

# Asset Management Report for 21<sup>st</sup> Period

(Semi-Annual Report for 21<sup>st</sup> Period)

From July 1, 2016 to December 31, 2016



**Japan Excellent, Inc.**

## **I. Greetings**

### **To Our Unitholders**

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

We hereby report the financial results of JEI for the 21st period (from July 1, 2016 to December 31, 2016).

JEI has continued with quality growth through acquisition of Mansard Daikanyama, a property close to central Tokyo located near a station that is relatively new and has high competitiveness, from the core sponsor, while procuring a total of around 5.5 billion yen through issuance of new investment units in July 2016.

As for current lease contracts, JEI accelerated efforts to increase rents by ensuring to take opportunities of upward rent revision. Also, as for new lease contracts, JEI promoted filling of vacancies while setting higher rent levels.

In terms of finance, JEI successfully reduced financial costs through refinancing while adhering to the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates. JEI continues to retain a rating of AA- from the rating agency as JEI's ongoing stable finance management was recognized.

JEI recorded operating revenue of 10,653 million yen and operating income of 4,221 million yen. The net income of 3,406 million yen was a new record high. As a result, the distribution per unit increased to 2,609 yen for the 21st period, an increase of 147 yen from the previous period.

### **About Future Asset Management**

In the real estate market, backed by the continuing favorable fund procurement environment and strong appetite for investment by market participants, real estate transaction prices are expected to remain high. In the office building leasing market, the vacancy rate and the rent level are forecasted to continue to improve gradually for the time being mainly for competitive buildings, as office demand is strong.

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

In addition, JEI remains committed to strict adherence to the Financial Instruments and Exchange Act and other laws and regulations to promote compliance, as well as to accurate and easy-to-understand disclosure of the status of our operations 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		17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period, January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016
Operating revenue	(Millions of yen)	9,695	10,121	10,839	10,223	10,653
(Rental revenues)	(Millions of yen)	(9,695)	(10,121)	(10,669)	(10,223)	(10,653)
Operating expenses	(Millions of yen)	5,731	6,102	6,537	6,240	6,431
(Property operating expenses)	(Millions of yen)	(5,180)	(5,533)	(5,916)	(5,655)	(5,849)
Operating income	(Millions of yen)	3,963	4,018	4,301	3,982	4,221
Ordinary income	(Millions of yen)	3,041	3,098	3,385	3,113	3,407
Net income	(Millions of yen)	3,040	3,097	3,384	3,112	3,406
Total assets	(Millions of yen)	278,037	300,976	284,443	283,653	296,081
(Period-on-period change)	(%)	(0.1)	(8.3)	(-5.5)	(-0.3)	(4.4)
Net assets	(Millions of yen)	131,028	131,085	137,857	137,808	143,640
(Period-on-period change)	(%)	(0.0)	(0.0)	(5.2)	(Δ0.0)	(4.2)
Unitholders' capital	(Millions of yen)	127,950	127,950	134,434	134,434	139,972
Total outstanding investment units	(units)	1,212,750	1,212,750	1,264,450	1,264,450	1,305,700
Net assets per unit	(yen)	108,042	108,089	109,025	108,987	110,010
Net income per unit (Note 1)	(yen)	2,506	2,554	2,685	2,461	2,614
Total distribution	(Millions of yen)	3,040	3,097	3,161	3,113	3,406
Distribution per unit	(yen)	2,507	2,554	2,500	2,462	2,609
(Profit distribution per unit)	(yen)	2,507	2,554	2,500	2,462	2,609
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.1	1.1	1.2	1.1	1.2
(Annualized rate)	(%)	(2.2)	(2.2)	(2.3)	(2.2)	(2.3)
Return on equity (Note 3)	(%)	2.3	2.4	2.5	2.3	2.4
(Annualized rate)	(%)	(4.6)	(4.8)	(5.0)	(4.5)	(4.8)
Capital ratio (Note 4)	(%)	47.1	43.6	48.5	48.6	48.5
(Period-on-period change)	(%)	(-0.0)	(-3.6)	(4.9)	(0.1)	(-0.1)
Payout ratio (Note 5)	(%)	100.0	99.9	93.4	100.0	100.0
Number of investment properties	(properties)	30	31	30	30	31
Number of tenants	(tenants)	214	219	224	228	237
Total leasable space (Note 6, 7)	(㎡)	330,180	370,671	356,918	356,884	362,305
Occupancy rate	(%)	99.1	97.9	98.5	99.1	99.0
Depreciation	(Millions of yen)	1,657	1,786	1,908	1,899	1,956
Capital expenditure	(Millions of yen)	415	790	635	729	1,294
Net operating income (NOI) (Note 8)	(Millions of yen)	6,172	6,374	6,662	6,467	6,760
Funds from operation (FFO) per unit (Note 9)	(yen)	3,873	4,027	4,051	3,964	4,107
FFO multiples (Note 10)	(times)	20.8	17.4	16.5	17.6	18.2
Debt service coverage ratio	(times)	5.0	5.0	5.6	5.5	6.4

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(DSCR) (Note 11)						
Interest-bearing debt	(Millions of yen)	133,900	155,400	131,900	131,900	137,900
Loan-to-value (Note 12)	(%)	48.2	51.6	46.4	46.5	46.6
Number of days in operation	(days)	184	181	184	182	184

(Note 1) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.

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

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

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

(Note 5) Payout ratio = Total distribution / Net income × 100 (figures for the 18th period and before are rounded down to the first decimal place while figures for the 19th period and after are rounded to the first decimal place.)

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

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

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

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

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

(Note 11) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds)

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

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2016, we settled our twenty-first period.

### 1) Business conditions and results

The Japanese economy during the 21st period (ended December 2016) continues to be on a moderate recovery trend against the backdrop of the pickup in consumer spending and continuation of strong corporate earnings as well as improvement in the employment situation although delay in improvement is also seen in some areas.

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

In the office building leasing market, tenant needs for floor area increase in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and asking rent levels are steadily improving. JEI has conducted leasing activities emphasizing rent levels and has promoted upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities of upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result of these efforts, the portfolio occupancy rate at the end of the current period stood at 99.0% (99.1% at the end of the previous period).

The total number of properties owned and managed by JEI at the end of the current period was 31 with total acquisition price of 286.9 billion yen and total leasable space of 362,304.64 m<sup>2</sup> (109,597.15 tsubo).

### 2) Fund raising highlights

JEI has conducted financial operations under the basic policies of extending borrowing periods, converting to fixed-rate loans and diversifying maturity dates. During the current period, interest rates decreased after the UK made the decision to leave the EU through a referendum vote, and an upward trend of interest rates has emerged due to depreciation of the yen, stock appreciation and bond depreciation following the US presidential election. However, keeping an eye on factors such as change in Japanese long-term interest rates due to the Bank of Japan’s attitude to control long-term interest rates, which have become clear since the end of September under the current period, JEI believes that the current medium-and-long-term interest rate levels won’t fluctuate largely for the time being. Thus, JEI raises funds mainly through combining medium-term borrowings with floating or fixed rates and issuance of long-term investment corporation bonds.

Loans of 11.5 billion yen made in line with the acquisition of Mansard Daikanyama in the beginning of July of the current period were refinanced through the public offering and short-term loans. With regard to the past borrowings which were due during the current period, these were refinanced with borrowings for 3 to 5 years. Furthermore, as for redemption of 5.0 billion yen of the 3rd Series Unsecured Investment Corporation Bonds for which maturity arrived, JEI issued 9th Series Unsecured Investment Corporation Bonds of 2.0 billion yen (10 years) and 10th Series Unsecured Investment Corporation Bonds of 2.0 billion yen (7 years), and refinanced 4.0 billion yen in total with the investment corporation bonds, as well as procured the remaining 1.0 billion yen through short-term loans. As such, JEI successfully reduced financing costs further.

