

Asset Management Report for 26th Period

(Semi-Annual Report for 26th Period)

From January 1, 2019 to June 30, 2019



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 26th period (from January 1, 2019 to June 01, 2019).

During the 26th period, we maintained extremely high occupancy rates in the range of 99% while working to increase rental revenues through efforts to attract new tenants with an aim for an increase in the rent level and to conclude upward rent revisions.

Furthermore, on the financial front, we extended the average remaining period of interest-bearing debt while at the same time lowering the average interest rate.

As a result, JEI recorded operating revenue of 10,668 million yen, operating income of 4,318 million yen and net income of 3,690 million yen, and distribution per unit stood at 2,827 yen.

In the 27th period, we plan to acquire BIZCORE AKASAKA MITSUKE completed in March this year from the BIZCORE series which features medium-sized, high-grade office buildings developed by Nippon Steel Kowa Real Estate Co., Ltd., the sponsor.

About Future Asset Management

The real estate transaction market is expected to see real estate transaction prices remain high, backed by a strong appetite for investment by market participants and other factors. In the office building leasing market, vacancy rates and rent levels are expected to continue to improve for the time being, supported by ongoing strong needs from tenants for floor expansion within the same buildings, establishment of new bases, expansionary relocation and such.

Under such an environment, JEI will continue with quality growth through investment in prime real estate as well as asset replacement by utilizing the sponsor pipeline with an aim to expand its asset size and improve profitability over the medium to long term while carefully watching financial trends and market trends going forward. Furthermore, JEI will endeavor to enhance profitability of the entire portfolio by maintaining the level of occupancy rate as well as by improving the rent level based on market trends. In terms of finance, JEI will strive to conduct well-balanced financial management by working to reduce financing costs while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

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

We kindly ask for your continued understanding and support.

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

II. Asset Management Report

1. Outline of asset management operation

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

Fiscal period		22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017	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
Operating revenue	(Millions of yen)	10,642	11,085	10,535	10,657	10,668
(Rental revenues)	(Millions of yen)	(10,642)	(10,806)	(10,535)	(10,657)	(10,668)
Operating expenses	(Millions of yen)	6,488	6,565	6,509	6,373	6,349
(Property operating expenses)	(Millions of yen)	(5,890)	(5,931)	(5,754)	(5,780)	(5,747)
Operating income	(Millions of yen)	4,154	4,519	4,025	4,284	4,318
Ordinary income	(Millions of yen)	3,460	3,701	3,340	3,597	3,691
Net income	(Millions of yen)	3,459	3,700	3,339	3,596	3,690
Total assets	(Millions of yen)	297,177	282,197	285,008	285,400	286,172
(Period-on-period change)	(%)	(0.4)	(-5.0)	(1.0)	(0.1)	(0.3)
Net assets	(Millions of yen)	143,693	143,933	143,786	143,727	143,822
(Period-on-period change)	(%)	(0.0)	(0.2)	(-0.1)	(-0.0)	(0.1)
Unitholders' capital	(Millions of yen)	139,972	139,972	139,972	139,972	139,972
Total outstanding investment units	(units)	1,305,700	1,305,700	1,305,700	1,305,700	1,305,700
Net assets per unit	(yen)	110,050	110,234	110,122	110,076	110,149
Net income per unit (Note 1)	(yen)	2,649	2,833	2,557	2,754	2,826
Total distribution	(Millions of yen)	3,460	3,486	3,655	3,595	3,691
Distribution per unit	(yen)	2,650	2,670	2,800	2,754	2,827
(Profit distribution per unit)	(yen)	(2,650)	(2,670)	(2,800)	(2,754)	(2,827)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.2	1.3	1.2	1.3	1.3
(Annualized rate)	(%)	(2.4)	(2.5)	(2.4)	(2.5)	(2.6)
Return on equity (Note 3)	(%)	2.4	2.6	2.3	2.5	2.6
(Annualized rate)	(%)	(4.9)	(5.1)	(4.7)	(5.0)	(5.2)
Capital ratio (Note 4)	(%)	48.4	51.0	50.5	50.4	50.3
(Period-on-period change)	(%)	(-0.2)	(2.7)	(-0.6)	(-0.1)	(-0.1)
Payout ratio (Note 5)	(%)	100.0	94.2	109.5	100.0	100.0
Number of investment properties	(properties)	31	29	30	31	31
Number of tenants	(tenants)	242	243	202	204	204
Total leasable space (Note 6, 7)	(m ²)	362,292	356,854	341,247	343,830	343,830
Occupancy rate	(%)	99.4	99.1	99.6	99.6	99.4
Depreciation	(Millions of yen)	1,967	1,972	1,926	1,920	1,935
Capital expenditure	(Millions of yen)	1,056	1,092	867	809	1,285
Net operating income (NOI) (Note 8)	(Millions of yen)	6,719	6,847	6,707	6,797	6,856
Funds from operation (FFO) per unit (Note 9)	(yen)	4,156	4,131	4,159	4,225	4,309
FFO multiples (Note 10)	(times)	14.9	16.0	17.0	17.7	18.2
Debt service coverage ratio (DSCR) (Note 11)	(times)	10.7	10.7	11.1	11.7	12.5
Interest-bearing debt	(Millions of yen)	137,900	122,500	126,500	126,600	126,600
Loan-to-value (Note 12)	(%)	46.4	43.4	44.4	44.4	44.2
Number of days in operation	(days)	181	184	181	184	181

