

# Asset Management Report for 15<sup>th</sup> Period

(Semi-Annual Report for 15<sup>th</sup> Period)

From July 1, 2013 to December 31, 2013



**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.

My name is Hidehiko Ogawa and I was inaugurated as the Executive Director of JEI in November 2013 and as the President of Japan Excellent Asset Management Co., Ltd. in March this year. JEI will continue to pursue both stability and growth of revenues and expansion of asset size centering on high-spec, large-scale buildings in central Tokyo in an aim to maximize unitholders' value in line with the product characteristics of a REIT that seeks stable medium- to long-term growth.

We hereby report the financial results of JEI for the 15th period (from July 1, 2013 to December 31, 2013). JEI recorded total revenues of 8,850 million yen and net income of 2,774 million yen. The distribution per unit for the period was 12,334 yen, surpassing the previous period.

During the period, the tenant departure rate decreased at owned properties and vacancies were filled up, resulting in an overall portfolio occupancy rate of 98.7% at the end of the period. We believe this is due to the close collaboration with the property management companies and focus on leasing activities.

Moreover, in January this year JEI implemented its third public offering in three years. It also acquired a total of 18.5 billion yen of assets centering on HAMARIKYU INTERCITY, a relatively new and large-scale property in central Tokyo acquired from a sponsor, and external growth continues to be steady.

### About Future Asset Management

In the office building leasing market, the balance of supply and demand of offices is gradually recovering backed by the economic recovery and expectations for improvement in corporate performance, and the vacancy rate continues to be on a downward trend.

With this perspective, JEI will strengthen coordination with the property management companies more than ever before and endeavor to secure stable occupancy and maximize profitability of the portfolio over the medium- to long-term. At the same time, we will pursue opportunities to invest in excellent real estate properties for continued growth of the portfolio in view of achieving the immediate target of 300 billion yen and even greater expansion in asset size.

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

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

We kindly ask for your continued understanding and support.

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

## II. Asset Management Report

### 1. Outline of asset management operation

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

Fiscal period		11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013
Revenues	(Millions of yen)	7,085	7,740	7,599	8,418	8,850
(Rental revenues)	(Millions of yen)	7,085	7,587	7,597	8,409	8,848
Operating expenses	(Millions of yen)	4,116	4,400	4,427	4,871	5,140
(Property operating expenses)	(Millions of yen)	3,645	3,901	3,950	4,350	4,605
Operating income	(Millions of yen)	2,969	3,340	3,172	3,546	3,709
Ordinary income	(Millions of yen)	2,237	2,435	2,310	2,589	2,775
Net income	(Millions of yen)	2,236	2,434	2,309	2,598	2,774
Total assets	(Millions of yen)	227,249	228,818	228,020	257,613	257,901
(Period-on-period change) (Note 1)	(%)	(8.6)	(0.6)	(-0.3)	(12.9)	(0.1)
Net assets	(Millions of yen)	104,338	104,537	104,545	120,683	120,713
(Period-on-period change) (Note 1)	(%)	(0.0)	(0.1)	(0.0)	(15.4)	(0.0)
Unitholders' capital	(Millions of yen)	102,052	102,052	102,052	117,901	117,901
Outstanding investment units	(units)	188,650	188,650	188,650	224,950	224,950
Net assets per unit (Note 2)	(yen)	553,081	554,134	554,175	107,297	107,324
Net income per unit (Note 3)	(yen)	11,853	12,906	12,241	2,376	2,466
Total distribution	(Millions of yen)	2,236	2,301	2,309	2,744	2,774
Distribution per unit (Distribution per unit after split) (Note 4)	(yen)	11,854	12,200	12,242	12,200 (2,440)	12,334 (2,466)
(Profit distribution per unit) (Of this, profit distribution per unit after split) (Note 4)	(yen)	11,854	12,200	12,242	12,200 (2,440)	12,334 (2,466)
(Distribution in excess of earnings per unit) (Of this, distribution in excess of earnings per unit after split) (Note 4)	(yen)	(-)	(-)	(-)	(-) (-)	(-) (-)
Return on assets (Note 5)	(%)	1.0	1.1	1.0	1.1	1.1
(Annualized rate)	(%)	(2.0)	(2.1)	(2.0)	(2.2)	(2.1)
Return on equity (Note 6)	(%)	2.1	2.3	2.2	2.3	2.3
(Annualized rate)	(%)	(4.3)	(4.7)	(4.4)	(4.7)	(4.6)
Capital ratio (Note 7)	(%)	45.9	45.7	45.8	46.8	46.8
(Period-on-period change)	(%)	(-4.0)	(-0.2)	(0.1)	(1.0)	(-0.0)
Payout ratio (Note 8)	(%)	100.0	94.5	100.0	105.6	99.9
Number of investment properties	(properties)	23	24	24	28	28
Number of tenants	(tenants)	124	136	134	152	157

Total leasable space	(㎡)	262,464	266,981	266,915	302,505	302,505
Occupancy rate	(%)	93.8	94.7	94.0	97.1	98.7
Depreciation	(Millions of yen)	1,156	1,260	1,284	1,433	1,504
Capital expenditure	(Millions of yen)	357	393	283	572	775
Net operating income (NOI) (Note 9)	(Millions of yen)	4,595	4,946	4,932	5,493	5,747
Funds from operation (FFO) per unit (Note 10)	(yen)	17,982	18,780	19,050	3,584	3,804
FFO multiples (Note 11, 12)	(times)	8.4	10.5	12.7	15.4	16.3
Debt service coverage ratio (DSCR) (Note 13)	(times)	4.3	4.2	4.0	4.4	4.4
Interest-bearing debt	(Millions of yen)	112,800	113,800	113,300	125,400	125,400
Loan-to-value (Note 14)	(%)	49.6	49.7	49.7	48.7	48.6
Number of days in operation	(days)	184	182	184	181	184

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

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

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

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

(Note 5) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 6) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 7) Capital ratio = Period end net assets / Period end total assets × 100 (The ratio is rounded to one decimal place.)

(Note 8) Payout ratio = Total distribution / Net income × 100 (The ratio is rounded down to one decimal place.)

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

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

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

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

(Note 13) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds) (The ratio is rounded to one decimal place.)

(Note 14) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100 (The ratio is rounded to one decimal place.)

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2013, we settled our fifteenth period.

### 1) Business conditions and results

During the period, the Japanese economy saw an improvement of personal consumption with the improvement of consumer sentiment due to rising stock prices and rush demand ahead of the consumption tax hike. Furthermore, corporate earnings were bolstered by the combination of the picking up of overseas economies and the yen depreciation effect, and capital investment is showing signs of recovery.

In the office building leasing market, the supply-demand balance of offices is modestly recovering backed by economic recovery and expectations for improvement in corporate performance, and the vacancy rate continues to be on an improving trend. Concerning the rent level, while remaining roughly flat overall with an ongoing mix of ups and downs, some excellent buildings in central Tokyo are seeing rents make an upturn after bottoming out as rent increases are being anticipated and some tenants are seeking long-term contracts.

Under these circumstances, JEI made steady progress in renewing contracts with existing tenants and leasing up vacant spaces, resulting in the portfolio occupancy rate at the end of the period increasing from the previous period's 97.1% by 1.6 points to 98.7% in the period under review.

In the real estate investment market, with J-REITs newly listed and procuring funds through public offerings one after another, transactions of investment properties increased. Among these, many of the transactions of properties regarded as being “large” and “excellent” were made between J-REITs and their sponsors. On the other hand, transactions by overseas investors, private funds, etc. are trending upwards and the real estate transaction market which entered a recovery stage is performing roughly strong. JEI acquired ownership interests in an anonymous association of an SPC that owns Aoba-dori Plaza and Daiwa Minami-morimachi Building, with an intention of eventually acquiring the underlying properties (regarding JEI's acquisition of Aoba-dori Plaza and Daiwa Minami-morimachi Building in February 2014, please see “2) Policy and issues on future investment management” below).

The entire real estate portfolio of JEI at the end of the period was 28 properties in terms of the number of properties held, 245.5 billion yen in investment amount (on an acquisition price basis) and 302,505.42m<sup>2</sup> (91,507.88 tsubo) in total leasable space at a period-end.

### 2) Fund raising highlights

During the period, JEI continued to make efforts as during the previous period to convert floating-rate debts to fixed-rate debts and diversify maturity dates while reducing borrowing costs.

For the refinancing of long-term loans of 8.0 billion yen which matured on December 27, 2013, JEI issued the 5th series unsecured investment corporation bonds (period of 4.9 years) of 5.0 billion yen on November 25, 2013 and procured 3.0 billion yen of long-term loans (period of 6.1 years) on December 27, 2013. Furthermore, the interest rates of the long-term loans were fixed through interest rate swap transactions.

As a result, as of the end of the period, JEI had the average remaining debt maturity of interest-bearing debts at 2.85 years, long-term borrowing ratio at 100.0 percent, fixed rate ratio at 90.8 percent, and weighted average interest rate for loans purchased at 1.26 percent. Outstanding interest-bearing debts totaled 125.4 billion yen, 96.4 billion yen in long-term loans (including 15.5 billion yen in long-term loans due within one year) and 29 billion yen in investment corporation bonds (including 12.0 billion yen of investment corporation bonds scheduled to be redeemed within one year). (The loan to value ratio to the total assets was 48.6 percent as of the end of the period.)

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

(Bond Issuance Registration Highlight)

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

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

(Ratings as of December 31, 2013)

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

(Note) The rating of JRC is for the 1st series unsecured investment corporation bonds, 2nd series unsecured investment corporation bonds, 3rd series unsecured investment corporation bonds, 4th series unsecured investment corporation bonds and 5th series unsecured investment corporation bonds. The rating of R&I is for the 1st series unsecured investment corporation bonds, 2nd series unsecured investment corporation bonds, 3rd series unsecured investment corporation bonds and 4th series unsecured investment corporation bonds.

3) Financial results and distribution highlights

As a result of the above management, JEI posted 8,850 million yen in total revenues, 3,709 million yen in operating income, 2,775 million yen in ordinary income and 2,774 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 12,334 yen.