As a result, the loan to value ratio to the total assets (total assets-based LTV) was 46.6%, the average remaining period of interest-bearing debts (Note 1) was 3.52 years and both long-term borrowing ratio (Note 2) and fixed rate ratio (Note 3) were 99.3% and 82.8%, reducing the period end average interest-bearing debt interest rate (Note 4) to 0.88%.

Total outstanding interest-bearing debts was 137.9 billion yen and of which, total outstanding investment corporation bonds stood at 29.0 billion yen.

JEI has commitment lines of 14.0 billion yen to reduce refinancing risk, enhance stability for fund procurement, etc.

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

(Ratings as of December 31, 2016)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 5)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Rating and Investment Information, Inc. (R&I)	Issuer rating A+ (Stable)	A+
Moody's Japan	Issuer rating A3 (Stable)	—

### 3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,653 million yen in operating revenue, 4,221 million yen in operating income, 3,407 million yen in ordinary income and 3,406 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,609 yen.

(Note 1) Average remaining period of interest-bearing debts = Remaining period of borrowings and investment corporation bonds before repayment dates and maturity dates as of the end of the period ÷ Balance of relevant borrowings and investment corporation bonds as of the end of the period (weighted average)

(Note 2) Long-term borrowing ratio = (long-term loans (including long-term loans due within one year) at the end of the period + investment corporation bonds (including investment corporation bonds due within one year) at the end of the period) / total interest-bearing debts at the end of the period x 100

(Note 3) Fixed rate ratio = Total interest-bearing debts at fixed interest rate at the end of the period (including long-term loans whose interest rates were fixed through interest rate swap transactions) / total interest-bearing debts at the end of the period x 100

(Note 4) The period end average interest-bearing debt interest rate is calculated by using a weighted-average of the interest at the end of the current period, by balance of respective interest-bearing debt with all the interest-bearing debts.

(Note 5) The rating of JCR is for the 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds and 10th series unsecured investment corporation bonds. The rating of R&I is for the 4th series unsecured investment corporation bonds.

### 3) Capital Increase

JEI carried out additional capital increase by public offering (37,500 units) on July 11, 2016, followed by issuance of investment units by third-party allotment (3,750 units) as a result of exercise of a greenshoe option by Mizuho Securities Co., Ltd. (the lead manager of the primary offering) on August 10, 2016, raising a total amount of 5,538 million yen in funds. The outline of the changes in the total number of outstanding investment units and unitholders' capital until the end of the period under review are as follows:

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

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

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

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

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

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

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

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

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

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

(Note 10) With December 31, 2013 as the record date, JEI implemented a 5-for-1 split of its investment units held by Unitholders

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stated or recorded on that date's final unitholder registry with January 1, 2014 as the effective date.

- (Note 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the sixteenth period.
- (Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.
- (Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the eighteenth period.
- (Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 15) New investment units were issued at an offer price of 138,742 yen per unit (issue price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the twenty-first period.
- (Note 16) New investment units were issued at an issue price of 134,259 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 17) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of the twenty-first 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)	17th period (December 2014)	18th period (June 2015)	19th period (December 2015)	20th period (June 2016)	21st period (December 2016)
	Highest (yen)	164,700	168,400	141,900	161,000	149,200
	Lowest (yen)	133,400	141,400	122,400	123,200	132,900

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

**(4) Distributions Paid**

The distribution per unit for the period (the 21st period) was 2,609 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	17th period	18th period	19th period	20th period	21st period
Accounting period	July 1, 2014 to December 31, 2014	January 1, 2015 to June 30, 2015	July 1, 2015 to December 31, 2015	January 1, 2016 to June 30, 2016	July 1, 2016 to December 31, 2016
Unappropriated retained earnings at end of period (Thousands of yen)	3,040,640	3,098,080	3,385,019	3,113,717	3,406,981
Retained income (Thousands of yen)	275	717	261,241	641	409
Total cash distribution amount (Thousands of yen)	3,040,364	3,097,363	3,161,125	3,113,075	3,406,571
(Cash distributions per unit) (yen)	(2,507)	(2,554)	(2,500)	(2,462)	(2,609)
Of which, total profit distributions (Thousands of yen)	3,040,364	3,097,363	3,161,125	3,113,075	3,406,571
(Profit distribution per unit) (yen)	(2,507)	(2,554)	(2,500)	(2,462)	(2,609)
Total refund of investment equity	—	—	—	—	—
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)



Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	-	-	-	-	-
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(-)	(-)	(-)	(-)	(-)

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

### 1) Outlook for investment environment

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

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

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

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to promptly gain access to market information on disposition of properties and thereby keep seizing the right business opportunities. Furthermore, Mansard Daikanyama acquired in the current period is a property developed by the sponsor.

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

Regarding financial operations, while fund procurement for long-term and with fixed interest rates will remain as our basic policies, JEI will consistently work on stable and sound financial operations. However, JEI believes that flexible fund procurement through short-term borrowings with floating interest rates might be an option while carefully monitoring change in long-term borrowing ratio and fixed rate ratio, and taking into account the trend of financial environment, interest rate levels for relevant terms and the balance of maturing debts in each fiscal period.

## **(6) Subsequent Events**

None

## 2. Outline of the Investment Corporation

### (1) Investment units

Fiscal period	17th As of December 31, 2014	18th As of June 30, 2015	19th As of December 31, 2015	20th As of June 30, 2016	21st As of December 31, 2016
Total number of units authorized	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	1,212,750 units	1,212,750 units	1,264,450 units	1,264,450 units	1,305,700 units
Unitholders' capital	127,950 million yen	127,950 million yen	134,434 million yen	134,434 million yen	139,972 million yen
Number of unitholders	7,917 individuals	7,848 individuals	8,465 individuals	7,686 individuals	7,850 individuals

### (2) Unitholders

Major unitholders as of December 31, 2016 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	350,343	26.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	143,145	10.96
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	104,473	8.00
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.48
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	52,434	4.02
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.58
STATE STREET BANK AND TRUST COMPANY 505012	ONE LINCOLN STREET, BOSTON MA USA 02111	18,352	1.41
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	16,774	1.28
STATE STREET BANK AND TRUST COMPANY 505223	P. O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A.	16,144	1.24
CBNY DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	388 GREENWICH STREET, NEW YORK, NY 10013 USA	14,621	1.12
Total		808,506	61.92

### (3) Officers

#### 1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2016 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	19,200 (Note 2)

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

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the fee for the English financial statements audit and the preparation of a comfort letter upon the issuance of new investment units conducted in July 2016, etc.

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

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

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

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

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

Our asset management company, asset custodian and administrative agents as of December 31, 2016 are as follows:

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

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	20th Period (June 30, 2016)		21st Period (December 31, 2016)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,800	1.3	3,808	1.3
		Area II	5,708	2.0	5,645	1.9
Area I		104,962	37.0	116,091	39.2	
Area II		9,132	3.2	9,107	3.1	
Area III		102,342	36.1	102,242	34.5	
Area IV		18,995	6.7	18,896	6.4	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,308	6.5	18,166	6.1
Total			263,249	92.8	273,958	92.5
Deposits in bank and other assets			20,404	7.2	22,122	7.5
Total assets			283,653	100.0	296,081	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

## (2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2016 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 (%)	Major use
Kowa Kawasaki Nishiguchi Building	28,989	38,375.66	38,049.02	99.1	8.7	Office building
AKASAKA INTERCITY	27,253	11,021.03	11,021.03	100.0	5.5	Office building
Nisseki Yokohama Building	24,382	40,440.73	39,748.67	98.3	10.7	Office building
Akasaka Garden City	22,321	8,769.53	8,769.53	100.0	3.7	Office building
Omori Bellport D	21,154	25,801.66	25,801.66	100.0	8.8	Office building
HAMARIKYU INTERCITY	18,166	19,718.11	19,388.91	98.3	6.7	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,743	25,159.49	25,159.49	100.0	7.5	Office building
Mansard Daikanyama	11,475	5,420.80	5,278.26	97.4	2.8	Office building
Daiba Garden City Building	10,145	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,565	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	186,198	205,442.58	203,952.14	99.3	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2016. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of December 31, 2016. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2016.