- (Note 1) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.
- (Note 2) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100
- (Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100
- (Note 4) Capital ratio = Period end net assets / Period end total assets × 100
- (Note 5) Payout ratio = (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.)
- (Note 6) For properties with joint ownership (including quasi co-ownership of trust beneficiary interest), a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.
- (Note 7) Spaces are rounded to the nearest specified unit. The same applies hereinafter.
- (Note 8) NOI = Rental revenues – Property operating expenses + Depreciation
- (Note 9) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Total number of outstanding investment units (the figure is rounded down to the whole number).
- (Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit
- (Note 11) DSCR = (Net income before interest and taxes + Depreciation) / (Interest expenses + Interest expense on investment corporation bonds)
- (Note 12) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, 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, 2019, JEI settled its twenty-sixth period.

1) Business conditions and results

The Japanese economy during the 26th period continued to remain stable backed by ongoing improvements in employment and income despite some weakness in exports due to stronger pressure for adjustment in the global manufacturing industry amid mounting concerns over the worldwide economic slowdown attributable to the U.S.-China trade friction, etc. With regard to the financial environment in the U.S., the long-term interest rate has turned to decline with expectations for further rate cuts in the monetary policy, while the pace of increase in employment is slowing down and inflationary pressure seems limited. In Japan as well, the long-term interest rate for yen has declined since additional monetary easing by the Bank of Japan may be discussed with the planned consumption tax hike in October, despite capital investment remaining solid.

In the real estate transaction market, amid the continuing favorable environment for fund procurement, transaction yields are at low level and real estate transaction prices remain high as market participation by overseas investors, private funds, private REITs and general companies, etc. also continues.

In the office building leasing market, tenant needs for floor area increased in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and levels of asking rent are improving. JEI has conducted negotiations with tenants emphasizing rent levels and has further strengthened efforts for upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities for upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result, rent revenue for existing properties increased by 70 million yen and period-end occupancy rate (Note 1) stood at 99.4%.

The total number of properties owned and managed by JEI at the end of the current period was 31 with total acquisition price of 273.5 billion yen and total leasable space of 343,830.44 m² (104,008.71 tsubo).

2) Fund procurement highlights

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

In the 26th period, JEI refinanced 3.75 billion yen in loans that matured in March with loans with a lower interest rate (0.78% lowered to 0.57% (Note 2)) while extending the borrowing period from 5.0 years to 7.1 years.