### 3) Capital Increase

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

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

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

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

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

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

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

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

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

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

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

[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)	11th period (December 2011)	12th period (June 2012)	13th period (December 2012)	14th period (June 2013)	15th period (December 2013)
	Highest (yen)	408,000	430,000	511,000	739,000	639,000
	Lowest (yen)	295,500	297,600	371,000	463,000	515,000

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

#### (4) Distributions Paid

The distribution per unit for the period (the fifteenth period) was 12,334 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	11th period	12th period	13th period	14th period	15th period
Accounting period	July 1, 2011 to December 31, 2011	January 1, 2012 to June 30, 2012	July 1, 2012 to December 31, 2012	January 1, 2013 to June 30, 2013	July 1, 2013 to December 31, 2013
Retained earnings at end of period (Thousands of yen)	2,236,262	2,434,824	2,309,504	2,598,369	2,774,683
Retained income (Thousands of yen)	5	133,294	51	—	149
Total cash distribution amount (Thousands of yen)	2,236,257	2,301,530	2,309,453	2,744,390	2,774,533
(Cash distributions per unit) (yen)	(11,854)	(12,200)	(12,242)	(12,200)	(12,334)
(Distribution per unit after split) (yen) (Note)				(2,440)	(2,466)
Of which, total profit distributions (Thousands of yen)	2,236,257	2,301,530	2,309,453	2,744,390	2,774,533
(Profit distribution per unit) (yen)	(11,854)	(12,200)	(12,242)	(12,200)	(12,334)
(Profit distribution per unit after split) (yen) (Note)				(2,440)	(2,466)
Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)
(Refund of investment per unit after split) (yen) (Note)				(—)	(—)

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



## **(5) Policy and Issues on Future Investment Management**

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

In the Japanese economy ahead, a temporary slowdown is forecast with the rebound of rush demand ahead of the anticipated consumption tax hike in April 2014. However, with expectations for the recovery of exports backed by the yen depreciation and recovery of overseas economies as well as for the recovery of capital investment supported by improvements in corporate earnings, the possibility of economic recession is seen to be little. Nonetheless, future trends must be watched with care as the downswing of overseas economies may become a downward risk factor for the Japanese economy.

In the office building leasing market, with expectations for continued strong growth in office demand, the vacancy rate is expected to continue to be on an ongoing trend of improving, albeit gradually. Furthermore, new rents are starting to make a turnaround at properties whose vacancies are being eliminated centering on large-scale, excellent buildings in central Tokyo, and some existing tenants that moved in with discounted rents are being consulted for increase of rent. Therefore, the rent level is forecast to gradually make a turnaround from a point of bottoming out.

In the real estate investment market, sellers of properties are not seeking sales to the point of lowering prices and have the option of either selling at high prices or continuing ownership due to the fund procurement environment continues to be favorable, and so J-REITs and other investment sectors are competing for many of the properties that are out for sale in the market. Investment needs in the real estate investment market is strong and real estate transaction prices are expected to increase going forward with an increase in buyers in the market that lower their standards for expected yields due to a sense of scarcity and competition for acquisitions.

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

Amid the recovery trend in the office building leasing market materializing gradually, JEI expects earnings from the existing portfolio to turn around in the next period onward, because there are prospects of steady early narrowing of the rent gap and improvement of the occupancy rate through leasing up of vacant space as early as possible at low-occupancy properties and also because of full-period contribution of the newly-acquired properties. Going forward, in addition to maintaining a high occupancy rate we will endeavor to maintain and improve earnings of the entire portfolio by keeping and raising the rent level based on market trends. Moreover, in order to maintain asset value and improve property competitiveness over the medium to long term, we will consistently implement additional strategic investment plans.

For external growth, we will continue to keep aiming for acquisition of competitive properties, including asset replacements, with well-balanced investments based on size, concentration and target area in mind to increase asset size and realize stable profitability in our portfolio over the medium- to long-term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have our asset management company cultivate and refine property information sources in an effort to proactively gain access to market information and thereby keep seizing the right business opportunities. On a further note, JEI acquired HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership), Aoba-dori Plaza and Daiwa Minami-morimachi Building during February 2014 using proceeds from the public offering implemented in January 2014.

Regarding financial operations, the fund-raising environment is generally favorable for REITs. Still, we will consistently work on stable and sound financial operations to address future changes in situations in and outside Japan, through endeavoring to convert floating-rate debts to fixed-rate debts, diversify maturity dates, lengthen the remaining period of debts, ensure liquidity by renewing commitment lines and maintain appropriate ratio of interest-bearing debts.

## **(6) Subsequent Events**

### **1) Split of investment units**

The Investment Corporation implemented a five-for-one split of its investment units (hereinafter the “Split of Investment Units”) with December 31, 2013 as the record date and January 1, 2014 as the effective date.

#### **(1) Purpose of split**

The purpose of the split is to widen the spectrum of investors and increase the liquidity of the Investment Corporation's investment units by decreasing the per unit price of investment units.

(2) Method of split

The Investment Corporation implemented a five-for-1 split of its investment units held by unitholders stated or recorded on the unitholder registry as of December 31, 2013, the day before the effective date of the Split of Investment Units.

(3) Increase in number of investment units through the split

Number of investment units issued and outstanding before split:	:	224,950 units
Increase in number of investment units through split	:	899,800 units
Number of investment units issued and outstanding after split	:	1,124,750 units
Total number of investment units authorized after split	:	10,000,000 units

(Note) The total number of investment units authorized after the split is changed from 2,000,000 units to 10,000,000 units in accordance with the ratio of the split (five-for-one).

2) Issuance of new investment units through public offering (primary offering)

The board of directors of JEI resolved the following issuance of new investment units through public offering at its meetings held on January 8, 2014 and January 20, 2014. The payment for the offering was completed on January 27, 2014.

As a result, unitholders' capital is 127,036,971,100 yen and the number of investment units issued and outstanding is 1,204,750 as of January 27, 2014.

<Overview of the issuance of new investment units through public offering>

(1) Number of new investment units issued	80,000 units
(2) Offer price	118,072 yen per unit
(3) Total offer price	9,445,760,000 yen
(4) Issue price	114,196 per unit
(5) Total issue price	9,135,680,000 yen
(6) Payment date	January 27, 2014

③ Issuance of new investment units through third-party allotment (greenshoe option)

The board of directors of JEI resolved the following issuance of new investment units through third-party allotment at its meetings held on January 8, 2014 and January 20, 2014. JEI granted Mizuho Securities Co., Ltd. an option to receive allotment of new investment units to be issued through third-party allotment (greenshoe option). The exercise period of the option expires on February 25, 2014.

<Overview of the issuance of new investment units through third-party allotment>

(1) Number of new investment units issued (maximum)	8,000 units
(2) Issue price	114,196 yen per unit
(3) Total issue price	913,568,000 yen
(4) Name of third party	Mizuho Securities Co., Ltd.
(5) Payment date (planned)	February 26, 2014

④ Asset Acquisition (HAMARIKYU INTERCITY(Additional Acquisition of Compartmentalized Ownership))

On January 8, 2014, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 4, 2014.

< Overview of acquisition asset >

(1) Acquisition asset	Trust beneficiary interest in real estate
(2) Property name	HAMARIKYU INTERCITY(Additional Acquisition of Compartmentalized Ownership)
(3) Location	1-9-1 and 15 Kaigan, Minato-ku, Tokyo
(4) Acquisition price (Note)	12,000,000,000 yen
(5) Date of execution of purchase agreement	January 8, 2014
(6) Handover date	February 4, 2014
(7) Seller	NIPPON STEEL KOWA REAL ESTATE CO., LTD.

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

⑤ Asset Acquisition (Aoba-dori Plaza)

On January 8, 2014, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 4, 2014.

< Overview of acquisition asset >

(1) Acquisition asset	Trust beneficiary interest in real estate
(2) Property name	Aoba-dori Plaza
(3) Location	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi
(4) Acquisition price (Note)	2,120,000,000 yen
(5) Date of execution of purchase agreement	January 8, 2014
(6) Handover date	February 4, 2014
(7) Seller	Bois Vert LLC

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

⑥ Asset Acquisition (Daiwa Minami-morimachi Building)

On January 8, 2014, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 4, 2014.

< Overview of acquisition asset >

(1) Acquisition asset	Trust beneficiary interest in real estate
(2) Property name	Daiwa Minami-morimachi Building
(3) Location	2-6, 2-chome Kita, Tenjinbashi, Kita-ku, Osaka-shi, Osaka
(4) Acquisition price (Note)	4,410,000,000 yen
(5) Date of execution of purchase agreement	January 8, 2014

(6) Handover date	February 4, 2014
(7) Seller	Bois Vert LLC

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

#### 7) Debt financing

As of January 30, 2014, JEI concluded an individual loan agreement under the Revolving Credit Facility Agreement, as described below, in order to fund the acquisition of HAMARIKYU INTERCITY (additional acquisition of compartmentalized ownership), Aoba-dori Plaza and Daiwa Minami-morimachi and partially fund various expenses related to the acquisition.

(1) Lender	Mizuho Bank, Ltd.
(2) Loan amount	9,000,000,000 yen
(3) Interest rate	0.58% (Floating rate)
(4) Drawdown date	February 4, 2014
(5) Interest payment date	March 11, 2014
(6) Principal repayment date	March 11, 2014
(7) Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
(8) Collateral	Unsecured/Non-guaranteed

## 2. Outline of the Investment Corporation

### (1) Investment units

Fiscal period	11th As of December 31, 2011	12th As of June 30, 2012	13th As of December 31, 2012	14th As of June 30, 2013	15th As of December 31, 2013
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units
Number of units issued and outstanding	188,650 units	188,650 units	188,650 units	224,950 units	224,950 units
Unitholders' capital	102,052 million yen	102,052 million yen	102,052 million yen	117,901 million yen	117,901 million yen
Number of unitholders	7,875 individuals	7,447 individuals	6,760 individuals	7,361 individuals	6,846 individuals

### (2) Unitholders

Major unitholders as of December 31, 2013 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	59,833	26.60
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	16,439	7.31
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	14,312	6.36
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	13,297	5.91
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	12,019	5.34
NOMURA BANK (LUXEMBOURG) S.A.	BATIMENT A, 33, RUE DE GASPERICH, L-5826, LUXEMBOURG	5,625	2.50
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	4,132	1.84
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A	3,189	1.42
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka-shi, Osaka	2,480	1.10
RBC ISB A/C DUB NON RESIDENT - TREATY RATE	14 PORTE DE FRANCE, ESCH-SUR- ALZETTE, LUXEMBOURG, L-4360	2,400	1.07
Total		133,726	59.45

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

### (3) Officers

#### 1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2013 (Thousands of yen)
Executive Director	Chifumi Toda (Note 2)	President and Director, Japan Excellent Asset Management Co., Ltd.	—
Executive Director	Hidehiko Ogawa (Note 3)	Advisor, Japan Excellent Asset Management Co., Ltd.	—
Supervisory Director	Makoto Sakagami (Note 4)	Makoto Sakagami Certified Public Accounting Office	6,540
Supervisory Director	Tsuyoshi Nagahana	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	—	17,000 (Note 6)

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

(Note 2) Chifumi Toda retired as Executive Director on October 31, 2013 as his term expired.