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

### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31, 2016 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)
□-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	25,400	21,154
□-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,600	8,883
□-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,210	8,288
□-7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,600	22,321
□-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,600	27,253
□-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	4,990	4,802
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,300	10,145
□-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	22,300	18,166
□-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,960	1,765
□-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,000	3,808
□-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	12,000	11,475
Area I				144,960	138,066
□-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,710	5,645
□-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,570	7,242
□-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,090	1,865
Area II				12,370	14,753
□-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	19,500	12,743
□-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,260	9,565
□-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,680	5,126
□-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,110	4,413
□-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,740	1,012
□-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,160	2,271
□-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,910	5,835
□-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,300	28,989
□-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,330	1,656
□-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	8,020	6,244
□-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	25,800	24,382
Area III				105,810	102,242
□-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,060	3,026
□-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,150	2,636
□-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,630	5,274
□-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,360	2,191
□-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,070	4,304
□-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,470	1,462
Area IV				23,740	18,896
Total				286,880	273,958

(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, 2016 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	20th Period January 1, 2016 to June 30, 2016				21st Period July 1, 2016 to December 31, 2016			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	99.6	929	9.1	1	100.0	938	8.8
I -2	Shiba 2-Chome Building	2	99.2	372	3.6	2	100.0	373	3.5
I -3	JEI Hamamatsucho Building	1	100.0	208	2.0	1	100.0	210	2.0
I -7	Akasaka Garden City	1	100.0	379	3.7	1	100.0	395	3.7
I -8	AKASAKA INTERCITY	14	100.0	549	5.4	14	100.0	581	5.5
I -9	Kowa Shirokanedai Building	1	100.0	161	1.6	1	100.0	165	1.6
I -10	Daiba Garden City Building	1	100.0	334	3.3	1	100.0	334	3.1
I -12	HAMARIKYU INTERCITY	1	98.5	720	7.0	1	98.3	713	6.7
I -13	Shintomicho Building	10	95.4	68	0.7	11	100.0	69	0.7
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
I -15	Mansard Daikanyama	-	-	-	-	7	97.4	299	2.8
Area I		38	99.5	-	-	46	99.6	-	-
II -1	NHK Nagoya Housou-Center Building	31	95.1	370	3.6	31	95.3	372	3.5
II -2	JEI Nishi-Honmachi Building	1	100.0	193	1.9	1	100.0	196	1.8
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	83	0.8
Area II		33	97.8	-	-	33	97.9	-	-
III -1	Musashikosugi Tower Place	37	100.0	789	7.7	37	100.0	797	7.5
III -2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -5	Kawasaki Nisshincho Building	1	100.0	190	1.9	1	100.0	191	1.8
III -6	No. 44 Kowa Building	1	100.0	85	0.8	1	100.0	88	0.8
III -7	JEI Ryogoku Building	1	97.8	103	1.0	1	100.0	104	1.0
III -8	Ebina Prime Tower	36	98.6	421	4.1	37	98.8	413	3.9
III -9	Kowa Kawasaki Nishiguchi Building	1	98.7	924	9.0	1	99.1	923	8.7
III -10	Pacific Square Sengoku	9	95.5	49	0.5	9	95.5	49	0.5
III -11	Core City Tachikawa	1	98.5	324	3.2	1	98.5	309	2.9
III -12	Nisseki Yokohama Building	1	99.7	1,129	11.0	1	98.3	1,134	10.7
Area III		90	99.3	-	-	91	99.1	-	-
IV -2	JEI Kyobashi Building	1	94.3	159	1.6	1	91.8	166	1.6
IV -3	JEI Hiroshima Hacchobori Building	1	98.9	144	1.4	1	98.2	149	1.4
IV -4	SE Sapporo Building	1	100.0	354	3.5	1	99.2	369	3.5
IV -5	Aoba-dori Plaza	53	99.4	183	1.8	53	99.4	188	1.8
IV -6	Daiwa Minami-morimachi Building	10	100.0	196	1.9	10	100.0	198	1.9
IV -7	JEI Naha Building	1	100.0	73	0.7	1	95.8	74	0.7
Area IV		67	98.8	-	-	67	97.6	-	-
Total		228	99.1	10,223	100.0	237	99.0	10,653	100.0

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

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

(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Floating interest rate receivable Fixed interest rate payable	60,140,000	46,140,000	—

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

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

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

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

#### 4. Capital Expenditures for Owned Properties

##### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 21st period (ended December 31, 2016). 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, 2016	Total of advance payment
SE Sapporo Building	Sapporo-shi, Hokkaido	Renewal of common space	From February 2017 To June 2017	203	—	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (5/5th term)	From January 2017 To March 2017	91	—	—
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renewal of air conditioners in lower floors	From July 2016 To March 2017	62	—	—
JEI Nishi-honmachi Building	Osaka-shi, Osaka	Renewal of heat source chiller	From April 2017 To May 2017	42	—	—
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Replacement of integrating electricity meter	From October 2016 To March 2017	36	—	—

##### (2) Capital Expenditures for the Six months Ended December 31, 2016

The following table shows constructions conducted by JEI during the period ended December 2016 and expensed as capital expenditures. Capital expenditures for the period ended December 2016 were 1,294 million yen and, when combined with repairs and maintenance costs of 267 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,561 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Renewal of air-conditioning systems	From April 2015 To October 2016	514
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (4/5th term)	From July 2016 To December 2016	117
Ebina Prime Tower	Ebina-shi, Kanagawa	Renewal of central monitoring equipment	From March 2016 To December 2016	98
JEI Naha Building	Naha-shi, Okinawa	Renewal of common space	From July 2016 To December 2016	55
Other constructions			—	509
Total				1,294

### (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	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015	20th Period January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016
Reserved funds at beginning of period	368	316	317	310	436
Increase	80	119	65	619	675
Decrease	132	118	72	492	662
Reserved funds at the end of period	316	317	310	436	450

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

(Unit: Thousands of yen)

Account	20th Period January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016
(a) Asset management fees	424,387	442,497
(b) Custodian fees	21,211	21,155
(c) Administrative service fees	41,178	40,025
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	81,125	61,502
Total	585,442	582,721

## (2) Borrowings

Borrowings by each financing source as of the end of the 21st period (ended December 31, 2016) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Short-term loans	Nippon Life Insurance Company	December 10, 2015	1,000,000	—	0.26148	December 10, 2016	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed	
	Mizuho Bank, Ltd. (Note 2)	November 2, 2016	—	1,000,000	0.23000	September 29, 2017		Redemption of investment corporation bonds		
Sub Total			1,000,000	1,000,000						
Long-term Loans due within one year	Mitsui Sumitomo Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	—	1.24375 (Note 3)	November 29, 2016	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Sumitomo Mitsui Banking Corporation		1,080,000	—						
	Mitsubishi UFJ Trust and Banking		540,000	—						
	Mizuho Bank, Ltd.		520,000	—						
	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	2,000,000	1.24750 (Note 3)	January 31, 2017				
	Mitsubishi UFJ Trust and Banking		1,500,000	1,500,000						
	Sumitomo Mitsui Banking Corporation		1,500,000	1,500,000						
	Mizuho Bank, Ltd.	July 31, 2012	1,500,000	1,500,000	1.03000 (Note 3)					
	Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000						
	Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000						
	Sompo Japan Nipponkoa Insurance Inc.	July 31, 2012	2,000,000	2,000,000	1.09734 (Note 3)					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	November 30, 2010	—	6,000,000	1.73875 (Note 3)					November 30, 2017
	Mizuho Bank, Ltd.	July 31, 2012	—	1,000,000	1.08375 (Note 3)					
	Mitsubishi UFJ Trust and Banking		—	1,000,000						
	Sumitomo Mitsui Banking Corporation		—	1,000,000						
	Mizuho Bank, Ltd.	June 28, 2013	—	1,000,000	1.04550 (Note 3)					
	Aozora Bank, Ltd.		—	500,000						
	Resona Bank, Ltd.		—	500,000						
	Sompo Japan Nipponkoa Insurance Inc.		—	500,000						
Tokio Marine & Nichido Fire Insurance Co., Ltd.	June 28, 2013	—	500,000	1.19212 (Note 3)						
Tokio Marine & Nichido Fire Insurance Co., Ltd.		—	500,000							
Sub Total			15,760,000	24,000,000						