Moreover, JEI temporarily refinanced the investment corporation bonds redeemed in March with short-term funds (5.0 billion yen, 1-year term) from a bank to allow for flexible responses upon comprehensively judging the market environment for investment corporation bond issuance, trends in interest rates and financing, etc. accompanying asset replacement, etc.

As a result of the above, as of the end of the 26th period, the average remaining period of interest-bearing debt (Note 3) was 4.6 years (shortened by 0.3 years from the end of the previous period) and the period-end average interest-bearing debt interest rate (Note 4) was 0.77% (down 0.02% from the end of the previous period) and the loan-to-value ratio of total assets (total assets-based LTV) was 44.2% (down 0.2% 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, 2019)

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, setting a target to reduce energy consumption intensity by an average of 1% per year over the medium to long term, JEI has worked to reduce environmental burden at properties it owns through efforts such as adoption of LED lighting and upgrading of air-conditioning equipment for better energy-saving performance. Furthermore, JEI has continuously promoted acquisition of DBJ Green Building certification and the number of certified properties stands at 11, or 61.0% of the entire portfolio (as of June 30, 2019; based on leasable space excluding land with leasehold interest).

Such initiatives for sustainability by JEI earned high recognition including a fourth consecutive “Green Star” rating (Note 7) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 6) Real Estate Assessment conducted in 2018, as well as the highest rating of “5 Star” in “GRESB Rating” (Note 8), a rating of overall score according to global ranking, for the third consecutive year.

Furthermore, in light of the recent heightening of interest in ESG investment from investors, JEI improved its website upon revamping on May 31, 2019, by adding new content concerning sustainability, etc. to showcase its efforts on sustainability to investors.

4) Financial results and distribution highlights

As a result of the above management, JEI posted 10,668 million yen in operating revenue, 4,318 million yen in operating income, 3,691 million yen in ordinary income and 3,690 million yen in net income for the period under review.

Concerning distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,827 yen.

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

(Note 2) The interest rate fixed by the interest rate swap agreement is stated.

(Note 3) 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 4) 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 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 and 14th series unsecured investment corporation bonds.

(Note 6) GRESB is a benchmark established by European pension fund groups to measure real estate companies and management institutions' consideration to sustainability and is used in cases such as when major European and Asian institutional investors select investment targets.

(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) “5 Star” is given to the top 20% of participants.

(3) Capital Increase

JEI had no changes in the total number of outstanding investment units for the period under review. The outline of the changes in the total number of outstanding investment units and unitholders' capital until the end of the period under review are as follows:

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

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

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

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

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

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

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

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

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

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

(Note 10) 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 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties.

(Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third

party in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.

(Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.

(Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.

(Note 15) New investment units were issued at an offer price of 138,742 yen per unit (issue price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.

(Note 16) New investment units were issued at an issue price of 134,259 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.

(Note 17) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of 26th 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)	22nd period (June 2017)	23rd period (December 2017)	24th period (June 2018)	25th period (December 2018)	26th period (June 2019)
	Highest (yen)	147,200	137,200	147,400	156,200	164,500
	Lowest (yen)	125,100	121,100	131,400	141,000	147,600

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

(4) Distributions Paid

Concerning distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,827 yen.

Fiscal period	22nd period	23rd period	24th period	25th period	26th period
Accounting period	January 1, 2017 to June 30, 2017	July 1, 2017 to December 31, 2017	January 1, 2018 to June 30, 2018	July 1, 2018 to December 31, 2018	January 1, 2019 to June 30, 2019
Unappropriated retained earnings at end of period (Thousands of yen)	3,460,111	3,700,279	3,339,461	3,596,244	3,691,310
Retained income (Thousands of yen)	6	214,060	—	—	—
Total cash distribution amount (Thousands of yen)	3,460,105	3,486,219	3,655,960	3,595,897	3,691,213
(Cash distributions per unit) (yen)	(2,650)	(2,670)	(2,800)	(2,754)	(2,827)
Of which, total profit distributions (Thousands of yen)	3,460,105	3,486,219	3,655,960	3,595,897	3,691,213
(Profit distribution per unit) (yen)	(2,650)	(2,670)	(2,800)	(2,754)	(2,827)
Of which, total refund of investment equity	—	—	—	—	—
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

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

In the office building leasing market, the level of asking rent is forecasted to rise moderately, centering on competitive buildings for the time being, as office demand is strong. Going forward, focusing on market trends seems necessary as increase in the amount of office floor supply is expected mainly in central Tokyo.

