

Asset Management Report for the 29th Period

(Semi-Annual Report for the 29th Period)

From July 1, 2020, to December 31, 2020



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 29th period (from July 1, 2020, to December 31, 2020).

During the 29th period, the asset replacement that we worked on over three periods under the aim of improving portfolio quality was completed, marking a record-high unrealized gain of 62.6 billion yen.

On the leasing front, the occupancy rate of the entire portfolio resulted in a level almost as planned at 98.0%, and as for rent revision, we realized upward rent revision of +3.5%, which exceeded our plan, for 41.7% of the area subject to rent revision.

On the financial front, JEI became the first J-REIT to borrow through a sustainability loan, a type of loan that takes into consideration the environment and society. In addition, JEI issued the second green bond in a flexible manner. Through such measures, we realized fixed interest rates, extension of remaining period of debt, and diversification of repayment dates.

Moreover, we worked to enhance our financial strengths by building up reserve for reduction entry to 451 million yen through utilization of gain on sales of real estate.

As a result, in the 29th period, JEI recorded operating revenue of 11,043 million yen, operating income of 4,924 million yen, and net income of 4,290 million yen, and distribution per unit increased by 40 yen from the previous period to reach 3,000 yen.

About Future Asset Management

Although transaction prices in the real estate market have remained steady backed by a strong appetite for investment by market participants and other factors under the government's monetary easing stance, JEI believes that it is necessary to pay close attention to economic trends due to the impact of the COVID-19 crisis.

Under such environment, JEI intends to acquire competitive properties by means of well-balanced investments based on size and target area with an aim to expand the asset size over the medium to long term. JEI will interact with core sponsors to steadily pursue property acquisitions while having the asset management company newly cultivate and refine sources of property information in an effort to seize the right business opportunities.

In the office building leasing market, we think there is a need for continued close monitoring of matters that could have an impact on future office demand, such as trends in corporate performance and changes in tenant needs due to the spread of remote work, among other factors, amid the rising trend of vacancy rates. By making the most of JEI's features, including the characteristics of its portfolio centered on properties near stations, large buildings, and ESG-conscious properties; a wide customer base; office development functions; and cooperation with the sponsor group companies that have a large number of property management experience, we will strive to provide "offices of choice" that match the needs people require in future offices.

In terms of finance, JEI will strive to conduct stable financial management based on its basic policy of continuing to reduce financing costs, fixing the interest rates of loans, extending borrowing periods, and diversifying maturity dates.

In regard to ESG, we will further accelerate our initiatives and aim to collaborate in concert with our unitholders and wide range of stakeholders to resolve social issues.

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

We kindly ask for your continued understanding and support.

Shuichiro Kayama
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		25th Period July 1, 2018, to December 31, 2018	26th Period January 1, 2019, to June 30, 2019	27th Period July 1, 2019, to December 31, 2019	28th Period January 1, 2020, to June 30, 2020	29th Period July 1, 2020, to December 31, 2020
Operating revenue	(Millions of yen)	10,657	10,668	10,890	12,717	11,043
(Rental revenues)	(Millions of yen)	(10,657)	(10,668)	(10,890)	(11,013)	(10,729)
Operating expenses	(Millions of yen)	6,373	6,349	7,978	6,426	6,119
(Property operating expenses)	(Millions of yen)	(5,780)	(5,747)	(5,906)	(5,697)	(5,487)
Operating income	(Millions of yen)	4,284	4,318	2,912	6,290	4,924
Ordinary income	(Millions of yen)	3,597	3,691	2,247	5,631	4,291
Net income	(Millions of yen)	3,596	3,690	2,246	5,631	4,290
Total assets	(Millions of yen)	285,400	286,172	288,790	293,532	294,004
(Period-on-period change)	(%)	(0.1)	(0.3)	(0.9)	(1.6)	(0.2)
Net assets	(Millions of yen)	143,727	143,822	142,377	152,133	152,418
(Period-on-period change)	(%)	(-0.0)	(0.1)	(-1.0)	(6.9)	(0.2)
Unitholders' capital (Note 1)	(Millions of yen)	139,972	139,972	139,972	147,907	147,907
Total outstanding investment units	(units)	1,305,700	1,305,700	1,305,700	1,353,000	1,353,000
Net assets per unit	(yen)	110,076	110,149	109,042	112,441	112,652
Net income per unit (Note 2)	(yen)	2,754	2,826	1,720	4,179	3,171
Total distribution	(Millions of yen)	3,595	3,691	3,810	4,004	4,059
Distribution per unit	(yen)	2,754	2,827	2,918	2,960	3,000
(Profit distribution per unit)	(yen)	(2,754)	(2,827)	(1,841)	(2,960)	(3,000)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(1,077)	(-)	(-)
(Note 3)						
Return on assets (Note 4)	(%)	1.3	1.3	0.8	1.9	1.5
(Annualized rate)	(%)	(2.5)	(2.6)	(1.6)	(3.9)	(2.9)
Return on equity (Note 5)	(%)	2.5	2.6	1.6	3.8	2.8
(Annualized rate)	(%)	(5.0)	(5.2)	(3.1)	(7.7)	(5.6)
Capital ratio (Note 6)	(%)	50.4	50.3	49.3	51.8	51.8
(Period-on-period change)	(%)	(-0.1)	(-0.1)	(-1.0)	(2.5)	(0.0)
Payout ratio (Note 7)	(%)	100.0	100.0	107.0	71.1	94.6
Number of investment properties	(properties)	31	31	33	35	34
Number of tenants	(tenants)	204	204	200	193	191
Total leasable area (Note 8, 9)	(m ²)	343,830	343,830	345,940	332,702	331,112
Occupancy rate	(%)	99.6	99.4	99.6	99.6	98.0
Depreciation	(Millions of yen)	1,920	1,935	1,929	1,946	1,824
Capital expenditure	(Millions of yen)	809	1,285	1,726	806	1,127
Net operating income (NOI) (Note 10)	(Millions of yen)	6,797	6,856	6,913	7,263	7,066
Funds from operation (FFO) per unit (Note 11)	(yen)	4,225	4,309	4,367	4,341	4,287
FFO multiples (Note 12)	(times)	17.7	18.2	20.3	14.4	15.0
Debt service coverage ratio (DSCR) (Note 13)	(times)	11.7	12.5	9.4	17.0	13.9
Interest-bearing debt	(Millions of yen)	126,600	126,600	129,600	125,600	125,600
Loan-to-value (Note 14)	(%)	44.4	44.2	44.9	42.8	42.7
Number of days in operation	(days)	184	181	184	182	184

(Note 1) Unitholders' capital does not account for the changes in unitholders' capital due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments, etc.

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

(Note 3) Distribution in excess of earnings per unit in the 27th period is from reserve for temporary difference adjustments.

(Note 4) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100

(Note 5) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets)/ 2] × 100

(Note 6) Capital ratio = Period end net assets / Period end total assets × 100

(Note 7) Payout ratio = (Distribution per unit (not including distribution in excess of earnings per unit) / Net income per unit) × 100
(Figures are rounded to the first decimal place.)

As new investment units were issued in the 28th period, the formula below was used to calculate the amount.

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

In addition, when accounting for reversal of allowance for temporary difference adjustments with the following formula, the payout ratio is 94.8%.

(Total distributions (not including distribution in excess of earnings) / (Net income — Reversal of allowance for temporary difference adjustments)) × 100

(Note 8) For properties with joint ownership (including quasi co-ownership of trust beneficiary interest), a figure obtained by multiplying the leasable area of the entire property by the ownership ratio is indicated as JEI's leasable area. The same shall apply hereinafter.

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

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

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

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

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

* Includes depreciation except for property operating expenses.

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

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006, under the Law Concerning Investment Trusts and Investment Corporations of Japan (Law No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, JEI has continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2020, JEI settled its twenty-ninth period.

1) Business conditions and results

In the 29th period (ended December 2020), the world economy experienced a downturn as economic activity was suppressed due to measures such as lockdowns aimed at preventing the resurgence of the novel coronavirus (COVID-19). On the other hand, with various countries around the world implementing fiscal policies to support their economies and economic activity resuming, economic indicators have temporarily shown signs of improvement. However, concerns about further spread of infection are rising again.

In the U.S., as the Federal Reserve Board continues its posture of monetary easing, volatility among long-term interest rates has increased, such as 10-year government bonds turning upward, due to the shift in economic measures brought about by the change in President as well as anticipation for economic recovery backed by the start of vaccinations.

In Japan, while there are some trends of volatility of over-10-year government bonds rising, the Bank of Japan is keeping a close eye on the impact that the deterioration of the real economy could have on the stability of the financial system and maintains its stance on monetary easing, in addition to keeping the yield on 10-year Japanese Government Bonds hovering around zero.

In the real estate transaction market, with no signs of change in the environment for fund procurement, the investment appetite of market players has continued to be strong and thus transaction prices have continued to remain high.

In the office building leasing market, the vacancy rate in the five central wards of Tokyo published by Miki Shoji Co., Ltd. showed an upward trend, standing at 4.4% as of the end of December 2020, up 2.5% from the end of June 2020. The average unit rent has turned downward since July 2020, and that for December 2020 dropped by 3.9% compared with that for June 2020. Under these circumstances, while capturing demand by existing tenants for floor expansions within same buildings, demand for offices by new tenants, etc., cancellation due to consolidation of offices and such increased towards the end of the year. As a result, the occupancy rate (Note 1) at the end of the period under review was 98.0%, down 1.6% from the end of the previous period.

The total number of properties owned and managed by JEI at the end of the period under review was 34 with a total acquisition price of 272.3 billion yen and total leasable area of 331,111.56 m² (100,161.24 tsubos).