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Development Bank of Japan Inc.	November 30, 2010	6,000,000	—	1.73875 (Note 3)	November 30, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	—	1.08375 (Note 3)				
	Mitsubishi UFJ Trust and Banking		1,000,000	—					
	Sumitomo Mitsui Banking Corporation		1,000,000	—					
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	—	1.04550 (Note 3)				
	Aozora Bank, Ltd.		500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Sompo Japan Nipponkoa Insurance Inc.		500,000	—					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	—					
	Mizuho Bank, Ltd.	November 29, 2016	—	1,500,000	0.23000				
	Mitsubishi UFJ Trust and Banking		—	2,500,000					
	Sumitomo Mitsui Banking Corporation		—	2,000,000					
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125 (Note 3)	June 29, 2018			
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225 (Note 3)	June 30, 2018			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Resona Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka		700,000	700,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Norinchukin Bank		1,450,000	1,450,000					
	Mizuho Bank, Ltd.	March 11, 2014	850,000	850,000	0.74500 (Note 3)	November 1, 2018			
	Mitsubishi UFJ Trust and Banking		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	The Norinchukin Bank		1,450,000	1,450,000					
	Mizuho Bank, Ltd.		850,000	850,000					
Mitsubishi UFJ Trust and Banking	850,000		850,000						
Mizuho Trust & Banking Co., Ltd.	600,000		600,000						
Nippon Life Insurance Company	December 12, 2016	—	1,000,000	0.25000 (Note 3)	December 12, 2019				
Mitsubishi UFJ Trust and Banking	June 29, 2016	4,600,000	4,600,000	0.28120	December 30, 2019				
Mizuho Trust & Banking Co., Ltd.		4,400,000	4,400,000						
Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000						

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 3)	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 3)				
	Mitsubishi UFJ Trust and Banking		500,000	500,000					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000	1.31261 (Note 3)				
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000					
	The Norinchukin Bank	December 27, 2013	1,162,500	1,162,500	1.00000 (Note 3)				
	Mizuho Bank, Ltd.		675,000	675,000					
	Mitsubishi UFJ Trust and Banking		675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500					
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 3)	June 30, 2021			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 3)	November 29, 2021			
	Mizuho Bank, Ltd.	November 29, 2016	—	520,000	0.40727				
	Mitsubishi UFJ Trust and Banking		—	540,000					
	Sumitomo Mitsui Banking Corporation		—	1,080,000					
	Sumitomo Mitsui Trust Bank Limited		—	1,620,000					
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.81875 (Note 3)	December 30, 2021			
	Mizuho Bank, Ltd.		1,950,000	1,950,000					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000					
	Resona Bank, Ltd.		600,000	600,000					
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 3)	June 30, 2022			
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.93625 (Note 3)	December 30, 2022			
	Mizuho Bank, Ltd.		1,950,000	1,950,000					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000					
	Resona Bank, Ltd.		600,000	600,000					
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 3)	June 30, 2023			
	Mizuho Trust & Banking Co., Ltd.	November 30, 2015	1,560,000	1,560,000	0.84375 (Note 3)	November 30, 2023			
	The Norinchukin Bank		1,500,000	1,500,000					
	Aozora Bank, Ltd.		750,000	750,000					
	Resona Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.		420,000	420,000					
	Mitsubishi UFJ Trust and Banking		250,000	250,000					
The Bank of Fukuoka	150,000		150,000						
Sumitomo Mitsui Banking Corporation	140,000		140,000						
Mizuho Trust & Banking Co., Ltd.	1,560,000		1,560,000						
Resona Bank, Ltd.	1,000,000		1,000,000						
Mizuho Bank, Ltd.	November 30, 2015	870,000	870,000	0.96275 (Note 3)	November 30, 2024				
Aozora Bank, Ltd.		750,000	750,000						
Mitsubishi UFJ Trust and Banking		590,000	590,000						
Sumitomo Mitsui Banking Corporation		350,000	350,000						
The Bank of Fukuoka		150,000	150,000						
Sub Total		85,140,000	83,900,000						
Total		101,900,000	108,900,000						



- (Note 1) The average interest rates are calculated using a weighted-average of the loan balance during the period. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted average rate adjusting the effect of the interest rate swaps.
- (Note 2) Conducted debt financing of 3,000,000 thousand yen on November 2, 2016 and partial early repayment of 2,000,000 thousand yen on December 30, 2016.
- (Note 3) Loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2016 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks	
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	—	1.01000	November 4, 2016	Lump-sum	(Note 1)	(Note 5)	
4th series unsecured investment corporation bonds		2,000,000	2,000,000	1.40000	November 2, 2018				
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000			(Note 2)		
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2019		(Note 3)		
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024				
8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)		
9th series unsecured investment corporation bonds	October 27, 2016	—	2,000,000	0.45000	October 27, 2026		(Note 4)		
10th series unsecured investment corporation bonds	December 20, 2016	—	2,000,000	0.39000	December 20, 2023		(Note 2)		
Total		30,000,000	29,000,000						

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

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

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

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

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

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

None

### (5) Subscription rights for New Investment Units

None

## 6. Condition of Investment Transactions

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

(millions of yen)

Type of assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price <sup>(Note)</sup>	Transfer date	Transfer amount	Net book value	Gain (loss) on transfer
Trust beneficiary interest in real estate	Mansard Daikanyama	July, 1, 2016	11,420	—	—	—	—
Total		—	11,420	—	—	—	—

(Note) The acquisition price indicate the amounts excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition, thus are the purchase amounts of real estate stated in the trust beneficiary interest purchase agreements

### (2) Transactions of Other Assets

None

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

1) Real estate, etc.

(millions of yen)

Acquisition or Transfer	Name of property	Type of assets	Acquisition date	Acquisition price <sup>(Note)</sup>	Appraisal Value	Appraiser	Appraisal Date
Acquisition	Mansard Daikanyama	Trust beneficiary interest in real estate	July, 1, 2016	11,420	11,600	Japan Real Estate Institute	May 1, 2016

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

2) Others

None

### (4) Transactions with Interested Parties

1) Transactions

(Unit: Million yen)

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	11,420	—
Breakdown for transactions with interested parties		
YK Daikanyama Challengers	11,420 (100.0%)	— (—%)
Total	11,420 (100.0%)	— (—%)

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

## 2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,422,920	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	175,112	12.3%
		Kowa Real Estate Facilities, Co., Ltd.	271,313	19.1%
		Nippon Steel Community Service Co., Ltd.	88	0.0%
Property transaction brokerage fees	57,100	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	57,100	100.0%
Total	1,480,020	–	503,613	34.0%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended December 31, 2016.

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

NIPPON STEEL KOWA REAL ESTATE CO., LTD. 5,618 thousand yen  
KOWA REAL ESTATE FACILITIES CO., LTD. 132,423 thousand yen

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

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

## 7. Accounting

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

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

### (2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

## 8. Others

### (1) Notice

#### 1) General unitholders' meeting

There were no applicable items during the period.

#### 2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended December 31, 2016 is summarized below.

Approval date	Approved agenda	Description
July 4, 2016	Conclusion of new investment units underwriting agreement (agreement for entrustment of general administrative duties concerning offering of investment units)	With issuance of new investment units, an underwriting agreement for the new investment units was concluded with Mizuho Securities Co., Ltd., Nomura Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., SMBC Nikko Securities Inc. and Mito Securities Co., Ltd., entrusting them with general administrative duties concerning the offering of investment units.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

### (4) Other

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

## 9. Risk Factors

An investment in JEI's units involves significant risks. The principal risks with respect to investment in JEI are as follows.

