

Asset Management Report for the 28th Period

(Semi-Annual Report for the 28th Period)

From January 1, 2020, to June 30, 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 28th period (from January 1, 2020, to June 30, 2020).

During the 28th period, we transferred part of JEI Nishi-Honmachi Building and Kowa Kawasaki Nishiguchi Building as the final phase of asset replacement which we worked on under the aim of improving portfolio quality, and as for JEI Nishi-Honmachi Building, all of our ownership interest has been transferred as of the beginning of the 29th period. Meanwhile, we newly acquired ownership interest in GRAND FRONT OSAKA, a landmark situated in front of Osaka Station/Umeda Station, from Nippon Steel Kowa Real Estate Co., Ltd., the sponsor.

On the leasing front, our efforts to attract new tenants with a view to increase the rent level as well as to conclude upward rent revisions with existing tenants, all the while maintaining extremely high occupancy rates in the upper 99% range, have resulted in record-high rental revenues.

Furthermore, on the financial front, JEI conducted a public offering for the first time in three and a half years and was able to procure a total of 7.9 billion yen (including overallotment). In addition to lowering LTV significantly by combining property acquisition and transfer, we also realized the extension of borrowing periods, reduction of financial costs, and diversification of repayment dates by refinancing borrowings. Moreover, we worked to improve our financial stability by accumulating 5 billion yen of liquidity on hand in preparation for an uncertain future.

As a result, in the 28th period, JEI recorded operating revenue of 12,717 million yen, operating income of 6,290 million yen, and net income of 5,631 million yen, and distribution per unit increased by 42 yen from the previous period to reach 2,960 yen.

About Future Asset Management

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

In the office building leasing market, we also think there is a need to monitor closely 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 telework, among other factors.

Under such an environment, JEI intends to acquire competitive properties by means of well-balanced investments based on size and target area while shifting its focus from asset replacement to expansion of asset size for external growth. JEI will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company newly cultivate and refine property information sources in an effort to gain access to information on disposition of properties in a prompt manner and thereby continue seizing the right business opportunities.

Furthermore, 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 develop management that is one step ahead in regard to understanding tenant needs, and by doing so, JEI will continue to provide "offices of choice." 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		24th Period January 1, 2018, to June 30, 2018	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
Operating revenue	(Millions of yen)	10,535	10,657	10,668	10,890	12,717
(Rental revenues)	(Millions of yen)	(10,535)	(10,657)	(10,668)	(10,890)	(11,013)
Operating expenses	(Millions of yen)	6,509	6,373	6,349	7,978	6,426
(Property operating expenses)	(Millions of yen)	(5,754)	(5,780)	(5,747)	(5,906)	(5,697)
Operating income	(Millions of yen)	4,025	4,284	4,318	2,912	6,290
Ordinary income	(Millions of yen)	3,340	3,597	3,691	2,247	5,631
Net income	(Millions of yen)	3,339	3,596	3,690	2,246	5,631
Total assets	(Millions of yen)	285,008	285,400	286,172	288,790	293,532
(Period-on-period change)	(%)	(1.0)	(0.1)	(0.3)	(0.9)	(1.6)
Net assets	(Millions of yen)	143,786	143,727	143,822	142,377	152,133
(Period-on-period change)	(%)	(-0.1)	(-0.0)	(0.1)	(-1.0)	(6.9)
Unitholders' capital (Note 1)	(Millions of yen)	139,972	139,972	139,972	139,972	147,907
Total outstanding investment units	(units)	1,305,700	1,305,700	1,305,700	1,305,700	1,353,000
Net assets per unit	(yen)	110,122	110,076	110,149	109,042	112,441
Net income per unit (Note 2)	(yen)	2,557	2,754	2,826	1,720	4,179
Total distribution	(Millions of yen)	3,655	3,595	3,691	3,810	4,004
Distribution per unit	(yen)	2,800	2,754	2,827	2,918	2,960
(Profit distribution per unit)	(yen)	(2,800)	(2,754)	(2,827)	(1,841)	(2,960)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(1,077)	(-)
(Note 3)						
Return on assets (Note 4)	(%)	1.2	1.3	1.3	0.8	1.9
(Annualized rate)	(%)	(2.4)	(2.5)	(2.6)	(1.6)	(3.9)
Return on equity (Note 5)	(%)	2.3	2.5	2.6	1.6	3.8
(Annualized rate)	(%)	(4.7)	(5.0)	(5.2)	(3.1)	(7.7)
Capital ratio (Note 6)	(%)	50.5	50.4	50.3	49.3	51.8
(Period-on-period change)	(%)	(-0.6)	(-0.1)	(-0.1)	(-1.0)	(2.5)
Payout ratio (Note 7)	(%)	109.5	100.0	100.0	107.0	71.1
Number of investment properties	(properties)	30	31	31	33	35
Number of tenants	(tenants)	202	204	204	200	193
Total leasable area (Note 8, 9)	(m ²)	341,247	343,830	343,830	345,940	332,702
Occupancy rate	(%)	99.6	99.6	99.4	99.6	99.6
Depreciation	(Millions of yen)	1,926	1,920	1,935	1,929	1,946
Capital expenditure	(Millions of yen)	867	809	1,285	1,726	806
Net operating income (NOI) (Note 10)	(Millions of yen)	6,707	6,797	6,856	6,913	7,263
Funds from operation (FFO) per unit (Note 11)	(yen)	4,159	4,225	4,309	4,367	4,341
FFO multiples (Note 12)	(times)	17.0	17.7	18.2	20.3	14.4
Debt service coverage ratio (DSCR) (Note 13)	(times)	11.1	11.7	12.5	9.4	17.0
Interest-bearing debt	(Millions of yen)	126,500	126,600	126,600	129,600	125,600
Loan-to-value (Note 14)	(%)	44.4	44.4	44.2	44.9	42.8
Number of days in operation	(days)	181	184	181	184	182

(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)

(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 June 30, 2020, JEI settled its twenty-eighth period.

1) Business conditions and results

In the 28th period (ended June 2020), the world economy experienced a downturn as economic activity was suppressed due to measures such as lockdowns aimed at preventing the spread of the novel coronavirus (COVID-19). On the other hand, as various countries around the world implement fiscal policies to support their economies and economic activity resumes, economic indicators are showing signs of improvement, although concerns about a second wave of infections are rising.

In the U.S., the Federal Reserve Board continues its posture of monetary easing as 10-year government bonds have fallen significantly, while long-term interest rates have reached a historically low level.

In Japan, 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 to the environment for fund procurement, market participation by overseas investors, private funds, private REITs, and general companies, etc., continues, and transaction yields are at a low level as transaction prices remain high.

In the office building leasing market, according to Miki Shoji Co., Ltd. the vacancy rate in the five central wards of Tokyo remained low at the 1% level as of the end of June 2020, and average rents increased for the seventy-eighth consecutive month. Under these circumstances, we were able to achieve a period-end occupancy rate (Note 1) of 99.6% and an increase in rent revenue of 98 million yen for existing properties (excluding properties acquired in the 27th and 28th periods) by capturing demand for floor expansions within same buildings and relocation for expansion and better location, etc., while also strengthening efforts for upward rent revisions to suit the value of properties for existing tenants upon contract renewal.