(Note 3) Hidehiko Ogawa was elected as Executive Director at the fifth general unitholders' meeting held October 24, 2013 and assumed the post on November 1, 2013.

(Note 4) Makoto Sakagami retired as Supervisory Director on October 31, 2013 as his term expired.

(Note 5) Eiji Takagi was elected as Supervisory Director at the fifth general unitholders' meeting held October 24, 2013 and assumed the post on November 1, 2013.

(Note 6) The total amount of compensation or fee shown above is an estimated amount and includes the fee for the English financial statements audit and the fee for the preparation of a comfort letter and other services upon the issuance of the 5th series investment corporation bonds in November 2013.

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

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

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

Our asset management company, asset custodian and administrative agents as of December 31, 2013 are as follows:

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

(Note) Mizuho Corporate Bank, Ltd., which is the administrative agent for JEI's investment corporation bonds, merged with Mizuho Bank, Ltd. on July 1, 2013 and changed its trade name to Mizuho Bank, Ltd.

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area	14th Period (June 30, 2013)		15th Period (December 31, 2013)	
			Total acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)	Total acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)
Real estate property (Note 3)	Office	Area I (Note 4)	3,866	1.5	3,853	1.5
		Area II (Note 4)	4,514	1.8	4,510	1.7
Area I (Note 4)		122,563	47.6	122,234	47.4	
Area II (Note 4)		9,274	3.6	9,256	3.6	
Area III (Note 4)		80,160	31.1	79,925	31.0	
Area IV (Note 4)		11,546	4.5	11,440	4.4	
Trust beneficiary interest in real estate (Note 3)	Others	Area I (Note 4)	6,936	2.7	6,882	2.7
Trust beneficiary interest in real estate						
Total			238,861	92.7	238,103	92.3
Ownership interests in an anonymous association (Note 5)			—	—	114	0.0
Deposits in bank and other assets			18,751	7.3	19,683	7.6
Total assets			257,613	100.0	257,901	100.0

(Note 1) 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 2) Investment ratio in portfolio is rounded to one decimal place.

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

(Note 4) Areas are classified as follows:

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

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

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

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

(Note 5) This represents the ownership interests in an anonymous association managed by Bois Vert LLC.

## (2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2013 are as follows:

Name	Book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	30,135	38,375.66	38,205.96	99.6	10.8	Office
AKASAKA INTERCITY	27,624	11,021.04	10,132.00	91.9	6.7	Office
Akasaka Garden City	22,656	8,769.53	8,769.53	100.0	3.9	Office
Omori Bellport D	21,571	25,591.12	25,591.12	100.0	10.6	Office
Musashikosugi Tower Place	12,751	25,159.49	25,159.49	100.0	9.0	Office
Daiba Garden City Building	10,630	12,122.85	12,122.85	100.0	3.8	Office
Kowa Kawasaki Higashiguchi Building	9,983	18,612.72	18,612.72	100.0	(Note 5)	Office
Shiba 2-Chome Building	9,100	11,749.30	11,559.68	98.4	4.2	Office
JEI Hamamatsucho Building	8,353	6,411.26	6,411.26	100.0	2.9	Office
No. 35 Kowa Building	8,245	9,377.16	9,377.16	100.0	(Note 5)	Office
Total	161,054	167,190.13	165,941.77	99.3	(Note 5)	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2013 and is rounded to two decimal places. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased space refers to space with lease contracts concluded with end tenants as of December 31, 2013 and is rounded to two decimal places. For properties with joint ownership, the value is obtained by multiplying the total leased space of the shared real estate by the percentage of the interest owned by JEI. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to the calculations of occupancy rate in (Note 3) below and the total number of tenants in (Note 1) in (3) Portfolio Ownership Breakdown.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2013 and rounded to one decimal place.

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

(Note 5) The values of Kowa Kawasaki Higashiguchi Building and No. 35 Kowa Building are not disclosed as consents on disclosure from the end tenants have not been obtained.



### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31 2013 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I -1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	23,300	21,571
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,200	9,100
I -3	JEI Hamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,210	8,353
I -4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,680	7,384
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	16,600	22,656
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,000	27,624
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,010	4,868
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	10,630
I -11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,160	8,245
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,890	6,882
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,820	1,798
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,150	3,853
Area I				130,020	132,970
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	4,190	4,510
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,220	7,391
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	1,770	1,865
Area II				10,180	13,766
III -1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,500	12,751
III -2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,350	9,983
III -3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,560	5,171
III -5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	3,780	4,561

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			estate		
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,540	972
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,130	2,338
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,690	5,936
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,600	30,135
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,560	1,652
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	6,980	6,420
Area III				73,690	79,925
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	3,880	3,236
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,660	2,748
IV-4	SE Sankyo Building	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,010	5,455
Area IV				12,550	11,440
Total				226,440	238,103

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of December 31, 2013 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Property name	14th Period January 1, 2013 to June 30, 2013				15th Period July 1, 2013 to December 31, 2013			
		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 (%) (Note 2)	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 (%) (Note 2)
I -1	Omori Bellport D	1	100.0	944	11.2	1	100.0	934	10.6
I -2	Shiba 2-Chome Building	2	98.4	372	4.4	2	98.4	370	4.2
I -3	JEI Hamamatsucho Building	1	100.0	253	3.0	1	100.0	255	2.9
I -4	No. 32 Kowa Building	1	100.0	249	3.0	1	100.0	253	2.9
I -7	Akasaka Garden City	1	82.3	364	4.3	1	100.0	342	3.9
I -8	AKASAKA INTERCITY	12	91.9	563	6.7	12	91.9	592	6.7
I -9	Kowa Shirokanedai Building	1	100.0	163	1.9	1	100.0	177	2.0
I -10	Daiba Garden City Building	1	100.0	338	4.0	1	100.0	336	3.8
I -11	No. 35 Kowa Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
I -12	HAMARIKYU INTERCITY	6	97.9	280	3.3	6	99.1	284	3.2
I -13	Shintomicho Building	9	100.0	71	0.9	9	100.0	71	0.8
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 3)	(Note 3)	6	100.0	(Note 3)	(Note 3)
Area I		42	97.5	-	-	42	99.0	-	-
II -1	NHK Nagoya Housou Center	30	96.6	301	3.6	29	95.9	297	3.4
II -2	JEI Nishi-Honmachi Building	1	98.6	218	2.6	1	100.0	219	2.5
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	67	0.8	1	100.0	83	0.9
Area II		32	98.0	-	-	31	98.4	-	-
III -1	Musashikosugi Tower Place	37	100.0	787	9.4	37	100.0	800	9.0
III -2	Kowa Kawasaki Higashiguchi	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III -3	JEI Hongo Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III -5	Kawasaki Nisshincho Building	1	96.3	165	2.0	1	100.0	192	2.2
III -6	No. 44 Kowa Building	1	100.0	90	1.1	1	100.0	92	1.0
III -7	JEI Ryogoku Building	1	100.0	100	1.2	1	100.0	105	1.2
III -8	Ebina Prime Tower	24	82.5	339	4.0	30	94.8	372	4.2
III -9	Kowa Kawasaki Nishiguchi Building	1	99.6	937	11.1	1	99.6	952	10.8
III -10	Pacific Square Sengoku	7	94.9	59	0.7	7	94.9	67	0.8
III -11	Core City Tachikawa	1	98.5	228	2.7	1	96.1	296	3.4
Area III		75	96.3	-	-	81	98.6	-	-
IV -2	JEI Kyobashi Building	1	100.0	180	2.2	1	100.0	187	2.1
IV -3	JEI Hiroshima Hacchobori Building	1	96.3	143	1.7	1	99.0	145	1.6

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IV-4	SE Sankyo Building	1	100.0	243	2.9	1	98.5	373	4.2
Area IV		3	99.1	-	-	3	99.0	-	-
Total		152	97.1	8,409	100.0	157	98.7	8,848	100.0

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

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

(Note 3) No. 35 Kowa Building, Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi and JEI Hongo Building are not disclosed as consents on disclosure from the end tenants have not been obtained.

(4) Securities Portfolio

The following shows the securities owned by JEI in its portfolio as of December 31, 2013.

Securities name	Type of asset	Volume	Book value		Appraisal value (Note 1)		Gain (loss) on valuation (Thousands of yen)	Remarks
			Unit value	Amount (Thousands of yen)	Unit value	Amount (Thousands of yen)		
Ownership interests in an anonymous association managed by Bois Vert LLC (Note 2)	Ownership interest in anonymous association	—	—	114,512	—	114,512	—	—
Total		—	—	114,512	—	114,512	—	—

(Note 1) The appraisal value indicates their book value.

(Note 2) The investment portfolio is a real estate trust beneficiary interest in Aoba-dori Plaza and Daiwa Minami-morimachi Building.

**(5) Other Assets**

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Fixed interest rate payable Floating interest rate receivable	57,900,000	57,900,000	—

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

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

#### 4. Capital Expenditures for Owned Properties

##### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of December 31, 2013. 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, 2013	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi	Renewal of air-conditioning systems (2nd term)	From January 2014 To February 2014	72	—	—
JEI Hamamatsucho Building	Minato-ku, Tokyo	Renewal of air-conditioning systems (5th term)	From March 2014 To June 2014	53	—	—
Ebina Prime Tower	Ebina-shi, Kanagawa	Installation of emergency power generator	From January 2014 To March 2014	50	—	—
SE Sankyo Building	Kita-ku, Sapporo-shi	Replacement of multi-level parking lot no. 4 pallet floorboard	From March 2014 To May 2014	49	—	—

##### (2) Capital Expenditures for the Six months Ended December 31, 2013

The following table shows constructions conducted by JEI during the period for properties it owned as of December 31, 2013 and expensed as capital expenditures. Capital expenditures for the period ended December 31, 2013 were 775 million yen and, when combined with repairs and maintenance costs of 121 million yen classified as expenses, the amount of constructions completed totaled 897 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi	Renewal of canteens for office workers (2nd term)	From January 2013 To July 2013	198
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi	Renewal of air-conditioning systems (1st term)	From February 2012 To November 2013	176
JEI Hamamatsucho Building	Minato-ku, Tokyo	Renewal of air-conditioning systems (4th term)	From April 2013 To July 2013	79
SE Sankyo Building	Kita-ku, Sapporo-shi	Replacement of multi-level parking lot no. 3 pallet floorboard	From November 2013 To December 2013	48
AKASAKA INTERCITY	Minato-ku, Tokyo	Construction of 5th floor rental rooms	From November 2013 To December 2013	34
Other constructions			—	237
Total				775