2) Fund procurement highlights

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

In the 29th period, in July, JEI sold 15% of JEI Nishi-Honmachi Building, which is the remaining portion after the partial transfer conducted in the 27th and 28th periods. This provided a clear outlook for improving the quality of the portfolio while JEI increased liquidity on hand to prepare for the unforeseeable future due to the spread of COVID-19. Furthermore, JEI refinanced 2 billion yen of green loans that matured in September with a sustainability loan (borrowing period of 2 years, 2 billion yen), the first case of such loan for a J-REIT. In addition, with the favorable environment in the investment corporation bond market, JEI issued 15-year green bonds of 5 billion yen, the largest amount ever for a J-REIT, at 0.75% in October, and prepaid 5 billion yen in short-term loans using the proceeds.

As a result, as of the end of the 29th period, the average remaining period of interest-bearing debt (Note 2) was 4.6 years (extended by 0.1 years from the end of the previous period), the period-end average interest-bearing debt interest rate (Note 3) was 0.77% (up 0.02% from the end of the previous period), and the loan-to-value ratio of total assets (total assets-based LTV) (Note 4) was 42.7% (down 0.1% from the end of the previous period).

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

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

(Ratings as of December 31, 2020)

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-
Moody's Japan	Issuer rating A3 (Stable)	—

3) Sustainability initiatives

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

In order to reduce our environmental impact, JEI has set targets to reduce energy consumption, CO₂ emission and water consumption intensities by 1% per year compared with the previous period, and over the medium to long term, we aim to reduce average energy consumption and emission intensities by 5% or more when comparing the rates between fiscal 2015 and fiscal 2019 against the rates between fiscal 2020 and fiscal 2024. Examples to verify such include upgrading of properties by adopting LED lighting and air-conditioning equipment with excellent energy-saving performance. Furthermore, JEI has continuously promoted the acquisition of DBJ Green Building Certification and the number of certified properties stands at 19, or 78.1% of the entire portfolio (as of December 31, 2020; based on leasable area excluding land with leasehold interest). In addition, we developed a Sustainability Finance Framework that takes our ESG initiatives one step further by adding social aspects to our environmentally friendly green bond framework, and we refinanced our debt with a sustainability loan in September 2020. Moreover, JEI issued investment corporation bonds (2nd JEI Green Bond) in October 2020 and allocated the funds to part of prepayment of existing short-term loans.

Such initiatives for sustainability by JEI earned high recognition including a sixth consecutive “Green Star” rating (Note 7) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 6) Real Estate Assessment conducted in 2020, as well as “5 Star” in “GRESB Rating” (Note 8), a rating of overall score according to global ranking.

Furthermore, JEI's asset management company, Japan Excellent Asset Management Co., Ltd. (hereinafter, “JEAM”) endorsed the basic tenets of the Principles for Responsible Investment (PRI), which aims to enhance the long-term investment performance of beneficiaries and better fulfill its fiduciary responsibilities by integrating ESG factors into investment decision-making processes, signed onto the PRI in June 2020 and became a signatory institution in July 2020. In addition, JEAM published “ESG Report,” which summarizes various ESG initiatives, policies, etc. of JEI and JEAM, in November 2020, and disclosed it on JEI's website.

4) Financial results and distribution highlights

For the period under review, JEI posted 11,043 million yen in operating revenue, 4,924 million yen in operating income, 4,291 million yen in ordinary income, and 4,290 million yen in net income

Concerning distributions in the period under review, by applying the special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), JEI conducted a reserve for reduction entry under the special provisions of the tax system in the case of the replacement of specified assets (Section 65-7 of the Special Taxation Measures Law) with the purpose of stabilizing distribution levels.

As a result, distribution per unit was 3,000 yen as JEI decided to distribute the entire amount of the period-end unappropriated retained earnings, excluding fraction portions of less than one yen per unit, to the extent that the amount does not exceed the period-end unappropriated retained earnings after subtracting 232 million yen for reserve for reduction entry.

(Note 1) Occupancy rate is a percentage of total leased area to total leasable area of each real estate or real estate in trust.

(Note 2) Average remaining period of interest-bearing debt is calculated by applying a weighted average of the remaining period until the repayment date or redemption date of borrowings and investment corporation bonds at the end of the period to the balance of each interest-bearing debt, for all interest-bearing debt.

(Note 3) Period-end average interest-bearing debt interest rate is calculated by applying a weighted average of interest at the end of the period under review to the balance of each interest-bearing debt, for all interest-bearing debt.

(Note 4) Loan-to-value ratio of total assets = (Period end interest-bearing debt / Period end total assets) × 100

- (Note 5) The rating is for 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds, 11th series unsecured investment corporation bonds, 12th series unsecured investment corporation bonds, 13th series unsecured investment corporation bonds, 14th series unsecured investment corporation bonds, 15th series unsecured investment corporation bonds and 16th series unsecured investment corporation bonds.
- (Note 6) A benchmark established by a European pension fund group that measures ESG considerations of real estate companies and management institutions which is used by major European, American, and Asian institutional investors for decision-making on investments.
- (Note 7) “Green Star” is given when a high evaluation with a score exceeding 50% is made in the two evaluation axes (“Management Policy” and “Implementation & Measurement”).
- (Note 8) “GRESB Rating” is a rating of the overall score according to the global ranking, and “5 Star” is given to the top 20% of participants, “4 Star” to the following 20% and so forth.

(3) Capital Increase

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) (Note 1)		Remarks
		Change	Balance	Change	Balance	
February 20, 2006	Private placement for incorporation	400	400	200	200	(Note 2)
June 26, 2006	Public offering	128,000	128,400	64,230	64,430	(Note 3)
July 21, 2006	Third-party allotment	6,400	134,800	3,211	67,641	(Note 4)
July 11, 2007	Public offering	19,000	153,800	18,702	86,344	(Note 5)
August 8, 2007	Third-party allotment	750	154,550	738	87,083	(Note 6)
January 31, 2011	Public offering	31,000	185,550	13,608	100,691	(Note 7)
February 28, 2011	Third-party allotment	3,100	188,650	1,360	102,052	(Note 8)
January 30, 2013	Public offering	33,000	221,650	14,408	116,460	(Note 9)
February 27, 2013	Third-party allotment	3,300	224,950	1,440	117,901	(Note 10)
January 1, 2014	Split of investment unit	899,800	1,124,750	–	117,901	(Note 11)
January 27, 2014	Public offering	80,000	1,204,750	9,135	127,036	(Note 12)
February 26, 2014	Third-party allotment	8,000	1,212,750	913	127,950	(Note 13)
July 13, 2015	Public offering	47,000	1,259,750	5,894	133,845	(Note 14)
August 12, 2015	Third-party allotment	4,700	1,264,450	589	134,434	(Note 15)
July 11, 2016	Public offering	37,500	1,301,950	5,034	139,469	(Note 16)
August 10, 2016	Third-party allotment	3,750	1,305,700	503	139,972	(Note 17)
January 21, 2020	Public offering	43,000	1,348,700	7,213	147,186	(Note 18)
February 13, 2020	Third-party allotment	4,300	1,353,000	721	147,907	(Note 19)

(Note 1) Does not account for the changes in unitholders' capital due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments.

(Note 2) JEI was incorporated through private placement at a price of 500,000 yen per unit.

(Note 3) New investment units were issued at an issue price of 520,000 yen per unit (purchase 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 4) New investment units were issued at a purchase price of 501,800 yen per unit through third-party allotment in order to partially fund new property acquisitions.

(Note 5) New investment units were issued at an issue price of 1,019,200 yen per unit (purchase price of 984,360 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.

(Note 6) New investment units were issued at a purchase price of 984,360 yen per unit through third-party allotment in order to partially repay debts procured to acquire properties.

(Note 7) New investment units were issued at an issue price of 454,930 yen per unit (purchase price of 438,984 yen per unit) through a public offering in order to repay short-term loans procured to acquire properties and to fund acquisition of a new property.

(Note 8) New investment units were issued at a purchase price of 438,984 yen per unit through third-party allotment in order to repay short-term loans procured to acquire new properties and to fund acquisition of a new property.

(Note 9) New investment units were issued at an issue price of 451,425 yen per unit (purchase price of 436,609 yen per unit) through a public offering in order to fund acquisition of new properties.

(Note 10) New investment units were issued at a purchase price of 436,609 yen per unit through third-party allotment in order to fund acquisition of properties.

(Note 11) With December 31, 2013, as the record date, JEI implemented a 5-for-1 split of its investment units held by Unitholders stated or recorded on that date's final unitholder registry with January 1, 2014, as the effective date.

(Note 12) New investment units were issued at an issue price of 118,072 yen per unit (purchase price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties.

(Note 13) New investment units were issued at a purchase price of 114,196 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.

(Note 14) New investment units were issued at an issue price of 129,675 yen per unit (purchase price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.

- (Note 15) New investment units were issued at a purchase price of 125,419 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 16) New investment units were issued at an issue price of 138,742 yen per unit (purchase price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.
- (Note 17) New investment units were issued at a purchase price of 134,259 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 18) New investment units were issued at an issue price of 173,355 yen per unit (purchase price of 167,754 yen per unit) through a public offering in order to repay debts procured to acquire properties and partially fund property acquisitions.
- (Note 19) New investment units were issued at a purchase price of 167,754 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 20) 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 29th 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)	25th period (December 2018)	26th period (June 2019)	27th period (December 2019)	28th period (June 2020)	29th period (December 2020)
	Highest (yen)	156,200	164,500	189,600	200,600	127,900
	Lowest (yen)	141,000	147,600	159,600	75,400	110,600

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

(4) Distributions Paid

Concerning distributions in the period under review, JEI applied the special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), and determined that it would distribute the entire amount of the period-end unappropriated retained earnings, excluding fraction portions of less than one yen per unit, to the extent that the amount does not exceed the period-end unappropriated retained earnings after subtracting 232,196,582 yen for reserve for reduction entry, which resulted in a distribution per unit of 3,000 yen.