### Property and Business Risks

- Any adverse conditions in the Japanese economy could adversely affect JEI.
- JEI may not be able to acquire properties to execute its growth and investment strategy in a manner that is accretive to earnings.
- Illiquidity in the real estate market may limit JEI's ability to grow or adjust its portfolio.
- The past experience of the Asset Management Company in the Japanese real estate market is not an indicator or guarantee of the future results.
- JEI's reliance on the core sponsors, the Asset Management Company and third party service providers could have a material adverse effect on its business.
- There are potential conflicts of interest between JEI and the core sponsors as well as the Asset Management Company.
- JEI's revenues largely comprise leasing revenues from the portfolio properties, which may be negatively affected by factors including vacancies, decreases in rent, and late or missed payments by tenants.
- JEI invests primarily in office properties, the market for which may be affected by macro-economic trends and other forces which JEI cannot control.
- JEI faces significant competition in seeking tenants and it may be difficult to find replacement tenants.
- Increases in prevailing market interest rates may increase JEI's interest expense and may result in a decline in the market price of JEI's units.
- JEI may suffer large losses if any of its properties incurs damage from a natural or man-made disaster such as an earthquake, fire, flood, tsunami or typhoon.
- Due to the concentration of JEI's portfolio in the Tokyo metropolitan area, JEI's business is highly susceptible to circumstances and developments that may adversely impact that area.
- Any inability to obtain financing for future acquisitions could adversely affect the growth of JEI's portfolio.
- The ownership rights in some of JEI's properties may be declared invalid or limited.
- JEI's lack of control over operating costs may adversely affect its business.
- Liquidity and other limitations on JEI's activities under debt financing arrangements may adversely affect its business, financial condition and results of operations.
- Entering into forward commitment contracts or contracts to purchase properties under development may expose JEI to contractual penalties and market risks.
- Decreases in tenant leasehold deposits and/or security deposits may increase JEI's funding costs.
- JEI may lose rental revenues in the event of lease terminations, decreased lease renewals, or the default of a tenant as a result of financial difficulty or insolvency, and is exposed to the risk of careless or imprudent management of properties by tenants.
- Master leases may give rise to certain risks.
- JEI's cost of complying with regulations applicable to its properties could adversely affect the results of its operations.
- Any property defect may adversely affect JEI's financial condition and results of operations.
- JEI relies on expert appraisals and engineering, environmental and seismic reports, which are subject to significant uncertainties.
- JEI relies on industry and market data that are subject to significant uncertainties.

- The environmental assessments of JEI’s properties made prior to its ownership may not uncover all environmental liabilities, and Japanese laws subject property owners to strict environmental liabilities.
- JEI’s performance depends on the efforts of key personnel of the Asset Management Company.
- JEI’s success depends on the performance of service providers to which it is required to assign various key functions.
- J-REITs and its asset managers are subject to tight supervision by the regulatory authorities.

### **Taxation Risks**

- JEI’s failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify JEI from certain taxation benefits and significantly reduce the cash distributions to the unitholders.
- If the Japanese tax authorities disagree with our interpretations of the Japanese tax laws and regulations for prior periods, JEI may be forced to pay additional taxes for those periods.
- JEI may not be able to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs.
- Changes in Japanese tax laws may significantly increase JEI’s tax burden.
- JEI expects to be treated as a “passive foreign investment company” for U.S. federal income tax purposes.
- Unitholders may be subject to U.S. Foreign Account Tax Compliance Act (FATCA) withholding tax after 2018.

### **Legal and Regulatory Risks**

- JEI’s ownership rights in some of its properties may be declared invalid or limited.
- JEI may lose its rights in a property if the purchase of the property is recharacterized as a secured financing.
- JEI’s leasehold or subleasehold rights may be terminated or may not be asserted against a third party in some cases.
- JEI’s properties may be held in the form of stratified ownership (*kubun shoyū*) interests, and its rights relating to such properties may be affected by the intentions of other owners.
- JEI’s properties may be held in the form of a property or trust co-ownership interest (*kyōyū-mochibun*), and its rights relating to such properties may be affected by the intentions of other owners.
- JEI may hold interests in some properties through preferred shares of special purpose companies (*tokutei mokuteki kaisha*), and illiquidity in the market for such shares may limit its ability to sell its interest, and its rights relating to the properties held by such special purpose companies may be limited.
- JEI’s properties may be subject to preferential negotiation rights of others.
- JEI may hold interests in some properties through Japanese anonymous association (*tokumei kumiai*) agreements, and JEI’s rights relating to such properties may be limited.
- JEI owns all of its properties through trust beneficiary interests and may suffer losses as a trust beneficiary.
- There are important differences regarding the rights of unitholders in a J-REIT compared to those of shareholders in a corporation.
- The Alternative Investment Fund Managers Directive (AIFMD) may negatively affect JEI’s ability to market its units in the EEA and increase its compliance costs associated with the marketing of its units in the EEA.
- JEI’s units may be deemed to constitute “plan assets” for ERISA purposes, which may lead to the rescission of certain of its transactions, tax or fiduciary liability and JEI being held in violation of ERISA requirements.

**Financial Statements**

**Japan Excellent, Inc.**

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



## Independent Auditor's Report

The Board of Directors  
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 2016, 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, 2016, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

March 24, 2017  
Tokyo, Japan

# Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2016 and June 30, 2016

	<b>As of December 31, 2016</b>	<b>As of June 30, 2016</b>
	<i>(Thousands of yen)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents including trust accounts ( <i>Notes 4 and 5</i> )	20,096,382	18,373,960
Rental receivables	559,458	653,046
Consumption taxes refundable	58,187	–
Prepaid expenses and other current assets	183,753	149,155
Total current assets	<u>20,897,782</u>	<u>19,176,162</u>
Property and equipment ( <i>Note 7</i> ):		
Buildings and building improvements	5,849,052	5,820,683
Machinery and equipment	6,253	6,253
Furniture and fixtures	12,270	11,294
Land	3,032,788	3,032,788
Construction in progress	3,812	–
Buildings and building improvements for trust accounts	120,173,335	116,350,394
Machinery and equipment for trust accounts	772,751	737,708
Furniture and fixtures for trust accounts	193,087	179,032
Land for trust accounts	160,660,425	151,752,645
Construction in progress for trust accounts	55,969	203,425
Less: accumulated depreciation	(25,909,714)	(23,952,945)
Net property and equipment	<u>264,850,033</u>	<u>254,141,281</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	138	164
Leasehold rights for trust accounts	7,382,016	7,382,016
Other intangible assets for trust accounts	4,562	4,689
Total intangible assets	<u>9,108,325</u>	<u>9,108,477</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	705,216	739,930
Other assets	382,193	367,226
Total investments and other assets	<u>1,102,591</u>	<u>1,122,338</u>
Deferred assets:		
Investment corporation bond issuance costs	122,341	105,433
Total deferred assets	<u>122,341</u>	<u>105,433</u>
Total assets	<u><u>296,081,074</u></u>	<u><u>283,653,693</u></u>