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

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

(Unit: Millions of yen)

Item	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013
Reserved funds at beginning of period	251	299	267	281	299
Increase	48	14	14	25	364
Decrease	—	47	—	7	354
Reserved funds at the end of period	299	267	281	299	309



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

(Unit: Thousands of yen)

Account	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013
(a) Asset management fees	370,459	389,209
(b) Custodian fees	17,261	19,332
(c) Administrative service fees	33,072	38,363
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	83,261	71,071
Total	521,594	535,516

## (2) Borrowings

Borrowings by each financing source as of the end of the 15th period (ended December 31, 2013) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans due within one year	The Norinchukin Bank	June 29, 2010	3,100,000	—	—	December 27, 2013	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.(Note 3)		1,800,000	—					
	Mitsubishi UFJ Trust and Banking		1,800,000	—					
	Mizuho Trust & Banking Co., Ltd.		1,300,000	—					
	The Dai-ichi Life Insurance Company Limited	July 31, 2007	—	2,000,000	2.25875 (Note 2)	July 31, 2014		Acquisition of real estate	
	Development Bank of Japan Inc.		—	2,000,000	2.28417 (Note 2)				
	Mitsubishi UFJ Trust and Banking	June 29, 2011	—	4,000,000	0.87091	December 29, 2014		Repayment of existing borrowing	
	Mizuho Bank, Ltd.(Note 3)		—	3,900,000					
	Mizuho Trust & Banking Co., Ltd.		—	2,400,000					
	Resona Bank, Ltd.		—	1,200,000					
Sub Total			8,000,000	15,500,000	1.23234	—	—	—	—
Long-term loans (Note 4)	The Dai-ichi Life Insurance Company Limited	July 31, 2007	2,000,000	—	—	July 31, 2014	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
	Development Bank of Japan Inc.		2,000,000	—	—				
	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,000,000	—	—	December 29, 2014		Repayment of existing borrowing	
	Mizuho Bank, Ltd.(Note 3)		3,900,000	—					
	Mizuho Trust & Banking Co., Ltd.		2,400,000	—					
	Resona Bank, Ltd.		1,200,000	—					
	The Dai-ichi Life Insurance Company Limited	October 24, 2008	3,000,000	3,000,000	2.27344 (Note 2)	June 30, 2015			
	Development Bank of Japan Inc.		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.13750 (Note 2)	November 30, 2015		Acquisition of real estate	
	Aozora Bank, Ltd.		1,620,000	1,620,000					
	Aozora Bank, Ltd.		650,000	650,000					
	Mizuho Bank, Ltd.(Note 3)		370,000	370,000					
	Sumitomo Mitsui Banking Corporation		280,000	280,000					
	Mizuho Bank, Ltd.(Note 3)		500,000	500,000					
	Mitsubishi UFJ Trust and Banking	January 31, 2012	500,000	500,000	1.14125 (Note 2)	Repayment of existing borrowing			
	Resona Bank, Ltd.		500,000	500,000					
	Aozora Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka		300,000	300,000					
	The Norinchukin Bank	July 31, 2012	2,000,000	2,000,000	0.97125 (Note 2)				
	Mizuho Trust & Banking Co., Ltd.		1,500,000	1,500,000					
Resona Bank, Ltd.	500,000		500,000						

Mitsubishi UFJ Trust and Banking	June 29, 2011	4,600,000	4,600,000	1.36375 (Note 2)	June 29, 2016
Mizuho Bank, Ltd. (Note 3)		4,400,000	4,400,000		
Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000		
Sumitomo Mitsui Trust Bank, Limited	November 29, 2011	1,620,000	1,620,000	1.24375 (Note 2)	November 29, 2016
Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000		
Mitsubishi UFJ Trust and Banking		540,000	540,000		
Mizuho Bank, Ltd. (Note 3)		520,000	520,000		
Mizuho Bank, Ltd. (Note 3)	January 31, 2012	2,000,000	2,000,000	1.24750 (Note 2)	
Mitsubishi UFJ Trust and Banking		1,500,000	1,500,000		
Sumitomo Mitsui Banking Corporation		1,500,000	1,500,000		
Mizuho Bank, Ltd.(Note 3)	July 31, 2012	1,500,000	1,500,000	1.03000 (Note 2)	January 31, 2017
Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000		
Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000		
Sompo Japan Insurance Inc.		2,000,000	2,000,000	1.09734 (Note 2)	
Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000		
Development Bank of Japan Inc.		6,000,000	6,000,000		
Mizuho Bank, Ltd.(Note 3)	July 31, 2012	1,000,000	1,000,000	1.08375 (Note 2)	November 30, 2017
Mitsubishi UFJ Trust and Banking		1,000,000	1,000,000		
Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000		
Mizuho Bank, Ltd.(Note 3)	June 28, 2013	1,000,000	1,000,000	1.04550 (Note 2)	
Aozora Bank, Ltd.		500,000	500,000		
Resona Bank, Ltd.		500,000	500,000	1.19212 (Note 2)	
Sompo Japan Insurance Inc.		500,000	500,000		
Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000		
The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125 (Note 2)	June 29, 2018
Mizuho Bank, Ltd.(Note 3)	June 28, 2013	5,000,000	5,000,000	0.81225 (Note 2)	June 30, 2018
Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000		
Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000		
The Norinchukin Bank		1,000,000	1,000,000		
Resona Bank, Ltd.		200,000	200,000		
The Bank of Fukuoka		700,000	700,000		
Shinkin Central Bank		1,000,000	1,000,000		
Development Bank of Japan Inc.	January 31,2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020
Mizuho Bank, Ltd.(Note 3)	June 28, 2013	500,000	500,000	1.36400 (Note 2)	
Mitsubishi UFJ Trust and Banking		500,000	500,000		
Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000		

Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.31261 (Note 2)				
The Norinchukin Bank	December 27, 2013	—	1,162,500	1.00000 (Note 2)				
Mizuho Bank, Ltd.		—	675,000					
Mitsubishi UFJ Trust and Banking		—	675,000					
Mizuho Trust & Banking Co., Ltd.		—	487,500					
Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021			
Sub Total		93,400,000	80,900,000	1.28409	—	—	—	—
Total		101,400,000	96,400,000	1.27577	—	—	—	—

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

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

(Note 3) Mizuho Corporate Bank, Ltd. merged with Mizuho Bank, Ltd. on July 1, 2013 and changed its trade name to Mizuho Bank, Ltd.

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

(Unit: Thousands of yen)

Classification	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans	15,540,000	16,760,000	24,000,000	14,000,000	10,600,000

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2013 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (Note 1) (%)	Maturity date	Repayment method	Use	Remarks
1st series unsecured investment corporation bonds	March 11, 2010	12,000,000	12,000,000	1.52000	March 11, 2014	Lump-sum	(Note 2)	(Note 4)
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	5,000,000	1.29000	June 26, 2015	Lump-sum	(Note 2)	(Note 4)
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016	Lump-sum	(Note 3)	(Note 4)
4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	2,000,000	1.40000	November 2, 2018	Lump-sum	(Note 3)	(Note 4)
5th series unsecured investment corporation bonds	November 25, 2013	—	5,000,000	0.46000	November 2, 2018	Lump-sum	(Note 2)	(Note 4)
Total		24,000,000	29,000,000	1.20138				

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

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

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

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

### (4) Short-Term Investment Corporation Bonds

JEI has no outstanding short-term investment corporation bonds as of December 31, 2013.

## 6. Condition of Investment Transactions

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

(Unit: Millions of yen)

Type of assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount (Note 1)	Net book value	Gain (loss) on transfer (Note 2)
Ownership interests in anonymous association	Ownership interests in an anonymous association managed by Bois Vert LLC	August 29, 2013	100	—	—	—	—
Total		—	100	—	—	—	—

(Note) The acquisition price does not include the various expenses required in the acquisition of the ownership interest in an anonymous association.

### (2) Transactions of Other Assets

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

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

1) Real estate, etc.

None

2) Ownership interests in an anonymous association

(Unit: Millions of yen)

Acquisition or transfer	Name of property	Transaction date	Acquisition price	Researched specified assets value
Acquisition	Ownership interests in an anonymous association managed by Bois Vert LLC	August 29, 2013	100	100

### 3) Others

Of the transactions of JEI that are subject to research for specified assets value and other particulars under Section 201 of the Investment Trust Law, those other than what are described in 1) Real estate, etc. and 2) Ownership interests in an anonymous association are researched and reported by Ernst & Young ShinNihon LLC.

One interest rate swap transaction was subject to the research during the period from July 1, 2013 to December 31, 2013 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is requested to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap transactions.

### (4) Transactions with Interested Parties or Major Shareholders

#### 1) Transactions

None

#### 2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A (Note 4)
		Paid to	Amount paid (B)	
Property management costs and fees (Note 2)	1,132,190	Nippon Steel Kowa Real Estate Co., Ltd.	416,126	36.8%
		Sekisui House, Ltd.	58,791	5.2%
Total	1,132,190	—	474,917	41.9%

(Note 1) Figures indicate fees paid to interested parties and major shareholders of asset management companies with whom JEI had transactions during the six months ended December 31, 2013.

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

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

(Note 4) Figures are rounded to one decimal place.

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

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

## 7. Accounting

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

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

### (2) Change in Depreciation Calculation Method

No changes were made during the period.

### (3) Change in Asset Valuation Method

No changes were made during the period

## 8. Others

### (1) Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

### (2) Scheduled Meetings

#### 1) General unitholders' meeting

The fifth general unitholders' meeting of JEI was held on October 24, 2013. The following table summarizes the major matters approved by the unitholders' meeting.

Proposal	Summary
Partial amendments to the articles of incorporation	<p>The articles of incorporation was amended as follows:</p> <ul style="list-style-type: none"><li>• In response to the law to amend the Law Concerning Investment Trusts and Investment Corporations of Japan was approved and passed by the Diet, establishment of provision that allows for the acquisition of JEI's investment units at a fee and establishment of supplementary provision to eliminate the aforementioned provision after the effective date of the amendment law at its enforcement date (a date to be determined by government ordinance within one year and six months after the date of promulgation of the revision law).</li><li>• Delete a provision stating that the general unitholders' meeting shall convene in Tokyo's 23 wards in preparation for a case in which it becomes difficult to hold the general unitholders' meeting in Tokyo's 23 wards due to disasters and such.</li><li>• Partial revision of a provision for the treatment of officers who are substitutes who were not elected at general unitholders' meetings at which substitute officers are being elected, concerning the period in which a resolution on the election of substitute officers is effective,</li><li>• In response to the partial amendment of the "Rules on Real Estate Investment Trust and Real Estate Investment Corporations" by the Investment Trusts Association, Japan, establish provisions concerning distributions in excess of income.</li><li>• Delete description regarding fees that ought to be paid to JEI's asset management company entrusted with the management of assets during the initial operating period at JEI's establishment.</li><li>• Other changes are the mention of Investment Trusts Association, Japan becoming a general incorporated association and changes in the text for the alteration, consolidation and clarification of expressions, modification of wording and number of clauses.</li></ul>
Election of one executive director	Hideki Ogawa was elected as an executive director. The term of his office is two years from November 1, 2013.