Fiscal period	25th period	26th period	27th period	28th period	29th period
Accounting period	July 1, 2018, to December 31, 2018	January 1, 2019, to June 30, 2019	July 1, 2019, to December 31, 2019	January 1, 2020, to June 30, 2020	July 1, 2020, to December 31, 2020
Unappropriated retained earnings at end of period (Thousands of yen)	3,596,244	3,691,310	2,246,223	5,631,594	4,291,443
Retained income (Thousands of yen)	346	97	469	220,475	232,443
Total cash distribution amount (Thousands of yen)	3,595,897	3,691,213	3,810,032	4,004,880	4,059,000
(Cash distributions per unit) (yen)	(2,754)	(2,827)	(2,918)	(2,960)	(3,000)
Of which, total profit distributions (Thousands of yen)	3,595,897	3,691,213	2,403,793	4,004,880	4,059,000
(Profit distribution per unit) (yen)	(2,754)	(2,827)	(1,841)	(2,960)	(3,000)
Of which, total refund of investment equity	—	—	1,406,238	—	—
(Refund of investment equity per unit)	(—)	(—)	(1,077)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	1,406,238	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(1,077)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for business environment

In the real estate market, although real estate transaction prices are expected to remain high for the time being backed by factors such as continuation of the monetary easing trend and vigorous appetite for investment by market participants, we believe that there is a need to closely monitor the impacts of the spread of COVID-19.

In the office building leasing market, with the current increase in the vacancy rate and decrease in the new contract rent, we need to pay close attention to trends in earnings of companies impacted by the spread of COVID-19 and the impact on the office demand resulting from a shift towards remote work and such. As for leasing, the situation is likely to continue to be somewhat difficult because of the wider options for tenants and anticipation for lower rents due to more vacancies.

2) Policy and issues on future investment management

A. External growth

JEI intends to acquire competitive properties by means of well-balanced investments based on size and area while gradually shifting its focus from asset replacement to expansion of asset size for external growth. JEI will continue to have the asset management company newly cultivate and refine property information sources in an effort to promptly gain access to market information on disposition of properties and thereby keep seizing the right business opportunities while maintaining a focus on cooperation with sponsor companies.

B. Internal growth

JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. In addition to promoting such initiatives and setting new rents based on market trends, JEI will, amid the leasing environment which is likely to become even more severe, work to prevent tenants' move-outs by further strengthening finely tuned relationships with existing tenants and negotiating on rent flexibly while capturing their needs in a timely manner. As to properties with vacancies at present or with expected vacancies, JEI will strive to eliminate those vacancies at an early stage by exploring existing tenants' needs for floor expansion and also proactively approaching appropriate tenant candidates that have been narrowed down based on the location and characteristics of the properties through corporation and collaboration with real estate management companies and brokerage companies for the properties.

Over the medium to long term, JEI aims to enhance earnings of the entire portfolio and improve its ESG evaluation by continuously making additional strategic investments that consider energy conservation and BCP measures in order to maintain asset value and improve property competitiveness.

Concerning the impact of the spread of COVID-19, we will continue to monitor the situation closely as the state of emergency was declared again in January 2021 and such.

C. Financial strategy

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

JEI will set the upper limit of total assets-based LTV at 60% and manage it at around 35% to 50%. Furthermore, JEI will conduct financial operations that emphasize stability by reducing refinancing risks through diversification of maturity dates of interest-bearing debt.

D. Sustainability initiatives

JEI will work to reduce the environmental burden and to cooperate/collaborate with stakeholders to achieve a sustainable society through corporate social responsibility.

(6) Subsequent Events

Not applicable.

2. Outline of the Investment Corporation

(1) Investment Units

Fiscal period	25th As of December 31, 2018	26th As of June 30, 2019	27th As of December 31, 2019	28th As of June 30, 2020	29th As of December 31, 2020
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	1,305,700 units	1,305,700 units	1,305,700 units	1,353,000 units	1,353,000 units
Unitholders' capital	139,972 million yen	139,972 million yen	139,972 million yen	147,907 million yen	147,907 million yen
Number of unitholders	6,741 individuals	6,393 individuals	6,046 individuals	6,746 individuals	6,914 individuals

(Note) Does not account for the changes in unitholders' capital due to the implementation of distribution in excess of earnings related to the allowance for temporary difference adjustments.

(2) Unitholders

Major unitholders as of December 31, 2020, are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Custody Bank of Japan, Ltd. (Trust Account) (Note)	1-8-12 Harumi, Chuo-ku, Tokyo	344,195	25.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	212,335	15.69
Nippon Steel Kowa Real Estate Co., Ltd.	1-8-1 Akasaka, Minato-ku, Tokyo	71,560	5.29
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	61,265	4.53
Custody Bank of Japan, Ltd. (Securities Investment Trust Account) (Note)	1-8-12 Harumi, Chuo-ku, Tokyo	59,246	4.38
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.53
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	18,836	1.39
SSBTC CLIENT OMNIBUS ACCOUNT	ONE LINCOLN STREET, BOSTON MA USA 02111	14,127	1.04
Nomura Securities Co., Ltd.	1-13-1 Nihonbashi, Chuo-ku, Tokyo	13,782	1.02
JP MORGAN CHASE BANK 385771	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	13,500	1.00
Total		829,506	61.31

(Note) Effective July 27, 2020, Trust & Custody Services Bank, Ltd. and JTC Holdings, Ltd. merged with Japan Trustee Services Bank, Ltd. in an absorption-type merger with the latter company as the surviving entity, and as of the same day, Japan Trustee Services Bank, Ltd. changed its name to Custody Bank of Japan, Ltd.

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2020 (Thousands of yen)
Executive Director	Shuichiro Kayama	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Osamu Hirakawa	Advisor, Anderson, Mori & Tomotsune	5,580
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	17,201 (Note 2)

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

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 29th period (11,000 thousand yen), the fee for the English financial statements audit, the preparation of a comfort letter upon the issuance of the 16th Series Unsecured Investment Corporation Bonds in October 2020 and third-party assurance engagements.

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.

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

JEI's asset management company, asset custodian, and administrative agents as of December 31, 2020, 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)	28th Period (As of June 30, 2020)		29th Period (As of December 31, 2020)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	10,966	3.7	10,960	3.7
		Area II	5,532	1.9	5,467	1.9
		Area IV	1,633	0.6	1,632	0.6
Trust beneficiary interest in real estate		Area I	104,631	35.6	104,208	35.4
		Area II	11,818	4.0	10,772	3.7
		Area III	84,140	28.7	84,149	28.6
		Area IV	21,158	7.2	21,094	7.2
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,305	5.9	17,178	5.8
Total			257,186	87.6	255,463	86.9
Deposits in bank and other assets			36,346	12.4	38,540	13.1
Total assets			293,532	100.0	294,004	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

(2) Major Properties

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2020, are as follows.

Name	Book value (Millions of yen)	Leasable area (m ²) (Note 1)	Leased area (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
AKASAKA INTERCITY	26,679	11,021.03	11,021.03	100.0	5.7	Office building
Nisseki Yokohama Building	22,686	40,440.72	40,440.72	100.0	11.1	Office building
Omori Bellport D	20,655	25,801.66	25,801.66	100.0	8.6	Office building
Kowa Kawasaki Nishiguchi Building	19,113	24,944.17	24,944.17	100.0	6.0	Office building
HAMARIKYU INTERCITY	17,178	19,718.11	19,437.56	98.6	7.1	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,346	25,043.93	25,043.93	100.0	7.6	Office building
Mansard Daikanyama	11,208	5,420.80	5,102.72	94.1	2.9	Office building
Kowa Nishi-Shimbashi Building	10,960	8,949.04	8,343.41	93.2	(Note 4)	Office building
Kowa Kawasaki Higashiguchi Building	10,357	18,612.72	18,612.72	100.0	(Note 4)	Office building
Daiba Garden City Building	9,502	12,122.85	12,122.85	100.0	3.1	Office building
Total	160,688	192,075.03	190,870.77	99.4	—	—

(Note 1) Leasable area refers to area available for lease of which ownership is attributable to JEI as of December 31, 2020. For properties with joint ownership, the value is obtained by multiplying the total leasable area of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable area.

(Note 2) Leased area refers to area with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of December 31, 2020. For properties with joint ownership, the value is obtained by multiplying the total leased area of the property by the percentage of the co-ownership interest owned by JEI, regarding the figure as JEI's leased area. For properties which are used for profit by the master lease company, leased area refers to the portion used, and the figures indicate area which can be reasonably calculated based on the lease agreement on the master leasing. The leased area of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased area. This also applies to any figure which is calculated based on "leased area" in this document.

(Note 3) Occupancy rate is a percentage of total leased area to total leasable area as of December 31, 2020.

(Note 4) The values of Kowa Nishi-Shimbashi Building and 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, 2020, are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	25,900	20,655
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,600	8,982
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,040	8,084
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	30,200	26,679
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,010	4,654
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,100	9,502
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,900	17,178
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,200	1,729
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	13,600	10,960
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,900	11,208
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,780	6,522
I-17	Bizcore Akasaka-mitsuke	3-1-2 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,630	6,189
Area I				163,860	132,347
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	6,170	5,467
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,470	1,865
II-4	GRAND FRONT OSAKA (Umekita Plaza South Building)	4-1 Ohbuka-cho, Kita-ku, Osaka City, Osaka (Umekita Plaza) 4-20 Ohbuka-cho, Kita-ku, Osaka City, Osaka (South Building)	Trust beneficiary interest in real estate	5,000	4,888
II-5	GRAND FRONT OSAKA (North Building)	3-1 Ohbuka-cho, Kita-ku, Osaka City, Osaka	Trust beneficiary interest in real estate	3,870	4,018
Area II				17,510	16,239
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,500	12,346
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	10,400	10,357
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,650	4,941
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,660	4,153
III-7	JEI Ryogoku Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,650	2,189
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,300	19,113
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,580	1,620
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	9,400	6,063
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	31,000	22,686
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	672	677
Area III				102,812	84,149
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,410	2,779
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,930	2,532
IV-4	SE Sapporo Building	1-1-2 Kitanaonajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	9,060	5,099
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,460	2,194
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,180	4,177
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,950	1,479
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,300	2,831
IV-9	Senshin Building	1-6-27 Chuo, Aoba-ku, Sendai-shi, Miyagi	Real estate	1,690	1,632
Area IV				33,980	22,726
Total				318,162	255,463