2) Policy and issues on future investment management

A. External growth

JEI will continue striving for acquisition of competitive properties, including through the replacement of assets, by means of well-balanced investments based on size and target area, to increase asset size and improve portfolio quality over the medium to long term. 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. JEI will aim to enhance earnings of the entire portfolio and its ESG evaluation by continuously making additional strategic investments considering also energy saving and BCP measures in order to maintain asset value and improve property competitiveness over the medium to long term while setting new rents based on market trends as well as promoting upward rent revisions to realize rents that are more suitable for the property value, along with the aforementioned initiatives.

C. Financial strategy

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

(6) Subsequent Events

None

(Reference Material)

1) Conclusion of Transaction Agreement for Trust Beneficiary Interest in Real Estate

JEI concluded a transaction agreement for trust beneficiary interest in real estate on August 19, 2019, for the asset to be acquired described below.

<Overview of the Asset to Be Acquired>

Asset to be acquired	Trust beneficiary interest in real estate
Name of asset	BIZCORE AKASAKA MITSUKE
Location	3-1-2 Akasaka, Minato-ku, Tokyo
Acquisition price (Note)	6,200,000,000 yen
Date of conclusion of agreement	August 19, 2019
Scheduled acquisition date	October 1, 2019
Seller	Nippon Steel Kowa Real Estate Co., Ltd.

(Note) Acquisition price is the acquisition value of trust beneficiary interest, excluding acquisition-related expenses, JEI's share of real estate tax and city planning tax or consumption tax.

2) Borrowing of Funds

JEI concluded an individual commitment line agreement as of August 19, 2019, to allot funds to part of the funds for the acquisition of the asset as indicated in 1) above and the related expenses, etc. described below.

<Overview of Borrowing>

Lender	Mizuho Bank, Ltd.
Loan amount	4,000,000,000 yen
Interest rate	Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) + 0.20%
Drawdown date	October 1, 2019
Principal repayment date	October 1, 2020
Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
Collateral	Unsecured / Non-guaranteed

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	22nd As of June 30, 2017	23rd As of December 31, 2017	24th As of June 30, 2018	25th As of December 31, 2018	26th As of June 30, 2019
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	1,305,700 units
Unitholders' capital	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen
Number of unitholders	8,086 individuals	7,680 individuals	7,189 individuals	6,741 individuals	6,393 individuals

(2) Unitholders

Major unitholders as of June 30, 2019 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	325,181	24.90
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	197,132	15.10
Nippon Steel Kowa Real Estate Co., Ltd.	1-8-1 Akasaka, Minato-ku, Tokyo	71,560	5.48
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Triton Square Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	59,876	4.59
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	49,905	3.82
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.58
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	19,442	1.49
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	14,862	1.14
The Chukyo Bank, Ltd.	3-33-13 Sakae, Naka-ku, Nagoya-shi, Aichi	13,799	1.06
JP MORGAN CHASE BANK 385771	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	12,753	0.98
Total		789,170	60.13

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2019 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	16,301 (Note 2)

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

(Note 2) The total amount of compensation or fee shown above is an estimate and includes the amount paid as compensation for auditing during the 26th period (11,000 thousand yen), fees for audit of English financial statements and fees for third-party assurance engagement.

