8	51.8	51.8	51.6	51.0
(Period-on-period change)	(%)	(0.0)	(-0.0)	(-0.0)	(-0.1)	(-0.6)
Payout ratio (Note 6)	(%)	94.6	100.0	100.0	91.3	107.0
Number of investment properties	(properties)	34	35	36	35	36
Number of tenants (Note 7)	(tenants)	191	187	587	585	617
Total leasable area (Note 8, 9)	(m ²)	331,112	336,375	341,070	335,534	337,389
Occupancy rate	(%)	98.0	96.4	93.1	90.8	93.0
Depreciation	(Millions of yen)	1,824	1,847	1,891	1,937	1,931
Capital expenditure	(Millions of yen)	1,127	1,547	1,305	1,298	1,188
Net operating income (NOI) (Note 10)	(Millions of yen)	7,066	7,059	6,994	6,504	6,128
Funds from operation (FFO) per unit (Note 11)	(yen)	4,287	4,303	4,240	3,918	3,665
FFO multiples (Note 12)	(times)	15.0	18.3	15.8	15.5	18.0
Debt service coverage ratio (DSCR) (Note 13)	(times)	13.9	13.2	13.2	14.4	12.8
Interest-bearing debt	(Millions of yen)	125,600	125,600	125,600	125,600	128,600
Loan-to-value (Note 14)	(%)	42.7	42.7	42.7	43.1	43.7
Number of days in operation	(days)	184	181	184	181	184

(Note 1) The amount of unitholders' capital after subtracting any deduction from unitholders' capital is shown. This does not account for any deduction from unitholders' capital that is due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments.

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

(Note 3) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100

(Note 4) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100

(Note 5) Capital ratio = Period end net assets / Period end total assets × 100

(Note 6) 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.)

For the 32nd period, as buyback and cancellation of own investment units took place, the formula below was used to calculate the payout ratio.

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

(Note 7) Number of tenants indicates the number of end tenants in each property as of the end of each period in principle, starting from the 31st period. 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. However, for properties in which the residential portion or the percentage of the interest owned by JEI is relatively low, the number of tenants indicates the number of master lease companies for the property, considering a master lease company as a tenant. In addition, for land with leasehold interest, the number of tenants is counted as one based on the lease agreement for the leased land.

(Note 8) For properties with joint ownership (including quasi co-ownership of trust beneficiary interest; the same applies hereinafter), the figure is obtained by taking the leasable area of the entire property and factoring in the percentage of the interest owned by JEI, regarding the figure as JEI's leasable area. The same applies hereinafter.

(Note 9) Spaces are rounded to the nearest specified unit. The same applies hereinafter.

(Note 10) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 11) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate + Impairment loss) / Total number of outstanding investment units (the figure is rounded down to the whole number).

(Note 12) FFO multiples = Period end investment unit price / Annualized FFO per unit

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

* Includes depreciation except for property operating expenses.

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

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006, under the Law Concerning Investment Trusts and Investment Corporations of Japan (Law No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Local 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, JEI has 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 December 31, 2022, JEI settled its 33rd period.

1) Business conditions and results

In the period under review (33rd period ended December 31, 2022), the world economy was hard hit by the impact of rising energy and raw material prices arising from the situation in Ukraine, and Europe and the U.S. moved to raise policy interest rates in phases from the perspective of curbing inflation, but entering 2023, were shifting to a cautious monetary policy stance on economic outlook as evident by the smaller interest rate hike increments to assess the easing of inflation and such.

In Japan, as the impact of COVID-19 wanes, robust capital investment, increasing number of foreign visitors to Japan and other signs of economic recovery were gradually emerging, but unable to fully pass on increases in raw material, labor and other costs, the economic outlook continues to remain uncertain. Amid such, although the Bank of Japan maintains a monetary easing stance, factors such as globally rising interest rates, surging domestic prices and the Bank of Japan’s December 2022 expansion of the range of fluctuation for long-term interest rates resulted in long-term interest rates showing movements of gradually rising. The price and wage trends as well as any resulting change in the Bank of Japan’s policy management stance and such need to be watched carefully ahead.

In the real estate transaction market, the acquisition appetite of investors within and outside of Japan is strong due to the favorable fund procurement environment on the back of the Bank of Japan’s monetary easing stance, differences in interest rates in Japan and abroad and other factors, making the property acquisition environment still severe. Under such circumstances, JEI acquired a medium-sized, high-grade office building, Bizcore Shibuya (acquisition price: 6,640 million yen), from a sponsor in August 2022.

Meanwhile, in the office building leasing market, there were even moves of active corporate activity with an eye to post-COVID-19, relocations aimed at improving the work environment from the perspective of work-style reform and such emerging, but moves were yet to become full-fledged as particularly those of large demand are at the stage of considering office utilization measures, options are increasing with the increase in vacancies, etc. Although new supply was thus limited, vacancy rates remained unchanged and new rent levels were still yet to bottom out. The vacancy rate in the five central wards of Tokyo, which was 6.4% at the end of June 2022, stood at 6.5% at the end of December 2022 (published by Miki Shoji Co., Ltd.).

At JEI, the occupancy rate, which had dropped to 90.8% at the end of the previous period (end of June 2022) due to the impact of the departure of a large tenant, showed movements of turning around. However, despite steady progress in the refilling of vacated floors at office buildings in central Tokyo, there was delay in the refilling of vacated floors at Kowa Kawasaki Nishiguchi Building. As a result of mainly that, the occupancy rate (Note 1) at the end of the period under review was 93.0%.

The total number of properties owned and managed by JEI at the end of the period under review was 36 with a total acquisition price of 287.8 billion yen and total leasable area of 337,388.63 m² (102,060.06 tsubos).

2) Fund procurement highlights

JEI will work on stable and sound financial operations over the medium to long term with a basic policy of procuring funds for the long term at fixed interest rates.

In the period under review, in August, JEI took out a short-term loan of 3.0 billion yen through a revolving credit facility to fund the acquisition of Bizcore Shibuya. In addition, JEI refinanced loans due for repayment with a sustainability loan (2.0 billion yen for borrowing period of 2.5 years) in September, a green loan (1.0 billion yen for borrowing period of 5 years) in November, and a green loan (5.75 billion yen for borrowing period of 7.1 years) in December.

As a result, as of the end of the period under review, the average remaining period of interest-bearing debt (Note 2) was 4.0 years (shortened by 0.1 years from the end of the previous period), the period-end average interest-bearing debt interest rate (Note 3) was 0.69% (down 0.03 points from the end of the previous period), and the loan-to-value ratio of total assets (total assets-based LTV) (Note 4) was 43.7% (up 0.6 points from the end of the previous period) due to the new borrowing of funds for the acquisition of Bizcore Shibuya.

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

As of December 31, 2022, JEI has been granted the following rating.

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 5)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-

3) Sustainability initiatives

JEI has worked to reduce the environmental burden and to cooperate/collaborate with stakeholders to achieve a sustainable society through corporate social responsibility, while recognizing the importance of consideration for the environment, society and governance (ESG) in the real estate investment management business.

With regard to CO₂ emission intensity, in fiscal 2021, JEI set a medium-term target to reduce emission intensity by 46% by fiscal 2030 compared with fiscal 2013. To meet the target, JEI has promoted a shift to LED lighting, air-conditioning equipment with excellent energy-saving performance, and carbon-free energy sources, such as “RE100” compatible electricity, at properties it owns. In addition, in January 2023, JEI newly set a long-term target of net zero CO₂ emissions by fiscal 2050. In order to reduce our environmental impact, JEI has set targets to reduce energy consumption and water consumption intensities by 1% per year compared with the previous period, and over the medium to long term, to reduce average consumption and emission intensities by 5% or more when comparing the rates between fiscal 2015 and fiscal 2019 with the rates between fiscal 2020 and fiscal 2024. Furthermore, JEI has continuously promoted the acquisition of Green Building Certification and the number of certified properties now stands at 26, accounting for 89.2% of leasable area (as of December 31, 2022; excluding land with leasehold interest).

Such initiatives for sustainability by JEI earned high recognition, specifically an eighth year straight “Green Star” rating (Note 7) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 6) Real Estate Assessment conducted in 2022, as well as a third year straight “5 Star,” the highest rating in “GRESB Rating” (Note 8), and JEI has been a constituent of the MSCI Japan ESG Select Leaders Index (Note 9) since May 2021.

In addition, JEI’s asset management company Japan Excellent Asset Management Co., Ltd. (hereinafter, “JEAM”) compiles the policy, initiatives and such of JEI and JEAM for each of the four items (“governance,” “strategy,” “risk management,” and “metrics and targets”) recommended by the Task Force on Climate-related Financial Disclosures (TCFD) (Note 10) based on the TCFD recommendations for which it expressed support in June 2021, and discloses them on JEI’s website.

4) Financial results and distribution highlights

As a result of the management above, for the period under review, JEI posted 10,699 million yen in operating revenue, 4,132 million yen in operating income, 3,503 million yen in ordinary income, and 3,502 million yen in net income.

Concerning distributions in the period under review, JEI decided to distribute the entire amount (except for the portion of less than one yen per unit) of unappropriated retained earnings with the addition of 243 million yen for reversal of reserve for reduction entry to unappropriated retained earnings through partial reversal of reserve for reduction entry along with the intention to have the amount of profit distribution deducted from its taxable income by application of the special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law). As a result, distribution per unit was 2,800 yen.

- (Note 1) Occupancy rate is a percentage of total leased area to total leasable area of real estate or real estate in trust.
- (Note 2) Average remaining period of interest-bearing debt is calculated by applying a weighted average of the remaining period until the repayment date or redemption date of borrowings and investment corporation bonds at the end of the period to the balance of each interest-bearing debt, for all interest-bearing debt.
- (Note 3) Period-end average interest-bearing debt interest rate is calculated by applying a weighted average of interest at the end of the period under review to the balance of each interest-bearing debt, for all interest-bearing debt.
- (Note 4) Loan-to-value ratio of total assets = (Period end interest-bearing debt / Period end total assets) × 100
- (Note 5) The rating is for 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds, 11th series unsecured investment corporation bonds, 12th series unsecured investment corporation bonds, 13th series unsecured investment corporation bonds, 14th series unsecured investment corporation bonds, 15th series unsecured investment corporation bonds and 16th series unsecured investment corporation bonds.
- (Note 6) A benchmark established by a European pension fund group that measures ESG considerations of real estate companies and management institutions which is used by major European, American, and Asian institutional investors for decision-making on investments.
- (Note 7) “Green Star” is given when a high evaluation with a score exceeding 50% is made in the two evaluation axes (“Management Policy” and “Implementation & Measurement”).
- (Note 8) “GRESB Rating” is a rating of the overall score according to the global ranking, and “5 Star” is a rating given to the top 20% of participants, “4 Star” to the following 20% and so forth.
- (Note 9) The MSCI Japan ESG Select Leaders Index is an index consisting of companies that have high Environmental, Social and Governance performance selected from among the constituents of the MSCI Japan Investable Market Index (IMI). The Index has been selected as one of the ESG indices for passive investment by the Government Pension Investment Fund (GPIF).
- (Note 10) The TCFD (Task Force on Climate-related Financial Disclosures) is an international initiative established in 2015 by the Financial Stability Board (FSB) at the request of the G20 to discuss climate-related issues to be addressed by the financial sector.