The total number of properties owned and managed by JEI at the end of the current period was 35 with a total acquisition price of 273.3 billion yen and total leasable area of 332,701.82 m² (100,642.30 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.

During the 28th period, JEI conducted a public offering in January, procuring approximately 7.9 billion yen in funds for the acquisition of GRAND FRONT OSAKA, etc., and refinanced 8.6 billion yen of maturing borrowings to extend the average borrowing period from 6.8 years to 8.9 years. In addition, in April, we prepaid 4 billion yen in short-term loans using funds obtained from the public offering and sales of properties.

As a result, as of the end of the 28th period, the average remaining period of interest-bearing debt (Note 2) was 4.5 years (extended by 0.3 years from the end of the previous period), the period-end average interest-bearing debt interest rate (Note 3) was 0.75% (down 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 42.8% (down 2.1% 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 June 30, 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.

For instance, in order to reduce our environmental impact, JEI has set targets to reduce energy consumption and CO₂ emission 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% when comparing the rates between fiscal 2015 and fiscal 2019 against the rates between fiscal 2020 and fiscal 2024, and JEI is working to upgrade its 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 77.6% of the entire portfolio (as of June 30, 2020; based on leasable area excluding land with leasehold interest).

Such initiatives for sustainability by JEI earned high recognition including a fifth consecutive “Green Star” rating (Note 7) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 6) Real Estate Assessment conducted in 2019, as well as a fourth consecutive “4 Star” or higher 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. 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.

4) Financial results and distribution highlights

For the period under review, JEI posted 12,717 million yen in operating revenue, 6,290 million yen in operating income, 5,631 million yen in ordinary income, and 5,631 million yen in net income

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) for the reversal of allowance for temporary difference adjustment (as stipulated by Article 2 Paragraph 2 Item 30 of the Ordinance on Accountings of Investment Corporations) and with the purpose of stabilizing distribution levels, JEI conducted a reserve for reduction entry under the special provisions of the tax system in the case of the replacement of specified assets.

As a result, distribution per unit was 2,960 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 1,406 million yen for the reversal of allowance for temporary difference adjustment and 219 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 current period 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 and 15th 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, which was acquired.

(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.

Asset Management Report for the 28th Period (Semi-Annual Report for the 28th Period)

- (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 28th 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)	24th period (June 2018)	25th period (December 2018)	26th period (June 2019)	27th period (December 2019)	28th period (June 2020)
	Highest (yen)	147,400	156,200	164,500	189,600	200,600
	Lowest (yen)	131,400	141,000	147,600	159,600	75,400

(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

Considering 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 1,406,238,900 yen for the reversal of allowance for temporary difference adjustment and 219,594,343 yen for reserve for reduction entry, which resulted in a distribution per unit of 2,960 yen.

Fiscal period	24th period	25th period	26th period	27th period	28th period
Accounting period	January 1, 2018, to June 30, 2018	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
Unappropriated retained earnings at end of period (Thousands of yen)	3,339,461	3,596,244	3,691,310	2,246,223	5,631,594
Retained income (Thousands of yen)	—	346	97	469	220,475
Total cash distribution amount (Thousands of yen)	3,655,960	3,595,897	3,691,213	3,810,032	4,004,880
(Cash distributions per unit) (yen)	(2,800)	(2,754)	(2,827)	(2,918)	(2,960)
Of which, total profit distributions (Thousands of yen)	3,655,960	3,595,897	3,691,213	2,403,793	4,004,880
(Profit distribution per unit) (yen)	(2,800)	(2,754)	(2,827)	(1,841)	(2,960)
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 investment environment

In the real estate market, although real estate transaction prices are expected to remain high backed by factors such as a favorable fund procurement environment and a vigorous appetite for investment by market participants, we believe that there is a need to monitor closely the impacts of COVID-19, the dispute between the U.S. and China, and the U.S. presidential election, etc.

In the office building leasing market, demand is expected to remain firm, although we will need to pay close attention to trends in corporate earnings and changes in tenant needs, etc., due to the impact of COVID-19.

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 enhancing further interaction and collaboration with sponsor companies and 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.

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 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 over the medium to long term. Although we believe that the impact of the spread of COVID-19 is unlikely to have an immediate and significant impact on revenue, we will continue to monitor the situation closely.

C. Financial strategy

JEI will consistently work on stable and sound financial operations by procuring funds with a 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 types of procurement such as green bonds 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.

In addition, we will develop a Sustainability Finance Framework that will take our ESG initiatives one step further by adding social aspects to our environmentally friendly green bond framework, and we plan to refinance our debt with a sustainability loan in September 2020.

(6) Subsequent Events

Not applicable.

(Reference Material)

Borrowing of Funds (Sustainability Loan)

JEI concluded a loan agreement on August 20, 2020, as described below.

<Overview of Borrowing>

Lender	Mizuho Bank, Ltd.
Loan amount	2,000,000,000 yen
Interest rate	Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) + 0.20000%
Drawdown date	September 30, 2020
Principal repayment date	September 30, 2022
Principal repayment method	To be repaid in full on the principal repayment date
Collateral	Unsecured / Non-guaranteed

2. Outline of the Investment Corporation

(1) Investment Units

Fiscal period	24th As of June 30, 2018	25th As of December 31, 2018	26th As of June 30, 2019	27th As of December 31, 2019	28th As of June 30, 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	1,305,700 units	1,353,000 units
Unitholders' capital	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen	147,907 million yen
Number of unitholders	7,189 individuals	6,741 individuals	6,393 individuals	6,046 individuals	6,746 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 June 30, 2020, are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account) (Note)	1-8-11 Harumi, Chuo-ku, Tokyo	368,218	27.21
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	220,509	16.30
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	62,612	4.63
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) (Note)	Harumi Triton Square Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	52,254	3.86
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.	18,242	1.35
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2-5-2 Marunouchi, Chiyoda-ku, Tokyo	16,430	1.21
Nomura Securities Co., Ltd.	1-9-1 Nihonbashi, Chuo-ku, Tokyo	12,874	0.95
JP MORGAN CHASE BANK 385771	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	12,471	0.92
Total		855,830	63.25

(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 June 30, 2020 (Thousands of yen)
Executive Director	Hidehiko Ogawa (Note 2)	–	–
Executive Director	Shuichiro Kayama (Note 3)	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	–	14,700 (Note 4)

(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) Hidehiko Ogawa retired as Executive Director on May 31, 2020.

(Note 3) Shuichiro Kayama was elected as Executive Director at the ninth general unitholders' meeting held on May 29, 2020, and assumed office on June 1, 2020.

(Note 4) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 28th period (11,000 thousand yen), the fee for the English financial statements audit, and the preparation of a comfort letter upon the issuance of new investment units in January 2020.