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) Name of Asset Management Company, Asset Custodian and Administrative Agents

JEI's asset management company, asset custodian and administrative agents as of June 30, 2019 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)	25th Period (As of December 31, 2018)		26th Period (As of June 30, 2019)	
			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	11,045	3.9	11,016	3.8
		Area II	5,555	1.9	5,683	2.0
Area I		99,445	34.8	99,067	34.6	
Area II		8,953	3.1	8,896	3.1	
Area III		94,600	33.1	94,555	33.0	
Area IV		21,390	7.5	21,256	7.4	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,698	6.2	17,551	6.1
Total			258,689	90.6	258,028	90.2
Deposits in bank and other assets			26,710	9.4	28,144	9.8
Total assets			285,400	100.0	286,172	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2019 are as follows.

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,452	38,375.65	38,375.65	100.0	8.9	Office building
AKASAKA INTERCITY	26,908	11,021.03	11,021.03	100.0	5.6	Office building
Nisseki Yokohama Building	23,268	40,440.72	40,127.05	99.2	11.0	Office building
Omori Bellport D	20,842	25,801.66	25,801.66	100.0	8.7	Office building
HAMARIKYU INTERCITY	17,551	19,718.11	18,264.94	92.6	6.8	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,599	25,043.93	25,043.93	100.0	7.6	Office building
Mansard Daikanyama	11,304	5,420.80	5,420.80	100.0	3.0	Office building
Kowa Nishi-Shimbashi Building	11,016	8,949.04	8,949.04	100.0	(Note 4)	Office building
Daiba Garden City Building	9,729	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,322	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	171,995	205,506.51	203,739.67	99.1	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2019. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2019. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the co-ownership interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2019.

(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, 2019 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	26,700	20,842
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,200	9,077
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,730	8,172
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	29,400	26,908
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,290	4,705
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,500	9,729
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,200	17,551
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,140	1,749
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	13,200	11,016
I-15	Mansard Daikanyama	10-1 Sarugakuchō, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,500	11,304
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,680	6,577
Area I				155,540	127,635
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	6,090	5,683
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,850	7,031
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,400	1,865
Area II				14,340	14,580
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,300	12,599
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,740	9,322
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,630	5,016
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,580	4,246
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,470	2,229
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	26,100	29,452
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,380	1,620
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	9,040	6,148
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	29,200	23,268
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	668	650
Area III				109,108	94,555
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,380	2,879
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,720	2,566
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	8,680	5,104
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,430	2,199
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,190	4,206
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,860	1,500
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,240	2,799
Area IV				31,500	21,256
Total				310,488	258,028