(3) Capital Increase

The outline of the changes in the total number of outstanding investment units and unitholders' capital, net, for the most recent five years up to the end of the period under review are as follows:

Paid-up Date	Capital transaction	Capital transaction (units)		Unitholders' capital, net (Millions of yen) (Note 1)		Remarks
		Change	Balance	Change	Balance	
January 21, 2020	Public offering	43,000	1,348,700	7,213	147,186	(Note 2)
February 13, 2020	Third-party allotment	4,300	1,353,000	721	147,907	(Note 3)
April 28, 2022	Cancellation	-15,402	1,337,598	-1,999	145,907	(Note 4)

(Note 1) The amount of unitholders' capital after subtracting any deduction from unitholders' capital is shown. This does not account for any deduction from unitholders' capital that is due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments.

(Note 2) New investment units were issued at an issue price of 173,355 yen per unit (purchase price of 167,754 yen per unit) through a public offering in order to repay debts procured to acquire properties and partially fund property acquisitions.

(Note 3) New investment units were issued at a purchase price of 167,754 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.

(Note 4) Buyback of own investment units through market purchase on the Tokyo Stock Exchange based on a discretionary transaction contract with a securities company took place from February 18, 2022, to April 13, 2022. All 15,402 own investment units from the buyback were cancelled on April 28, 2022, based on the resolution passed at the board of directors' meeting of JEI held on April 18, 2022.

(Note 5) 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 period under review.

[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)	29th period (December 2020)	30th period (June 2021)	31st period (December 2021)	32nd period (June 2022)	33rd period (December 2022)
	Highest (yen)	127,900	163,300	158,400	136,600	139,400
	Lowest (yen)	110,600	120,000	132,800	121,600	118,900

(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

Concerning distributions in the period under review, JEI decided to distribute the entire amount (except for the portion of less than one yen per unit) of unappropriated retained earnings with the addition of the amount of reversal of reserve for reduction entry to unappropriated retained earnings along with the intention to have the amount of profit distribution deducted from its taxable income by application of the special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law). As a result, distribution per unit was 2,800 yen.

Fiscal period	29th period	30th period	31st period	32nd period	33rd period
Accounting period	July 1, 2020, to December 31, 2020	January 1, 2021, to June 30, 2021	July 1, 2021, to December 31, 2021	January 1, 2022, to June 30, 2022	July 1, 2022, to December 31, 2022
Unappropriated retained earnings at end of period (Thousands of yen)	4,291,443	3,975,882	3,846,920	4,102,019	3,502,198
Retained income (Thousands of yen)	232,443	768	341	356,744	—
Total cash distribution amount (Thousands of yen)	4,059,000	3,975,114	3,846,579	3,745,274	3,745,274
(Cash distributions per unit) (yen)	(3,000)	(2,938)	(2,843)	(2,800)	(2,800)
Of which, total profit distributions (Thousands of yen)	4,059,000	3,975,114	3,846,579	3,745,274	3,745,274
(Profit distribution per unit) (yen)	(3,000)	(2,938)	(2,843)	(2,800)	(2,800)
Of which, 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 business environment

In the real estate transaction market, although transaction prices are expected to remain high for the time being with there continuing to be vigorous appetite for investment by market participants, JEI believes that there is a need to closely monitor changes in the political, economic and geopolitical situation ahead.

In the office building leasing market, while starting to gradually gain momentum for even large floor space with the reclassification of COVID-19 to Class V Infectious Disease, review of office functions by companies and such, recovery in office demand is expected to take a little more time given the factors such as the state of entrenchment of remote work and the possibility of even further consolidation among mainly large companies. Under such circumstances, there are concerns that vacancy rates will remain unchanged or slightly rise and newly concluded rents will soften in light of new supply increasing in 2023. On the other hand, office building conditions, such as location, environmental performance and comfort, are expected to increase in weight based on new thinking on offices with the work-style reform, leading to also increasingly further polarization by the superiority/inferiority in terms of such conditions.

2) Policy and issues on future investment management

A. External growth

JEI will work to acquire competitive properties by means of well-balanced investments based on size and area with the aim of expanding asset size over the medium to long term. JEI will continue to have the asset management company newly 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 while maintaining a focus on cooperation with sponsor companies. At the same time, in order to improve its portfolio over the medium to long term, JEI will consider disposition of properties that are old or are likely to lose competitiveness in the future, assuming replacement.

B. 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.

As to properties with vacancies at present or with expected vacancies, JEI will focus on filling those vacancies at an early stage by collaborating with the sponsors, setting flexible terms and conditions taking into account the difficulties, etc. for each property, etc. As for rent revision, although JEI will respond in a flexible manner to prioritize prevention of tenant move-outs, JEI is to review such stance in an agile manner once the environment turns for the better. In addition, JEI will work on measures to curb the impact of rising electricity prices, such as switching to variable unit prices for those tenants billed at fixed unit prices.

Over the medium to long term, JEI aims to enhance earnings of the entire portfolio and improve its ESG evaluation by making additional strategic investments to maintain asset value and improve property competitiveness while conducting sustainability initiatives, BCP measures and such.

C. Financial strategy

JEI will consistently work on stable and sound financial operations by continuing to procure funds based on the basic policy to fix interest rates of loans, extend and diversify maturity dates while continuing to reduce financial costs. In addition, JEI will work on new procurement methods such as green finance and sustainability finance from the perspective of maintaining and strengthening its procurement base through diversification of fund procurement means.

JEI will set the upper limit of total assets-based LTV at 60% and manage it at around 35% to 50%.

D. Sustainability initiatives

JEI will continue to work to reduce the environmental burden and to cooperate/collaborate with stakeholders to achieve a sustainable society, deeming such as its corporate social responsibility.

(6) Subsequent Events

Not applicable.

(Reference Material)

1. Acquisition of Asset (Shin-Yokohama Arena-dori Building)

JEI concluded a transaction agreement for trust beneficiary interest in real estate on February 10, 2023, as described below.

<Overview of the Asset to Be Acquired>

Asset to be acquired	Trust beneficiary interest in real estate
Name of property	Shin-Yokohama Arena-dori Building
Location	3-7-7 Shin-Yokohama, Kohoku-ku, Yokohama-shi, Kanagawa
Planned acquisition price (Note)	2,077 million yen
Date of execution of agreement	February 10, 2023
Scheduled handover date	March 31, 2023
Seller	Not disclosed, as consent for disclosure has not been obtained from the seller

(Note) Planned acquisition price does not include acquisition-related consumption tax and local consumption tax or fees required for the acquisition.

2. Transfer of Asset (Pacific Square Sengoku)

JEI concluded a transaction agreement for trust beneficiary interest in real estate on February 10, 2023, as described below.

<Overview of Asset to Be Transferred>

Asset to be transferred	Trust beneficiary interest in real estate
Name of property	Pacific Square Sengoku
Location	2-29-24 Honkomagome, Bunkyo-ku, Tokyo
Planned transfer price	2,300 million yen
Date of execution of agreement	February 10, 2023
Scheduled handover date	July 3, 2023
Transferee	Not disclosed, as consent for disclosure has not been obtained from the transferee

2. Outline of the Investment Corporation

(1) Investment Units

Fiscal period	29th As of December 31, 2020	30th As of June 30, 2021	31st As of December 31, 2021	32nd As of June 30, 2022	33rd As of December 31, 2022
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	1,353,000 units	1,353,000 units	1,353,000 units	1,337,598 units	1,337,598 units
Unitholders' capital, net (Note)	147,907 million yen	147,907 million yen	147,907 million yen	145,907 million yen	145,907 million yen
Number of unitholders	6,914 individuals	6,797 individuals	6,978 individuals	7,556 individuals	7,193 individuals

(Note) The amount of unitholders' capital after subtracting any deduction from unitholders' capital is shown. This does not account for any deduction from unitholders' capital that is due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments.

(2) Unitholders

Major unitholders as of December 31, 2022, are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%) (Note 1)
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	385,927	28.85
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	219,470	16.41
Nippon Steel Kowa Real Estate Co., Ltd. (Note 2)	1-8-1 Akasaka, Minato-ku, Tokyo	71,560	5.35
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	59,469	4.45
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo	52,676	3.94
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	20,762	1.55
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.54
SSBTC CLIENT OMNIBUS ACCOUNT	ONE LINCOLN STREET, BOSTON MA USA 02111	16,094	1.20
The Shinkumi Federation Bank	1-9-5 Kyobashi, Chuo-ku, Tokyo	14,409	1.08
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	13,652	1.02
Total		874,679	65.39

(Note 1) Ratio of number of units held to outstanding investment units is rounded to the second decimal place.

(Note 2) JEI has received from Nippon Steel Kowa Real Estate Co., Ltd. (the core sponsor of JEAM) a notice that it has additionally acquired investment units of JEI as shown in the table below. For details, please refer to "Notice Concerning Completion of Additional Acquisition of JEI's Investment Units by Nippon Steel Kowa Real Estate Co., Ltd." dated January 12, 2023. The "Acquisition" in the table below is as outlined in "Notice Concerning Additional Acquisition of JEI's Investment Units by Nippon Steel Kowa Real Estate Co., Ltd." dated August 18, 2022.

	Before the Acquisition	At the Acquisition	After the Acquisition
Number of units held by Nippon Steel Kowa Real Estate Co., Ltd.	71,560 units	62,867 units	134,427 units
Ratio of number of units held to outstanding investment units	5.35%	4.70%	10.05%

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2022 (Thousands of yen)
Executive Director	Shuichiro Kayama	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Shunichi Maekawa	Professor Emeritus, Meikai University	1,800
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	1,800
Supervisory Director	Osamu Hirakawa	Adviser, Foreign Law Joint Venture, Anderson Mori & Tomotsune	1,800
Accounting Auditor	Ernst & Young ShinNihon LLC	–	12,200 (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 are no conflicts of interest 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 period under review (11,000 thousand yen) and the fee for the English financial statements audit.