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

	<b>As of December 31, 2016</b>	<b>As of June 30, 2016</b>
	<i>(Thousands of yen)</i>	
<b>Liabilities</b>		
Current liabilities:		
Accounts payable – trade	1,204,829	986,466
Short-term loans <i>(Notes 5 and 8)</i>	1,000,000	1,000,000
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	–	5,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	24,000,000	15,760,000
Accounts payable – other	434,187	439,906
Accrued expenses	182,273	187,327
Accrued corporation taxes	764	522
Accrued consumption taxes	–	98,318
Advances received	76,142	82,536
Other current liabilities	105	490
Total current liabilities	<u>26,898,303</u>	<u>23,555,567</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	29,000,000	25,000,000
Long-term debt <i>(Notes 5 and 8)</i>	83,900,000	85,140,000
Security deposits from tenants <i>(Note 5)</i>	733,092	740,329
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,909,335	11,408,901
Total long-term liabilities	<u>125,542,427</u>	<u>122,289,230</u>
Total liabilities	<u>152,440,731</u>	<u>145,844,798</u>
<b>Net assets <i>(Note 10)</i></b>		
Unitholders' equity:		
Unitholders' capital	139,972,885	134,434,701
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	260,476	260,476
Retained earnings	3,406,981	3,113,717
Total surplus	<u>3,667,457</u>	<u>3,374,193</u>
Total unitholders' equity	<u>143,640,343</u>	<u>137,808,895</u>
Total net assets	<u>143,640,343</u>	<u>137,808,895</u>
Total liabilities and net assets	<u>296,081,074</u>	<u>283,653,693</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, 2016 to December 31, 2016  
and from January 1, 2016 to June 30, 2016

	<b>For the period from July 1, 2016 to December 31, 2016</b>	<b>For the period from January 1, 2016 to June 30, 2016</b>
	<i>(Thousands of yen)</i>	
Revenues ( <i>Notes 13</i> ):		
Rental business revenues	9,702,024	9,351,939
Other	951,062	871,294
Total revenues	10,653,086	10,223,234
Operating expenses ( <i>Note 13</i> ):		
Property operating expenses	5,849,144	5,655,480
Asset management fees	442,497	424,387
Custodian fees	21,155	21,211
Administrative service fees	40,025	41,178
Compensation for directors	6,540	6,540
Other	72,502	92,125
Total operating expenses	6,431,865	6,240,922
Operating income	4,221,220	3,982,311
Other income:		
Interest income	158	1,985
Other	713	737
Other expenses:		
Interest expense	506,703	565,152
Loan arrangement fees	142,818	142,464
New investment unit issuance costs	13,965	17,451
Interest expense on investment corporation bonds	128,180	132,477
Amortization of investment corporation bond issuance costs	13,592	13,475
Other	9,699	225
Ordinary income	3,407,130	3,113,786
Income before income taxes	3,407,130	3,113,786
Income taxes ( <i>Note 12</i> ):		
Current	788	826
Deferred	1	7
Net income	3,406,339	3,112,951
Retained earnings at beginning of period	641	765
Retained earnings at end of period	3,406,981	3,113,717

*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, 2016 to December 31, 2016  
and from January 1, 2016 to June 30, 2016

<b>For the period from January 1, 2016 to June 30, 2016</b>							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>							
Balance as of December 31, 2015	<u>1,264,450</u>	<u>134,434,701</u>	<u>37,347</u>	<u>3,385,019</u>	<u>3,422,366</u>	<u>137,857,068</u>	<u>137,857,068</u>
Changes during the fiscal period:							
Reversal of reserve for reduction entry	-	-	(37,347)	37,347	-	-	-
Provision of reserve for reduction entry	-	-	260,476	(260,476)	-	-	-
Distributions from retained earnings	-	-	-	(3,161,125)	(3,161,125)	(3,161,125)	(3,161,125)
Net income	-	-	-	3,112,951	3,112,951	3,112,951	3,112,951
Total changes during the fiscal period	-	-	223,129	(271,302)	(48,173)	(48,173)	(48,173)
Balance as of June 30, 2016	<u>1,264,450</u>	<u>134,434,701</u>	<u>260,476</u>	<u>3,113,717</u>	<u>3,374,193</u>	<u>137,808,895</u>	<u>137,808,895</u>
<b>For the period from July 1, 2016 to December 31, 2016</b>							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>							
Balance as of June 30, 2016	<u>1,264,450</u>	<u>134,434,701</u>	<u>260,476</u>	<u>3,113,717</u>	<u>3,374,193</u>	<u>137,808,895</u>	<u>137,808,895</u>
Changes during the fiscal period:							
Issuance of new units	41,250	5,538,183	-	-	-	5,538,183	5,538,183
Distributions from retained earnings	-	-	-	(3,113,075)	(3,113,075)	(3,113,075)	(3,113,075)
Net income	-	-	-	3,406,339	3,406,339	3,406,339	3,406,339
Total changes during the fiscal period	41,250	5,538,183	-	293,264	293,264	5,831,447	5,831,447
Balance as of December 31, 2016	<u>1,305,700</u>	<u>139,972,885</u>	<u>260,476</u>	<u>3,406,981</u>	<u>3,667,457</u>	<u>143,640,343</u>	<u>143,640,343</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, 2016 to December 31, 2016  
and from January 1, 2016 to June 30, 2016

	<b>For the period from July 1, 2016 to December 31, 2016</b>	<b>For the period from January 1 2016 to June 30, 2016</b>
	<i>(Thousands of yen)</i>	
<b>Cash flows from operating activities</b>		
Income before income taxes	3,407,130	3,113,786
Depreciation and amortization	1,956,920	1,900,022
Amortization of investment corporation bond issuance costs	13,592	13,475
New unit issuance costs	13,965	17,451
Interest income	(158)	(1,985)
Interest expense	634,884	697,629
Decrease (increase) in rental receivables	93,587	142,435
Decrease (increase) in consumption taxes refundable	(58,187)	–
Decrease (increase) in prepaid expenses	(53,299)	31,235
Increase (decrease) in accounts payable – trade	75,659	(122,061)
Increase (decrease) in accounts payable – other	17,248	(14,170)
Increase (decrease) in unpaid consumption taxes	(98,318)	(432,059)
Increase (decrease) in advances received	(6,394)	5,434
Decrease (increase) in long-term prepaid expenses	34,713	35,956
Other, net	(39,653)	(39,142)
Subtotal	5,991,692	5,348,009
Interest received	158	1,985
Interest paid	(639,938)	(700,952)
Income taxes paid	(546)	(846)
Net cash provided by operating activities	5,351,365	4,648,194
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(8,933)	(10,356)
Purchases of property and equipment for trust accounts	(12,513,882)	(1,144,736)
Purchases of intangible assets for trust accounts	–	(2,150)
Proceeds from security deposits from tenants	6,369	6,133
Payments for security deposits to tenants	(13,607)	(749)
Proceeds from security deposits in trust accounts from tenants	680,893	180,575
Payments for security deposits in trust accounts to tenants	(143,788)	(113,030)
Net cash used in investing activities	(11,992,949)	(1,084,314)
<b>Cash flows from financing activities</b>		
Proceeds from short-term loans	14,500,000	–
Repayment for short-term loans	(14,500,000)	–
Proceeds from long-term debt	10,760,000	13,000,000
Repayment for long-term debt	(3,760,000)	(13,000,000)
Proceeds from issuance of investment corporation bonds	3,969,500	–
Payments for redemption of investment corporation bonds	(5,000,000)	–
Proceeds from issuance of investment units	5,506,766	–
Distributions to unitholders	(3,112,259)	(3,160,062)
Net cash provided by (used in) financing activities	8,364,006	(3,160,062)
Net increase (decrease) in cash and cash equivalents	1,722,422	403,817
Cash and cash equivalents at beginning of period	18,373,960	17,970,143
Cash and cash equivalents at end of period	20,096,382	18,373,960

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

# Japan Excellent, Inc.

## Notes to Financial Statements

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

### **1. Organization**

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2016, JEI held 31 properties with 362,304.64 square meters of total leasable space and had leases with 237 tenants excluding residential tenants.

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

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

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

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

**3. Summary of Significant Accounting Policies**

***Cash and cash equivalents***

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

***Property and equipment including trust accounts and trademark rights***

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

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

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

***Deferred assets***

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

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

***Income taxes***

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

***Consumption taxes***

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

***Property-related taxes***

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



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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. No property-related taxes were capitalized for the period from January 1, 2016 to June 30, 2016. The capitalized amount for the period from July 1, 2016 to December 31, 2016 was ¥27,726 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 against fluctuation risk in interest rates. JEI has therefore entered into certain interest-rate swap contracts in order to hedge the risk of variable rates for its long-term debt obligations.