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2019 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	25th Period July 1, 2018 to December 31, 2018				26th Period January 1, 2019 to June 30, 2019			
		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	931	8.7	1	100.0	923	8.7
I-2	Shiba 2-Chome Building	2	100.0	372	3.5	2	100.0	373	3.5
I-3	JEI Hamamatsucho Building	1	100.0	230	2.2	1	100.0	230	2.2
I-8	AKASAKA INTERCITY	14	100.0	596	5.6	14	100.0	594	5.6
I-9	Kowa Shirokanedai Building	1	100.0	182	1.7	1	100.0	184	1.7
I-10	Daiba Garden City Building	1	100.0	335	3.1	1	100.0	335	3.1
I-12	HAMARIKYU INTERCITY	1	98.5	744	7.0	1	92.6	722	6.8
I-13	Shintomicho Building	11	100.0	72	0.7	11	100.0	70	0.7
I-14	Kowa Nishi-Shimbashi Building	5	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	10	100.0	316	3.0	10	100.0	315	3.0
I-16	AKASAKA INTERCITY AIR	1	98.5	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
Area I		48	99.7	-	-	48	98.7	-	-
II-1	NHK Nagoya Housou-Center Building	39	100.0	386	3.6	38	99.9	385	3.6
II-2	JEI Nishi-Honmachi Building	1	93.9	187	1.8	1	98.4	217	2.0
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	88	0.8	1	100.0	89	0.8
Area II		41	97.5	-	-	40	99.3	-	-
III-1	Musashikosugi Tower Place	40	100.0	819	7.7	40	100.0	810	7.6
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-5	Kawasaki Nisshincho Building	1	100.0	216	2.0	1	100.0	217	2.0
III-7	JEI Ryogoku Building	1	100.0	112	1.1	1	100.0	112	1.1
III-9	Kowa Kawasaki Nishiguchi Building	1	99.7	953	8.9	1	100.0	949	8.9
III-10	Pacific Square Sengoku	1	100.0	55	0.5	1	100.0	53	0.5
III-11	Core City Tachikawa	1	100.0	316	3.0	1	100.0	322	3.0
III-12	Nisseki Yokohama Building	1	100.0	1,162	10.9	1	99.2	1,173	11.0
III-13	Yokohama Bentendori Dai-ichi Seimei Building	1	100.0	41	0.4	1	100.0	42	0.4
Area III		49	99.9	-	-	49	99.8	-	-
IV-2	JEI Kyobashi Building	1	95.6	181	1.7	1	100.0	177	1.7
IV-3	JEI Hiroshima Hacchobori Building	1	100.0	154	1.5	1	98.6	153	1.4
IV-4	SE Sapporo Building	1	100.0	396	3.7	1	100.0	403	3.8
IV-5	Aoba-dori Plaza	51	98.6	189	1.8	52	99.4	196	1.8
IV-6	Daiwa Minami-morimachi Building	10	100.0	199	1.9	10	100.0	198	1.9
IV-7	JEI Naha Building	1	100.0	81	0.8	1	100.0	82	0.8
IV-8	Hiroshima Dai-ichi Seimei OS Building	1	100.0	142	1.3	1	100.0	142	1.3
Area IV		66	99.2	-	-	67	99.7	-	-
Total		204	99.6	10,657	100.0	204	99.4	10,668	100.0

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

(Note 2) Rental revenue (interim) and ratio of rental revenue to total rental revenues for Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi Building and JEI Hongo Building are not disclosed as consent on disclosure of rents from the end tenants has not been obtained; and those for AKASAKA INTERCITY AIR 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	40,540,000	—
	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.

(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 26th period (ended June 30, 2019). 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, 2019	Total of advance payment
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 2)	From January 2019 To December 2019	597	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 4)	From April 2019 To December 2019	126	—	—
Hiroshima Dai-ichi Seimei OS Building	Hiroshima-shi, Hiroshima	Renovation of common use area	From June 2019 To December 2019	96	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Update of automatic air conditioning control equipment (2nd term)	From September 2019 To November 2019	48	—	—
HAMARIKYU INTERCITY	Minato-ku, Tokyo	Update of ITV equipment	From October 2019 To December 2019	45	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Renovation of multi-level parking lot (Replacement of circulation drive system for No. 1 to No. 4)	From November 2019 To December 2019	33	—	—
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Change of vibration control device system	From December 2019 To December 2019	30	—	—
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of air-conditioner heat source	From October 2019 To November 2019	15	—	—

(2) Capital Expenditures for the Six Months Ended June 30, 2019

The following table shows constructions conducted by JEI during the period ended June 30 and expensed as capital expenditures. Capital expenditures for the period ended June 30 were 1,285 million yen and, when combined with repairs and maintenance costs of 285 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,570 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 2)	From July 2018 To June 2019	529
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renovation of bathrooms/kitchens (Phase 2)	From March 2018 To March 2019	204
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 3)	From September 2018 To June 2019	163
JEI Hamamatsucho Building	Minato-ku, Tokyo	Renovation of restrooms on the 3rd and 8th floors	From November 2018 To February 2019	44
JEI Kyobashi Building	Osaka-shi, Osaka	Renovation of passenger elevators	From May 2019 To June 2019	40
Other constructions			—	302
Total				1,285

(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	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017	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
Reserved funds at beginning of period	450	546	289	258	290
Increase	468	484	636	469	411
Decrease	371	742	667	437	417
Reserved funds at the end of period	546	289	258	290	284