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 June 30, 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)	27th Period (As of December 31, 2019)		28th Period (As of June 30, 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	10,997	3.8	10,966	3.7
		Area II	5,603	1.9	5,532	1.9
		Area IV	1,628	0.6	1,633	0.6
Trust beneficiary interest in real estate		Area I	104,923	36.3	104,631	35.6
		Area II	8,495	2.9	11,818	4.0
		Area III	92,056	31.9	84,140	28.7
		Area IV	21,300	7.4	21,158	7.2
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,437	6.0	17,305	5.9
Total			262,443	90.9	257,186	87.6
Deposits in bank and other assets			26,347	9.1	36,346	12.4
Total assets			288,790	100.0	293,532	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 June 30, 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	26,758	11,021.03	11,021.03	100.0	5.2	Office building
Nisseki Yokohama Building	22,909	40,440.72	40,440.72	100.0	10.7	Office building
Omori Bellport D	20,779	25,801.66	25,801.66	100.0	8.4	Office building
Kowa Kawasaki Nishiguchi Building	19,272	24,944.17	24,944.17	100.0	8.4	Office building
HAMARIKYU INTERCITY	17,305	19,718.11	19,456.12	98.7	6.9	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,434	25,043.93	25,043.93	100.0	7.3	Office building
Mansard Daikanyama	11,245	5,420.80	5,264.90	97.1	3.2	Office building
Kowa Nishi-Shimbashi Building	10,966	8,949.04	8,949.04	100.0	(Note 4)	Office building
Kowa Kawasaki Higashiguchi Building	9,832	18,612.72	18,612.72	100.0	(Note 4)	Office building
Daiba Garden City Building	9,584	12,122.85	12,122.85	100.0	3.0	Office building
Total	161,088	192,075.03	191,657.14	99.8	—	—

(Note 1) Leasable area refers to area available for lease of which ownership is attributable to JEI as of June 30, 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 June 30, 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 June 30, 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 June 30, 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	20,779
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,500	9,017
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,030	8,109
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	30,100	26,758
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,400	4,665
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,200	9,584
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,900	17,305
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,200	1,727
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	13,300	10,966
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,900	11,245
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,770	6,540
I-17	Bizcore Akasaka-mitsuke	3-1-2 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,610	6,203
Area I				163,810	132,903
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	6,170	5,532
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	864	1,038
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	5,070	4,895
II-5	GRAND FRONT OSAKA (North Building)	3-1 Ohbuka-cho, Kita-ku, Osaka City, Osaka	Trust beneficiary interest in real estate	4,140	4,019
Area II				18,714	17,350
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,300	12,434
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	10,200	9,832
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,750	4,960
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,730	4,168
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,650	2,191
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,400	19,272
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,580	1,612
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	9,400	6,090
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	30,400	22,909
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	672	667
Area III				102,082	84,140
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,400	2,819
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,850	2,543
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	8,950	5,097
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,460	2,200
IV-6	Daiwa Minami-morimachi Building	2-6, Kita Tenjinbashi, Kita-ku 2-chome, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,200	4,189
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,940	1,459
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,290	2,847
IV-9	Senshin Building	1-6-27 Chuo, Aoba-ku, Sendai-shi, Miyagi	Real estate	1,670	1,633
Area IV				33,760	22,792
Total				318,366	257,186

Asset Management Report for the 28th Period (Semi-Annual Report for the 28th Period)

(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 June 30, 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	27th Period July 1, 2019, to December 31, 2019				28th Period January 1, 2020, to June 30, 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	948	8.7	1	100.0	925	8.4
I-2	Shiba 2-Chome Building	2	99.2	373	3.4	2	99.2	373	3.4
I-3	JEI Hamamatsucho Building	1	100.0	232	2.1	1	100.0	244	2.2
I-8	AKASAKA INTERCITY	14	100.0	614	5.6	13	100.0	571	5.2
I-9	Kowa Shirokanedai Building	1	100.0	191	1.8	1	100.0	183	1.7
I-10	Daiba Garden City Building	1	100.0	334	3.1	1	100.0	333	3.0
I-12	HAMARIKYU INTERCITY	1	98.8	727	6.7	1	98.7	762	6.9
I-13	Shintomicho Building	11	100.0	73	0.7	11	100.0	73	0.7
I-14	Kowa Nishi-Shimbashi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	10	97.4	299	2.8	10	97.1	351	3.2
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	88.9	48	0.4	1	100.0	145	1.3
	Area I	45	99.3	-	-	44	99.6	-	-
II-1	NHK Nagoya Housou-Center Building	37	100.0	387	3.6	36	100.0	382	3.5
II-2	JEI Nishi-Honmachi Building	1	100.0	243	2.2	1	97.2	129	1.2
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)
II-5	GRAND FRONT OSAKA (North Building)	-	-	-	-	5	98.8	(Note 2)	(Note 2)
	Area II	39	100.0	-	-	45	99.5	-	-
III-1	Musashikosugi Tower Place	40	100.0	822	7.6	38	100.0	803	7.3
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-5	Kawasaki Nisshincho Building	1	100.0	222	2.0	1	100.0	226	2.1
III-7	JEI Ryogoku Building	1	100.0	114	1.1	1	100.0	114	1.0
III-9	Kowa Kawasaki Nishiguchi Building	1	100.0	984	9.0	1	100.0	924	8.4
III-10	Pacific Square Sengoku	1	100.0	54	0.5	1	100.0	60	0.5
III-11	Core City Tachikawa	1	100.0	316	2.9	1	100.0	322	2.9
III-12	Nisseki Yokohama Building	1	100.0	1,175	10.8	1	100.0	1,173	10.7
III-13	Yokohama Bentendori Dai-ichi Seimei Building	1	100.0	41	0.4	1	100.0	41	0.4
	Area III	49	100.0	-	-	47	100.0	-	-
IV-2	JEI Kyobashi Building	1	96.8	182	1.7	1	100.0	175	1.6
IV-3	JEI Hiroshima Hacchobori Building	1	96.0	156	1.4	1	96.0	148	1.3
IV-4	SE Sapporo Building	1	100.0	417	3.8	1	100.0	410	3.7
IV-5	Aoba-dori Plaza	51	99.4	195	1.8	50	98.8	192	1.7
IV-6	Daiwa Minami-morimachi Building	10	100.0	199	1.8	1	100.0	196	1.8
IV-7	JEI Naha Building	1	100.0	84	0.8	1	100.0	86	0.8
IV-8	Hiroshima Dai-ichi Seimei OS Building	1	100.0	143	1.3	1	95.9	138	1.3
IV-9	Senshin Building	1	98.4	17	0.2	1	91.0	48	0.4
	Area IV	67	98.9	-	-	57	98.4	-	-
	Total	200	99.6	10,890	100.0	193	99.6	11,013	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 28th Period (Semi-Annual Report for the 28th 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.

(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	46,140,000	—
	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), 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 right to demand restitution (Note 3) of Knowledge Capital's funds. Moreover, the above common shares and restitution rights may not be transferred separately from ownership 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	Quantity	Book value (Thousands of yen)		Assessed value (Thousands of yen) (Note)		Valuation gains/losses	Remarks
		Unit price	Amount	Unit price	Amount		
Restitution rights of funds	1	—	2,659	—	2,659	—	—

(Note) The assessed value is stated as 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), JEI acquired restitution rights for 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. Moreover, the above restitution rights may not be transferred separately from ownership in GRAND FRONT OSAKA (Umekita Plaza-South Building).