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 compensation agreement between directors, etc. and Investment Corporation

Not applicable.

(4) Matters Concerning Directors and Officers Liability Insurance Agreement

JEI has concluded the directors and officers liability insurance agreement as follows:

Scope of the insured	Overview of the directors and officers liability insurance agreement
Executive Director and Supervisory Directors	(Overview of insured event covered by the insurance) Compensation payment, dispute costs, etc. incurred by the insured as a result of a damage compensation claim arising from an act performed by the insured based on his or her position will be covered. (Burden ratio of insurance premium) The entire amount is borne by JEI. (Measures to ensure the appropriateness of the execution of duties of directors and officers) Damages and losses incurred by the insured for an act which was performed acknowledging that such is a criminal act or violation of laws and regulations will not be covered by the insurance.

(5) Asset Management Company, Asset Custodian, and Administrative Agents

JEI's asset management company, asset custodian, and administrative agents as of December 31, 2022, 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)	32nd Period (As of June 30, 2022)		33rd Period (As of December 31, 2022)	
			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	10,886	3.7	10,919	3.7
		Area II	5,388	1.8	5,346	1.8
		Area IV	1,613	0.6	1,608	0.5
Trust beneficiary interest in real estate		Area I	125,533	43.1	131,053	44.5
		Area II	10,752	3.7	10,741	3.6
		Area III	83,757	28.7	83,340	28.3
		Area IV	25,262	8.7	25,458	8.6
Total			263,194	90.3	268,467	91.1
Equity interest in anonymous association (Note 3)			5,241	1.8	5,241	1.8
Deposits in bank and other assets			22,994	7.9	20,831	7.1
Total assets			291,430	100.0	294,540	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 of Osaka Station (JR), Osaka-Umeda Station (Hankyu Railway, Hanshin Electric Railway), Umeda Station (Osaka Metro), Yodoyabashi Station (Osaka Metro), or Honmachi Station (Osaka Metro), respectively. Central Nagoya refers to the areas within about a 10-minute walk of 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 of 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).

(Note 3) Equity interest in an anonymous association with Akasaka 2-chome Godo Kaisha as the business operator.

(2) Major Properties

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2022, are as follows.

Name	Book value (Millions of yen)	Leasable area (m ²) (Note 1)	Leased area (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
AKASAKA INTERCITY	26,462	11,021.03	9,206.25	83.5	4.9	Office building
Nisseki Yokohama Building	21,859	40,440.72	40,219.59	99.5	11.8	Office building
Omori Bellport D	20,492	25,828.29	24,236.13	93.8	8.0	Office building
Kowa Kawasaki Nishiguchi Building	18,796	24,944.17	13,970.30	56.0	2.8	Office building
HAMARIKYU INTERCITY	16,627	19,718.11	19,221.24	97.5	7.2	Office building
Musashikosugi Tower Place	12,128	24,986.15	22,024.03	88.1	6.4	Office building
Mansard Daikanyama	11,091	5,420.80	5,278.27	97.4	2.3	Office building
Kowa Nishi-Shimbashi Building	10,919	8,949.04	8,949.04	100.0	(Note 4)	Office building
Kowa Kawasaki Higashiguchi Building	10,733	18,612.72	18,612.72	100.0	(Note 4)	Office building
Bizcore Jimbocho	9,965	5,261.75	4,702.31	89.4	(Note 4)	Office building
Total	159,076	185,182.78	166,419.88	89.9	—	—

(Note 1) Leasable area refers to area available for lease of which ownership is attributable to JEI as of December 31, 2022. For properties with joint ownership (including quasi co-ownership of trust beneficiary interest), the figure is obtained by taking the leasable area of the entire property and factoring in the percentage of the interest owned by JEI, regarding the figure as JEI's leasable area.

(Note 2) Leased area refers to area with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of December 31, 2022. For properties with joint ownership, the figure is obtained by taking the leased area of the entire property and factoring in the percentage of the interest owned by JEI, regarding the figure as JEI's leased area. For properties which are used for profit by the master lease company, leased area refers to the portion used, and the figures indicate area which can be reasonably calculated based on the lease agreement on the master leasing. The leased area 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 area. This also applies to any figure which is calculated based on "leased area" in this document.

(Note 3) Occupancy rate is a percentage of total leased area to total leasable area of real estate or real estate in trust.

(Note 4) Not disclosed, as consent for disclosure has not been obtained.

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31, 2022, 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	20,492
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	14,100	9,011
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,450	7,968
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	30,800	26,462
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,100	9,166
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	28,500	16,627
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,280	1,028
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	13,700	10,919
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,800	11,091
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,170	6,448
I-17	Bizcore Akasaka-mitsuke	3-1-2 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,680	6,138
I-18	Bizcore Jimbocho	3-9-2 Kanda-ogawamachi, Chiyoda-ku, Tokyo	Trust beneficiary interest in real estate	10,300	9,965
I-19	Bizcore Shibuya	1-3-15 Shibuya, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	6,950	6,652
Area I				179,530	141,972
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	6,250	5,346
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,750	1,865
II-4	GRAND FRONT OSAKA (Umekita Plaza South Building)	4-1 Ohbuka-cho, Kita-ku, Osaka City, Osaka (Umekita Plaza) 4-20 Ohbuka-cho, Kita-ku, Osaka City, Osaka (South Building)	Trust beneficiary interest in real estate	5,050	4,895
II-5	GRAND FRONT OSAKA (North Building)	3-1 Ohbuka-cho, Kita-ku, Osaka City, Osaka	Trust beneficiary interest in real estate	3,820	3,980
Area II				17,870	16,087
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	22,700	12,128
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	10,500	10,733
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,620	4,897
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,740	4,187
III-7	JEI Ryogoku Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,720	2,523
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,000	18,796
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,550	1,596
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	9,940	5,937
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	33,500	21,859
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	719	679
Area III				106,989	83,340
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,010	2,688
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	4,230	2,762
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	10,200	5,072
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,770	2,269
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjimbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,320	4,219
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	2,110	1,587
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,580	2,770
IV-9	Senshin Building	1-6-27 Chuo, Aoba-ku, Sendai-shi, Miyagi	Real estate	1,690	1,608
IV-10	Sapporo Otemachi Building	4-5-1 Minami Ichijo Nishi, Chuo-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	4,564	4,088
Area IV				40,474	27,066
Total				344,863	268,467

(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., Daiwa Real Estate Appraisal Co., Ltd. and The Tanizawa Sogo Appraisal Co., Ltd. as of December 31, 2022, pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership (including quasi co-ownership of trust beneficiary interest), the figure is obtained by taking the value of the entire shared real estate and factoring in the percentage of the interest owned by JEI.

The leasing business at each office building invested by JEI is as follows:

Property No.	Property name	32nd Period January 1, 2022, to June 30, 2022				33rd Period July 1, 2022, to December 31, 2022			
		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	22	93.8	889	8.7	24	93.8	809	8.0
I-2	Shiba 2-Chome Building	2 (Note 1)	99.2	374	3.7	2 (Note 1)	100.0	378	3.7
I-3	JEI Hamamatsucho Building	4	100.0	244	2.4	4	100.0	244	2.4
I-8	AKASAKA INTERCITY	12	87.6	559	5.4	14	83.5	499	4.9
I-10	Daiba Garden City Building	2	82.6	319	3.1	3	91.0	327	3.2
I-12	HAMARIKYU INTERCITY	8 (Note 1)	95.7	714	7.0	10 (Note 1)	97.5	731	7.2
I-13	Shintomicho Building	11	100.0	74	0.7	10	93.9	49	0.5
I-14	Kowa Nishi-Shimbashi Building	5	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	7	78.0	221	2.2	10	97.4	237	2.3
I-16	AKASAKA INTERCITY AIR	1 (Note 1)	95.8	(Note 2)	(Note 2)	1 (Note 1)	83.9	(Note 2)	(Note 2)
I-17	Bizcore Akasaka-mitsuke	7	88.9	148	1.5	7	88.9	129	1.3
I-18	Bizcore Jimbocho	5	72.5	(Note 2)	(Note 2)	7	89.4	(Note 2)	(Note 2)
I-19	Bizcore Shibuya	—	—	—	—	6	87.5	157	1.6
Area I		86	92.1	—	—	103	94.1	—	—
II-1	NHK Nagoya Housou-Center Building	39	99.1	355	3.5	41	100.0	363	3.6
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1 (Note 1)	100.0	92	0.9	1 (Note 1)	100.0	92	0.9
II-4	GRAND FRONT OSAKA (Umekita Plaza South Building)	2 (Note 1)	90.4	(Note 2)	(Note 2)	2 (Note 1)	91.4	(Note 2)	(Note 2)
II-5	GRAND FRONT OSAKA (North Building)	5 (Note 1)	98.6	(Note 2)	(Note 2)	5 (Note 1)	97.7	(Note 2)	(Note 2)
Area II		47	98.1	—	—	49	98.5	—	—
III-1	Musashikosugi Tower Place	45	81.3	533	5.2	47	88.1	645	6.4
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	5	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
III-5	Kawasaki Nisshincho Building	18	76.9	143	1.4	24	85.2	166	1.6
III-7	JEI Ryogoku Building	18	100.0	115	1.1	18	100.0	126	1.2
III-9	Kowa Kawasaki Nishiguchi Building	21	52.5	475	4.6	21	56.0	285	2.8
III-10	Pacific Square Sengoku	10	100.0	61	0.6	10	100.0	62	0.6
III-11	Core City Tachikawa	24	98.4	321	3.1	25	100.0	315	3.1
III-12	Nisseki Yokohama Building	44	98.4	1,202	11.7	45	99.5	1,198	11.8
III-13	Yokohama Bentendori Dai-ichi Seimei Building	13	100.0	41	0.4	13	100.0	42	0.4
Area III		199	86.1	—	—	209	88.9	—	—
IV-2	JEI Kyobashi Building	22	100.0	180	1.8	22	100.0	189	1.9
IV-3	JEI Hiroshima Hacchobori Building	41	85.6	154	1.5	44	96.0	138	1.4
IV-4	SE Sapporo Building	43	100.0	428	4.2	43	100.0	441	4.4
IV-5	Aoba-dori Plaza	49	94.4	157	1.5	47	94.4	184	1.8
IV-6	Daiwa Minami-morimachi Building	10	100.0	195	1.9	10	100.0	192	1.9
IV-7	JEI Naha Building	18	100.0	85	0.8	18	100.0	87	0.9
IV-8	Hiroshima Dai-ichi Seimei OS Building	27	97.2	143	1.4	29	100.0	147	1.5
IV-9	Senshin Building	16	96.2	50	0.5	16	96.2	53	0.5
IV-10	Sapporo Otemachi Building	27	98.5	131	1.3	27	98.5	134	1.3
Area IV		253	97.1	—	—	256	98.7	—	—
Total		585	90.8	10,267	100.0	617	93.0	10,141	100.0

(Note 1) Total number of tenants indicates the number of end tenants in principle. 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. However, for properties in which the residential portion or the percentage of the interest owned by JEI is relatively low, the number of tenants indicates the number of master lease companies for the property, considering a master lease company as a tenant. In addition, for land with leasehold interest, the number of tenants is counted as one based on the lease agreement for the leased land.