Election of one substitute executive director	Toshihiko Sasaki was elected as a substitute executive director.
Election of three supervisory directors	Tsuyoshi Nagahama, Shunichi Maekawa and Eiji Takagi were elected as supervisory directors. The term of their office is two years from November 1, 2013.

2) Board of directors meeting

There were no applicable items during the period.

**(3) Other**

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

**Financial Statements**

**Japan Excellent, Inc.**

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



Building a better  
working world

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## Independent Auditor's Report

The Board of Directors  
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 2013, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at December 31, 2013, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

We draw attention to Note 20 to the financial statements, which describes the split of investment units, issuance of new units, acquisition of new properties, new borrowings and issuance of investment corporation bonds subsequent to December 31, 2013 by the Company. Our opinion is not qualified in respect of these matters.

### *Convenience Translation*

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

*Ernst & Young ShinNihon LLC*

March 20, 2014  
Tokyo, Japan

# Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2013 and June 30, 2013

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 6)</i>	¥ 17,914,434	¥ 16,632,393	\$ 169,966,163
Rental receivables	833,899	728,928	7,911,761
Consumption taxes refundable	—	397,252	—
Other current assets	157,471	211,552	1,494,032
<b>Total current assets</b>	<b>18,905,804</b>	<b>17,970,125</b>	<b>179,371,956</b>
<b>Property and equipment <i>(Note 8)</i>:</b>			
Buildings and building improvements	4,798,600	4,757,565	45,527,511
Machinery and equipment	5,125	265	48,629
Furniture and fixtures	8,860	2,285	84,058
Land	3,022,966	3,022,576	28,680,895
Construction in progress	3,241	2,777	30,750
Buildings and building improvements for trust accounts	92,745,310	92,103,927	879,936,532
Machinery and equipment for trust accounts	518,882	454,947	4,922,977
Furniture and fixtures for trust accounts	146,763	101,813	1,392,436
Land for trust accounts	143,748,477	143,746,869	1,363,837,542
Construction in progress for trust accounts	16,835	76,475	159,725
Less: accumulated depreciation	(15,477,022)	(13,972,662)	(146,840,816)
<b>Net property and equipment</b>	<b>229,538,037</b>	<b>230,296,837</b>	<b>2,177,780,239</b>
<b>Investments and other assets:</b>			
Leasehold rights	1,185,045	1,185,045	11,243,310
Leasehold rights for trust accounts	7,380,017	7,380,017	70,019,135
Investment securities <i>(Note 5)</i>	114,513	—	1,086,458
Security deposits	15,181	15,181	144,038
Long-term prepaid expenses	393,471	417,599	3,733,121
Investment corporation bond issuance costs	65,606	52,312	622,443
Other assets	303,666	296,011	2,881,085
<b>Total investments and other assets</b>	<b>9,457,499</b>	<b>9,346,165</b>	<b>89,729,590</b>
<b>Total assets</b>	<b>¥257,901,340</b>	<b>¥ 257,613,127</b>	<b>\$2,446,881,785</b>

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

	As of December 31, 2013	As of June 30, 2013	As of December 31, 2013
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable – trade	¥ 762,932	¥ 717,640	\$ 7,238,445
Investment corporation bonds due within one year <i>(Notes 6 and 10)</i>	12,000,000	12,000,000	113,851,992
Long-term debt due within one year <i>(Notes 6 and 9)</i>	15,500,000	8,000,000	147,058,824
Accounts payable – other	337,804	318,029	3,204,972
Accrued consumption taxes	243,807	–	2,313,161
Other current liabilities	392,035	388,181	3,719,491
Total current liabilities	<u>29,236,578</u>	<u>21,423,850</u>	<u>277,386,885</u>
Long-term liabilities:			
Investment corporation bonds <i>(Notes 6 and 10)</i>	17,000,000	12,000,000	161,290,323
Long-term debt <i>(Notes 6 and 9)</i>	80,900,000	93,400,000	767,552,182
Security deposits from tenants <i>(Note 6)</i>	638,826	640,175	6,060,967
Security deposits from tenants for trust accounts <i>(Note 6)</i>	9,412,615	9,466,074	89,303,751
Total long-term liabilities	<u>107,951,441</u>	<u>115,506,249</u>	<u>1,024,207,223</u>
Total liabilities	<u>137,188,019</u>	<u>136,930,099</u>	<u>1,301,594,108</u>
<b>Net assets (Note 11):</b>			
Unitholders' equity:			
Unitholders' capital	117,901,291	117,901,291	1,118,608,075
Units authorized: 2,000,000 units			
Units issued and outstanding:			
224,950 units as of December 31, 2012 and			
224,950 units as of June 30, 2013			
Surplus			
Voluntary reserve			
Reserve for advanced depreciation of non-current assets	37,347	183,368	354,336
Retained earnings	2,774,683	2,598,369	26,325,266
Total surplus	<u>2,812,030</u>	<u>2,781,737</u>	<u>26,679,602</u>
Total unitholders' equity	<u>120,713,321</u>	<u>120,683,028</u>	<u>1,145,287,677</u>
Total net assets	<u>120,713,321</u>	<u>120,683,028</u>	<u>1,145,287,677</u>
Total liabilities and net assets	<u>¥ 257,901,340</u>	<u>¥ 257,613,127</u>	<u>\$ 2,446,881,785</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, 2013 to December 31, 2013  
and from January 1, 2013 to June 30, 2013

	<b>For the period from July 1, 2013 to December 31, 2013</b>	<b>For the period from January 1, 2013 to June 30, 2013</b>	<b>For the period from July 1, 2013 to December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Revenues:</b>			
Rental revenues <i>(Note 14)</i>	¥7,957,889	¥7,716,520	\$75,501,794
Other <i>(Note 14)</i>	890,351	692,993	8,447,351
Dividend income from investment in anonymous association	2,139	9,173	20,296
<b>Total revenues</b>	<b>8,850,379</b>	<b>8,418,686</b>	<b>83,969,441</b>
<b>Operating expenses:</b>			
Property operating expenses <i>(Note 14)</i>	4,605,010	4,350,117	43,690,792
Asset management fees	389,209	370,459	3,692,687
Custodian fees	19,333	17,261	183,424
Administrative service fees	38,363	33,073	363,977
Compensation for directors	6,540	6,540	62,049
Other	82,071	94,261	778,667
<b>Total operating expenses</b>	<b>5,140,526</b>	<b>4,871,711</b>	<b>48,771,596</b>
<b>Operating income</b>	<b>3,709,853</b>	<b>3,546,975</b>	<b>35,197,845</b>
<b>Other income:</b>			
Interest income <i>(Note 14)</i>	1,937	1,569	18,376
Other	3,401	1,506	32,275
<b>Other expenses:</b>			
Interest expense	644,155	598,529	6,111,531
Loan arrangement fees	108,127	140,900	1,025,871
New unit issuance costs	—	45,991	—
Interest expense on investment corporation bonds	166,580	161,407	1,580,456
Amortization of investment corporation bond issuance costs	14,607	13,692	138,582
Other	5,965	181	56,597
<b>Ordinary income</b>	<b>2,775,757</b>	<b>2,589,350</b>	<b>26,335,459</b>
<b>Extraordinary income:</b>			
Gain on donation of non-current assets	—	9,893	—
<b>Income before income taxes</b>	<b>2,775,757</b>	<b>2,599,243</b>	<b>26,335,459</b>
<b>Income taxes <i>(Note 13)</i>:</b>			
Current	1,082	917	10,270
Deferred	(8)	8	(77)
<b>Net income</b>	<b>2,774,683</b>	<b>2,598,318</b>	<b>26,325,266</b>
Retained earnings at beginning of period	—	51	—
<b>Retained earnings at end of period</b>	<b>¥2,774,683</b>	<b>¥2,598,369</b>	<b>\$26,325,266</b>

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

# Japan Excellent, Inc.

## Statements of Changes in Net Assets

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

	For the period from January 1, 2013 to June 30, 2013						
	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Voluntary reserve	Retained earnings		
Reserve for advanced depreciation of non-current assets							
<b>Balance as of December 31, 2012</b>	188,650	¥102,052,384	¥183,368	¥ 2,309,505	¥ 2,492,873	¥104,545,257	¥104,545,257
Changes during the fiscal period:							
Issuance of new units	36,300	15,848,907	—	—	—	15,848,907	15,848,907
Distributions from retained earnings	—	—	—	(2,309,454)	(2,309,454)	(2,309,454)	(2,309,454)
Net income	—	—	—	2,598,318	2,598,318	2,598,318	2,598,318
Total changes during the fiscal period	—	15,848,907	—	288,864	288,864	16,137,771	16,137,771
<b>Balance as of June 30, 2013</b>	<u>224,950</u>	<u>¥117,901,291</u>	<u>¥183,368</u>	<u>¥ 2,598,369</u>	<u>¥ 2,781,737</u>	<u>¥120,683,028</u>	<u>¥120,683,028</u>

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

	For the period from July 1, 2013 to December 31, 2013						
	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Voluntary reserve	Retained earnings		
Reserve for advanced depreciation of non-current assets							
<b>Balance as of June 30, 2013</b>	224,950	\$1,118,608,075	\$1,739,732	\$ 24,652,460	\$ 26,392,192	\$1,145,000,267	\$1,145,000,267
Changes during the fiscal period:							
Reversal of reserve for advanced depreciation of non-current assets	—	—	(1,385,396)	—	(1,385,396)	(1,385,396)	(1,385,396)
Distributions from retained earnings	—	—	—	(24,652,460)	(24,652,460)	(24,652,460)	(24,652,460)
Net income	—	—	—	26,325,266	26,325,266	26,325,266	26,325,266
Total changes during the fiscal period	—	—	(1,385,396)	1,672,806	287,410	287,410	287,410
<b>Balance as of December 31, 2013</b>	<u>224,950</u>	<u>\$1,118,608,075</u>	<u>\$ 354,336</u>	<u>\$ 26,325,266</u>	<u>\$ 26,679,602</u>	<u>\$1,145,287,677</u>	<u>\$1,145,287,677</u>