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and The Tanizawa Sogo Appraisal Co., Ltd. as of December 31, 2020, 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	28th Period January 1, 2020, to June 30, 2020				29th Period July 1, 2020, to December 31, 2020			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I-1	Omori Bellport D	1	100.0	925	8.4	1	100.0	921	8.6
I-2	Shiba 2-Chome Building	2	99.2	373	3.4	2	100.0	373	3.5
I-3	JEI Hamamatsucho Building	1	100.0	244	2.2	1	100.0	245	2.3
I-8	AKASAKA INTERCITY	13	100.0	571	5.2	13	100.0	615	5.7
I-9	Kowa Shirokanedai Building	1	100.0	183	1.7	1	97.3	180	1.7
I-10	Daiba Garden City Building	1	100.0	333	3.0	1	100.0	331	3.1
I-12	HAMARIKYU INTERCITY	1	98.7	762	6.9	1	98.6	759	7.1
I-13	Shintomicho Building	11	100.0	73	0.7	11	100.0	74	0.7
I-14	Kowa Nishi-Shimbashi Building	1	100.0	(Note 2)	(Note 2)	1	93.2	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	10	97.1	351	3.2	9	94.1	312	2.9
I-16	AKASAKA INTERCITY AIR	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I-17	Bizcore Akasaka-mitsuke	1	100.0	145	1.3	1	100.0	153	1.4
Area I		44	99.6	-	-	43	98.8	-	-
II-1	NHK Nagoya Housou-Center Building	36	100.0	382	3.5	35	98.8	382	3.6
II-2	JEI Nishi-Honmachi Building (Note 3)	1	97.2	129	1.2	-	-	2	0.0
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	89	0.8	1	100.0	89	0.8
II-4	GRAND FRONT OSAKA (Umekita Plaza · South Building)	2	99.4	(Note 2)	(Note 2)	2	98.0	(Note 2)	(Note 2)
II-5	GRAND FRONT OSAKA (North Building)	5	98.8	(Note 2)	(Note 2)	5	97.6	(Note 2)	(Note 2)
Area II		45	99.5	-	-	43	98.6	-	-
III-1	Musashikosugi Tower Place	38	100.0	803	7.3	39	100.0	813	7.6
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	226	2.1	1	65.3	204	1.9
III-7	JEI Ryogoku Building	1	100.0	114	1.0	1	100.0	117	1.1
III-9	Kowa Kawasaki Nishiguchi Building	1	100.0	924	8.4	1	100.0	648	6.0
III-10	Pacific Square Sengoku	1	100.0	60	0.5	1	100.0	60	0.6
III-11	Core City Tachikawa	1	100.0	322	2.9	1	100.0	319	3.0
III-12	Nisseki Yokohama Building	1	100.0	1,173	10.7	1	100.0	1,193	11.1
III-13	Yokohama Bentendori Dai-ichi Seimei Building	1	100.0	41	0.4	1	100.0	42	0.4
Area III		47	100.0	-	-	48	97.4	-	-
IV-2	JEI Kyobashi Building	1	100.0	175	1.6	1	98.9	187	1.7
IV-3	JEI Hiroshima Hacchobori Building	1	96.0	148	1.3	1	94.2	154	1.4
IV-4	SE Sapporo Building	1	100.0	410	3.7	1	100.0	411	3.8
IV-5	Aoba-dori Plaza	50	98.8	192	1.7	50	99.4	193	1.8
IV-6	Daiwa Minami-morimachi Building	1	100.0	196	1.8	1	100.0	198	1.8
IV-7	JEI Naha Building	1	100.0	86	0.8	1	91.3	76	0.7
IV-8	Hiroshima Dai-ichi Seimei OS Building	1	95.9	138	1.3	1	97.2	140	1.3
IV-9	Senshin Building	1	91.0	48	0.4	1	92.8	49	0.5
Area IV		57	98.4	-	-	57	97.8	-	-
Total		193	99.6	11,013	100.0	191	98.0	10,729	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.

Asset Management Report for the 29th Period (Semi-Annual Report for the 29th Period)

(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 consent on disclosure of rent from the end tenants has not been obtained; and those for AKASAKA INTERCITY AIR, GRAND FRONT OSAKA (Umekita Plaza- South Building), and GRAND FRONT OSAKA (North Building) are not disclosed as consent on disclosure of rents from the co-owners has not been obtained.

(Note 3) JEI completed transfer of JEI Nishi-Honmachi Building on July 3, 2020.

(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	46,140,000	40,390,000	—
	Floating interest rate receivable			
	Fixed interest rate payable			

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

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

2) Shares

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

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

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

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

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

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

3) Securities other than shares

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

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

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

4) Other Assets

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

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

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

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

None for JEI's properties 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 29th period (ended December 31, 2020). 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, 2020	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air- conditioning systems (Phase 4)	From July 2020 To June 2021	234	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air- conditioning systems (Phase 4)	From January 2021 To June 2021	163	—	—
JEI Ryogoku Building	Sumida-ku, Tokyo	Renovation of air- conditioning systems (Phase 1)	From January 2021 To June 2021	146	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of restrooms (Phase 3)	From January 2021 To June 2021	138	—	—
JEI Hiroshima Hacchobori Building	Hiroshima-shi, Hiroshima	Renovation of air- conditioning systems (Phase 1)	From April 2021 To June 2021	66	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Update of heat source equipment (Phase 2)	From August 2020 To March 2021	57	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Update of extra-high voltage substation (Phase 2)	From August 2020 To March 2021	37	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Renovation of multi- level parking lot	From May 2021 To June 2021	37	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Update of ancillary buildings and facilities in line with renovation of restrooms	From January 2021 To June 2021	35	—	—
Shintomicho Building	Chuo-ku, Tokyo	Renewal of elevator control system	From May 2021 To June 2021	32	—	—

(2) Capital Expenditures for the Six Months Ended December 31, 2020

The following table shows constructions conducted by JEI during the period ended December 31, 2020, and expensed as capital expenditures. Capital expenditures for the period ended December 31, 2020, were 1,127 million yen and, when combined with repairs and maintenance costs of 282 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,410 million yen.

Property name	Location	Purpose	Scheduled term	Amount Paid (Millions of yen)
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 3)	From January 2020 To December 2020	458
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of restrooms (Phase 2)	From July 2020 To December 2020	139
SE Sapporo Building	Sapporo-shi, Hokkaido	Renovation of multi-level parking lot	From September 2020 To December 2020	38
SE Sapporo Building	Sapporo-shi, Hokkaido	Maintenance of room 101 for rent	From September 2020 To November 2020	32
JEI Naha Building	Naha-shi, Okinawa	Update of power receiving and transforming equipment	From December 2020 To December 2020	21
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of power receiving and transforming equipment (Phase 1)	From November 2020 To November 2020	8
Other constructions			—	429
Total				1,127

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

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

(Unit: Millions of yen)

Item	25th Period July 1, 2018, to December 31, 2018	26th Period January 1, 2019, to June 30, 2019	27th Period July 1, 2019, to December 31, 2019	28th Period January 1, 2020, to June 30, 2020	29th Period July 1, 2020, to December 31, 2020
Reserved funds at beginning of period	258	290	284	300	473
Increase	469	411	899	1,553	260
Decrease	437	417	884	1,380	484
Reserved funds at the end of period	290	284	300	473	250

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	28th Period January 1, 2020, to June 30, 2020	29th Period July 1, 2020, to December 31, 2020
(a) Asset management fees	530,406	470,777
(b) Custodian fees	21,515	21,847
(c) Administrative service fees	40,720	40,065
(d) Compensation for directors	5,580	5,580
(e) Accounting auditor fees	11,000	11,000
(f) Other	120,239	82,428
Total	729,461	631,698

(2) Borrowings

Borrowings by each financing source as of the end of the 29th period (ended December 31, 2020) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Mizuho Bank, Ltd.	March 9, 2020	5,000,000	—	0.25946	March 9, 2021 (Note 3)	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
Sub Total			5,000,000	—					
Long-term loans due within one year	Mizuho Bank, Ltd.	September 28, 2018	2,000,000	—	0.25276	September 30, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 2)				
	Mizuho Bank, Ltd.	November 29, 2016	—	520,000	0.42083	November 29, 2021			
	MUFG Bank, Ltd.		—	540,000					
	Sumitomo Mitsui Banking Corporation		—	1,080,000					
	Sumitomo Mitsui Trust Bank Limited	December 29, 2014	—	1,620,000	0.81875 (Note 2)	December 30, 2021			
	Mizuho Bank, Ltd.		—	1,950,000					
	MUFG Bank, Ltd.		—	2,000,000					
	Mizuho Trust & Banking Co., Ltd.		—	1,200,000					
Resona Bank, Ltd.	—		600,000						
Subtotal			6,000,000	13,510,000					