(Note 2) Not disclosed, as consent for disclosure has not been obtained.

(4) Securities Portfolio

The securities owned by JEI in its portfolio as of December 31, 2022, are as follows:

Name	Asset type	Quantity	Book value		Assessed value (Note 1)		Valuation gains/losses (Thousands of yen)	Remarks
			Unit price	Amount (Thousands of yen)	Unit price	Amount (Thousands of yen)		
Equity interest in anonymous association with Akasaka 2-chome Godo Kaisha as business operator	Equity interest in anonymous association	—	—	5,241,564	—	5,241,564	—	(Note 2)
Total		—	—	5,241,564	—	5,241,564	—	—

(Note 1) The assessed value states the book value.

(Note 2) The asset under management is trust beneficiary interest in ARK Hills Front Tower.

(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	34,640,000	29,370,000	—
	Floating interest rate receivable			
	Fixed interest rate payable			

(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.

2) Shares

Name (Note 1)	Number of shares	Acquisition price (Thousands of yen) (Note 4)		Assessed value (Thousands of yen) (Note 5)		Valuation gains/losses	Remarks
		Unit price	Amount	Unit price	Amount		
KMO Corporation	833 shares	50	42,069	50	42,069	—	—

(Note 1) With the acquisition of GRAND FRONT OSAKA (North Building) (part of trust beneficiary interest in real estate), JEI purchased 833 common shares of KMO Corporation, an entity that conducts facility management and business development for Knowledge Capital (Note 2), and acquired the restitution rights of funds (Note 3) of Knowledge Capital's funds. Moreover, said common shares may not be transferred separately from quasi co-ownership of the trust beneficiary interest in GRAND FRONT OSAKA (North Building).

(Note 2) Knowledge Capital, a center for industry-academia collaboration, is one of the main uses of GRAND FRONT OSAKA (North Building).

(Note 3) The details of the restitution rights of Knowledge Capital's funds are recorded below under "3) Securities other than shares"

(Note 4) Acquisition price includes the costs of acquisition.

(Note 5) The assessed value of these unlisted shares is stated as the book value.

3) Securities other than shares

Asset type (Note 1)	Quantity	Book value (Thousands of yen)		Assessed value (Thousands of yen) (Note 2)		Valuation gains/losses	Remarks
		Unit price	Amount	Unit price	Amount		
Restitution rights of funds	1	—	2,659	—	2,659	—	—

(Note 1) With the acquisition of GRAND FRONT OSAKA (North Building) (part of trust beneficiary interest in real estate), JEI acquired the restitution rights of funds of Knowledge Capital's funds. Moreover, said restitution rights may not be transferred separately from quasi co-ownership of the trust beneficiary interest in GRAND FRONT OSAKA (North Building).

(Note 2) The assessed value of the restitution rights of funds states the book value.

4) Other assets

Asset type (Note 1)	Quantity	Book value (Thousands of yen)		Assessed value (Thousands of yen) (Note 2)		Valuation gains/losses	Remarks
		Unit price	Amount	Unit price	Amount		
Restitution rights of funds	1	—	454	—	454	—	—

(Note 1) With the acquisition of GRAND FRONT OSAKA (Umekita Plaza·South Building) and GRAND FRONT OSAKA (North Building), JEI acquired restitution rights of funds concerning GRAND FRONT OSAKA TMO General Incorporated Association, which runs businesses related to the revitalization of the area centering on GRAND FRONT OSAKA, the improvement of the environment and the formation of communities.

(Note 2) The assessed value of the restitution rights of funds states the book value.

(8) Status of JEI's Properties by Country and Region

None for JEI's properties are 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 33rd period (ended December 31, 2022). 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 December 31, 2022	Total of advance payment
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Update of waste disposal equipment	From September 2022 To March 2023	66	—	—
JEI Hiroshima Hacchobori Building	Hiroshima-shi, Hiroshima	Renovation of air-conditioning systems (Phase 5)	From January 2023 To June 2023	64	—	—
Daiwa Minami-morimachi Building	Osaka-shi, Osaka	Update of hot and cold water generator	From June 2022 To February 2023	55	—	—
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Repair of exterior walls and such (Phase 2)	From February 2023 To June 2023	55	—	—
Shiba 2-Chome Building	Minato-ku, Tokyo	Maintenance of mechanical parking equipment	From June 2023 To June 2023	52	—	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems	From May 2023 To May 2023	47	—	—
JEI Naha Building	Naha-shi, Okinawa	Renovation of restrooms (Phase 2)	From September 2022 To March 2023	44	—	—
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Update of atrium blinds (Phase 1)	From February 2023 To June 2023	37	—	—
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Update of elevators (Phase 1)	From March 2023 To March 2023	34	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Update of lighting in exclusively-owned sections (Phase 4)	From January 2023 To June 2023	33	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Update of central monitoring equipment	From December 2022 To June 2023	30	—	—
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of elevators	From April 2023 To June 2023	27	—	—
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of outdoor-air processing units	From June 2023 To June 2023	15	—	—

(2) Capital Expenditures for the Six Months Ended December 31, 2022

The following table shows constructions conducted by JEI during the period ended December 31, 2022, and expensed as capital expenditures. Capital expenditures for the period ended December 31, 2022, were 1,188 million yen and, when combined with repairs and maintenance costs of 137 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,325 million yen.

Property name	Location	Purpose	Term	Amount Paid (Millions of yen)
JEI Hiroshima Hacchobori Building	Hiroshima-shi, Hiroshima	Renovation of air-conditioning systems (Phase 4)	From September 2022 To November 2022	70
Kowa Nishi-Shimbashi Building	Minato-ku, Tokyo	Update of hot and cold water generator	From March 2022 To August 2022	65
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Update of emergency elevators	From May 2022 To August 2022	63
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of seals around exterior walls (Phase 3)	From July 2022 To October 2022	57
JEI Naha Building	Naha-shi, Okinawa	Renovation of restrooms (Phase 1)	From July 2022 To December 2022	51
Shiba 2-Chome Building	Minato-ku, Tokyo	Update of central monitoring equipment	From July 2022 To December 2022	41
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Repair of heat storage water tank	From February 2022 To December 2022	36
Kawasaki Nisshincho Building	Kawasaki-shi, Kanagawa	Renovation of seals around exterior walls (Phase 2)	From July 2022 To November 2022	35
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Update of lighting in exclusively-owned sections (Phase 3)	From July 2022 To December 2022	34
Daiwa Minami-morimachi Building	Osaka-shi, Osaka	Update of elevators	From September 2022 To December 2022	34
JEI Naha Building	Naha-shi, Okinawa	Replacement of mechanical parking lot parts	From December 2022 To December 2022	22
Other constructions				674
Total				1,188

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

Based on the 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, maintenance and other construction.

(Unit: Millions of yen)

Item	29th Period July 1, 2020, to December 31, 2020	30th Period January 1, 2021, to June 30, 2021	31st Period July 1, 2021, to December 31, 2021	32nd Period January 1, 2022, to June 30, 2022	33rd Period July 1, 2022, to December 31, 2022
Reserved funds at beginning of period	473	250	380	298	555
Increase	260	963	1,217	1,123	620
Decrease	484	834	1,299	866	729
Reserved funds at the end of period	250	380	298	555	447

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	32nd Period January 1, 2022, to June 30, 2022	33rd Period July 1, 2022, to December 31, 2022
(a) Asset management fees	467,085	444,830
(b) Custodian fees	21,877	21,700
(c) Administrative service fees	40,360	40,594
(d) Compensation for directors	5,400	5,400
(e) Accounting auditor fees	11,000	11,000
(f) Other	108,215	99,114
Total	653,938	622,639

(2) Borrowings

Borrowings by each financing source as of the end of the 33rd period (ended December 31, 2022) are as follows:

	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								
Short-term loans	Mizuho Bank, Ltd.	August 1, 2022	—	3,000,000	0.26659	June 30, 2023	Lump-sum	Purchase of real estate	Unsecured and non-guaranteed
	Subtotal		—	3,000,000					
Long-term loans due within one year	Mizuho Bank, Ltd.	September 30, 2020	2,000,000	—	0.27756	September 30, 2022	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	Sompo Japan Insurance Inc.	November 30, 2017	500,000	—	0.35000 (Note 2)	November 30, 2022			
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	—					
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	—	0.93625 (Note 2)	December 30, 2022			
	MUFG Bank, Ltd.		2,000,000	—					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	—					
	Resona Bank, Ltd.		600,000	—					
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 2)	June 30, 2023			
	The Dai-ichi Life Insurance Company Limited	June 29, 2018	3,000,000	3,000,000	0.46000 (Note 2)				
	Mizuho Bank, Ltd.	November 30, 2015	—	420,000	0.84375 (Note 2)	November 30, 2023			
	MUFG Bank, Ltd.		—	250,000					
	Sumitomo Mitsui Banking Corporation		—	140,000					
	Mizuho Trust & Banking Co., Ltd.		—	1,560,000					
	The Norinchukin Bank		—	1,500,000					
Resona Bank, Ltd.	—		500,000						
Aozora Bank, Ltd.	—		750,000						
The Bank of Fukuoka, Ltd.	—		150,000						