(Note 2) The assessed value is stated as 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 28th period (ended June 30, 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 June 30, 2020	Total of advance payment
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 3)	From January 2020 To December 2020	445	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of restrooms (Phase 2)	From July 2020 To December 2020	155	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Maintenance of room 101 for rent	From September 2020 To November 2020	57	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Sealing and cleaning of west facing wall	From September 2020 To December 2020	56	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Newly construct OA floor	From September 2020 To October 2020	38	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Renovation of multi-level parking lot	From November 2020 To December 2020	37	—	—
JEI RYOGOKU BUILDING	Sumida-ku, Tokyo	Update of emergency generator	From September 2020 To December 2020	27	—	—
JEI Naha Building	Naha-shi, Okinawa	Update of power receiving and transforming equipment	From December 2020 To December 2020	20	—	—
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of power receiving and transforming equipment (Phase 1)	From November 2020 To November 2020	7	—	—

(2) Capital Expenditures for the Six Months Ended June 30, 2020

The following table shows constructions conducted by JEI during the period ended June 30, 2020, and expensed as capital expenditures. Capital expenditures for the period ended June 30, 2020, were 806 million yen and, when combined with repairs and maintenance costs of 214 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,021 million yen.

Property name	Location	Purpose	Scheduled term	Amount Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 3-2)	From December 2019 To June 2020	204
Omori Bellport D	Shinagawa-ku, Tokyo	Update of heat source equipment of heat supply facility (Phase 1)	From August 2019 To March 2020	68
SE Sapporo Building	Sapporo-shi, Hokkaido	Update of automatic fire alarm system	From April 2019 To March 2020	57
Omori Bellport D	Shinagawa-ku, Tokyo	Update of heat source equipment, update of special power receiving and transforming equipment (Phase 1)	From August 2019 To March 2020	46
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of restrooms (Phase 1)	From February 2020 To June 2020	46
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Update of lighting in common spaces on standard floors (conversion to LED)	From January 2020 To June 2020	35
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Application of waterproof coating material on exterior walls	From May 2020 To June 2020	9
Other constructions			–	338
Total				806

(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	24th Period January 1, 2018, to June 30, 2018	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
Reserved funds at beginning of period	289	258	290	284	300
Increase	636	469	411	899	1,553
Decrease	667	437	417	884	1,380
Reserved funds at the end of period	258	290	284	300	473

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	27th Period July 1, 2019, to December 31, 2019	28th Period January 1, 2020, to June 30, 2020
(a) Asset management fees	390,335	530,406
(b) Custodian fees	21,332	21,515
(c) Administrative service fees	38,715	40,720
(d) Compensation for directors	6,220	5,580
(e) Accounting auditor fees	11,000	11,000
(f) Other	76,044	120,239
Total	543,647	729,461

(2) Borrowings

Borrowings by each financing source as of the end of the 28th period (ended June 30, 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 8, 2019	5,000,000	—	0.26983	March 8, 2020	Lump-sum	Redemption of investment corporation bonds	Unsecured and non-guaranteed	
		October 1, 2019	4,000,000	—	0.27254	October 1, 2020 (Note 1)		Acquisition of real estate		
		March 9, 2020	—	5,000,000	0.26949	March 9, 2021		Repayment of existing borrowing		
Sub Total			9,000,000	5,000,000						
Long-term loans due within one year	Development Bank of Japan Inc.	January 31, 2012	2,000,000	—	1.60000 (Note 2)	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed	
	Mizuho Bank, Ltd.	June 28, 2013	500,000	—	1.36400 (Note 2)					
	Sumitomo Mitsui Banking Corporation		1,000,000	—						
	Mizuho Trust & Banking Co., Ltd.		600,000	—						
	MUFG Bank, Ltd.		500,000	—						
	The Dai-ichi Life Insurance Company Limited		1,000,000	—						1.31261 (Note 2)
	Mizuho Bank, Ltd.	December 27, 2013	675,000	—	1.00000 (Note 2)					
	The Norinchukin Bank		1,162,500	—						
	MUFG Bank, Ltd.		675,000	—						
	Mizuho Trust & Banking Co., Ltd.		487,500	—						
	Mizuho Bank, Ltd.	September 28, 2018	2,000,000	2,000,000	0.26841					September 30, 2020
	Development Bank of Japan Inc.	June 28, 2013	—	2,000,000	1.60750 (Note 2)					June 30, 2021
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	—	2,000,000	0.98834 (Note 2)					
Subtotal			10,600,000	6,000,000						

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Development Bank of Japan Inc.	June 28, 2013	2,000,000	—	1.60750 (Note 2)	June 30, 2021	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	—	0.98834 (Note 2)				
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.41965	November 29, 2021			
	MUFG Bank, Ltd.		540,000	540,000					
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Sumitomo Mitsui Trust Bank Limited		1,620,000	1,620,000					
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.81875 (Note 2)	December 30, 2021			
	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					
	Sompo Japan Insurance Inc. (Note 4)	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			
	Sompo Japan Insurance Inc. (Note 4)	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.	March 8, 2019	500,000	500,000	0.57100 (Note 2)				
	Mizuho Bank, Ltd.		850,000	850,000					
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	The Norinchukin Bank	September 29, 2017	1,450,000	1,450,000	0.83071 (Note 2)	September 30, 2026			
	Development Bank of Japan Inc.		1,300,000	1,300,000					
	Mizuho Bank, Ltd.		1,300,000	1,300,000					
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation	June 29, 2018	700,000	700,000	0.79100 (Note 2)	December 30, 2026			
	Development Bank of Japan Inc.		—	2,000,000					
	Mizuho Bank, Ltd.		—	1,175,000					
	MUFG Bank, Ltd.		—	1,175,000					
Sumitomo Mitsui Banking Corporation	January 31, 2020	—	1,000,000	0.71200 (Note 2)	January 31, 2029				
Mizuho Trust & Banking Co., Ltd.		—	1,087,500						
The Norinchukin Bank		—	1,162,500						
The Dai-ichi Life Insurance Company Limited		—	1,000,000						
Subtotal		77,000,000	81,600,000						
Total		96,600,000	92,600,000						

(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 April 30, 2020.

(Note 4) Sompo Japan Nipponkoa Insurance Inc. changed its name to Sompo Japan Insurance Inc. as of April 1, 2020

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 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)
	Sub Total			4,000,000	4,000,000				
Total				33,000,000	33,000,000				

(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 (Note 1)	Transfer date	Transfer price (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Trust beneficiary interest in real estate	GRAND FRONT OSAKA (Umekita Plaza: South Building) (equivalent of 2.45% co-ownership)	February 3, 2020	4,868	—	—	—	—
Trust beneficiary interest in real estate	GRAND FRONT OSAKA (North Building) (equivalent of 2.45% co-ownership)	February 3, 2020	3,982	—	—	—	—
Trust beneficiary interest in real estate	JEI Nishi-honmachi Building (quasi co-ownership interest 80.0%)	—	—	March 27, 2020	7,208	5,560	1,645
Trust beneficiary interest in real estate	Kowa Kawasaki Nishiguchi Building (quasi co-ownership interest 30.0%)	—	—	June 26, 2020	7,560	7,499	58
Total		—	8,851	—	14,768	13,059	1,704

(Note 1) The acquisition/transfer price indicates the amount excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition/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

Asset type	Purchase		Sale		Period-end balance	
	Number of shares	Amount (Thousands of yen) (Note)	Number of shares	Amount (Thousands of yen)	Number of shares	Amount (Thousands of yen) (Note)
Shares	833 shares	41,650	—	—	833 shares	41,650
Restitution rights of funds	—	2,695	—	—	—	2,695
Total	833 shares	44,345	—	—	833 shares	44,345

(Note) Purchase and period-end balance amount indicate the amount stated in the purchase agreement.