	Classification		Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender									
Long-term loans	Mizuho Bank, Ltd.	November 29, 2016	520,000	—	0.42083	November 29, 2021	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed	
	MUFG Bank, Ltd.		540,000	—						
	Sumitomo Mitsui Banking Corporation		1,080,000	—						
	Sumitomo Mitsui Trust Bank Limited		1,620,000	—						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	—	0.81875 (Note 2)	December 30, 2021				
	MUFG Bank, Ltd.		2,000,000	—						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	—						
	Resona Bank, Ltd.		600,000	—						
	Sompo Japan Insurance Inc.	January 31, 2017	2,000,000	2,000,000	0.35000 (Note 2)	January 31, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 2)	June 30, 2022				
	Mizuho Bank, Ltd.	September 30, 2020	—	2,000,000	0.26586	September 30, 2022				
	Sompo Japan Insurance Inc.	November 30, 2017	500,000	500,000	0.35000 (Note 2)	November 30, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 2)	December 30, 2022				
	MUFG Bank, Ltd.		2,000,000	2,000,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 2)	June 30, 2023				
	The Dai-ichi Life Insurance Company Limited	June 29, 2018	3,000,000	3,000,000	0.46000 (Note 2)					
	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.84375 (Note 2)	November 30, 2023				
	MUFG Bank, Ltd.		250,000	250,000						
	Sumitomo Mitsui Banking Corporation		140,000	140,000						
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000						
	The Norinchukin Bank		1,500,000	1,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		750,000	750,000						
	The Bank of Fukuoka, Ltd.		150,000	150,000						
	MUFG Bank, Ltd.	November 30, 2017	1,000,000	1,000,000	0.64801 (Note 2)	November 30, 2023				
	Sumitomo Mitsui Banking Corporation		3,500,000	3,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		500,000	500,000						
Development Bank of Japan Inc.		3,500,000	3,500,000	0.68431 (Note 2)	May 31, 2024					
Mizuho Bank, Ltd.	November 30, 2015	870,000	870,000	0.96275 (Note 2)	November 30, 2024					
MUFG Bank, Ltd.		590,000	590,000							
Sumitomo Mitsui Banking Corporation		350,000	350,000							
Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000							
Resona Bank, Ltd.		1,000,000	1,000,000							
Aozora Bank, Ltd.		750,000	750,000							
The Bank of Fukuoka, Ltd.		150,000	150,000							

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans	Nippon Life Insurance Company	December 12, 2019	1,000,000	1,000,000	0.42000 (Note 2)	December 12, 2024	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	Mizuho Bank, Ltd.	June 29, 2018	3,700,000	3,700,000	0.67400 (Note 2)	June 30, 2025			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		400,000	400,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Bank of Fukuoka, Ltd.		700,000	700,000					
	Resona Bank, Ltd.		200,000	200,000					
	Mizuho Bank, Ltd.		November 1, 2018	850,000					
	MUFG Bank, Ltd.	850,000		850,000					
	Mizuho Trust & Banking Co., Ltd.	600,000		600,000					
	The Norinchukin Bank	1,450,000		1,450,000					
	Mizuho Bank, Ltd.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026			
	MUFG Bank, Ltd.		1,750,000	1,750,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		850,000	850,000					
	Aozora Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.	March 8, 2019	850,000	850,000	0.57100 (Note 2)				
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	The Norinchukin Bank		1,450,000	1,450,000					
	Development Bank of Japan Inc.	September 29, 2017	1,300,000	1,300,000	0.83071 (Note 2)	September 30, 2026			
	Mizuho Bank, Ltd.	June 29, 2018	1,300,000	1,300,000	0.79100 (Note 2)	December 30, 2026			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		700,000	700,000					
	Development Bank of Japan Inc.	January 31, 2020	2,000,000	2,000,000	0.68778 (Note 2)	July 31, 2028			
	Mizuho Bank, Ltd.		1,175,000	1,175,000					
	MUFG Bank, Ltd.		1,175,000	1,175,000					
Sumitomo Mitsui Banking Corporation	1,000,000		1,000,000						
Mizuho Trust & Banking Co., Ltd.	1,087,500		1,087,500						
The Norinchukin Bank	1,162,500		1,162,500						
The Dai-ichi Life Insurance Company Limited	1,000,000		1,000,000	0.77000 (Note 2)					
Subtotal			81,600,000	74,090,000					
Total		92,600,000	87,600,000						

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

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

(Note 3) The entire amount was prepaid in full as of October 30, 2020.

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2020, are as follows:

Classification	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
Unsecured investment corporation bonds	7th series unsecured investment corporation bonds	March 10, 2014	8,000,000	8,000,000	1.13000	March 11, 2024	Lump-sum	(Note 1)	(Note 4)
	8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)	
	9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 3)	
	10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 2)	
	11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027		(Note 2)	
	12th series unsecured investment corporation bonds	April 20, 2018	2,000,000	2,000,000	0.24000	April 20, 2023		(Note 3)	
	13th series unsecured investment corporation bonds		2,000,000	2,000,000	0.95000	April 20, 2033		(Note 3)	
	15th series unsecured investment corporation bonds	September 10, 2019	1,000,000	1,000,000	1.07000	September 9, 2039		(Note 2)	
	Sub Total			29,000,000	29,000,000				
Green bonds	14th series unsecured investment corporation bonds	August 10, 2018	4,000,000	4,000,000	0.63000	August 10, 2028	Lump-sum	(Note 2)	(Note 4)
	16th series unsecured investment corporation bonds	October 29, 2020	—	5,000,000	0.75000	October 29, 2035			
	Sub Total		4,000,000	9,000,000					
Total			33,000,000	38,000,000					

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

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

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

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

(4) Short-Term Investment Corporation Bonds

None

(5) Subscription Rights for New Investment Units

None

6. Condition of Investment Transactions

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

(Millions of yen)

Type of asset	Property name	Acquisition		Transfer			
		Acquisition date	Acquisition price	Transfer date	Transfer price (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Trust beneficiary interest in real estate	JEI Nishi-honmachi Building (quasi co-ownership interest 15.0%)	—	—	July 3, 2020	1,351	1,036	314
Total		—	—	—	1,351	1,036	314

(Note 1) The transfer price indicates the amount excluding related expenses (brokerage fee, taxes, etc.) required for the transfer, and is the purchase amount of real estate stated in the trust beneficiary interest purchase agreement.

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

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

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

Acquisition or transfer	Name of property	Type of asset	Acquisition/transfer date	Acquisition/transfer price (Millions of yen) (Note 1)	Appraisal value (Millions of yen)	Appraiser	Appraisal date
Transfer	JEI Nishi-honmachi Building (quasi co-ownership interest 15.0%)	Trust beneficiary interest in real estate	July 3, 2020	1,351	879 (Note 2)	Daiwa Real Estate Appraisal Co., Ltd.	October 1, 2019

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

(Note 2) The appraisal value indicates the amount obtained by multiplying the appraisal value for the entire property by 15.0%, which is the quasi co-ownership trust beneficiary interest subject to transfer.

2) Others

None

(4) Transactions with Interested Parties

1) Transactions

None

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,371,601	Nippon Steel Kowa Real Estate Co., Ltd.	463,599	33.8%
		The Dai-ichi Building Co., Ltd.	482,285	35.2%
		Sohgo Housing Co., Ltd. (Note 2)	62,919	4.6%
		Akasaka Intercity Management Co., Ltd.	19,558	1.4%
Total	1,371,601	–	1,028,363	75.0%

(Note 1) Figures indicate fees paid to interested parties of the asset management company with whom JEI had direct transactions during the six months ended December 31, 2020.

(Note 2) As a result of becoming a subsidiary of Dai-ichi Life Holdings, Inc. on October 1, 2020, Sohgo Housing Co., Ltd. became an interested party of the asset management company on the same day.

(Note 3) 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.	22,930 thousand yen
Kowa Real Estate Facilities Co., Ltd.	274,980 thousand yen
The Dai-ichi Building Co., Ltd.	11,489 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
There were no applicable items during the period.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

(4) Other

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

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
December 31, 2020 and June 30, 2020
with Independent Auditor's Report*



Building a better
working world

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
ey.com

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

Opinion

We have audited the accompanying financial statements of Japan Excellent, Inc. (the Company), which comprise the balance sheet as at December 31, 2020, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Supervisory Director for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



Building a better
working world

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

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

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

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

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

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



Building a better
working world

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 17, 2021

吉村 基



Motoki Yoshimura
Designated Engagement Partner
Certified Public Accountant

八幡 正博



Masahiro Yawata
Designated Engagement Partner
Certified Public Accountant

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2020 and June 30, 2020

	As of December 31, 2020	As of June 30, 2020
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	36,022,399	33,815,385
Rental receivables	325,765	328,891
Prepaid expenses and other current assets	210,063	189,597
Total current assets	<u>36,558,228</u>	<u>34,333,873</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	7,698,591	7,657,446
Machinery and equipment	6,253	6,253
Furniture and fixtures	59,934	52,930
Land	10,609,617	10,609,617
Construction in progress	1,396	1,396
Buildings and building improvements for trust accounts	113,248,694	112,803,395
Machinery and equipment for trust accounts	1,030,829	951,662
Furniture and fixtures for trust accounts	293,163	291,508
Land for trust accounts	148,021,777	148,707,325
Construction in progress for trust accounts	115,225	106,322
Less: accumulated depreciation	<u>(34,727,920)</u>	<u>(33,107,509)</u>
Net property and equipment	<u>246,357,561</u>	<u>248,080,348</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Leasehold rights for trust accounts	7,382,016	7,382,016
Software	7,333	8,433
Other intangible assets for trust accounts	2,644	2,737
Total intangible assets	<u>9,113,601</u>	<u>9,114,794</u>
Investments and other assets:		
Investment securities <i>(Note 5)</i>	44,729	44,729
Security deposits	19,029	18,181
Long-term prepaid expenses	823,528	919,312
Other assets	921,016	877,329
Total investments and other assets	<u>1,808,304</u>	<u>1,859,553</u>
Deferred assets:		
Investment corporation bond issuance costs	166,949	144,225
Total deferred assets	<u>166,949</u>	<u>144,225</u>
Total assets	<u><u>294,004,645</u></u>	<u><u>293,532,796</u></u>