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

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

#### *Properties in trust accounts*

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

### 4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at December 31, 2016 and June 30, 2016 consisted of the following:

	<b>As of, December 31, 2016</b>	<b>As of June 30, 2016</b>
	<hr/> <i>(Thousands of yen)</i> <hr/>	
Cash and cash deposits	3,790,935	2,962,118
Cash and deposits in trust	16,305,446	15,411,841
Cash and cash equivalents including trust accounts	<hr/> 20,096,382 <hr/>	<hr/> 18,373,960 <hr/>

## 5. Financial Instruments

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

### *Overview*

#### (1) Policy for Financial Instruments

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

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

##### (a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 82.8% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2016. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2016). Liquidity risk is also mitigated through the constant management of liquidity on hand.

## 5. Financial Instruments (continued)

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

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

#### *Fair value of financial instruments*

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

	As of December 31, 2016			As of June 30, 2016		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	3,790,935	3,790,935	–	2,962,118	2,962,118	–
(2) Cash and deposits in trust	16,305,446	16,305,446	–	15,411,841	15,411,841	–
Total assets	<u>20,096,382</u>	<u>20,096,382</u>	<u>–</u>	<u>18,373,960</u>	<u>18,373,960</u>	<u>–</u>
(3) Short-term loans (Note C)	1,000,000	1,000,000	–	1,000,000	1,000,000	–
(4) Investment corporation bonds due within one year (Note C)	–	–	–	5,000,000	5,015,900	15,900
(5) Long-term debt due within one year (Note C)	24,000,000	24,207,439	207,439	15,760,000	15,904,700	144,700
(6) Investment corporation bonds (Note C)	29,000,000	29,596,890	596,890	25,000,000	25,962,830	962,830
(7) Long-term debt (Note C)	83,900,000	85,175,932	1,275,932	85,140,000	87,359,510	2,219,510
Total liabilities	<u>137,900,000</u>	<u>139,980,262</u>	<u>2,080,262</u>	<u>131,900,000</u>	<u>135,242,941</u>	<u>3,342,941</u>
(8) Derivative transactions *	–	–	–	–	–	–

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

#### (Note A)

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

##### Assets

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

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

##### Liabilities

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

## 5. Financial Instruments (continued)

### (7) Long-term debt

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

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

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

### (4) Investment corporation bonds due within one year and

### (6) Investment corporation bonds

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

### (8) Derivative transactions

Please refer to Note 15, "Derivative Transactions."

### (Note B)

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

	<b>As of December 31, 2016</b>	<b>As of June 30, 2016</b>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	733,092	740,329
② Security deposits from tenants for trust accounts*	11,909,335	11,408,901

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

## 5. Financial Instruments (continued)

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

	As of December 31, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	3,790,935	–	–	–	–	–
Cash and deposits in trust	16,305,446	–	–	–	–	–
Total	20,096,382	–	–	–	–	–

	As of June 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	2,962,118	–	–	–	–	–
Cash and deposits in trust	15,411,841	–	–	–	–	–
Total	18,373,960	–	–	–	–	–

(Note C)

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

	As of December 31, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	1,000,000	–	–	–	–	–
Investment corporation bonds due within one year	–	–	–	–	–	–
Long-term debt due within one year	24,000,000	–	–	–	–	–
Investment corporation bonds	–	7,000,000	5,000,000	–	–	17,000,000
Long-term debt	–	23,750,000	17,750,000	8,600,000	13,510,000	20,290,000
Total	25,000,000	30,750,000	22,750,000	8,600,000	13,510,000	37,290,000

	As of June 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	1,000,000	–	–	–	–	–
Investment corporation bonds due within one year	5,000,000	–	–	–	–	–
Long-term debt due within one year	15,760,000	–	–	–	–	–
Investment corporation bonds	–	–	12,000,000	–	–	13,000,000
Long-term debt	–	26,000,000	7,500,000	21,600,000	4,000,000	26,040,000
Total	21,760,000	26,000,000	19,500,000	21,600,000	4,000,000	39,040,000

## 6. Investment and Rental Property

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

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of December 31, 2016 and June 30, 2016 for such real estate for lease.

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

  

Carrying value			Fair value
<b>As of January 1, 2016</b>	<b>Change during period<sup>(*2)</sup></b>	<b>As of June 30, 2016</b>	<b>As of June 30, 2016</b>
<i>(Thousands of yen)</i>			
264,252,146	(1,002,551)	263,249,595	272,170,000

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

B) Details of change during period:

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

(\*2) The decrease of ¥1,002,551 thousand during the period is mainly due to a decrease of ¥1,899,992 thousand for depreciation costs.

C) Fair value

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

## 7. Property and Equipment

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

	As of December 31, 2016			As of June 30, 2016		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	5,849,052	(1,165,549)	4,683,503	5,820,683	(1,078,656)	4,742,027
Machinery and equipment	6,253	(1,973)	4,279	6,253	(1,692)	4,561
Furniture and fixtures	12,270	(4,384)	7,885	11,294	(3,761)	7,533
Land	3,032,788	–	3,032,788	3,032,788	–	3,032,788
Construction in progress	3,812	–	3,812	–	–	–
Buildings and building improvements for trust accounts	120,173,335	(24,284,695)	95,888,639	116,350,394	(22,451,366)	93,899,028
Machinery and equipment for trust accounts	772,751	(346,901)	425,850	737,708	(319,724)	417,983
Furniture and fixtures for trust accounts	193,087	(106,209)	86,878	179,032	(97,744)	81,288
Land for trust accounts	160,660,425	–	160,660,425	151,752,645	–	151,752,645
Construction in progress for trust accounts	55,969	–	55,969	203,425	–	203,425
<b>Total</b>	<b>290,759,747</b>	<b>(25,909,714)</b>	<b>264,850,033</b>	<b>278,094,226</b>	<b>(23,952,945)</b>	<b>254,141,281</b>

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

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

	As of December 31, 2016		As of June 30, 2016	
	Amount	Weighted-average interest rate <sup>(*)</sup>	Amount	Weighted-average interest rate <sup>(*)</sup>
Short-term loans:	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured loans from an insurance company due on December 10, 2016	—	—	1,000,000	0.26455%
Unsecured loans from a bank due on September 29, 2017 <sup>(*)</sup>	1,000,000	0.23000%	—	—
Subtotal	1,000,000		1,000,000	
Long-term debt due within one year:				
Unsecured loans from banks due on November 29, 2016	—	—	3,760,000	1.24375% <sup>(*)</sup>
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% <sup>(*)</sup>	5,000,000	1.24750% <sup>(*)</sup>
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% <sup>(*)</sup>	4,000,000	1.03000% <sup>(*)</sup>
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% <sup>(*)</sup>	3,000,000	1.09734% <sup>(*)</sup>
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% <sup>(*)</sup>	—	—
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% <sup>(*)</sup>	—	—
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% <sup>(*)</sup>	—	—
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% <sup>(*)</sup>	—	—
Subtotal	24,000,000		15,760,000	
Long-term debt:				
Unsecured loans from a bank due on November 30, 2017	—	—	6,000,000	1.73875% <sup>(*)</sup>
Unsecured loans from banks due on November 30, 2017	—	—	3,000,000	1.08375% <sup>(*)</sup>
Unsecured loans from banks due on November 30, 2017	—	—	2,000,000	1.04550% <sup>(*)</sup>
Unsecured loans from insurance companies due on November 30, 2017	—	—	1,000,000	1.19212% <sup>(*)</sup>
Unsecured loans from banks due on May 29, 2018	6,000,000	0.23000%	—	—
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% <sup>(*)</sup>	3,000,000	1.65125% <sup>(*)</sup>
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% <sup>(*)</sup>	11,000,000	0.81225% <sup>(*)</sup>
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% <sup>(*)</sup>	3,750,000	0.74500% <sup>(*)</sup>
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% <sup>(*)</sup>	3,750,000	0.77500% <sup>(*)</sup>
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% <sup>(*)</sup>	—	—
Unsecured loans from banks due on December 30, 2019	13,000,000	0.28120%	13,000,000	0.28364%
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% <sup>(*)</sup>	2,000,000	1.60000% <sup>(*)</sup>
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% <sup>(*)</sup>	2,600,000	1.36400% <sup>(*)</sup>
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% <sup>(*)</sup>	1,000,000	1.31261% <sup>(*)</sup>
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% <sup>(*)</sup>	3,000,000	1.00000% <sup>(*)</sup>
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% <sup>(*)</sup>	2,000,000	1.60750% <sup>(*)</sup>
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% <sup>(*)</sup>	2,000,000	0.98834% <sup>(*)</sup>
Unsecured loans from banks due on November 29, 2021	3,760,000	0.40727%	—	—
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% <sup>(*)</sup>	5,750,000	0.81875% <sup>(*)</sup>
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% <sup>(*)</sup>	2,000,000	1.15417% <sup>(*)</sup>
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% <sup>(*)</sup>	5,750,000	0.93625% <sup>(*)</sup>
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% <sup>(*)</sup>	2,000,000	1.20250% <sup>(*)</sup>
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% <sup>(*)</sup>	5,270,000	0.84375% <sup>(*)</sup>
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% <sup>(*)</sup>	5,270,000	0.96275% <sup>(*)</sup>
Subtotal	83,900,000		85,140,000	
Total	108,900,000		101,900,000	