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

# Japan Excellent, Inc.

## Statements of Cash Flows

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

	For the period from July 1, 2013 to December 31, 2013	For the period from January 1, 2013 to June 30, 2013	For the period from July 1, 2013 to December 31, 2013
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,775,757	¥ 2,599,243	\$ 26,335,459
Depreciation and amortization	1,504,417	1,433,885	14,273,406
Amortization of investment corporation bond issuance costs	14,607	13,692	138,582
New unit issuance costs	—	45,991	—
Interest income	(1,937)	(1,569)	(18,376)
Interest expense	810,735	759,937	7,691,987
Increase in rental receivables	(104,972)	(78,055)	(995,940)
Decrease (increase) in consumption taxes refundable	397,252	(397,252)	3,768,996
Decrease (increase) in prepaid expenses	44,977	(71,643)	426,724
Increase in accounts payable – trade	25,457	84,318	241,526
Increase (decrease) in accounts payable – other	24,566	(9,370)	233,070
Increase (decrease) in unpaid consumption taxes	243,807	(136,379)	2,313,161
(Decrease) increase in advances received	(15,458)	78,472	(146,657)
Decrease (increase) in long-term prepaid expenses	24,128	(86,142)	228,919
Gain on donation of non-current assets	—	(9,893)	—
Other, net	(4,104)	(178,138)	(38,937)
Subtotal	5,739,232	4,047,097	54,451,920
Interest received	1,937	1,569	18,376
Interest paid	(790,680)	(776,179)	(7,501,705)
Income taxes paid	(1,441)	(5,196)	(13,674)
Net cash provided by operating activities	4,949,048	3,267,291	46,954,917
<b>Cash flows from investing activities</b>			
Purchases of investment securities	(113,020)	—	(1,072,292)
Proceeds from redemption of investment securities	2,715	196,305	25,761
Purchases of property and equipment	(27,134)	(3,968,886)	(257,441)
Purchases of property and equipment for trust accounts	(700,319)	(25,014,760)	(6,644,394)
Proceeds from security deposits from tenants	3,931	216,628	37,292
Payments for security deposits to tenants	(5,280)	(3,427)	(50,094)
Proceeds from security deposits from tenants for trust accounts	192,759	1,424,105	1,828,835
Payments for security deposits to tenants for trust accounts	(246,217)	(401,505)	(2,336,029)
Net cash used in investing activities	(892,565)	(27,551,540)	(8,468,362)
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	—	17,100,000	—
Repayment for short-term loans	—	(17,600,000)	—
Proceeds from long-term debt	3,000,000	19,600,000	28,462,998
Repayment for long-term debt	(8,000,000)	(7,000,000)	(75,901,328)
Proceeds from issuance of new units	—	15,848,907	—
Proceeds from issuance of investment corporation bonds	5,000,000	—	47,438,330
Payments for investment corporation bond issuance costs	(27,900)	—	(264,706)
Payments for new unit issuance costs	—	(45,991)	—
Distributions to unitholders	(2,746,542)	(2,311,540)	(26,058,278)
Net cash provided by (used in) financing activities	(2,774,442)	25,591,376	(26,322,984)
Net increase (decrease) in cash and cash equivalents	1,282,041	1,307,127	12,163,571

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



Cash and cash equivalents at beginning of period	16,632,393	15,325,266	157,802,592
Cash and cash equivalents at end of period	<u>¥ 17,914,434</u>	<u>¥ 16,632,393</u>	<u>\$ 169,966,163</u>

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

# Japan Excellent, Inc.

## Notes to Financial Statements

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

### **1. Organization**

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

JEI is externally managed by a licensed asset management company, Japan Excellent Asset Management ("JEAM"). JEAM is owned 45% by NIPPON STEEL KOWA REAL ESTATE CO., LTD., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 20% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2013, JEI held 28 properties with 302,505 square meters of total leasable space and had leases with 157 tenants excluding residential tenants.

### **2. Basis of Presentation**

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

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.40 = U.S.\$1.00, the foreign exchange rate prevailing on December 31, 2013, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

**3. Summary of Significant Accounting Policies**

***Cash and cash equivalents***

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

***Investment securities***

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is 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 and trademark rights***

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

Buildings	2 – 60 years
Building improvements	2 – 59 years
Machinery and equipment	7 – 16 years
Furniture and fixtures	3 – 15 years

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

***Deferred assets***

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

***Income taxes***

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

***Consumption taxes***

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

***Property-related taxes***

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 14).

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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. No property-related taxes were capitalized for the period from July 1, 2013 to December 31, 2013. The capitalized amount for the period from January 1, 2013 to June 30, 2013 was ¥210,444 thousand.

#### *Revenue recognition*

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

#### *Derivatives and hedge accounting*

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

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

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

#### *Properties in trust accounts*

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

### 4. Cash and Cash Equivalents

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

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 4,707,845	¥ 3,600,763	\$ 44,666,462
Cash in trust and deposits in trust	13,206,589	13,031,630	125,299,701
Cash and cash equivalents including trust accounts	<u>¥17,914,434</u>	<u>¥16,632,393</u>	<u>\$169,966,163</u>

## **5. Investment Securities**

Investment securities represent the ownership interests in an anonymous association issued by Bois Vert LLC, which are backed by cash flows from real estate properties managed by Bois Vert LLC.

These securities do not have a readily available market price. Additionally, due to a lack of clearly identifiable cash flow information from the underlying properties, there is inherent difficulty in estimating fair value. Accordingly, they are excluded from fair value disclosures.

## **6. Financial Instruments**

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

### *Overview*

#### (1) Policy for Financial Instruments

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

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

##### (a) Market Risks (Interest Rate Fluctuation Risks)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings. Some of such debt are floating rate instruments and thus are exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant monitoring activities, JEI hedges against the risk of interest rate fluctuations using derivative transactions (interest-rate swaps), which swap a floating interest rate for a fixed interest rate. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions having a high credit rating. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies. Investment securities represent equity investments in a special purpose company as ownership interests in an anonymous association, and are exposed to credit risk of the issuer and interest rate fluctuation risk. JEI works to reduce such risks by regularly evaluating the results of operations and the financial condition of the issuer, etc.

## 6. Financial Instruments (continued)

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced by diversifying maturity dates and funding sources, executing commitment line agreements (as described in Note 9, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2013), and liquidity risk is managed through the constant management of liquidity on hand.

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

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

#### *Fair value of financial instruments*

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

	As of December 31, 2013			As of June 30, 2013			As of December 31, 2013		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 4,707,845	¥ 4,707,845	¥ -	¥ 3,600,763	¥ 3,600,763	¥ -	\$ 44,666,462	\$ 44,666,462	\$ -
(2) Cash in trust and deposits in trust	13,206,589	13,206,589	-	13,031,630	13,031,630	-	125,299,701	125,299,701	-
Total assets	¥ 17,914,434	¥ 17,914,434	¥ -	¥ 16,632,393	¥ 16,632,393	¥ -	\$ 169,966,163	\$ 169,966,163	\$ -
(3) Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
(4) Investment corporation bonds due within one year	12,000,000	12,030,000	30,000	12,000,000	12,086,400	86,400	113,851,992	114,136,622	284,630
(5) Long-term debt due within one year	15,500,000	15,537,316	37,316	8,000,000	8,000,000	-	147,058,824	147,412,867	354,043
(6) Investment corporation bonds	17,000,000	17,204,445	204,445	12,000,000	12,150,200	150,200	161,290,323	163,230,029	1,939,706
(7) Long-term debt	80,900,000	82,082,964	1,182,964	93,400,000	94,393,798	993,798	767,552,182	778,775,753	11,223,571
Total liabilities	¥ 125,400,000	¥ 126,854,725	¥ 1,454,725	¥ 125,400,000	¥ 126,630,398	¥ 1,230,398	\$ 1,189,753,321	\$ 1,203,555,271	\$ 13,801,950
(8) Derivative transactions *	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -

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

(Note 1)

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

#### Assets

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

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

## 6. Financial Instruments (continued)

### Liabilities

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

Where floating rates apply, fair value is based on book value. The fair value of such liabilities is considered to be close to book value because floating rates reflect market interest rates within a short period of time.

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

The fair value of long-term fixed-rate debt and long-term fixed-rate debt due within one year are calculated by discounting the combined value of principal and interest of the applicable long-term debt by a reasonable rate assuming the same amount were to be borrowed anew.

- (4) Investment corporation bonds due within one year and
- (6) Investment corporation bonds

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

- (8) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

(Note 2)

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

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Investment securities <sup>(*1)</sup>	¥ 114,513	¥ —	\$ 1,086,458
(2) Security deposits from tenants <sup>(*2)</sup>	¥ 638,826	¥ 640,175	\$ 6,060,967
(3) Security deposits from tenants for trust accounts <sup>(*2)</sup>	¥9,412,615	¥9,466,074	\$89,303,751

(\*1) Investment securities (ownership interests in an anonymous association) do not have a readily available market price and reasonable estimates of cash flows from the underlying properties cannot be made, so the fair value is deemed extremely difficult to determine. Accordingly, they are excluded from fair value disclosures.