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

1) Real estate, etc.

Acquisition or transfer	Name of property	Type of asset	Acquisition/transfer date	Acquisition/transfer price (Millions of yen) (Note 1)	Appraisal value (Millions of yen)	Appraiser	Appraisal date
Acquisition	GRAND FRONT OSAKA (Umekita Plaza South Building) (equivalent of 2.45% co-ownership)	Trust beneficiary interest in real estate	February 3, 2020	4,868	5,050	Japan Valuers Co., Ltd.	November 1, 2019
Acquisition	GRAND FRONT OSAKA (North Building) (equivalent of 2.45% co-ownership)	Trust beneficiary interest in real estate	February 3, 2020	3,982	4,140	Japan Valuers Co., Ltd.	November 1, 2019
Transfer	JEI Nishi-honmachi Building (quasi co-ownership interest 80.0%)	Trust beneficiary interest in real estate	March 27, 2020	7,208	4,688 (Note 2)	Daiwa Real Estate Appraisal Co., Ltd.	October 1, 2019
Transfer	Kowa Kawasaki Nishiguchi Building (quasi co-ownership interest 30.0%)	Trust beneficiary interest in real estate	June 26, 2020	7,560	7,560 (Note 3)	Japan Valuers 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) Appraisal value for JEI Nishi-honmachi Building indicates the amount obtained by multiplying the appraisal value for the entire property by 80.0%, which is the quasi co-ownership trust beneficiary interest subject to transfer.

(Note 3) Appraisal value for Kowa Kawasaki Nishiguchi Building indicates the amount equivalent to the 30.0% quasi co-ownership trust beneficiary interest subject to transfer and is based on the appraisal value for the 35.0% quasi co-ownership interest of the property.

2) Securities

Acquisition or transfer	Transaction date	Type	Name	Quantity (shares)	Transaction price (Millions of yen)	Appraisal value of specified assets (Millions of yen)
Acquisition	February 3, 2020	Shares	KMO Corporation	833	41	41
Acquisition	February 3, 2020	Restitution rights of funds	Knowledge Capital	-	2	2

(Note 1) Transaction price is the purchase price amount as stated in the purchase agreement.

(Note 2) With respect to transactions that require a price appraisal of securities for specified assets pursuant to Article 201 Paragraph 2 of the Investment Trust Law, price appraisals are conducted by Ernst & Young ShinNihon LLC in accordance with the Professional Practice Guidelines 4400 "Practical Guidelines on the Agreed-Upon Procedure" and the Professional Practice Guidelines 4460 "Practical Guidelines for Agreed-Upon Procedures for the Investigation of Values, etc., of Specified Assets of Investment Trusts and Investment Corporations" issued by the Japanese Institute of Certified Public Accountants, and JEI is notified of the results of such price appraisals.

3) Transaction of Other Assets

Acquisition or transfer	Transaction date	Type	Name	Transaction price (Millions of yen)	Appraisal value of specified assets (Millions of yen)
Acquisition	February 3, 2020	Restitution rights of funds	GRAND FRONT OSAKA TMO General Incorporated Association	0	0

(Note 1) Transaction price is the purchase price amount as stated in the purchase agreement.

(Note 2) With respect to transactions that require a price appraisal of restitution rights of funds for specified assets pursuant to Article 201 Paragraph 2 of the Investment Trust Law, price appraisals are conducted by Ernst & Young ShinNihon LLC in accordance with the Professional Practice Guidelines 4400 "Practical Guidelines on the Agreed-Upon Procedure" and the Professional Practice Guidelines 4460 "Practical Guidelines for Agreed-Upon Procedures for the Investigation of Values, etc., of Specified Assets of Investment Trusts and Investment Corporations" issued by the Japanese Institute of Certified Public Accountants, and JEI is notified of the results of such price appraisals.

4) Interest rate swap transactions

For transactions conducted by JEI, JEI entrusts the investigation of transactions to Ernst & Young ShinNihon LLC for transactions that require investigation of the value of specified assets, etc., in accordance with Article 201 of the Investment Trust Law.

During the period under review, between January 1, 2020, to June 30, 2020, there was one interest rate swap transaction that was subject to such investigation, and we have received an agreed-upon procedural implementation report from Ernst & Young ShinNihon LLC. In addition, regarding the interest rate swap transactions, JEI entrusted investigations into the name, quantity, contract value, transaction periods, and other details pertaining to the over-the-counter derivative transactions.

Furthermore, this investigation is not part of the financial statement audits and does not ensure the reasonableness of prices or internal management systems.

(4) Transactions with Interested Parties

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	8,895 million yen	14,768 million yen
Breakdown for transactions with interested parties		
Nippon Steel Kowa Real Estate Co., Ltd.	8,895 million yen (100.0%)	- million yen (-%)
Total	8,895 million yen (100.0%)	- million yen (-%)

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

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,455,588	Nippon Steel Kowa Real Estate Co., Ltd.	568,762	39.1%
		The Dai-ichi Building Co., Ltd.	483,322	33.2%
		Akasaka Intercity Management Co., Ltd.	23,965	1.6%
Total	1,455,588	-	1,076,050	73.9%

(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 June 30, 2020.

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

Nippon Steel Kowa Real Estate Co., Ltd.	10,096 thousand yen
Kowa Real Estate Facilities Co., Ltd.	137,798 thousand yen
The Dai-ichi Building Co., Ltd.	7,385 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

The ninth general unitholders' meeting of JEI was held on May 29, 2020. The following table summarizes the major matters approved at the unitholders' meeting.

Agenda	Summary
Election of one executive director	Shuichiro Kayama was elected as an executive director. The term of his office is from June 1, 2020, to October 31, 2021.
Election of one substitute executive director	Hiroshi Tabei was elected as a substitute executive director.

2) Board of directors' meeting

Of the major contracts entered or amended by the board of directors' meeting during the 28th period, the following table summarizes the major items.

Date of approval by board	Matters approved	Summary
January 15, 2020	Conclusion of purchase agreement for new investment units (general administrative outsourcing agreement for the offering of investment units)	With the issuance of new investment units, purchase agreements for new investment units were concluded with Mizuho Securities Co., Ltd., Nomura Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., SMBC Nikko Securities Inc. and Mito Securities Co., Ltd., and general operations related to the public offering of investment units were outsourced.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

(4) Other

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

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
June 30, 2020 and December 31, 2019
with Independent Auditor's Report*

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 June 30, 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 June 30, 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.