	As of December 31, 2020	As of June 30, 2020
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,674,407	1,220,492
Short-term loans <i>(Notes 5 and 8)</i>	—	5,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	13,510,000	6,000,000
Accounts payable – other	466,577	554,959
Accrued expenses	155,114	146,620
Accrued corporation taxes	584	586
Accrued consumption taxes	119,228	533,554
Advances received	172,768	170,345
Other current liabilities	—	14,148
Total current liabilities	<u>16,098,680</u>	<u>13,640,707</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	38,000,000	33,000,000
Long-term debt <i>(Notes 5 and 8)</i>	74,090,000	81,600,000
Security deposits from tenants <i>(Note 5)</i>	1,200,885	1,197,748
Security deposits from tenants for trust accounts <i>(Note 5)</i>	12,196,393	11,961,335
Total long-term liabilities	<u>125,487,278</u>	<u>127,759,084</u>
Total liabilities	<u>141,585,958</u>	<u>141,399,791</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	147,907,649	147,907,649
Deduction from unitholders' capital		
Allowance for temporary difference adjustment <i>(Note 11)</i>	—	(1,406,238)
Total deduction from unitholders' capital	—	(1,406,238)
Unitholders' capital, net	<u>147,907,649</u>	<u>146,501,410</u>
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	219,594	—
Retained earnings	4,291,443	5,631,594
Total surplus	<u>4,511,037</u>	<u>5,631,594</u>
Total unitholders' equity	<u>152,418,687</u>	<u>152,133,005</u>
Total net assets	<u>152,418,687</u>	<u>152,133,005</u>
Total liabilities and net assets	<u>294,004,645</u>	<u>293,532,796</u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from July 1, 2020 to December 31, 2020
and from January 1, 2020 to June 30, 2020

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
	<i>(Thousands of yen)</i>	
Revenues (Note 14):		
Rental business revenues	9,998,859	10,250,100
Other	730,694	763,414
Gain on sales of real estate properties (Note 15)	314,238	1,704,073
Total revenues	11,043,792	12,717,589
Operating expenses (Note 14):		
Property operating expenses	5,487,364	5,697,217
Asset management fees	470,777	530,406
Custodian fees	21,847	21,515
Administrative service fees	40,065	40,720
Compensation for directors	5,580	5,580
Other	93,428	131,239
Total operating expenses	6,119,062	6,426,679
Operating income	4,924,730	6,290,909
Other income:		
Interest income	136	118
Other	403	457
Other expenses:		
Interest expense	336,430	342,909
Loan arrangement fees	141,088	148,204
New investment unit issuance costs	—	25,351
Interest expense on investment corporation bonds	139,556	131,174
Amortization of investment corporation bond issuance costs	12,276	11,696
Other	4,751	367
Ordinary income	4,291,167	5,631,780
Income before income taxes	4,291,167	5,631,780
Income taxes (Note 13):		
Current	605	605
Deferred	—	50
Net income	4,290,562	5,631,125
Retained earnings at beginning of period	881	469
Retained earnings at end of period	4,291,443	5,631,594

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from July 1, 2020 to December 31, 2020
and from January 1, 2020 to June 30, 2020

	For the period from July 1, 2020 to December 31, 2020				
	Net assets				
	Unitholders' equity				
	Unitholders' capital				
	Number of units in issue	Unitholders' capital	Deduction from unitholders' capital		Unitholders' capital, net
Allowance for temporary difference adjustment			Total deduction from unitholders' capital		
<i>(Thousands of yen)</i>					
Balance as of June 30, 2020	1,353,000	147,907,649	(1,406,238)	(1,406,238)	146,501,410
Changes during the fiscal period:					
Provision of reserve for reduction entry	—	—	—	—	—
Distributions from retained earnings	—	—	—	—	—
Reversal of reserve for temporary difference adjustment	—	—	1,406,238	1,406,238	1,406,238
Net income	—	—	—	—	—
Total changes during the fiscal period	—	—	1,406,238	1,406,238	1,406,238
Balance as of December 31, 2020	1,353,000	147,907,649	—	—	147,907,649

	For the period from July 1, 2020 to December 31, 2020				
	Net assets				
	Unitholders' equity				
	Surplus				
	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity
<i>(Thousands of yen)</i>					
Balance as of June 30, 2020	—	5,631,594	5,631,594	152,133,005	152,133,005
Changes during the fiscal period:					
Provision of reserve for reduction entry	219,594	(219,594)	—	—	—
Distributions from retained earnings	—	(4,004,880)	(4,004,880)	(4,004,880)	(4,004,880)
Reversal of reserve for temporary difference adjustment	—	(1,406,238)	(1,406,238)	—	—
Net income	—	4,290,562	4,290,562	4,290,562	4,290,562
Total changes during the fiscal period	219,594	(1,340,151)	(1,120,556)	285,682	285,682
Balance as of December 31, 2020	219,594	4,291,443	4,511,037	152,418,687	152,418,687

For the period from January 1, 2020 to June 30, 2020					
Net assets					
Unitholders' equity					
Unitholders' capital					
Deduction from unitholders' capital					
Number of units in issue	Unitholders' capital	Allowance for temporary difference adjustment	Total deduction from unitholders' capital	Unitholders' capital, net	
<i>(Thousands of yen)</i>					
Balance as of December 31, 2019	1,305,700	139,972,885	—	—	139,972,885
Changes during the fiscal period:					
Issuance of new units	47,300	7,934,764	—	—	7,934,764
Reversal of reserve for reduction entry	—	—	—	—	—
Distributions from retained earnings	—	—	—	—	—
Dividend in excess of earnings using reserve for temporary difference adjustments	—	—	(1,406,238)	(1,406,238)	(1,406,238)
Net income	—	—	—	—	—
Total changes during the fiscal period	47,300	7,934,764	(1,406,238)	(1,406,238)	6,528,525
Balance as of June 30, 2020	1,353,000	147,907,649	(1,406,238)	(1,406,238)	146,501,410

For the period from January 1, 2020 to June 30, 2020					
Net assets					
Unitholders' equity					
Surplus					
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, 2019	158,039	2,246,223	2,404,262	142,377,147	142,377,147
Changes during the fiscal period:					
Issuance of new units	—	—	—	7,934,764	7,934,764
Reversal of reserve for reduction entry	(158,039)	158,039	—	—	—
Distributions from retained earnings	—	(2,403,793)	(2,403,793)	(2,403,793)	(2,403,793)
Dividend in excess of earnings using reserve for temporary difference adjustments	—	—	—	(1,406,238)	(1,406,238)
Net income	—	5,631,125	5,631,125	5,631,125	5,631,125
Total changes during the fiscal period	(158,039)	3,385,371	3,227,331	9,755,857	9,755,857
Balance as of June 30, 2020	—	5,631,594	5,631,594	152,133,005	152,133,005

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from July 1, 2020 to December 31, 2020
and from January 1, 2020 to June 30, 2020

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	4,291,167	5,631,780
Depreciation and amortization	1,825,686	1,947,843
Amortization of investment corporation bond issuance costs	12,276	11,696
New unit issuance costs	—	25,351
Interest income	(136)	(118)
Interest expense	475,986	474,084
Decrease (increase) in rental receivables	3,125	51,120
Decrease (increase) in prepaid expense	(23,890)	26,166
Increase (decrease) in accounts payable – trade	(68,139)	(112,593)
Increase (decrease) in accounts payable – other	(88,063)	149,503
Increase (decrease) in unpaid consumption taxes	(414,325)	456,321
Increase (decrease) in advances received	2,422	(29,986)
Decrease (increase) in long-term prepaid expenses	95,783	(98,425)
Decrease in property and equipment for trust accounts due to sale	1,036,839	13,058,874
Decrease in property and intangible assets for trust accounts due to sale	—	1,101
Other, net	(54,835)	(7,575)
Subtotal	7,093,897	21,585,144
Interest received	136	118
Interest paid	(467,492)	(480,864)
Income taxes paid	(586)	(1,514)
Net cash provided by (used in) operating activities	6,625,954	21,102,883
Cash flows from investing activities		
Purchases of Investment securities	—	(44,729)
Purchases of property and equipment	(16,478)	(16,757)
Purchases of property and equipment for trust accounts	(600,013)	(10,711,613)
Payments for lease and guarantee deposits	(848)	(3,000)
Proceeds from security deposits from tenants	47,550	34,358
Payments for security deposits to tenants	(44,414)	(10,804)
Proceeds from security deposits in trust accounts from tenants	596,892	303,617
Payments for security deposits in trust accounts to tenants	(361,834)	(822,329)
Other, net	—	(454)
Net cash provided by (used in) investing activities	(379,145)	(11,271,713)
Cash flows from financing activities		
Proceeds from short-term loans	—	5,000,000
Repayment for short-term loans	(5,000,000)	(9,000,000)
Proceeds from long-term debt	2,000,000	8,600,000
Repayment for long-term debt	(2,000,000)	(8,600,000)
Proceeds from issuance of investment units	—	7,909,412
Proceeds from issuance of investment corporation bonds	4,965,000	—
Distributions to unitholders	(4,004,794)	(3,809,625)
Net cash provided by (used in) financing activities	(4,039,794)	99,787
Net increase (decrease) in cash and cash equivalents	2,207,014	9,930,957
Cash and cash equivalents at beginning of period	33,815,385	23,884,427
Cash and cash equivalents at end of period (Note 4)	36,022,399	33,815,385

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from July 1, 2020 to December 31, 2020
and from January 1, 2020 to June 30, 2020

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, 2020, JEI held 34 properties with 331,111.56 square meters of total leasable space and had leases with 191 tenants excluding residential tenants.

2. Basis of Presentation

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

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

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

3. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Investment securities

Available-for-sale securities without market value are stated at cost determined by the moving average method.

Property and equipment including trust accounts

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

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

Intangible assets

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

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

Deferred assets

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

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

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

No property-related taxes were capitalized for the period from July 1, 2020 to December 31, 2020. The capitalized amount for the period from January 1, 2020 to June 30, 2020 was ¥61,820 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, 2020 and June 30, 2020 consisted of the following:

	As of December 31, 2020	As of June 30, 2020
	<i>(Thousands of yen)</i>	
Cash and cash deposits	19,651,182	17,620,815
Cash and deposits in trust	16,371,216	16,194,569
Cash and cash equivalents including trust accounts	<u>36,022,399</u>	<u>33,815,385</u>

5. Financial Instruments

For the periods from July 1, 2020 to December 31, 2020 from January 1, 2020 to June 30, 2020

Overview

(1) Policy for Financial Instruments

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

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations principally using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 95.4% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2020. 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, 2020). 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, 2020 and June 30, 2020 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of December 31, 2020			As of June 30, 2020		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	19,651,182	19,651,182	—	17,620,815	17,620,815	—
(2) Cash and deposits in trust	16,371,216	16,371,216	—	16,194,569	16,194,569	—
Total assets	<u>36,022,399</u>	<u>36,022,399</u>	<u>—</u>	<u>33,815,385</u>	<u>33,815,385</u>	<u>—</u>
(3) Short-term loans (Note C)	—	—	—	5,000,000	5,000,000	—
(4) Investment corporation bonds due within one year (Note C)	—	—	—	—	—	—
(5) Long-term debt due within one year (Note C)	13,510,000	13,567,552	57,552	6,000,000	6,042,447	42,447
(6) Investment corporation bonds (Note C)	38,000,000	38,127,360	127,360	33,000,000	33,075,225	75,225
(7) Long-term debt (Note C)	74,090,000	75,380,152	1,290,152	81,600,000	82,901,849	1,301,849
Total liabilities	<u>125,600,000</u>	<u>127,075,065</u>	<u>1,475,065</u>	<u>125,600,000</u>	<u>127,019,521</u>	<u>1,419,521</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.