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

## 6. Financial Instruments (continued)

(Note 3)

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

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

	As of December 31, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(U.S. dollars)					
Cash and cash deposits	\$ 44,666,462	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in trust and deposits in trust	125,299,701	-	-	-	-	-
Total	\$169,966,163	\$ -	\$ -	\$ -	\$ -	\$ -

	As of June 30, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	¥ 3,600,763	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	13,031,630	-	-	-	-	-
Total	¥16,632,393	¥ -	¥ -	¥ -	¥ -	¥ -

(Note 4)

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

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



## 6. Financial Instruments (continued)

	As of December 31, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(U.S. dollars)</i>					
Short-term loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment						
corporation bonds						
due within one year	113,851,992	-	-	-	-	-
Long-term debt due						
within one year	147,058,824	-	-	-	-	-
Investment						
corporation bonds	-	47,438,330	47,438,330	-	66,413,663	-
Long-term debt	-	147,438,330	159,013,283	227,703,985	132,827,324	100,569,260
Total	<u>\$260,910,816</u>	<u>\$194,876,660</u>	<u>\$206,451,613</u>	<u>\$227,703,985</u>	<u>\$199,240,987</u>	<u>\$100,569,260</u>
	As of June 30, 2013					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Investment						
corporation bonds						
due within one year	12,000,000	-	-	-	-	-
Long-term debt due						
within one year	8,000,000	-	-	-	-	-
Investment						
corporation bonds	-	5,000,000	-	5,000,000	-	2,000,000
Long-term debt	-	20,500,000	23,540,000	15,760,000	26,000,000	7,600,000
Total	<u>¥20,000,000</u>	<u>¥25,500,000</u>	<u>¥23,540,000</u>	<u>¥20,760,000</u>	<u>¥26,000,000</u>	<u>¥9,600,000</u>

## 7. Investment and Rental Property

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

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

As of June 30, 2013	Carrying value		As of December 31, 2013	Fair value		
	Change during period <sup>(*)</sup>			As of December 31, 2013		
	<i>(Thousands of yen)</i>					
¥238,861,898	¥(758,799)		¥238,103,099		¥226,440,000	
As of June 30, 2013	Carrying value		As of December 31, 2013	Fair value		
	Change during period <sup>(*)</sup>			As of December 31, 2013		
	<i>(U.S. dollars)</i>					
\$2,266,241,921	\$(7,199,238)		\$2,259,042,683		\$2,148,387,097	

## 7. Investment and Rental Property (continued)

As of December 31, 2012	Carrying value		As of June 30, 2013	Fair value As of June 30, 2013
	Change during period <sup>(*)2</sup>	(Thousands of yen)		
¥211,177,823	¥27,684,075		¥238,861,898	¥225,682,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(\*1) Changes during period comprise an increase of ¥396,969 thousand (\$3,766,318) related to the capital expenditure for the Kowa Kawasaki-Nishiguchi Building and a decrease of ¥1,504,360 thousand (\$14,272,865) for depreciation costs.

(\*2) Changes during period comprise increases of ¥10,260,613 thousand related to the acquisition of AKASAKA INTERCITY (Additional acquisition of compartmentalized ownership), ¥3,877,473 thousand related to the acquisition of Kowa Nishi-Shimbashi Building, ¥1,865,265 thousand related to the acquisition of Osaka Kogin Building (Land with leasehold interest), ¥537,656 thousand related to the acquisition of Kawasaki Nisshincho Building (Additional acquisition of co-ownership interest), ¥6,490,587 thousand related to the acquisition of Core City Tachikawa, ¥5,552,239 thousand related to the acquisition of SE Sankyo Building and a decrease of ¥1,433,828 thousand for depreciation costs.

(Note 3)

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

## 8. Property and Equipment

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

	As of December 31, 2013			As of June 30, 2013			As of December 31, 2013		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	(Thousands of yen)						(U.S. dollars)		
Buildings and building improvements	¥ 4,798,600	¥ (658,713)	¥ 4,139,887	¥ 4,757,565	¥ (588,678)	¥ 4,168,887	\$ 45,527,511	\$ (6,249,648)	\$ 39,277,863
Machinery and equipment	5,125	(302)	4,823	265	(72)	193	48,629	(2,867)	45,762
Furniture and fixtures	8,860	(859)	8,001	2,285	(668)	1,617	84,058	(8,149)	75,909
Land	3,022,966	–	3,022,966	3,022,576	–	3,022,576	28,680,895	–	28,680,895
Construction in progress	3,241	–	3,241	2,777	–	2,777	30,750	–	30,750
Buildings and building improvements for trust accounts	92,745,310	(14,556,797)	78,188,513	92,103,927	(13,147,516)	78,956,411	879,936,532	(138,110,026)	741,826,506
Machinery and equipment for trust accounts	518,882	(206,234)	312,648	454,947	(190,383)	264,564	4,922,977	(1,956,681)	2,966,296
Furniture and fixtures for trust accounts	146,763	(54,117)	92,646	101,813	(45,345)	56,468	1,392,436	(513,445)	878,991
Land for trust accounts	143,748,477	–	143,748,477	143,746,869	–	143,746,869	1,363,837,542	–	1,363,837,542
Construction in progress for trust accounts	16,835	–	16,835	76,475	–	76,475	159,725	–	159,725
Total	¥ 245,015,059	¥ (15,477,022)	¥ 229,538,037	¥ 244,269,499	¥ (13,972,662)	¥ 230,296,837	\$ 2,324,621,055	\$ (146,840,816)	\$ 2,177,780,239

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

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

	As of December 31, 2013		As of June 30, 2013		As of December 31, 2013
	Amount	Weighted-average interest rate <sup>(*)1</sup>	Amount	Weighted-average interest rate <sup>(*)1</sup>	Amount
	(Thousands of yen)		(Thousands of yen)		(U.S. dollars)
Long-term debt due within one year:					
Unsecured loans from banks due on December 27, 2013	–	–	8,000,000	0.98000%	–
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875% <sup>(*)2</sup>	–	–	18,975,332
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417% <sup>(*)2</sup>	–	–	18,975,332
Unsecured loans from banks due on December 29, 2014	11,500,000	0.87091%	–	–	109,108,160
Subtotal	<u>15,500,000</u>		<u>8,000,000</u>		<u>147,058,824</u>
Long-term debt:					
Unsecured loans from an insurance company due on July 31, 2014	–	–	2,000,000	2.25875% <sup>(*)2</sup>	–
Unsecured loans from a bank due on July 31, 2014	–	–	2,000,000	2.28417% <sup>(*)2</sup>	–
Unsecured loans from banks due on December 29, 2014	–	–	11,500,000	0.88000%	–
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344% <sup>(*)2</sup>	5,000,000	2.27344% <sup>(*)2</sup>	47,438,330
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% <sup>(*)2</sup>	4,540,000	1.13750% <sup>(*)2</sup>	43,074,004
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% <sup>(*)2</sup>	2,000,000	1.14125% <sup>(*)2</sup>	18,975,332
Unsecured loans from banks due on November 30, 2015	4,000,000	0.97125% <sup>(*)2</sup>	4,000,000	0.97125% <sup>(*)2</sup>	37,950,664
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% <sup>(*)2</sup>	13,000,000	1.36375% <sup>(*)2</sup>	123,339,659
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% <sup>(*)2</sup>	3,760,000	1.24375% <sup>(*)2</sup>	35,673,624
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% <sup>(*)2</sup>	5,000,000	1.24750% <sup>(*)2</sup>	47,438,330
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% <sup>(*)2</sup>	4,000,000	1.03000% <sup>(*)2</sup>	37,950,664
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% <sup>(*)2</sup>	3,000,000	1.09734% <sup>(*)2</sup>	28,462,998
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% <sup>(*)2</sup>	6,000,000	1.73875% <sup>(*)2</sup>	56,925,996
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% <sup>(*)2</sup>	3,000,000	1.08375% <sup>(*)2</sup>	28,462,998
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% <sup>(*)2</sup>	2,000,000	1.04550% <sup>(*)2</sup>	18,975,332
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% <sup>(*)2</sup>	1,000,000	1.19212% <sup>(*)2</sup>	9,487,666
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% <sup>(*)2</sup>	3,000,000	1.65125% <sup>(*)2</sup>	28,462,998
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% <sup>(*)2</sup>	11,000,000	0.81225% <sup>(*)2</sup>	104,364,327
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% <sup>(*)2</sup>	2,000,000	1.60000% <sup>(*)2</sup>	18,975,332
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% <sup>(*)2</sup>	2,600,000	1.36400% <sup>(*)2</sup>	24,667,932
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% <sup>(*)2</sup>	1,000,000	1.31261% <sup>(*)2</sup>	9,487,666
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% <sup>(*)2</sup>	–	–	28,462,998
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% <sup>(*)2</sup>	2,000,000	1.60750% <sup>(*)2</sup>	18,975,332
Subtotal	<u>80,900,000</u>		<u>93,400,000</u>		<u>767,552,182</u>
Total	<u>¥ 96,400,000</u>		<u>¥ 101,400,000</u>		<u>\$ 914,611,006</u>

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

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

## 9. Short-Term Loans and Long-Term Debt (continued)

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

	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>				
Long-term debt	¥15,540,000	¥16,760,000	¥24,000,000	¥14,000,000	¥10,600,000
	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>				
Long-term debt	\$147,438,330	\$159,013,283	\$227,703,985	\$132,827,324	\$100,569,260

JEI has commitment lines of ¥14,000 million (\$132,827 thousand) with three financial institutions to reduce refinancing risk and enhance financial stability. The full amount of such commitment lines was unused at December 31, 2013.

## 10. Investment Corporation Bonds

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

	<u>As of December 31, 2013</u>		<u>As of June 30, 2013</u>		<u>As of December 31, 2013</u>
	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Unsecured bond due on March 11, 2014	¥12,000,000	1.52000%	¥12,000,000	1.52000%	\$113,851,993
Unsecured bond due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	47,438,330
Unsecured bond due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%	47,438,330
Unsecured bond due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%	18,975,332
Unsecured bond due on November 2, 2018	5,000,000	0.46000%	—	—	47,438,330
Total	<u>¥29,000,000</u>		<u>¥24,000,000</u>		<u>\$275,142,315</u>

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

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Investment corporation bonds	¥12,000,000	¥5,000,000	¥5,000,000	—	¥7,000,000	—
	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>					
Investment corporation bonds	\$113,851,992	\$47,438,330	\$47,438,330	—	\$66,413,663	—

## 11. Net Assets

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

## 12. Per Unit Information

Net assets per unit were ¥107,324 (\$1,018) as of December 31, 2013 and ¥536,488 as of June 30, 2013. Net income per unit was ¥2,466 (\$23) for the period from July 1, 2013 to December 31, 2013, and ¥11,884 for the period from January 1, 2013 to June 30, 2013 and was computed based on the weighted-average number of units outstanding during the respective periods.

JEI implemented a five-for-one split of its investment units with January 1, 2014 as the effective date. Net assets per unit as of December 31, 2013 and net income per unit for the period from July 1, 2013 to December 31, 2013 are calculated assuming that the split of investment units was implemented at the beginning of the period.