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

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

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

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


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

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



Ernst & Young ShinNihon LLC
Tokyo, Japan

September 16, 2020

吉村 基 

Motoki Yoshimura
Designated Engagement Partner
Certified Public Accountant

齋木 夏生 

Natsuki Saiki
Designated Engagement Partner
Certified Public Accountant

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2020 and December 31, 2019

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	33,815,385	23,884,427
Rental receivables	328,891	380,012
Prepaid expenses and other current assets	189,597	236,429
Total current assets	<u>34,333,873</u>	<u>24,500,869</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	7,657,446	7,641,213
Machinery and equipment	6,253	6,253
Furniture and fixtures	52,930	49,835
Land	10,609,617	10,607,317
Construction in progress	1,396	—
Buildings and building improvements for trust accounts	112,803,395	118,078,827
Machinery and equipment for trust accounts	951,662	1,024,281
Furniture and fixtures for trust accounts	291,508	301,435
Land for trust accounts	148,707,325	149,590,759
Construction in progress for trust accounts	106,322	115,459
Less: accumulated depreciation	<u>(33,107,509)</u>	<u>(34,079,697)</u>
Net property and equipment	<u>248,080,348</u>	<u>253,335,685</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Leasehold rights for trust accounts	7,382,016	7,382,016
Software	8,433	9,533
Other intangible assets for trust accounts	2,737	3,969
Total intangible assets	<u>9,114,794</u>	<u>9,117,127</u>
Investments and other assets:		
Investment securities <i>(Note 5)</i>	44,729	—
Deferred tax assets	—	50
Security deposits	18,181	15,181
Long-term prepaid expenses	919,312	820,887
Other assets	877,329	845,077
Total investments and other assets	<u>1,859,553</u>	<u>1,681,196</u>
Deferred assets:		
Investment corporation bond issuance costs	144,225	155,922
Total deferred assets	<u>144,225</u>	<u>155,922</u>
Total assets	<u><u>293,532,796</u></u>	<u><u>288,790,801</u></u>

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,220,492	2,321,419
Short-term loans <i>(Notes 5 and 8)</i>	5,000,000	9,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	6,000,000	10,600,000
Accounts payable – other	554,959	405,506
Accrued expenses	146,620	153,400
Accrued corporation taxes	586	1,514
Accrued consumption taxes	533,554	77,233
Advances received	170,345	200,331
Other current liabilities	14,148	5
Total current liabilities	<u>13,640,707</u>	<u>22,759,411</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	33,000,000	33,000,000
Long-term debt <i>(Notes 5 and 8)</i>	81,600,000	77,000,000
Security deposits from tenants <i>(Note 5)</i>	1,197,748	1,174,194
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,961,335	12,480,048
Total long-term liabilities	<u>127,759,084</u>	<u>123,654,242</u>
Total liabilities	<u>141,399,791</u>	<u>146,413,653</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	147,907,649	139,972,885
Deduction from unitholders' capital		
Allowance for temporary difference adjustment <i>(Note 11)</i>	(1,406,238)	—
Total deduction from unitholders' capital	<u>(1,406,238)</u>	<u>—</u>
Unitholders' capital, net	<u>146,501,410</u>	<u>139,972,885</u>
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	—	158,039
Retained earnings	5,631,594	2,246,223
Total surplus	<u>5,631,594</u>	<u>2,404,262</u>
Total unitholders' equity	<u>152,133,005</u>	<u>142,377,147</u>
Total net assets	<u>152,133,005</u>	<u>142,377,147</u>
Total liabilities and net assets	<u>293,532,796</u>	<u>288,790,801</u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2020 to June 30, 2020
and from July 1, 2019 to December 31, 2019

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
	<i>(Thousands of yen)</i>	
Revenues <i>(Note 14)</i> :		
Rental business revenues	10,250,100	9,984,107
Other	763,414	906,756
Gain on sales of real estate properties <i>(Note 15)</i>	1,704,073	—
Total revenues	12,717,589	10,890,864
Operating expenses <i>(Note 14)</i> :		
Property operating expenses	5,697,217	5,906,910
Loss on sales of real estate properties <i>(Note 15)</i>	—	120,673
Impairment loss <i>(Note 16)</i>	—	1,407,147
Asset management fees	530,406	390,335
Custodian fees	21,515	21,332
Administrative service fees	40,720	38,715
Compensation for directors	5,580	6,220
Other	131,239	87,044
Total operating expenses	6,426,679	7,978,378
Operating income	6,290,909	2,912,485
Other income:		
Interest income	118	122
Other	457	594
Other expenses:		
Interest expense	342,909	367,351
Loan arrangement fees	148,204	134,676
New investment unit issuance costs	25,351	—
Interest expense on investment corporation bonds	131,174	130,647
Amortization of investment corporation bond issuance costs	11,696	11,550
Other	367	21,360
Ordinary income	5,631,780	2,247,617
Income before income taxes	5,631,780	2,247,617
Income taxes <i>(Note 13)</i> :		
Current	605	1,533
Deferred	50	(42)
Net income	5,631,125	2,246,126
Retained earnings at beginning of period	469	97
Retained earnings at end of period	5,631,594	2,246,223

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2020 to June 30, 2020
and from July 1, 2019 to December 31, 2019

	For the period from January 1, 2020 to June 30, 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		
(Thousands of yen)					
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
Provision 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	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
	Reserve for advanced depreciation of non-current assets				
	(Thousands of yen)				
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

For the period from July 1, 2019 to December 31, 2019

	Net assets						
	Unitholders' equity						
	Surplus						
	Voluntary reserve						
	Number of units in issue	Unitholders' capital	Reserve for advanced depreciation of non- current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
	<i>(Thousands of yen)</i>						
Balance as of June 30, 2019	1,305,700	139,972,885	158,039	3,691,310	3,849,350	143,822,235	143,822,235
Changes during the fiscal period:							
Distributions from retained earnings	—	—	—	(3,691,213)	(3,691,213)	(3,691,213)	(3,691,213)
Net income	—	—	—	2,246,126	2,246,126	2,246,126	2,246,126
Total changes during the fiscal period	—	—	—	(1,445,087)	(1,445,087)	(1,445,087)	(1,445,087)
Balance as of December 31, 2019	1,305,700	139,972,885	158,039	2,246,223	2,404,262	142,377,147	142,377,147

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2020 to June 30, 2020
and from July 1, 2019 to December 31, 2019

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	5,631,780	2,247,617
Depreciation and amortization	1,947,843	1,930,311
Amortization of investment corporation bond issuance costs	11,696	11,550
Impairment loss	—	1,407,147
New unit issuance costs	25,351	—
Interest income	(118)	(122)
Interest expense	474,084	497,999
Decrease (increase) in rental receivables	51,120	(17,050)
Decrease (increase) in prepaid expense	26,166	2,716
Increase (decrease) in accounts payable – trade	(112,593)	113,902
Increase (decrease) in accounts payable – other	149,503	(35,959)
Increase (decrease) in unpaid consumption taxes	456,321	(143,919)
Increase (decrease) in advances received	(29,986)	114,642
Decrease (increase) in long-term prepaid expenses	(98,425)	81,121
Decrease in property and equipment for trust accounts due to sale	13,058,874	1,830,607
Decrease in property and intangible assets for trust accounts due to sale	1,101	189
Other, net	(7,575)	(30,931)
Subtotal	21,585,144	8,009,820
Interest received	118	122
Interest paid	(480,864)	(494,068)
Income taxes paid	(1,514)	(761)
Net cash provided by (used in) operating activities	21,102,883	7,515,112
Cash flows from investing activities		
Purchases of Investment securities	(44,729)	—
Purchases of property and equipment	(16,757)	(1,641,801)
Purchases of property and equipment for trust accounts	(10,711,613)	(7,387,277)
Payments for lease and guarantee deposits	(3,000)	—
Proceeds from security deposits from tenants	34,358	48,212
Payments for security deposits to tenants	(10,804)	(3,364)
Proceeds from security deposits in trust accounts from tenants	303,617	756,307
Payments for security deposits in trust accounts to tenants	(822,329)	(341,503)
Other, net	(454)	—
Net cash provided by (used in) investing activities	(11,271,713)	(8,569,427)
Cash flows from financing activities		
Proceeds from short-term loans	5,000,000	4,000,000
Repayment for short-term loans	(9,000,000)	(2,000,000)
Proceeds from long-term debt	8,600,000	1,000,000
Repayment for long-term debt	(8,600,000)	(1,000,000)
Proceeds from issuance of investment units	7,909,412	—
Proceeds from issuance of investment corporation bonds	—	982,400
Distributions to unitholders	(3,809,625)	(3,691,491)
Net cash provided by (used in) financing activities	99,787	(709,091)
Net increase (decrease) in cash and cash equivalents	9,930,957	(1,763,406)
Cash and cash equivalents at beginning of period	23,884,427	25,647,834
Cash and cash equivalents at end of period <i>(Note 4)</i>	33,815,385	23,884,427

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2020 to June 30, 2020
and from July 1, 2019 to December 31, 2019

1. Organization

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2020, JEI held 35 properties with 332,701.82 square meters of total leasable space and had leases with 193 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.