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans due within one year	MUFG Bank, Ltd.	November 30, 2017	—	1,000,000	0.64801 (Note 2)	November 30, 2023	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	Sumitomo Mitsui Banking Corporation		—	3,500,000					
	Resona Bank, Ltd.		—	500,000					
	Aozora Bank, Ltd.		—	500,000					
Subtotal			13,750,000	15,770,000					
Long-term loans	Mizuho Bank, Ltd.	November 30, 2015	420,000	—	0.84375 (Note 2)	November 30, 2023			
	MUFG Bank, Ltd.		250,000	—					
	Sumitomo Mitsui Banking Corporation		140,000	—					
	Mizuho Trust & Banking Co., Ltd.		1,560,000	—					
	The Norinchukin Bank		1,500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Aozora Bank, Ltd.		750,000	—					
	The Bank of Fukuoka, Ltd.		150,000	—					
	MUFG Bank, Ltd.	November 30, 2017	1,000,000	—	0.64801 (Note 2)				
	Sumitomo Mitsui Banking Corporation		3,500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Aozora Bank, Ltd.		500,000	—					
	Development Bank of Japan Inc.		3,500,000	3,500,000	0.68431 (Note 2)	May 31, 2024			
	Mizuho Bank, Ltd.	November 30, 2015	870,000	870,000	0.96275 (Note 2)	November 30, 2024	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	MUFG Bank, Ltd.		590,000	590,000					
	Sumitomo Mitsui Banking Corporation		350,000	350,000					
	Mizuho Trust & Banking Co., Ltd.		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, Ltd.	150,000	150,000						
	Nippon Life Insurance Company	December 12, 2019	1,000,000	1,000,000	0.42000 (Note 2)	December 12, 2024			
	Mizuho Bank, Ltd.	September 30, 2022	—	2,000,000	0.26364	March 31, 2025			
	Mizuho Bank, Ltd.	June 29, 2018	3,700,000	3,700,000	0.67400 (Note 2)	June 30, 2025			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		400,000	400,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Bank of Fukuoka, Ltd.		700,000	700,000					
Resona Bank, Ltd.	200,000		200,000						
Mizuho Bank, Ltd.	November 1, 2018	850,000	850,000	0.70600 (Note 2)	November 1, 2025				
MUFG Bank, Ltd.		850,000	850,000						
Mizuho Trust & Banking Co., Ltd.		600,000	600,000						
The Norinchukin Bank		1,450,000	1,450,000						

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	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, 2021	520,000	520,000	0.39310	November 29, 2025	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	MUFG Bank, Ltd.		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.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026			
	MUFG Bank, Ltd.		1,750,000	1,750,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		850,000	850,000					
	Aozora Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.	March 8, 2019	850,000	850,000	0.57100 (Note 2)				
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	The Norinchukin Bank		1,450,000	1,450,000					
	Development Bank of Japan Inc.	September 29, 2017	1,300,000	1,300,000	0.83071 (Note 2)	September 30, 2026			
	Mizuho Bank, Ltd.	June 29, 2018	1,300,000	1,300,000	0.79100 (Note 2)	December 30, 2026			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		700,000	700,000					
	Sompo Japan Insurance Inc.	January 31, 2022	2,000,000	2,000,000	0.28000 (Note 2)	January 31, 2027			
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	November 30, 2022	1,000,000	1,000,000	0.34000 (Note 2)	November 30, 2027			
	Sompo Japan Insurance Inc.		—	500,000					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		—	500,000					
	Development Bank of Japan Inc.	January 31, 2020	2,000,000	2,000,000	0.68778 (Note 2)	July 31, 2028			
	Mizuho Bank, Ltd.		1,175,000	1,175,000					
	MUFG Bank, Ltd.		1,175,000	1,175,000					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000					
	Mizuho Trust & Banking Co., Ltd.		1,087,500	1,087,500					
The Norinchukin Bank	1,162,500		1,162,500						
The Dai-ichi Life Insurance Company Limited	1,000,000		1,000,000						
Development Bank of Japan Inc.	June 30, 2021		2,000,000	2,000,000			0.55801 (Note 2)	December 30, 2029	
Mizuho Bank, Ltd.	December 30, 2021	1,950,000	1,950,000	0.49544	December 30, 2029				
MUFG Bank, Ltd.		2,000,000	2,000,000						
Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
Resona Bank, Ltd.		600,000	600,000						

	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.	December 30, 2022	—	1,950,000	0.43818	January 31, 2030	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed	
	MUFG Bank, Ltd.		—	2,000,000						
	Mizuho Trust & Banking Co., Ltd.		—	1,200,000						
	Resona Bank, Ltd.		—	600,000						
	The Dai-ichi Life Insurance Company Limited	June 30, 2021	2,000,000	2,000,000	0.65000 (Note 2)	June 28, 2030				
	Development Bank of Japan Inc.	June 30, 2022	2,000,000	2,000,000	1.08125 (Note 2)	June 30, 2031				
Subtotal			73,850,000	71,830,000						
Total			87,600,000	90,600,000						

(Note 1) Average interest rate is calculated by applying a weighted average to the loan balance during the period. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated by applying a weighted average rate in consideration of the effect of the interest rate swaps.

(Note 2) 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 December 31, 2022, are as follows:

	Classification		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
	Issue									
Unsecured investment corporation bonds	7th series unsecured investment corporation bonds	March 10, 2014	8,000,000	8,000,000	1.13000	March 11, 2024	Lump-sum	(Note 1)	(Note 4)	
	8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025				(Note 2)
	9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026				(Note 3)
	10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023				(Note 2)
	11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027				(Note 2)
	12th series unsecured investment corporation bonds	April 20, 2018	2,000,000	2,000,000	0.24000	April 20, 2023				(Note 3)
	13th series unsecured investment corporation bonds		2,000,000	2,000,000	0.95000	April 20, 2033				
	15th series unsecured investment corporation bonds	September 10, 2019	1,000,000	1,000,000	1.07000	September 9, 2039				(Note 2)
	Subtotal			29,000,000	29,000,000					
Green bonds	14th series unsecured investment corporation bonds	August 10, 2018	4,000,000	4,000,000	0.63000	August 10, 2028	Lump-sum	(Note 2)	(Note 4)	
	16th series unsecured investment corporation bonds	October 29, 2020	5,000,000	5,000,000	0.75000	October 29, 2035				
	Subtotal			9,000,000	9,000,000					
Total			38,000,000	38,000,000						

(Note 1) The funds were used for redeeming existing investment corporation bonds and repaying existing borrowings.

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

(Note 3) The funds were used for redeeming existing investment corporation bonds.

(Note 4) 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

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6. Condition of Investment Transactions

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

(Millions of yen)

Type of asset	Name of real estate property or asset-backed securities, etc.	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer price (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Trust beneficiary interest in real estate	Bizcore Shibuya	August 1, 2022	6,640	—	—	—	—
Trust beneficiary interest in real estate	Shintomicho Building (40.0% quasi co-ownership interest)	—	—	July 22, 2022	1,240	689	530
Total		—	6,640	—	1,240	689	530

(Note 1) The acquisition/transfer price indicates the amount excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition/transfer of the real estate property or asset-backed securities, etc., and is the purchase amount of the real estate property or asset-backed securities, etc. stated in the purchase agreement.

(Note 2) Net book value at the time of transfer is indicated.

(Note 3) Gain (loss) on transfer indicates the amount obtained by deducting net book value and other transfer expenses from transfer price.

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

Acquisition or transfer	Name of property	Type of asset	Acquisition/transfer date	Acquisition/transfer price (Millions of yen) (Note 1)	Appraisal value (Millions of yen)	Appraiser	Appraisal date
Acquisition	Bizcore Shibuya	Trust beneficiary interest in real estate	August 1, 2022	6,640	6,950	The Tanizawa Sogo Appraisal Co., Ltd.	July 1, 2022
Transfer	Shintomicho Building (40.0% quasi co-ownership interest)	Trust beneficiary interest in real estate	July 22, 2022	1,240	836 (Note 2)	Chuo Real Estate Appraisal Co., Ltd.	February 1, 2022

(Note 1) The acquisition/transfer price is the purchase price amount of the property stated in the purchase agreement (excluding the amount equivalent to consumption taxes, etc.).

(Note 2) The appraisal value is the amount obtained by multiplying the appraisal value for the entire property by 40.0%, which is the ratio of quasi co-ownership of the trust beneficiary interest subject to transfer.

2) Others

None

(4) Transactions with Interested Parties

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	6,640 million yen	— million yen
Breakdown for transactions with interested parties		
Nippon Steel Kowa Real Estate Co., Ltd.	6,640 million yen (100.0%)	— million yen (—%)
Total	6,640 million yen (100.0%)	— million yen (—%)

(Note) Interested parties refers to the interested parties of the asset management company, which has concluded an asset management agreement with JEI as prescribed in Article 123 of the Investment Trust Enforcement Order and Section 26, Paragraph 1, Item 27 of the Regulations for Management Reports Concerning Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

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	1,580,846	The Dai-ichi Building Co., Ltd.	517,550	32.7%
		Nippon Steel Kowa Real Estate Co., Ltd.	508,747	32.2%
		Sohgo Housing Co., Ltd.	101,907	6.4%
		Akasaka Intercity Management Co., Ltd.	21,471	1.4%
Property transaction brokerage fees	18,600	Nippon Steel Kowa Real Estate Co., Ltd.	18,600	100.0%
Total	1,599,446	—	1,168,277	73.0%

(Note 1) Figures indicate fees paid to interested parties of the asset management company with whom JEI had direct transactions during the six months ended December 31, 2022.

(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.

Kowa Real Estate Facilities Co., Ltd.	356,774 thousand yen
The Dai-ichi Building Co., Ltd.	16,752 thousand yen
Nippon Steel Kowa Real Estate Co., Ltd.	13,731 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.

The data for the previous period in Balance Sheets, Statements of Income and Retained Earnings, Statements of Changes in Net Assets, Notes to Financial Statements and Distribution Information are for reference, and not subject to the audit by a financial auditor pursuant to the provisions of Article 130 of the Investment Trust Law in the period under review.

In addition, Statements of Cash Flows is not subject to the audit by a financial auditor pursuant to the provisions of Article 130 of the Investment Trust Law and has thus not been audited by a financial auditor (accounting auditor).

(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

There were no applicable items during the period.