5. Financial Instruments (continued)

Liabilities

(3) Short-term loans

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

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

(7) Long-term debt

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

If the loan is part of long-term debt, in the case of floating-rate debt hedged by an interest-rate swap, the fair value is calculated in a similar manner using the total principal and interest amount, treated in combination with the interest-rate swap, given that the interest-rate swap is subject to the special treatment of interest-rate swaps under Japanese GAAP. The fair value of long-term fixed-rate debt and long-term fixed-rate debt due within one year are calculated by applying a reasonably assumed interest rate as a discount rate, which was determined to be applicable for the borrowings under similar conditions.

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 18, "Derivative Transactions."

(Note B)

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

	<u>As of</u> <u>December 31, 2020</u>	<u>As of</u> <u>June 30, 2020</u>
	<i>(Thousands of yen)</i>	
① Investment securities*	44,729	44,729
② Security deposits from tenants**	1,200,885	1,197,748
③ Security deposits from tenants for trust accounts**	12,196,393	11,961,335

* Investment securities are not subject to fair value disclosure, since such financial instruments have no market price and measuring their fair value is considered extremely difficult.

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

5. Financial Instruments (continued)

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

	As of December 31, 2020					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	19,651,182	—	—	—	—	—
Cash and deposits in trust	16,371,216	—	—	—	—	—
Total	36,022,399	—	—	—	—	—

	As of June 30, 2020					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	17,620,815	—	—	—	—	—
Cash and deposits in trust	16,194,569	—	—	—	—	—
Total	33,815,385	—	—	—	—	—

(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, 2020					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	—	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	13,510,000	—	—	—	—	—
Investment corporation bonds	—	—	4,000,000	8,000,000	5,000,000	21,000,000
Long-term debt	—	13,750,000	15,770,000	9,770,000	11,750,000	23,050,000
Total	13,510,000	13,750,000	19,770,000	17,770,000	16,750,000	44,050,000

	As of June 30, 2020					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	5,000,000	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	6,000,000	—	—	—	—	—
Investment corporation bonds	—	—	2,000,000	10,000,000	—	21,000,000
Long-term debt	—	14,510,000	11,750,000	14,270,000	14,270,000	26,800,000
Total	11,000,000	14,510,000	13,750,000	24,270,000	14,270,000	47,800,000

6. Investment and Rental Property

For the periods from July 1, 2020 to December 31, 2020 from January 1, 2020 to June 30, 2020

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, 2020 and June 30, 2020 for such real estate for lease.

Carrying value			Fair value
As of July 1, 2020	Change during period (*1)	As of December 31, 2020	As of December 31, 2020
<i>(Thousands of yen)</i>			
257,186,710	(1,722,880)	255,463,830	318,162,000

Carrying value			Fair value
As of January 1, 2020	Change during period (*2)	As of June 30, 2020	As of June 30, 2020
<i>(Thousands of yen)</i>			
262,443,280	(5,256,569)	257,186,710	318,853,500

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

B) Details of change during period:

(*1) The decrease of ¥1,722,880 thousand during the period is mainly due to a decrease of ¥1,036,839 thousand related to the disposal of JEI Nishi-Honmachi Building and a decrease of ¥1,824,586 thousand for depreciation costs.

(*2) The decrease of ¥5,256,569 thousand during the period is mainly due to an increase of ¥4,901,720 thousand related to the acquisition of GRAND FRONT OSAKA (Umekita Plaza • South Building), an increase of ¥4,027,111 thousand related to the acquisition of GRAND FRONT OSAKA (North Building), and a decrease of ¥7,499,453 thousand related to the part disposal of Kowa Kawasaki Nishiguchi Building, a decrease of ¥5,560,522 thousand related to the part disposal of JEI Nishi-Honmachi Building and a decrease of ¥1,946,743 thousand for depreciation costs.

C) Fair value

Fair value as of December 31, 2020 and June 30, 2020 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at December 31, 2020 and June 30, 2020 consisted of the following:

	As of December 31, 2020			As of June 30, 2020		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,698,591	(2,007,160)	5,691,431	7,657,446	(1,890,646)	5,766,799
Machinery and equipment	6,253	(4,224)	2,028	6,253	(3,943)	2,309
Furniture and fixtures	59,934	(25,558)	34,375	52,930	(21,761)	31,169
Land	10,609,617	—	10,609,617	10,609,617	—	10,609,617
Construction in progress	1,396	—	1,396	1,396	—	1,396
Buildings and building improvements for trust accounts	113,248,694	(31,995,824)	81,252,869	112,803,395	(30,535,340)	82,268,055
Machinery and equipment for trust accounts	1,030,829	(523,993)	506,836	951,662	(497,773)	453,889
Furniture and fixtures for trust accounts	293,163	(171,158)	122,004	291,508	(158,044)	133,463
Land for trust accounts	148,021,777	—	148,021,777	148,707,325	—	148,707,325
Construction in progress for trust accounts	115,225	—	115,225	106,322	—	106,322
Total	<u>281,085,482</u>	<u>(34,727,920)</u>	<u>246,357,561</u>	<u>281,187,858</u>	<u>(33,107,509)</u>	<u>248,080,348</u>

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of December 31, 2020 and June 30, 2020 consisted of the following:

	As of December 31, 2020		As of June 30, 2020	
	Amount	Weighted-average interest rate (*1)	Amount	Weighted-average interest rate (*1)
Short-term loans:	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured loans from a bank due on March 9, 2021	—	0.25946%	5,000,000	0.26949%
Subtotal	—		5,000,000	
Long-term debt due within one year:				
Unsecured loans from a bank due on September 30, 2020	—	0.25276%	2,000,000	0.26841%
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*2)	2,000,000	1.60750% (*2)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*2)	2,000,000	0.98834% (*2)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.42083%	—	0.41965%
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% (*2)	—	0.81875% (*2)
Subtotal	<u>13,510,000</u>		<u>6,000,000</u>	

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

Long-term debt:

Unsecured loans from banks due on November 29, 2021	—	0.42083%	3,760,000	0.41965%
Unsecured loans from banks due on December 30, 2021	—	0.81875% (*2)	5,750,000	0.81875% (*2)
Unsecured loans from insurance companies due on January 31, 2022	3,000,000	0.35000% (*2)	3,000,000	0.35000% (*2)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% (*2)	2,000,000	1.15417% (*2)
Unsecured loans from a bank due on September 30, 2022	2,000,000	0.26586%	—	—
Unsecured loans from insurance companies due on November 30, 2022	1,000,000	0.35000% (*2)	1,000,000	0.35000% (*2)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% (*2)	5,750,000	0.93625% (*2)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*2)	2,000,000	1.20250% (*2)
Unsecured loans from an insurance company due on June 30, 2023	3,000,000	0.46000% (*2)	3,000,000	0.46000% (*2)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*2)	5,270,000	0.84375% (*2)
Unsecured loans from banks due on November 30, 2023	5,500,000	0.64801% (*2)	5,500,000	0.64801% (*2)
Unsecured loans from a bank due on May 31, 2024	3,500,000	0.68431% (*2)	3,500,000	0.68431% (*2)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*2)	5,270,000	0.96275% (*2)
Unsecured loans from an insurance company due on December 12, 2024	1,000,000	0.42000% (*2)	1,000,000	0.42000% (*2)
Unsecured loans from banks due on June 30, 2025	8,000,000	0.67400% (*2)	8,000,000	0.67400% (*2)
Unsecured loans from banks due on November 1, 2025	3,750,000	0.70600% (*2)	3,750,000	0.70600% (*2)
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*2)	6,400,000	0.83441% (*2)
Unsecured loans from banks due on March 31, 2026	3,750,000	0.57100% (*2)	3,750,000	0.57100% (*2)
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*2)	1,300,000	0.83071% (*2)
Unsecured loans from banks due on December 30, 2026	3,000,000	0.79100% (*2)	3,000,000	0.79100% (*2)
Unsecured loans from a bank due on July 31, 2028	2,000,000	0.68778% (*2)	2,000,000	0.68778% (*2)
Unsecured loans from banks due on January 31, 2029	5,600,000	0.71200% (*2)	5,600,000	0.71200% (*2)
Unsecured loans from an insurance company due on January 31, 2029	<u>1,000,000</u>	0.77000% (*2)	<u>1,000,000</u>	0.77000% (*2)
Subtotal	<u>74,090,000</u>		<u>81,600,000</u>	
Total	<u><u>87,600,000</u></u>		<u><u>92,600,000</u></u>	

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

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

The scheduled repayment amounts of long-term debt as of December 31, 2020 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	13,510,000	13,750,000	15,770,000	9,770,000	11,750,000	23,050,000

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, 2020, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of December 31, 2020 and June 30, 2020 are summarized as follows:

	As of December 31, 2020		As of June 30, 2020	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	2,000,000	0.45000%
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	2,000,000	0.39000%
Unsecured bond #11 due on April 23, 2027	7,000,000	0.65000%	7,000,000	0.65000%
Unsecured bond #12 due on April 20, 2023	2,000,000	0.24000%	2,000,000	0.24000%
Unsecured bond #13 due on April 20, 2033	2,000,000	0.95000%	2,000,000	0.95000%
Unsecured bond #14 due on August 10, 2028	4,000,000	0.63000%	4,000,000	0.63000%
Unsecured bond #15 due on September 9, 2039	1,000,000	1.07000%	1,000,000	1.07000%
Unsecured bond #16 due on October 29, 2035	5,000,000	0.75000%	—	—
Total	38,000,000		33,000,000	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2020 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Investment corporation bonds	—	—	4,000,000	8,000,000	5,000,000	21,000,000

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. Allowance for Temporary Difference Adjustment

For the Period from July 1,2020 to December 31, 2020

(1) Reason for recording reserve, related assets, initial difference and reserve amount

(Thousands of yen)

Related assets	Reason for recording reserve	Initial difference	Balance as of July 1, 2020	Reserve	Reversal	Balance as of December 31, 2020	Reason for reversal
Buildings and building improvements for trust accounts Land for trust accounts	Impairment loss	1,406,238	1,406,238	—	1,406,238	—	Sale of relevant asset

(2) Method of reversal

Impairment loss

Upon sale, the corresponding amount was reversed.