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

Income taxes

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

Consumption taxes

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

Property-related taxes

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 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. The capitalized amount for the period from July 1, 2019 to December 31, 2019 was ¥6,668 thousand. 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 June 30, 2020 and December 31, 2019 consisted of the following:

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
Cash and cash deposits	17,620,815	7,165,726
Cash and deposits in trust	16,194,569	16,718,701
Cash and cash equivalents including trust accounts	<u>33,815,385</u>	<u>23,884,427</u>

5. Financial Instruments

For the periods from January 1, 2020 to June 30, 2020 from July 1, 2019 to December 31, 2019

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 91.4% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 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 June 30, 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 June 30, 2020 and December 31, 2019 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of June 30, 2020			As of December 31, 2019		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	17,620,815	17,620,815	—	7,165,726	7,165,726	—
(2) Cash and deposits in trust	16,194,569	16,194,569	—	16,718,701	16,718,701	—
Total assets	<u>33,815,385</u>	<u>33,815,385</u>	<u>—</u>	<u>23,884,427</u>	<u>23,884,427</u>	<u>—</u>
(3) Short-term loans (Note C)	5,000,000	5,000,000	—	9,000,000	9,000,000	—
(4) Investment corporation bonds due within one year (Note C)	—	—	—	—	—	—
(5) Long-term debt due within one year (Note C)	6,000,000	6,042,447	42,447	10,600,000	10,637,781	37,781
(6) Investment corporation bonds (Note C)	33,000,000	33,075,225	75,225	33,000,000	33,281,107	281,107
(7) Long-term debt (Note C)	81,600,000	82,901,849	1,301,849	77,000,000	78,227,367	1,227,367
Total liabilities	<u>125,600,000</u>	<u>127,019,521</u>	<u>1,419,521</u>	<u>129,600,000</u>	<u>131,146,256</u>	<u>1,546,256</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:

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
① Investment securities*	44,729	—
② Security deposits from tenants**	1,197,748	1,174,194
③ Security deposits from tenants for trust accounts**	11,961,335	12,480,048

* 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 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	—	—	—	—	—

	As of December 31, 2019					
	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	7,165,726	—	—	—	—	—
Cash and deposits in trust	16,718,701	—	—	—	—	—
Total	23,884,427	—	—	—	—	—

(Note C)

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

	As of June 30, 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

	As of December 31, 2019					
	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	9,000,000	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	10,600,000	—	—	—	—	—
Investment corporation bonds	—	—	—	4,000,000	8,000,000	21,000,000
Long-term debt	—	13,510,000	11,750,000	15,770,000	9,770,000	26,200,000
Total	19,600,000	13,510,000	11,750,000	19,770,000	17,770,000	47,200,000

6. Investment and Rental Property

For the periods from January 1, 2020 to June 30, 2020 from July 1, 2019 to December 31, 2019

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2020 and December 31, 2019 for such real estate for lease.

Carrying value			Fair value
As of January 1, 2020	Change during period (*1)	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

Carrying value			Fair value
As of July 1, 2019	Change during period (*2)	As of December 31, 2019	As of December 31, 2019
<i>(Thousands of yen)</i>			
258,028,172	4,415,107	262,443,280	322,764,988

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

B) Details of change during period:

(*1) 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.

(*2) The increase of ¥4,415,107 thousand during the period is mainly due to an increase of ¥6,233,065 thousand related to the acquisition of BIZCORE Akasakamitsuke, an increase of ¥1,631,012 thousand related to the acquisition of Senshin Building, and a decrease of ¥1,481,825 thousand related to the part disposal of Kowa Kawasaki Nishiguchi Building, a decrease of ¥348,972 thousand related to the part disposal of JEI Nishi-Honmachi Building, a decrease of ¥1,407,147 thousand related to the impairment of Kowa Kawasaki Nishiguchi, and a decrease of ¥1,929,198 thousand for depreciation costs.

C) Fair value

Fair value as of June 30, 2020 and December 31, 2019 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2020 and December 31, 2019 consisted of the following:

	As of June 30, 2020			As of December 31, 2019		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,657,446	(1,890,646)	5,766,799	7,641,213	(1,774,682)	5,866,531
Machinery and equipment	6,253	(3,943)	2,309	6,253	(3,662)	2,591
Furniture and fixtures	52,930	(21,761)	31,169	49,835	(18,274)	31,560
Land	10,609,617	—	10,609,617	10,607,317	—	10,607,317
Construction in progress	1,396	—	1,396	—	—	—
Buildings and building improvements for trust accounts	112,803,395	(30,535,340)	82,268,055	118,078,827	(31,611,230)	86,467,596
Machinery and equipment for trust accounts	951,662	(497,773)	453,889	1,024,281	(511,390)	512,890
Furniture and fixtures for trust accounts	291,508	(158,044)	133,463	301,435	(160,456)	140,978
Land for trust accounts	148,707,325	—	148,707,325	149,590,759	—	149,590,759
Construction in progress for trust accounts	106,322	—	106,322	115,459	—	115,459
Total	<u>281,187,858</u>	<u>(33,107,509)</u>	<u>248,080,348</u>	<u>287,415,383</u>	<u>(34,079,697)</u>	<u>253,335,685</u>

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2020 and December 31, 2019 consisted of the following:

	As of June 30, 2020		As of December 31, 2019	
	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 8, 2020	—	0.26983%	5,000,000	0.27193%
Unsecured loans from a bank due on October 1, 2020	—	0.27254%	4,000,000	0.27377%
Unsecured loans from a bank due on March 9, 2021	<u>5,000,000</u>	0.26949%	<u>—</u>	
Subtotal	<u>5,000,000</u>		<u>9,000,000</u>	
Long-term debt due within one year:				
Unsecured loans from a bank due on January 31, 2020	—	1.60000% (*2)	2,000,000	1.60000% (*2)
Unsecured loans from banks due on January 31, 2020	—	1.36400% (*2)	2,600,000	1.36400% (*2)
Unsecured loans from an insurance company due on January 31, 2020	—	1.31261% (*2)	1,000,000	1.31261% (*2)
Unsecured loans from banks due on January 31, 2020	—	1.00000% (*2)	3,000,000	1.00000% (*2)
Unsecured loans from a bank due on September 30, 2020	2,000,000	0.26841%	2,000,000	0.27193%
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*2)	—	
Unsecured loans from an insurance company due on June 30, 2021	<u>2,000,000</u>	0.98834% (*2)	<u>—</u>	
Subtotal	<u>6,000,000</u>		<u>10,600,000</u>	