(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
December 31, 2022 and June 30, 2022
with Independent Auditor's Report*

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2022 and June 30, 2022

	<u>As of</u> <u>December 31, 2022</u>	<u>As of</u> <u>June 30, 2022</u>
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Note 4)</i>	17,839,723	20,203,741
Rental receivables	423,472	310,786
Prepaid expenses and other current assets	398,862	333,753
Total current assets	<u>18,662,058</u>	<u>20,848,281</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	7,996,956	7,890,044
Machinery and equipment	6,253	6,253
Furniture and fixtures	60,452	60,452
Land	10,609,617	10,609,617
Construction in progress	7,891	5,560
Buildings and building improvements for trust accounts	120,488,936	118,264,650
Machinery and equipment for trust accounts	1,297,180	1,233,150
Furniture and fixtures for trust accounts	309,970	306,734
Land for trust accounts	160,156,315	155,514,243
Construction in progress for trust accounts	85,232	51,656
Less: accumulated depreciation	<u>(41,740,127)</u>	<u>(39,912,836)</u>
Net property and equipment	<u>259,278,678</u>	<u>254,029,527</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Leasehold rights for trust accounts	7,382,016	7,382,016
Software	2,933	4,033
Other intangible assets for trust accounts	85,456	61,085
Total intangible assets	<u>9,192,013</u>	<u>9,168,743</u>
Investments and other assets:		
Investment securities	5,286,294	5,286,294
Deferred tax assets	15	6
Security deposits	19,029	19,029
Long-term prepaid expenses	847,050	834,138
Other assets	1,139,775	1,116,334
Total investments and other assets	<u>7,292,165</u>	<u>7,255,803</u>
Deferred assets:		
Investment corporation bond issuance costs	115,521	128,378
Total deferred assets	<u>115,521</u>	<u>128,378</u>
Total assets	<u><u>294,540,438</u></u>	<u><u>291,430,734</u></u>

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

	As of December 31, 2022	As of June 30, 2022
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,356,841	1,127,498
Short-term loans <i>(Notes 5 and 8)</i>	3,000,000	–
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	4,000,000	2,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	15,770,000	13,750,000
Accounts payable – other	439,168	471,107
Accrued expenses	155,647	152,137
Accrued corporation taxes	679	714
Accrued consumption taxes	–	321,024
Advances received	45,412	59,892
Total current liabilities	<u>24,767,749</u>	<u>17,882,374</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	34,000,000	36,000,000
Long-term debt <i>(Notes 5 and 8)</i>	71,830,000	73,850,000
Security deposits from tenants	1,239,716	1,233,667
Security deposits from tenants for trust accounts	<u>12,484,549</u>	<u>12,003,193</u>
Total long-term liabilities	<u>119,554,265</u>	<u>123,086,860</u>
Total liabilities	<u>144,322,015</u>	<u>140,969,234</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	147,907,649	147,907,649
Deduction from unitholders' capital	<u>(1,999,960)</u>	<u>(1,999,960)</u>
Unitholders' capital, net	<u>145,907,689</u>	<u>145,907,689</u>
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	808,535	451,790
Retained earnings	<u>3,502,198</u>	<u>4,102,019</u>
Total surplus	<u>4,310,733</u>	<u>4,553,810</u>
Total unitholders' equity	<u>150,218,422</u>	<u>150,461,499</u>
Total net assets	<u>150,218,422</u>	<u>150,461,499</u>
Total liabilities and net assets	<u>294,540,438</u>	<u>291,430,734</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 July 1, 2022 to December 31, 2022
and from January 1, 2022 to June 30, 2022

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
<i>(Thousands of yen)</i>		
Revenues <i>(Note 13)</i> :		
Rental business revenues	9,271,175	9,566,772
Other	869,919	700,680
Gain on sales of real estate properties <i>(Note 14)</i>	530,613	797,682
Dividend income from investment in anonymous association	28,214	—
Total revenues	10,699,922	11,065,136
Operating expenses <i>(Note 13)</i> :		
Property operating expenses	5,944,541	5,699,906
Asset management fees	444,830	467,085
Custodian fees	21,700	21,877
Administrative service fees	40,594	40,360
Compensation for directors	5,400	5,400
Other	110,114	119,215
Total operating expenses	6,567,180	6,353,845
Operating income	4,132,741	4,711,290
Other income:		
Interest income	89	119
Other	229	384
Other expenses:		
Interest expense	309,718	302,452
Loan arrangement fees	155,105	137,555
Interest expense on investment corporation bonds	151,969	149,430
Amortization of investment corporation bond issuance costs	12,856	12,856
Other	286	7,092
Ordinary income	3,503,124	4,102,406
Income before income taxes	3,503,124	4,102,406
Income taxes <i>(Note 12)</i> :		
Current	936	732
Deferred	(9)	(3)
Net income	3,502,198	4,101,677
Retained earnings at beginning of period	—	341
Retained earnings at end of period	3,502,198	4,102,019

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

Japan Excellent, Inc.
Statements of Changes in Net Assets
For the periods from July 1, 2022 to December 31, 2022
and from January 1, 2022 to June 30, 2022

For the period from July 1, 2022 to December 31, 2022									
Net assets									
Unitholders' equity									
Surplus									
Voluntary reserve									
Reserve for advanced depreciation of non-current assets									
Number of units in issue	Unitholders' capital	Deduction from unitholders' capital	Unitholders' capital, net	Unitholders' capital, net	Retained earnings	Total surplus	Total surplus	Total unitholders' equity	Total net assets
(Thousands of yen)									
Balance as of June 30, 2022	1,337,598	147,907,649	(1,999,960)	145,907,689	451,790	4,102,019	4,553,810	150,461,499	150,461,499
Changes during the fiscal period:									
Provision of reserve for reduction entry	—	—	—	—	356,744	(356,744)	—	—	—
Distributions from retained earnings	—	—	—	—	—	(3,745,274)	(3,745,274)	(3,745,274)	(3,745,274)
Net income	—	—	—	—	—	3,502,198	3,502,198	3,502,198	3,502,198
Total changes during the fiscal period	—	—	—	—	356,744	(599,821)	(243,076)	(243,076)	(243,076)
Balance as of December 31, 2022	1,337,598	147,907,649	(1,999,960)	145,907,689	808,535	3,502,198	4,310,733	150,218,422	150,218,422

For the period from January 1, 2022 to June 30, 2022									
Net assets									
Unitholders' equity									
Surplus									
Voluntary reserve									
Reserve for advanced depreciation of non-current assets									
Number of units in issue	Unitholders' capital	Deduction from unitholders' capital	Unitholders' capital, net	Unitholders' capital, net	Retained earnings	Total surplus	Treasury investment units	Total unitholders' equity	Total net assets
(Thousands of yen)									
Balance as of December 31, 2021	1,353,000	147,907,649	—	147,907,649	451,790	3,846,920	4,298,711	—	152,206,360
Changes during the fiscal period:									
Distributions from retained earnings	—	—	—	—	—	(3,846,579)	(3,846,579)	—	(3,846,579)
Net income	—	—	—	—	—	4,101,677	4,101,677	—	4,101,677
Acquisition of treasury investment units	—	—	—	—	—	—	—	(1,990,960)	(1,990,960)
Cancellation of treasury investment units	(15,402)	—	(1,999,960)	(1,999,960)	—	—	—	1,990,960	—
Total changes during the fiscal period	(15,402)	—	(1,999,960)	(1,999,960)	—	255,098	255,098	—	(1,744,861)
Balance as of June 30, 2022	1,337,598	147,907,649	(1,999,960)	145,907,689	451,790	4,102,019	4,553,810	—	150,461,499

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from July 1, 2022 to December 31, 2022
and from January 1, 2022 to June 30, 2022

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,503,124	4,102,406
Depreciation and amortization	1,932,841	1,938,149
Amortization of investment corporation bond issuance costs	12,856	12,856
Interest income	(89)	(119)
Interest expense	461,688	451,882
Decrease (increase) in rental receivables	(112,685)	(489)
Decrease (increase) in consumption taxes refundable	(94,779)	—
Decrease (increase) in prepaid expense	31,364	(55,235)
Increase (decrease) in accounts payable – trade	194,190	(69,921)
Increase (decrease) in accounts payable – other	(30,920)	16,047
Increase (decrease) in unpaid consumption taxes	(321,024)	19,037
Increase (decrease) in advances received	(14,479)	19,218
Decrease (increase) in long-term prepaid expenses	(12,911)	26,539
Decrease in property and equipment for trust accounts due to sale	689,433	4,820,295
Decrease in property and intangible assets for trust accounts due to sale	—	309
Other, net	(28,163)	18,689
Subtotal	6,210,445	11,299,667
Interest received	89	119
Interest paid	(458,178)	(454,792)
Income taxes paid	(714)	(638)
Net cash provided by (used in) operating activities	5,751,642	10,844,356
Cash flows from investing activities		
Purchases of investment securities	(1,422)	(5,239,163)
Purchases of property and equipment	(74,957)	(122,579)
Purchases of property and equipment for trust accounts	(7,782,045)	(1,560,737)
Purchases of intangible assets for trust accounts	—	(61,394)
Proceeds from security deposits from tenants	24,980	72,600
Payments for security deposits to tenants	(18,930)	(24,204)
Proceeds from security deposits in trust accounts from tenants	1,434,979	645,479
Payments for security deposits in trust accounts to tenants	(953,623)	(1,058,052)
Net cash provided by (used in) investing activities	(7,371,020)	(7,348,050)
Cash flows from financing activities		
Proceeds from short-term loans	3,000,000	—
Proceeds from long-term debt	8,750,000	5,000,000
Repayment for long-term debt	(8,750,000)	(5,000,000)
Payments for acquisition of treasury investment units	—	(1,999,960)
Distributions to unitholders	(3,744,640)	(3,846,183)
Net cash provided by (used in) financing activities	(744,640)	(5,846,144)
Net increase (decrease) in cash and cash equivalents	(2,364,018)	(2,349,838)
Cash and cash equivalents at beginning of period	20,203,741	22,553,580
Cash and cash equivalents at end of period <i>(Note 4)</i>	17,839,723	20,203,741

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from July 1, 2022 to December 31, 2022
and from January 1, 2022 to June 30, 2022

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 December 31, 2022, JEI held 36 properties with 337,388.63 square meters of total leasable space and had leases with 617 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 here in 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.

Investment securities

Available-for-sale securities without market value are stated at cost determined by the moving average method. For ownership interests in an anonymous association, JEI adopts the method of factoring in the net amount of anonymous association income (loss) in proportion to its ownership interests.

Property and equipment including trust accounts

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

Buildings and building improvements	2 – 62 years
Machinery and equipment	6 – 16 years
Furniture and fixtures	3 – 15 years

Intangible assets

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

Software	5 years
----------	---------

Deferred assets

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

Revenue recognition

The content of main performance obligations related to revenue arising from contracts with customers of the Company and the normal timing for satisfying such performance obligations (the normal timing for recognizing revenue) are as follows:

- Sale of real estate, etc.

Sale of real estate properties: The Company recognizes revenue from the sale of real estate properties when the purchaser, as the customer, obtains control of the real estate property by fulfilling the delivery obligations stipulated in the contract for the sale of real estate property.

3. Summary of Significant Accounting Policies (continued)

- Utilities income

Utilities income: The Company recognizes utilities income based on the supply of electricity, water, etc. to the lessee as the customer, in accordance with the terms of the real estate lease contract and related agreements. Of utilities income, in the case that the Company determines it is an agent for utilities income, the utilities income is recognized as income at the net amount received as charges for electricity, gas, etc. supplied by other parties, less the amount paid to such other parties.

Income taxes

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

Consumption taxes

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

Property-related taxes

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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts.