For the Period from January 1,2020 to June 30, 2020

(1) Reason for recording reserve, related assets, initial difference and reserve amount

(Thousands of yen)

Related assets	Reason for recording reserve	Initial difference	Balance as of January 1,2020	Reserve	Reversal	Balance as of June 30,2020	Reason for reversal
Buildings and building improvements for trust accounts Land for trust accounts	Impairment loss	1,406,238	—	1,406,238	—	1,406,238	—

(2) Method of reversal

Impairment loss

Upon sale, the corresponding amount is scheduled to be reversed.

12. Per Unit Information

Net assets per unit as of December 31, 2020 and June 30, 2020 were calculated based on the number of units outstanding as of each date, (1,353,000 units) and (1,353,000 units), respectively.

Net income per unit for the periods from July 1, 2020 to December 31, 2020 and January 1, 2020 to June 30, 2020 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,353,000 units) and (1,347,258 units), respectively.

Accordingly, net assets per unit were ¥112,652 as of December 31, 2020 and ¥112,441 as of June 30, 2020. Net income per unit was ¥3,171 for the period from July 1, 2020 to December 31, 2020 and ¥4,179 for the period from January 1, 2020 to June 30, 2020.

13. Income Taxes

JEI is subject to income taxes in Japan.

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

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from July 1, 2020 to December 31, 2020 and January 1, 2020 to June 30, 2020 is as follows:

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
Statutory tax rate	31.46%	31.46%
Reconciliation:		
Deductible distributions paid	(29.76%)	(22.37%)
Increase(decrease) in valuation reserve	—	(7.86%)
Reversal of reserve for reduction entry	(1.70%)	(1.23%)
Other	0.01%	0.01%
Effective tax rate	<u>0.01%</u>	<u>0.01%</u>

14. Breakdown of Revenues and Expenses

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,484,786	8,712,571
Common area revenues	1,249,688	1,266,554
Other rental revenues	264,384	270,975
Subtotal	<u>9,998,859</u>	<u>10,250,100</u>
Other		
Utilities revenues	654,642	642,291
Other revenues	76,052	121,123
Subtotal	<u>730,694</u>	<u>763,414</u>
Total rental revenues	<u>10,729,554</u>	<u>11,013,515</u>
Property operating expenses:		
Property management costs and fees	1,371,601	1,455,588
Utilities expenses	831,159	864,406
Property and other taxes	919,625	963,729
Insurance	20,494	22,556
Repairs and maintenance	282,172	214,894
Depreciation	1,824,586	1,946,743
Other	237,725	229,299
Total property operating expenses	<u>5,487,364</u>	<u>5,697,217</u>
Profit	<u>5,242,190</u>	<u>5,316,297</u>

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

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
	<i>(Thousands of yen)</i>	
JEI Nishi-Honmachi Building		
Proceeds from sale of real estate	1,351,500	7,208,000
Cost of sales of real estate	1,036,839	5,560,522
Other related sale expenses	421	2,250
Gain on sale of real estate	<u>314,238</u>	<u>1,645,227</u>

	For the period from July 1, 2020 to December 31, 2020	For the period from January 1, 2020 to June 30, 2020
	<i>(Thousands of yen)</i>	
Kowa KawasakiNishiguchi Building		
Proceeds from sale of real estate	—	7,560,857
Cost of sales of real estate	—	7,499,453
Other related sale expenses	—	2,557
Gain / Loss on sale of real estate	<u>—</u>	<u>58,846</u>

16. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2020 and June 30, 2020, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of December 31, 2020	As of June 30, 2020
	<i>(Thousands of yen)</i>	
Due within one year	1,965,230	1,922,735
Due after one year	3,316,667	3,717,302
Total	5,281,898	5,640,038

17. Derivative Transactions

Derivative Transactions as of December 31, 2020

(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, 2020 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	46,140,000	40,390,000	*	/

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

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

Derivative Transactions as of June 30, 2020

(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, 2020 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	46,140,000	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."

18. Related Party Transactions

For the period from July 1, 2020 to December 31, 2020

(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>
Shuichiro Kayama	Payment of asset management fees to JEAM	470,777	Accounts payable	399,036

For the period from January 1, 2020 to June 30, 2020

(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	530,406	Accounts payable	465,200

19. Segment Information

For the periods from July 1, 2020 to December 31, 2020 from January 1, 2020 to June 30, 2020

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.

20. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law.

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

Consequently, JEI set income available for distributions of dividends at ¥4,059,000,000, which is the maximum integral multiple of the 1,353,000 units issued, but not exceeding ¥4,059,247,002, which is the amount of retained earnings at December 31, 2020.

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

On February 17, 2021, the Board of Directors approved a resolution to make a cash distribution of ¥3,000 per unit aggregating to ¥4,059,000,000 to unitholders of record as of December 31, 2020.

21. Accounting Standards Issued But Not Yet Applied

As of December 31, 2020, JEI has not yet applied the following accounting standards and their implementation guidance.

- (1) Accounting Standard for Revenue Recognition and its Implementation Guidance
 - “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29, March 31, 2020)
 - “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)
 - “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

- (a) Overview

Conducting a joint project to clarify the comprehensive principles for recognizing revenues, the International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the U.S. issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 became effective from fiscal periods beginning on or after January 1, 2018 and Topic 606 became effective from fiscal periods beginning after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and issued a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 in order to enhance comparability of financial statements, which is one of the benefits of consistency with IFRS 15. In addition, for any item to be considered arising from business practices in Japan, alternative treatments shall be added to the extent that comparability is not impaired.

- (b) Scheduled date of application

JEI will apply the aforementioned standard and guidance from the beginning of the fiscal period ending December 31, 2021.

- (c) Effect of application of the new accounting standard

The effect of application of the aforementioned standard on JEI’s financial statements is currently under evaluation.

- (2) Accounting Standard for Fair Value Measurement and its Implementation Guidance
 - “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
 - “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
 - “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

- (a) Overview

Developing accounting standards for fair value measurement, IASB and FASB issued new common fair value measurement in May 2011 (IFRS 13 by IASB and update to Topic 820 by FASB). IFRS 13 became effective from fiscal periods beginning on or after January 1, 2013 and Topic 820 became effective from fiscal periods beginning after December 15, 2011. Under these circumstances, ASBJ also developed an accounting standard for fair value measurement and issued a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to

generally adopt all the principles of IFRS 13 in order to enhance comparability of financial statements among domestic and overseas companies, by applying the consistent measurement methods. However, for any item to be considered arising from business practices in Japan, other treatment for the item shall be determined to the extent that comparability is not impaired.

(b) Scheduled date of application

JEI will apply the aforementioned standard and guidance from the beginning of the fiscal period ending December 31, 2021.

(c) Effect of application of the new accounting standard

The effect of application of the aforementioned standard on JEI's financial statements is currently under evaluation.

(3) Accounting Standard for Disclosure of Accounting Estimates

“Accounting Standard for Disclosure of Accounting Estimates”(ASBJ Statement No.31, March 31, 2020)

(a) Overview

The ASBJ issued this accounting standard in response to requests to develop an accounting standard which requires a footnote information similar to the disclosure requirement as to “key sources of estimation uncertainty” prescribed in Paragraph 125 of the international Accounting Standard (“IAS”) 1 “Presentation of Financial Statements” issued in 2003, since it is very useful information for users of financial statements.

The basic policy of the ASBJ in developing this accounting standard is not to expand the number of individual notes, but to set out the disclosure principles. Thus, the entity shall judge the specific content of disclosure details based on the purpose of disclosure. In developing this standard, the ASBJ referred to the provisions of Paragraph 125 of IAS 1.

(b) Scheduled date of application

JEI will apply the aforementioned standard from the end of the fiscal period ending June 30, 2021.

(4) Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

“Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”(ASBJ Statement No.24, March 31, 2020)

(a) Overview

This accounting standard was developed to enhance the footnote information as to the accounting principles and procedures adopted in cases where related provisions of accounting standards are not clear. The accounting standard requires to take over the provisions of the explanatory paragraph of Corporate Accounting Principles (Note 1-2) in order not to affect the current practice when related provisions of accounting standards are clear.

(b) Scheduled date of application

JEI will apply the aforementioned standard from the end of the fiscal period ending June 30, 2021.

22. Significant Subsequent Event

Not applicable.

23. Additional Information

Not applicable.

24. Information on Allowance for Temporary Difference Adjustment

For the period from July 1, 2020 to December 31, 2020

Not applicable.

For the period from January 1, 2020 to June 30, 2020

(1) Reason for reversal, related assets and amounts

(Thousands of yen)

Related assets	Reason of reversal	Provision of allowance for temporary difference adjustment
Buildings and building improvements for trust accounts Land for trust accounts	Sales	(1,406,238)

(2) Method of reversal

Impairment loss

Upon sale, the corresponding amount is scheduled to be reversed.