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

Long-term debt:

Unsecured loans from a bank due on June 30, 2021	—	1.60750% (*2)	2,000,000	1.60750% (*2)
Unsecured loans from an insurance company due on June 30, 2021	—	0.98834% (*2)	2,000,000	0.98834% (*2)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.41965%	3,760,000	0.41787%
Unsecured loans from banks due on December 30, 2021	5,750,000	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 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)	—	
Unsecured loans from banks due on January 31, 2029	5,600,000	0.71200% (*2)	—	
Unsecured loans from an insurance company due on January 31, 2029	1,000,000	0.77000% (*2)	—	
Subtotal	81,600,000		77,000,000	
Total	92,600,000		96,600,000	

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

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

The scheduled repayment amounts of long-term debt as of June 30, 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	6,000,000	14,510,000	11,750,000	14,270,000	14,270,000	26,800,000

Asset Management Report for the 28th Period (Semi-Annual Report for the 28th Period)

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2020, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2020 and December 31, 2019 are summarized as follows:

	As of June 30, 2020		As of December 31, 2019	
	Amount (Thousands of yen)	Weighted-average interest rate	Amount (Thousands of yen)	Weighted-average interest rate
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%
Total	33,000,000		33,000,000	

The scheduled redemption amounts of investment corporation bonds as of June 30, 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
	(Thousands of yen)					
Investment corporation bonds	—	—	2,000,000	10,000,000	—	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

(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 June 30, 2020 and December 31, 2019 were calculated based on the number of units outstanding as of each date, (1,353,000 units) and (1,305,700 units), respectively.

Net income per unit for the periods from January 1, 2020 to June 30, 2020 and July 1, 2019 to December 31, 2019 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,347,258 units) and (1,305,700 units), respectively.

Accordingly, net assets per unit were ¥112,441 as of June 30, 2020 and ¥109,042 as of December 31, 2019. Net income per unit was ¥4,179 for the period from January 1, 2020 to June 30, 2020 and ¥1,720 for the period from July 1, 2019 to December 31, 2019.

13. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2020 and December 31, 2019 are summarized as follows:

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	-	50
Impairment loss	-	442,688
Subtotal deferred tax assets	-	442,738
Valuation reserve	-	(442,688)
Total deferred tax assets	-	50
Net deferred tax assets	-	50

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2020 to June 30, 2020 and July 1, 2019 to December 31, 2019 is as follows:

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
Statutory tax rate	31.46%	31.51%
Reconciliation:		
Deductible distributions paid	(22.37%)	(53.41%)
Increase(decrease) in valuation reserve	(7.86%)	19.73%
Reversal of reserve for reduction entry	(1.23%)	2.22%
Other	0.01%	0.02%
Effective tax rate	0.01%	0.07%

14. Breakdown of Revenues and Expenses

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,712,571	8,442,609
Common area revenues	1,266,554	1,267,889
Other rental revenues	270,975	273,608
Subtotal	10,250,100	9,984,107
Other		
Utilities revenues	642,291	793,195
Other revenues	121,123	113,561
Subtotal	763,414	906,756
Total rental revenues	11,013,515	10,890,864
Property operating expenses:		
Property management costs and fees	1,455,588	1,458,956
Utilities expenses	864,406	1,013,977
Property and other taxes	963,729	944,725
Insurance	22,556	20,796
Repairs and maintenance	214,894	311,820
Depreciation	1,946,743	1,929,198
Other	229,299	227,435
Total property operating expenses	5,697,217	5,906,910
Profit	5,316,297	4,983,953

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

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
	<i>(Thousands of yen)</i>	
JEI Nishi-Honmachi Building		
Proceeds from sale of real estate	7,208,000	450,500
Cost of sales of real estate	5,560,522	348,972
Other related sale expenses	2,250	140
Gain on sale of real estate	1,645,227	101,386

	For the period from January 1, 2020 to June 30, 2020	For the period from July 1, 2019 to December 31, 2019
	<i>(Thousands of yen)</i>	
Kowa KawasakiNishiguchi Building		
Proceeds from sale of real estate	7,560,857	1,260,143
Cost of sales of real estate	7,499,453	1,481,825
Other related sale expenses	2,557	378
Gain / Loss on sale of real estate	58,846	(222,060)

16. Impairment Loss

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

Not applicable.

For the period from July 1, 2019 to December 31, 2019

JEI recorded impairment loss on the following asset group.

(Thousands of yen)

Property name	Location	Type	Impairment loss
Kowa Kawasaki Nishiguchi	Kawasaki-shi, Kanagawa	Land for trust accounts	885,863
		Buildings and building improvement for trust accounts	521,284

In calculating impairment loss, each property is considered as one asset group.

As a result, for one fixed asset group scheduled to be sold, the book value was reduced to the recoverable value in the fiscal period ended December 31, 2019, and the difference amounting to ¥1,407,147,000 was recognized as an impairment loss under operating expenses.

The nature of the impairment loss arising from the sale is considered to be an operating expense, and the corresponding account category is classified as operating expenses in accordance with Article 48, Paragraph 2 of “Regulation on Accountings of Investment Corporations.”

The recoverable value of this asset group is measured by the net selling price.

The net selling price is calculated by deducting the estimated sales related expenses from the actual sale price.

17. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2020 and December 31, 2019, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2020	As of December 31, 2019
	<i>(Thousands of yen)</i>	
Due within one year	1,922,735	1,680,109
Due after one year	3,717,302	3,294,640
Total	<u>5,640,038</u>	<u>4,974,750</u>

18. Derivative Transactions

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."

Derivative Transactions as of December 31, 2019

(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, 2019 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	40,540,000	*	/

* 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."

19. Related Party Transactions

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
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	530,406	Accounts payable	465,200

For the period from July 1, 2019 to December 31, 2019

- (1) Parent Company and Major Corporate Unitholders
Not applicable.
- (2) Subsidiaries and Affiliated Companies
Not applicable.
- (3) Sister Companies
Not applicable.
- (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	390,335	Accounts payable	310,434

20. Segment Information

For the periods from January 1, 2020 to June 30, 2020 from July 1, 2019 to December 31, 2019

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.

21. 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 ¥4,004,880,000, which is the maximum integral multiple of the 1,353,000 units issued, but not exceeding ¥4,005,761,441, which is the amount of retained earnings at June 30, 2020.

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

On August 20, 2020, the Board of Directors approved a resolution to make a cash distribution of ¥2,960 per unit aggregating to ¥4,004,880,000 to unitholders of record as of June 30, 2020.

22. Accounting Standards Issued But Not Yet Applied

As of June 30, 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.

23. Significant Subsequent Event

Not applicable.

24. Additional Information

Not applicable.

25. Information on Allowance for Temporary Difference Adjustment

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.

For the period from July 1, 2019 to December 31, 2019

(1) Reason for recording reserve assets and amounts

(Thousands of yen)

Related assets	Reason of recording reserve	Provision of allowance for temporary difference adjustment
Buildings and building improvements for trust accounts Land for trust accounts	Impairment loss	1,406,238

(2) Method of reversal

Impairment loss

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