The capitalized amount for the period from July 1, 2022 to December 31, 2022 was ¥10,572 thousand.

The capitalized amount for the period from January 1, 2022 to June 30, 2022 was ¥0.

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.

3. Summary of Significant Accounting Policies (continued)

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 December 31, 2022 and June 30, 2022 consisted of the following:

	<u>As of</u> <u>December 31, 2022</u>	<u>As of</u> <u>June 30, 2022</u>
	<i>(Thousands of yen)</i>	
Cash and cash deposits	6,392,183	9,139,249
Cash and deposits in trust	<u>11,447,539</u>	<u>11,064,492</u>
Cash and cash equivalents including trust accounts	<u><u>17,839,723</u></u>	<u><u>20,203,741</u></u>

5. Financial Instruments

For the periods from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022

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.

5. Financial Instruments (continued)

(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 84.2% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2022. 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,” and there is no balance outstanding under the facility agreements as of December 31, 2022). Liquidity risk is also mitigated through the constant management of liquidity on hand.

(c) Credit Risk

Investment securities represent ownership interests in an anonymous association and exposed to credit risk of the issuer. JEI regularly evaluates the financial condition of the issuer, etc.

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

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

In addition, the contract value of derivative transactions, which is presented in Note 16. “Derivative Transactions” does not represent the market risk attributable to derivative transactions.

5. Financial Instruments (continued)

Fair value of financial instruments

The following are carrying values and fair values as of December 31, 2022 and June 30, 2022 of financial instruments and the differences between them. Please note that the following table does not include ownership interests in an anonymous association (Note B).

In addition, since “Cash and cash deposits”, “Cash and deposits in trust”, and “Short-term loans” are cash and due to be settled in a short period, and their fair values approximate their book values, the notes are omitted.

	As of December 31, 2022			As of June 30, 2022		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
Investment corporation bonds						
(1) due within one year (Note C)	4,000,000	3,999,254	(746)	2,000,000	1,999,286	(714)
Long-term debt						
(2) due within one year (Note C)	15,770,000	15,821,551	51,551	13,750,000	13,791,969	41,969
Investment corporation bonds						
(3) (Note C)	34,000,000	33,288,272	(711,728)	36,000,000	35,841,035	(158,965)
(4) Long-term debt (Note C)	71,830,000	71,464,009	(365,990)	73,850,000	74,111,144	261,144
Total liabilities	125,600,000	124,573,086	(1,026,913)	125,600,000	125,743,434	143,434
(5) 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

- (1) Investment corporation bonds due within one year and (3) Investment corporation bonds
The fair value of investment corporation bonds issued by JEI is based on quoted market prices.
- (2) Long-term debt due within one year and (4) 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.
- (5) Derivative transactions
Please refer to Note 16, “Derivative Transactions.”

5. Financial Instruments (continued)

(Note B)

Of investment securities, for ownership interests in an anonymous association, the fair value is calculated by applying the treatment stipulated in Paragraph 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 issued on June 17, 2021). No notes are provided on matters prescribed in Paragraph 4 (1) of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 issued on March 31, 2020).

The balance sheet amount for ownership interests in an anonymous association to which this treatment is applied is ¥5,241,564 thousand as of December 31, 2022. Investment securities, other than ownership interests in an anonymous association are omitted because they lack significance.

(Note C)

Security deposits from tenants and Security deposits from tenants for trust accounts are omitted because they lack significance.

(Note D)

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

	As of December 31, 2022					
	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>					
Investment corporation bonds due within one year	4,000,000	—	—	—	—	—
Long-term debt due within one year	15,770,000	—	—	—	—	—
Investment corporation bonds	—	8,000,000	5,000,000	2,000,000	7,000,000	12,000,000
Long-term debt	—	9,770,000	17,510,000	14,450,000	4,000,000	26,100,000
Total	19,770,000	17,770,000	22,510,000	16,450,000	11,000,000	38,100,000
	As of June 30, 2022					
	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>					
Investment corporation bonds due within one year	2,000,000	—	—	—	—	—
Long-term debt due within one year	13,750,000	—	—	—	—	—
Investment corporation bonds	—	10,000,000	—	5,000,000	9,000,000	12,000,000
Long-term debt	—	14,270,000	14,270,000	17,660,000	7,300,000	20,350,000
Total	15,750,000	24,270,000	14,270,000	22,660,000	16,300,000	32,350,000

6. Investment and Rental Property

For the periods from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022

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 December 31, 2022 and June 30, 2022 for such real estate for lease.

Carrying value			Fair value	
As of July 1, 2022	Change during period (*2)	As of December 31, 2022	As of December 31, 2022	
<i>(Thousands of yen)</i>				
263,194,237	5,273,521	268,467,759	345,443,000	

Carrying value			Fair value	
As of January 1, 2022	Change during period (*1)	As of June 30, 2022	As of June 30, 2022	
<i>(Thousands of yen)</i>				
268,610,977	(5,416,739)	263,194,237	338,814,000	

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

B) Details of change during period:

(*1) The decrease of ¥5,416,739 thousand during the period is mainly due to a decrease of ¥4,600,935 thousand related to the disposal of Kowa Shirokanedai Building and a decrease of ¥1,937,049 thousand for depreciation costs.

(*2) The increase of ¥5,273,521 thousand during the period is mainly due to an increase of ¥6,668,164 thousand related to the acquisition of BIZCORE Shibuya, and a decrease of ¥689,433 thousand related to the part disposal of Shintomicho Building, and a decrease of ¥1,931,741 thousand for depreciation costs.

C) Fair value

Fair value as of December 31, 2022 is Shintomicho Building's transfer price and for other properties, appraisal value provided by third-party real estate appraisers.

Fair value as of June 30, 2022 is Shintomicho Building's transfer price and for other properties, appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at December 31, 2022 and June 30, 2022 consisted of the following:

	As of December 31, 2022			As of June 30, 2022		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,996,956	(2,482,230)	5,514,725	7,890,044	(2,361,514)	5,528,530
Machinery and equipment	6,253	(5,304)	949	6,253	(5,034)	1,218
Furniture and fixtures	60,452	(41,530)	18,921	60,452	(37,861)	22,591
Land	10,609,617	—	10,609,617	10,609,617	—	10,609,617
Construction in progress	7,891	—	7,891	5,560	—	5,560
Buildings and building improvements for trust accounts	120,488,936	(38,308,003)	82,180,932	118,264,650	(36,656,911)	81,607,738
Machinery and equipment for trust accounts	1,297,180	(684,400)	612,779	1,233,150	(644,539)	588,610
Furniture and fixtures for trust accounts	309,970	(218,658)	91,312	306,734	(206,975)	99,759
Land for trust accounts	160,156,315	—	160,156,315	155,514,243	—	155,514,243
Construction in progress for trust accounts	85,232	—	85,232	51,656	—	51,656
Total	<u>301,018,806</u>	<u>(41,740,127)</u>	<u>259,278,678</u>	<u>293,942,363</u>	<u>(39,912,836)</u>	<u>254,029,527</u>

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of December 31, 2022 and June 30, 2022 consisted of the following:

	As of December 31, 2022		As of June 30, 2022	
	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 June 30, 2023	<u>3,000,000</u>	0.26659%	<u>—</u>	
Subtotal	<u>3,000,000</u>		<u>—</u>	
Long-term debt due within one year:				
Unsecured loans from a bank due on September 30, 2022	—	0.27756%	2,000,000	0.27809%
Unsecured loans from insurance companies due on November 30, 2022	—	0.35000% (*2)	1,000,000	0.35000% (*2)
Unsecured loans from banks due on December 30, 2022	—	0.93625% (*2)	5,750,000	0.93625% (*2)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*2)	2,000,000	1.20250% (*2)
Unsecured loans from an insurance company due on June 30, 2023	3,000,000	0.46000% (*2)	3,000,000	0.46000% (*2)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*2)	—	
Unsecured loans from banks due on November 30, 2023	<u>5,500,000</u>	0.64801% (*2)	<u>—</u>	
Subtotal	<u>15,770,000</u>		<u>13,750,000</u>	

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

Long-term debt:

Unsecured loans from banks due on November 30, 2023	—	0.84375% (*2)	5,270,000	0.84375% (*2)
Unsecured loans from banks due on November 30, 2023	—	0.64801% (*2)	5,500,000	0.64801% (*2)
Unsecured loans from a bank due on May 31, 2024	3,500,000	0.68431% (*2)	3,500,000	0.68431% (*2)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*2)	5,270,000	0.96275% (*2)
Unsecured loans from an insurance company due on December 12, 2024	1,000,000	0.42000% (*2)	1,000,000	0.42000% (*2)
Unsecured loans from a bank due on March 31, 2025	2,000,000	0.26364%	—	
Unsecured loans from banks due on June 30, 2025	8,000,000	0.67400% (*2)	8,000,000	0.67400% (*2)
Unsecured loans from banks due on November 1, 2025	3,750,000	0.70600% (*2)	3,750,000	0.70600% (*2)
Unsecured loans from banks due on November 29, 2025	3,760,000	0.39310%	3,760,000	0.39407%
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*2)	6,400,000	0.83441% (*2)
Unsecured loans from banks due on March 31, 2026	3,750,000	0.57100% (*2)	3,750,000	0.57100% (*2)
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*2)	1,300,000	0.83071% (*2)
Unsecured loans from banks due on December 30, 2026	3,000,000	0.79100% (*2)	3,000,000	0.79100% (*2)
Unsecured loans from insurance companies due on January 31, 2027	3,000,000	0.28000% (*2)	3,000,000	0.28000% (*2)
Unsecured loans from insurance companies due on November 30, 2027	1,000,000	0.34000% (*2)	—	
Unsecured loans from a bank due on July 31, 2028	2,000,000	0.68778% (*2)	2,000,000	0.68778% (*2)
Unsecured loans from banks due on January 31, 2029	5,600,000	0.71200% (*2)	5,600,000	0.71200% (*2)
Unsecured loans from an insurance company due on January 31, 2029	1,000,000	0.77000% (*2)	1,000,000	0.77000% (*2)
Unsecured loans from a bank due on December 30, 2029	2,000,000	0.55801% (*2)	2,000,000	0.55801% (*2)
Unsecured loans from banks due on December 30, 2029	5,750,000	0.49544%	5,750,000	0.49235%
Unsecured loans from banks due on January 31, 2030	5,750,000	0.43818%	—	
Unsecured loans from an insurance company due on June 28, 2030	2,000,000	0.65000% (*2)	2,000,000	0.65000% (*2)
Unsecured loans from a bank due on June 30, 2031	<u>2,000,000</u>	1.08125% (*2)	<u>2,000,000</u>	1.08125% (*2)
Subtotal	<u>71,830,000</u>		<u>73,850,000</u>	
Total	<u>90,600,000</u>		<u>87,600,000</u>	

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

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

The scheduled repayment amounts of long-term debt as of December 31, 2022 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	15,770,000	9,770,000	17,510,000	14,450,000	4,000,000	26,100,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2022, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of December 31, 2022 and June 30, 2022 are summarized as follows:

	As of December 31, 2022		As of June 30, 2022	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
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%	7,000,000	0.65000%
Unsecured bond #12 due on April 20, 2023	2,000,000	0.24000%	2,000,000	0.24000%
Unsecured bond #13 due on April 20, 2033	2,000,000	0.95000%	2,000,000	0.95000%
Unsecured bond #14 due on August 10, 2028	4,000,000	0.63000%	4,000,000	0.63000%
Unsecured bond #15 due on September 9, 2039	1,000,000	1.07000%	1,000,000	1.07000%
Unsecured bond #16 due on October 29, 2035	5,000,000	0.75000%	5,000,000	0.75000%
Total	<u>38,000,000</u>		<u>38,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2022 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>					
Investment corporation bonds	4,000,000	8,000,000	5,000,000	2,000,000	7,000,000	12,000,000

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.