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	25th Period July 1, 2018 to December 31, 2018	26th Period January 1, 2019 to June 30, 2019
(a) Asset management fees	445,785	447,411
(b) Custodian fees	21,250	21,278
(c) Administrative service fees	39,428	39,215
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	68,890	76,096
Total	592,896	601,541

(2) Borrowings

Borrowings by each financing source as of the end of the 26th period (ended June 30, 2019) 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.	November 2, 2018	2,000,000	2,000,000	0.26224	October 8, 2019	Lump-sum	Redemption of investment corporation bonds	Unsecured and unguaranteed
		March 8, 2019	—	5,000,000	0.26123	March 8, 2020			
Sub Total			2,000,000	7,000,000					
Long-term loans due within one year	Mizuho Bank, Ltd.	March 11, 2014	850,000	—	0.77500 (Note 2)	March 8, 2019	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	The Norinchukin Bank		1,450,000	—					
	MUFG Bank, Ltd.		850,000	—					
	Mizuho Trust & Banking Co., Ltd.		600,000	—					
	Nippon Life Insurance Company	December 12, 2016	1,000,000	1,000,000	0.25000 (Note 2)	December 12, 2019			
	Development Bank of Japan Inc.	January 31, 2012	—	2,000,000	1.60000 (Note 2)	January 31, 2020			
	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						
Sub Total			4,750,000	9,600,000					

	Classification		Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender									
Long-term loans	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 unguaranteed	
	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	0.26121	September 30, 2020				
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021				
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 2)					
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.41909	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 Nipponkoa Insurance Inc.	January 31, 2017	2,000,000	2,000,000	0.35000 (Note 2)	January 31, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 2)	June 30, 2022				
	Sompo Japan Nipponkoa Insurance Inc.	November 30, 2017	500,000	500,000	0.35000 (Note 2)	November 30, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 2)	December 30, 2022				
	MUFG Bank, Ltd.		2,000,000	2,000,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 2)	June 30, 2023				
	The Dai-ichi Life Insurance Company Limited	June 29, 2018	3,000,000	3,000,000						
	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.46000 (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	0.84375 (Note 2)						
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							

	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 (Note 3)									
Long-term loans	MUFG Bank, Ltd.	November 30, 2017	1,000,000	1,000,000	0.64801 (Note 2)	November 30, 2023	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	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)
	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						
	Mizuho Bank, Ltd.	June 29, 2018	3,700,000	3,700,000	0.67400 (Note 2)	June 30, 2025				
	MUFG Bank, Ltd.		1,000,000	1,000,000						
	Sumitomo Mitsui Banking Corporation		400,000	400,000						
	The Norinchukin Bank		1,000,000	1,000,000						
	Shinkin Central Bank		1,000,000	1,000,000						
	The Bank of Fukuoka, Ltd.		700,000	700,000						
	Resona Bank, Ltd.	200,000	200,000							
	Mizuho Bank, Ltd.	November 1, 2018	850,000	850,000	0.70600 (Note 2)	November 1, 2025				
	MUFG Bank, Ltd.		850,000	850,000						
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000						
	The Norinchukin Bank		1,450,000	1,450,000						
	Mizuho Bank, Ltd.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026				
	MUFG Bank, Ltd.		1,750,000	1,750,000						
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000						
	The Norinchukin Bank		850,000	850,000						
	Aozora Bank, Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.	March 8, 2019	—	850,000	0.57100 (Note 2)					
	MUFG Bank, Ltd.		—	850,000						
	Mizuho Bank, Ltd.		—	600,000						
	The Norinchukin Bank		—	1,450,000						
Development Bank of Japan Inc.	September 29, 2017	1,300,000	1,300,000	0.83071 (Note 2)	September 30, 2026					
Mizuho Bank, Ltd.	June 29, 2018	1,300,000	1,300,000	0.79100 (Note 2)	December 30, 2026					
MUFG Bank, Ltd.		1,000,000	1,000,000							
Sumitomo Mitsui Banking Corporation		700,000	700,000							
Sub Total			82,850,000	78,000,000						
Total			89,600,000	94,600,000						

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

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

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2019 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	6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	—	0.46000	March 11, 2019	Lump-sum	(Note 1)	(Note 4)
	7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024			
	8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)	
	9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	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			
	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			
	Sub Total		33,000,000	28,000,000					
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			37,000,000	32,000,000					

(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

None

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

None

2) Others

Of the transactions of JEI that are subject to investigation for specified asset value and other particulars under Article 201 of the Investment Trust Law are investigated and reported by Ernst & Young ShinNihon LLC.