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

- (\*1) The weighted-average interest rate is weighted-average figures during the period. As for the borrowings hedged by interest-rate swaps for the purpose of mitigating interest rate fluctuation risk, the fixed interest rates after entering into the interest rate swap transactions are used to calculate the weighted-average interest rate.
- (\*2) JEI borrowed ¥3,000,000 thousand on November 2, 2016 and made a partial early repayment of this borrowing in the amount of ¥2,000,000 thousand on December 30, 2016.
- (\*3) These are fixed-rate debt (incl. fixed-rate debt through each interest-rate swap agreement).

The scheduled repayment amounts of long-term debt as of December 31, 2016 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Long-term debt	24,000,000	23,750,000	17,750,000	8,600,000	13,510,000	20,290,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2016, these commitment lines have never been utilized.

## 9. Investment Corporation Bonds

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

	As of December 31, 2016		As of June 30, 2016	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
Unsecured bond #3 due on November 4, 2016	—	—	5,000,000	1.01000%
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	—	—
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	—	—
Total	29,000,000		30,000,000	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2016 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Investment corporation bonds	—	7,000,000	5,000,000	—	—	17,000,000

## 10. Net Assets

In accordance with the Investment Trust Law, JEI issues only non-par value investment units and maintains net assets of at least ¥50,000 thousand.

## 11. Per Unit Information

Net assets per unit as of December 31, 2016 and June 30, 2016 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,264,450 units), respectively.

Net income per unit for the periods from July 1, 2016 to December 31, 2016 and January 1, 2016 to June 30, 2016 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,302,847 units) and (1,264,450 units), respectively.

Accordingly, net assets per unit were ¥110,010 as of December 31, 2016 and ¥108,987 as of June 30, 2016. Net income per unit was ¥2,614 for the period from July 1, 2016 to December 31, 2016 and ¥2,461 for the period from January 1, 2016 to June 30, 2016.

## 12. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of December 31, 2016 and June 30, 2016 are summarized as follows:

	<b>As of December 31, 2016</b>	<b>As of June 30, 2016</b>
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	8	10
Total deferred tax assets	8	10
Net deferred tax assets	8	10

## 12. Income Taxes (continued)

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

	<b>For the period from July 1, 2016 to December 31, 2016</b>	<b>For the period from January 1, 2016 to June 30, 2016</b>
Statutory tax rate	31.74%	32.31%
Reconciliation:		
Deductible distributions paid	(31.73)	(32.30)
Other	0.02	0.02
Effective tax rate	<u>0.02%</u>	<u>0.03%</u>

## 13. Breakdown of Revenues and Expenses

	<b>For the period from July 1, 2016 to December 31, 2016</b>	<b>For the period from January 1, 2016 to June 30, 2016</b>
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	7,969,256	7,622,816
Common area revenues	1,459,895	1,468,259
Other rental revenues	272,872	260,863
Subtotal	9,702,024	9,351,939
Other		
Utilities revenues	838,617	766,000
Other revenues	112,444	105,293
Subtotal	951,062	871,294
Total rental revenues	<u>10,653,086</u>	<u>10,223,234</u>
Property operating expenses:		
Property management costs and fees	1,422,920	1,423,291
Utilities expenses	1,064,241	1,044,708
Property and other taxes	891,506	835,657
Insurance	25,281	24,644
Repairs and maintenance	267,395	195,748
Depreciation	1,956,895	1,899,992
Other	220,903	231,438
Total property operating expenses	<u>5,849,144</u>	<u>5,655,480</u>
Profit	<u>4,803,941</u>	<u>4,567,754</u>

The account items “Rental revenues”, “Common area revenues”, and “Other rental revenues” (associated with rental revenues), which were included within “Rental revenues” in the financial statements up to the period from January 1, 2016 to June 30, 2016 are presented separately effective the period from July 1, 2016 to December 31, 2016 to improve the clarity of the disclosure.

These account items have been reclassified for the previous fiscal period in order to reflect this change in presentation.

### 13. Breakdown of Revenues and Expenses (continued)

As a result, the ¥9,351,939 thousand in the statement of income and retained earnings for the period from January 1, 2016 to June 30, 2016 previously recognized as “Rental revenues” under “Rental business revenues” in the above table was reclassified as “Rental revenues” of ¥7,622,816 thousand, “Common area revenues” of ¥1,468,259 thousand, and “Other rental revenues” of ¥260,863 thousand. In addition, the ¥871,294 thousand presented as “Other” was reclassified as “Utilities revenues” of ¥766,000 thousand and “Other revenues” of ¥105,293 thousand.

### 14. Leases

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

	<b>As of December 31, 2016</b>	<b>As of June 30, 2016</b>
	<i>(Thousands of yen)</i>	
Due within one year	845,244	150,182
Due after one year	899,010	628,373
Total	1,744,254	778,555

### 15. Derivative Transactions

#### Derivative Transactions as of December 31, 2016

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

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2016 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	60,140,000	46,140,000	*	/

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

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

## 15. Derivative Transactions (continued)

### Derivative Transactions as of June 30, 2016

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

Not applicable.

- (2) Transactions to which hedge accounting is applied

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2016 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	63,900,000	51,140,000	*	/

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

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

## 16. Related Party Transactions

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

- (1) Parent Company and Major Corporate Unitholders

Not applicable.

- (2) Subsidiaries and Affiliated Companies

Not applicable.

- (3) Sister Companies

Not applicable.

- (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,497	Accounts payable	360,428

## 16. Related Party Transactions (continued)

**For the period from January 1, 2016 to June 30, 2016**

(1) Parent Company and Major Corporate Unitholders

Not applicable.

(2) Subsidiaries and Affiliated Companies

Not applicable.

(3) Sister Companies

Not applicable.

(4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	424,387	Accounts payable	341,988

## 17. Segment Information

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

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

### *Information about products and services*

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

### *Information about geographic area*

(1) Revenues

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

(2) Property and equipment

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

### *Information about major clients*

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

## **18. Distribution Information**

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,406,571,300, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,406,981,184, which is the amount of retained earnings at December 31, 2016. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 16, 2016, the Board of Directors approved a resolution to make a cash distribution of ¥2,609 per unit aggregating to ¥3,406,571,300 to unitholders of record as of December 31, 2016.

## **19. Significant Subsequent Event**

Not applicable.