Information on the cancellation of treasury investment units during the six-month period ended December 31, 2022 and June 30, 2022 is as follows:

	Six-month period ended December 31, 2022	Six-month period ended June 30, 2022
Total number of treasury investment units cancelled (units)	15,402	15,402
Total amount of cancellation (Thousands of yen)	1,999,960	1,999,960

11. Per Unit Information

Net assets per unit as of December 31, 2022 and June 30, 2022 were calculated based on the number of units outstanding as of each date, (1,337,598 units) and (1,337,598 units), respectively.

Net income per unit for the periods from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,337,598 units) and (1,343,871 units), respectively.

Accordingly, net assets per unit were ¥112,304 as of December 31, 2022 and ¥112,486 as of June 30, 2022. Net income per unit was ¥2,618 for the period from July 1, 2022 to December 31, 2022 and ¥3,052 for the period from January 1, 2022 to June 30, 2022.

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 December 31, 2022 and June 30, 2022 are summarized as follows:

	As of December 31, 2022	As of June 30, 2022
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	15	6
Total deferred tax assets	15	6
Net deferred tax assets	15	6

12. Income Taxes(continued)

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022 is as follows:

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
Statutory tax rate	31.46%	31.46%
Reconciliation:		
Deductible distributions paid	(33.63%)	(28.72%)
Provision of reserve for reduction entry	2.18%	(2.74%)
Other	0.02%	0.02%
Effective tax rate	<u>0.03%</u>	<u>0.02%</u>

13. Breakdown of Revenues and Expenses

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	7,783,514	8,031,228
Common area revenues	1,217,834	1,261,873
Other rental revenues	269,826	273,671
Subtotal	<u>9,271,175</u>	<u>9,566,772</u>
Other		
Utilities revenues	693,763	575,877
Other revenues	176,155	124,803
Subtotal	<u>869,919</u>	<u>700,680</u>
Total rental revenues	<u>10,141,094</u>	<u>10,267,453</u>
Property operating expenses:		
Property management costs and fees	1,580,846	1,566,340
Utilities expenses	1,156,926	935,493
Property and other taxes	976,992	980,795
Insurance	22,127	21,478
Repairs and maintenance	137,117	126,108
Depreciation	1,931,741	1,937,049
Other	138,789	132,640
Total property operating expenses	<u>5,944,541</u>	<u>5,699,906</u>
Profit	<u>4,196,553</u>	<u>4,567,546</u>

14. Breakdown of Gain or Loss on Sales of Real Estate Properties

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
	<i>(Thousands of yen)</i>	
Shintomicho Building		
Proceeds from sale of real estate	1,240,000	—
Cost of sales of real estate	689,433	—
Other related sale expenses	19,952	—
Gain on sale of real estate	<u>530,613</u>	<u>—</u>

	For the period from July 1, 2022 to December 31, 2022	For the period from January 1, 2022 to June 30, 2022
	<i>(Thousands of yen)</i>	
Kowa Shirokanedai Building		
Proceeds from sale of real estate	—	5,400,000
Cost of sales of real estate	—	4,600,935
Other related sale expenses	—	1,382
Gain on sale of real estate	<u>—</u>	<u>797,682</u>

15. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2022 and June 30, 2022, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of December 31, 2022	As of June 30, 2022
	<i>(Thousands of yen)</i>	
Due within one year	2,289,514	1,908,779
Due after one year	5,215,421	3,164,842
Total	<u>7,504,935</u>	<u>5,073,622</u>

16. Derivative Transactions

Derivative Transactions as of December 31, 2022

(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, 2022 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	34,640,000	29,370,000	*	/

* 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 June 30, 2022

(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, 2022 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	40,390,000	34,640,000	*	/

* 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."

17. Related Party Transactions

For the period from July 1, 2022 to December 31, 2022

(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)
Shuichiro Kayama	Payment of asset management fees to JEAM	444,830	Accounts payable	369,656

For the period from January 1, 2022 to June 30, 2022

(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)
Shuichiro Kayama	Payment of asset management fees to JEAM	467,085	Accounts payable	395,996

18. Segment Information

For the periods from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022

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

Information about products and services

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

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

19. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of 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.

JEI determined to distribute the whole amount obtained by adding the reversal of reserve for reduction entry due to the transfer of real estate properties in accordance with Section 65.7 of the Special Taxation Measures Law from unappropriated surplus.

Consequently, JEI set income available for distributions of dividends at ¥3,745,274,400, which is the maximum integral multiple of the 1,337,598 units issued, but not exceeding ¥3,745,274,400, which is the amount of retained earnings at December 31, 2022.

No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 16, 2023, the Board of Directors approved a resolution to make a cash distribution of ¥2,800 per unit aggregating to ¥3,745,274,400 to unitholders of record as of December 31, 2022.

20. Revenue Recognition

(1) Breakdown of revenue from contracts with customers

For the period from July 1, 2022 to December 31, 2022

	Revenue from contracts with customers *	Revenue from external customers
	<i>(Thousands of yen)</i>	
Sales of real estate properties	1,240,000	530,613
Utilities income	693,763	693,763
Other	—	9,475,545
Total	1,933,763	10,699,922

* Rent revenues subject to Accounting Standard for Lease Transactions (ASBJ Statement No. 13) are excluded from “Revenue from contracts with customers” as such revenues are not subject to Accounting Standard for Revenue Recognition. Revenue from contracts with customers mainly represents revenues from the sale of real estate and utilities.

For the period from January 1, 2022 to June 30, 2022

	Revenue from contracts with customers *	Revenue from external customers
	<i>(Thousands of yen)</i>	
Sales of real estate properties	5,400,000	797,682
Utilities income	575,877	575,877
Other	—	9,691,575
Total	5,975,877	11,065,136

* Rent revenues subject to Accounting Standard for Lease Transactions (ASBJ Statement No. 13) are excluded from “Revenue from contracts with customers” as such revenues are not subject to Accounting Standard for Revenue Recognition. Revenue from contracts with customers mainly represents revenues from the sale of real estate and utilities.

(2) Information that provides a basis for understanding revenue from contracts with customers

For the period from July 1, 2022 to December 31, 2022 and from January 1, 2022 to June 30, 2022

As described in the Summary of Significant Accounting Policies.

(3) Information about the relationship between the fulfillment of performance obligations under contracts with customers and cash flows arising from those contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from contracts with customers that existed at the end of the current period

For the period from July 1, 2022 to December 31, 2022

(a) Balance of contract assets and contract liabilities

	July 1, 2022 to December 31, 2022
	<i>(Thousands of yen)</i>
Claims arising from contracts with customers (At beginning of period)	224,317
Claims arising from contracts with customers (At end of period)	263,261
Contract assets (At beginning of period)	—
Contract assets (At end of period)	—
Contract liabilities (At beginning of period)	—
Contract liabilities (At end of period)	—

20. Revenue Recognition (continued)

(b) Transaction price allocated to remaining performance obligations

As of December 31, 2022, the total transaction price allocated to the remaining performance obligations for the sale of real estate is 1,860,000 thousand yen for the real estate for which a sale contract was executed on February 17, 2022. JEI expects to recognize revenue for such remaining performance obligations upon delivery of such real estate properties, which is expected to occur on January 26, 2023. In accordance with Paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition, JEI recognizes utility revenues at the amount it has the right to charge, because JEI has the right to receive from the customer the amount of consideration that directly corresponds to the value to the customer, the lessee, of the portion of the performance completed by the end of the fiscal period. Accordingly, JEI has applied the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition and has not included in the notes the transaction price allocated to the remaining performance obligations.

For the period from January 1, 2022 to June 30, 2022

(a) Balance of contract assets and contract liabilities

	January 1, 2022 to June 30, 2022
	<i>(Thousands of yen)</i>
Claims arising from contracts with customers(At beginning of period)	233,782
Claims arising from contracts with customers(At end of period)	224,317
Contract assets(At beginning of period)	—
Contract assets(At end of period)	—
Contract liabilities(At beginning of period)	—
Contract liabilities(At end of period)	—

(b) Transaction price allocated to remaining performance obligations

As of June 30, 2022, the total transaction price allocated to the remaining performance obligations for the sale of real estate is 3,100,000 thousand yen for the real estate for which a sale contract was executed on February 17, 2022. JEI expects to recognize revenue for such remaining performance obligations upon delivery of such real estate properties, which is expected to occur on July 22, 2022 and January 26, 2023. In accordance with Paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition, JEI recognizes utility revenues at the amount it has the right to charge, because JEI has the right to receive from the customer the amount of consideration that directly corresponds to the value to the customer, the lessee, of the portion of the performance completed by the end of the fiscal period. Accordingly, JEI has applied the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition and has not included in the notes the transaction price allocated to the remaining performance obligations.

21. Significant Subsequent Event

Not applicable.

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

Opinion

We have audited the accompanying financial statements of Japan Excellent, Inc. (the Company), which comprise the balance sheet as at December 31, 2022, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The other information comprises the information included in the Semi-Annual Report that contains audited financial statements but does not include the financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Supervisory Director is responsible for overseeing the Company's reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Supervisory Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Supervisory Director is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Executive Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Executive Director with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 15, 2023

佐藤 賢治

Kenji Sato
Designated Engagement Partner
Certified Public Accountant

八幡 正博

Masahiro Yawata
Designated Engagement Partner
Certified Public Accountant