## 13. 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, 2013 and June 30, 2013 are summarized as follows:

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥23	¥15	\$221
Total deferred tax assets	23	15	221
Net deferred tax assets	¥23	¥15	\$221

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

	<b>For the period from July 1, 2013 to December 31, 2013</b>	<b>For the period from January 1, 2013 to June 30, 2013</b>
Statutory tax rate	36.59%	36.59%
Reconciliation:		
Deductible distributions paid	(36.57)	(38.63)
Other	0.02	2.08
Effective tax rate	0.04%	0.04%

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

	<b>For the period from July 1, 2013 to December 31, 2013</b>	<b>For the period from January 1, 2013 to June 30, 2013</b>	<b>For the period from July 1, 2013 to December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥7,957,889	¥7,716,520	\$75,501,794
Other	890,351	692,993	8,447,351
Total rental business revenues	<u>8,848,240</u>	<u>8,409,513</u>	<u>83,949,145</u>
Property operating expenses:			
Property management costs and fees	1,110,059	1,136,773	10,531,867
Utilities	1,005,469	804,651	9,539,556
Property and other taxes	632,315	629,281	5,999,191
Insurance	24,956	23,915	236,773
Repairs and maintenance	121,725	109,881	1,154,882
Depreciation	1,504,360	1,433,828	14,272,865
Other	206,126	211,788	1,955,658
Total property operating expenses	<u>4,605,010</u>	<u>4,350,117</u>	<u>43,690,792</u>
Profit	<u>¥4,243,230</u>	<u>¥4,059,396</u>	<u>\$40,258,353</u>

#### *Interest income*

Interest income received related to negotiable certificates of deposit of ¥328 thousand (U.S. \$3,119) in the period from July 1, 2013 to December 31, 2013 was included in interest income in the statements of income and retained earnings

#### 15. Leases

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

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2013</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥ 442,335	¥ 590,411	\$ 4,196,726
Due after one year	517,255	734,191	4,907,540
Total	<u>¥ 959,590</u>	<u>¥1,324,602</u>	<u>\$ 9,104,266</u>

## 16. Derivative Transactions

### Derivative Transactions as of December 31, 2013

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

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

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value	Contract amount		Fair value	Method of calculating the fair value
				More than one year				More than one year		
						<i>(Thousands of yen)</i>				
						<i>(U.S. dollars)</i>				
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥57,900,000	¥57,900,000	*	/	\$549,335,863	\$549,335,863	*	/

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

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 6, "Financial Instruments."

### Derivative Transactions as of June 30, 2013

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of June 30, 2013 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥54,900,000	¥54,900,000	*	/

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

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 6, "Financial Instruments."

## 17. Related Party Transactions

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

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Chifumi Toda	Payment of asset management fees to JEAM	¥389,209	\$3,692,687	Accounts payable	¥250,277	\$2,374,551

### For the period from January 1, 2013 to June 30, 2013

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period
		(Thousands of yen)			(Thousands of yen)
Chifumi Toda	Payment of asset management fees to JEAM	¥370,459		Accounts payable	¥242,991



## **18. Segment Information**

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

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

### ***Information about products and services***

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

### ***Information about geographic area***

#### **(1) Revenues**

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

#### **(2) Property and equipment**

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

### ***Information about major clients***

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

## **19. Distribution Information**

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,774,533,300 (\$26,323,845), which is the maximum integral multiple of the 224,950 units issued not exceeding unappropriated retained earnings at December 31, 2013. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 17, 2014, the Board of Directors approved a resolution to make a cash distribution of ¥12,334 (\$117) per unit aggregating to ¥2,774,683,020 (\$26,325,266) to unitholders of record as of December 31, 2013.

## 20. Significant Subsequent Events

### (1) Split of investment units

JEI implemented a five-for-one split of its investment units (hereinafter the “Split of Investment Units”) with December 31, 2013 as the record date and January 1, 2014 as the effective date.

#### A. Purpose of split

The purpose of the split is to widen the spectrum of investors and increase the liquidity of JEI’s investment units by decreasing the per unit price of investment units.

#### B. Method of split

JEI implemented a five-for-one split of its investment units held by unitholders stated or recorded on the unitholder registry as of December 31, 2013, the day before the effective date of the Split of Investment Units.

#### C. Increase in number of investment units through the split

Number of investment units issued and outstanding before split: 224,950 units

Increase in number of investment units through split : 899,800 units

Number of investment units issued and outstanding after split: 1,124,750 units

Total number of investment units authorized after split : 10,000,000 units

(Note) The total number of investment units authorized after the split was changed from 2,000,000 units to 10,000,000 units in accordance with the ratio of the split (five for one).

### (2) Issuance of new units

On January 8, 2014 and January 20, 2014, the Board of Directors approved resolutions to complete a public offering and third-party allocation, respectively of new units as outlined below. JEI received payments on January 27, 2014 and February 26, 2014 for the said units, which were issued in accordance with the conditions outlined below. As a result of the issuance of new units, JEI had unitholders’ capital of ¥127,950 million (\$1,213,952 thousand) with 1,212,750 units in issue at February 26, 2014.

#### A. Issuance of new units through a public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	80,000 units
(iii) Issue price (offer price)	¥118,072 (\$1,120) per unit
(iv) Total offer price	¥9,445 million (\$89,618 thousand)
(v) Proceeds per unit	¥114,196 (\$1,083)
(vi) Aggregate proceeds	¥9,135 million (\$86,676 thousand)
(vii) Payment date	January 27, 2014

#### B. Issuance of new units through allocation to a third party

(i) Method of issuance	Allocation to a third party
(ii) Number of units issued	8,000 units
(iii) Proceeds per unit	¥114,196 (\$1,083) per unit
(iv) Aggregate proceeds	¥913 million (\$8,667 thousand)
(v) Payment date	February 26, 2014
(vi) Allottee	Mizuho Securities Co., Ltd.

## 20. Significant Subsequent Events (continued)

### (3) Acquisition of properties

The following properties were acquired subsequent to December 31, 2013:

#### A. HAMARIKYU INTERCITY

- |                           |   |
|---------------------------|---|
| 1. Type of asset acquired | Trust property  |
| 2. Asset                  | HAMARIKYU INTERCITY (Additional acquisition of compartmentalized ownership) |
| 3. Location               | 1-9-11, 15 Kaigan, Minato-ku, Tokyo   |
| 4. Acquisition price      | ¥12,000 million (\$113,852 thousand) (Note)                                 |
| 5. Contract date          | January 8, 2014   |
| 6. Delivery date          | February 4, 2014  |
| 7. Seller                 | NIPPON STEEL KOWA REAL ESTATE CO., LTD.                                     |

(Note) The acquisition price does not include fees related to the acquisition, JEI's proportional share of the applicable real estate tax and city planning tax, and consumption tax.

#### B. Aoba-dori Plaza

- |                           |   |
|---------------------------|---|
| 1. Type of asset acquired | Trust property                            |
| 2. Asset                  | Aoba-dori Plaza                           |
| 3. Location               | 3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi   |
| 4. Acquisition price      | ¥2,120 million (\$20,114 thousand) (Note) |
| 5. Contract date          | January 8, 2014                           |
| 6. Delivery date          | February 4, 2014                          |
| 7. Seller                 | Bois Vert LLC                             |

(Note) The acquisition price does not include fees related to the acquisition, JEI's proportional share of the applicable real estate tax and city planning tax, and consumption tax.

#### C. Daiwa Minami-morimachi Building

- |                           |   |
|---------------------------|---|
| 1. Type of asset acquired | Trust property  |
| 2. Asset                  | Daiwa Minami-morimachi Building                           |
| 3. Location               | 2-6, 2-chome Kita, Tenjinbashi, Kita-ku, Osaka-shi, Osaka |
| 4. Acquisition price      | ¥4,410 million (\$41,841 thousand) (Note)                 |
| 5. Contract date          | January 8, 2014   |
| 6. Delivery date          | February 4, 2014  |
| 7. Seller                 | Bois Vert LLC   |

(Note) The acquisition price does not include fees related to the acquisition, JEI's proportional share of the applicable real estate tax and city planning tax, and consumption tax.

## 20. Significant Subsequent Events (continued)

### (4) Debt financing

A. On January 30, 2014, JEI entered into an individual loan agreement to use as a portion of the payment (including related expenses) for the acquisition of HAMARIKYU INTERCITY (Additional acquisition of compartmentalized ownership) and Aoba-dori Plaza and Daiwa Minami-morimachi Building.

1. Lender	Mizuho Bank, Ltd.
2. Loan amount	¥9,000 million (\$85,389 thousand)
3. Interest rate	0.58% (Floating rate)
4. Scheduled drawdown date	February 4, 2014
5. Principal repayment date	March 11, 2014
6. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
7. Collateral	Unsecured/Non-guaranteed

B. On March 6, 2014, JEI concluded the following term-loan agreement effective March 10, 2014 to be allocated for a portion of the funds for the repayment of ¥9.0 billion of borrowings maturing on March 11, 2014.

1. Lenders	Mizuho Bank, Ltd., The Norinchukin Bank, Mitsubishi UFJ Trust and Banking Corporation, and Mizuho Trust & Banking Co., Ltd.
2. Loan amount	¥3,750 million (\$35,578 thousand)
3. Interest rate	0.745% (Fixed rate)
4. Scheduled drawdown date	March 11, 2014
5. Principal repayment date	November 1, 2018
6. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
7. Collateral	Unsecured/Non-guaranteed

## 20. Significant Subsequent Events (continued)

C. On March 6, 2014, JEI concluded the following term-loan agreement effective March 10, 2014 to be allocated for a portion of the funds for the repayment of ¥9.0 billion of borrowings maturing on March 11, 2014.

1. Lenders	Mizuho Bank, Ltd., The Norinchukin Bank, Mitsubishi UFJ Trust and Banking Corporation, and Mizuho Trust & Banking Co., Ltd.
2. Loan amount	¥3,750 million (\$35,578 thousand)
3. Interest rate	0.775% (Fixed rate)
4. Scheduled drawdown date	March 11, 2014
5. Principal repayment date	March 8, 2019
6. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
7. Collateral	Unsecured/Non-guaranteed

### (5) Issuance of Investment Corporation Bonds

On March 10, 2014, JEI issued the following investment corporation bonds (total amount of ¥13.0 billion) to be allocated to the full amount for the redemption of the 1st Series Unsecured Investment Corporation Bonds and for a portion of the funds for the repayment of ¥9.0 billion of borrowings maturing on March 11, 2014.

#### A. 6<sup>th</sup> Series Unsecured Investment Corporation Bonds

1. Name	6 <sup>th</sup> Series Unsecured Investment Corporation Bonds
2. Issue date	March 10, 2014
3. Total issue amount	¥5,000 million (\$47,438 thousand)
4. Interest rate	0.46%
5. Redemption date	March 11, 2019
6. Collateral	Unsecured/Non-guaranteed

#### B. 7<sup>th</sup> Series Unsecured Investment Corporation Bonds

1. Name	7 <sup>th</sup> Series Unsecured Investment Corporation Bonds
2. Issue date	March 10, 2014
3. Total issue amount	¥8,000 million (\$75,901 thousand)
4. Interest rate	1.13%
5. Redemption date	March 11, 2024
6. Collateral	Unsecured/Non-guaranteed