One interest rate swap contract was subject to investigation during the period from January 1, 2019 to June 30, 2019 and we have received the consensus report on procedure operation results from Ernst & Young ShinNihon LLC. Concerning the interest rate swap contract, Ernst & Young ShinNihon LLC was requested to report on the name of counterparty, quantity, contractual figures, transaction term and other matters pertaining to the over-the-counter derivative transaction.

This investigation is not part of the audit of financial statements and will not provide a guarantee of the adequacy of prices and the internal control system.

(4) Transactions with Interested Parties

1) Transactions

None

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,399,365	Nippon Steel Kowa Real Estate Co., Ltd.	201,430	14.4%
		Kowa Real Estate Facilities, Co., Ltd.	293,946	21.0%
		Akasaka Intercity Management Co., Ltd.	8,537	0.6%
		Nippon Steel Community Service Co., Ltd.	2,131	0.2%
Total	1,399,365	—	506,046	36.2%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2019.

(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. 22,801 thousand yen

Kowa Real Estate Facilities Co., Ltd. 236,443 thousand yen

Nippon Steel Community Service Co., Ltd. 2,405 thousand yen

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

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

7. Accounting

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

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

(2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

8. Others

(1) Notice

1) General unitholders' meeting

There were no applicable items during the period.

2) Board of directors' meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2019, are summarized below.

Approval date	Approved agenda	Description
February 15, 2019	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 15, 2019 to February 8, 2020. The board of directors approved the respective candidate general administrator for "administrative duties concerning offering of investment corporation bonds" and "administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period," and assigned decisions on all other necessary matters to the Executive Director.

(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, 2019 and December 31, 2018
with Independent Auditor's Report*

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2019, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2019, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

September 18, 2019
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2019 and December 31, 2018

	As of June 30, 2019	As of December 31, 2018
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 5 and 6)</i>	25,647,834	24,239,320
Rental receivables	362,961	391,990
Consumption taxes refundable	—	28,951
Prepaid expenses and other current assets	219,297	197,807
Total current assets	<u>26,230,092</u>	<u>24,858,070</u>
Property and equipment <i>(Note 8)</i> :		
Buildings and building improvements	7,312,013	7,087,968
Machinery and equipment	6,253	6,253
Furniture and fixtures	49,835	49,835
Land	9,292,709	9,292,709
Construction in progress	—	14,169
Buildings and building improvements for trust accounts	116,973,957	115,955,569
Machinery and equipment for trust accounts	942,708	906,063
Furniture and fixtures for trust accounts	265,897	263,244
Land for trust accounts	146,475,849	146,475,849
Construction in progress for trust accounts	116,057	112,000
Less: accumulated depreciation	<u>(32,515,031)</u>	<u>(30,581,954)</u>
Net property and equipment	<u>248,920,250</u>	<u>249,581,709</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	12	37
Leasehold rights for trust accounts	7,382,016	7,382,016
Software	10,633	—
Other intangible assets for trust accounts	4,297	4,435
Total intangible assets	<u>9,118,567</u>	<u>9,108,097</u>
Investments and other assets:		
Deferred tax assets	7	27
Security deposits	15,181	15,181
Long-term prepaid expenses	902,009	845,703
Other assets	836,314	828,873
Total investments and other assets	<u>1,753,513</u>	<u>1,689,786</u>
Deferred assets:		
Investment corporation bond issuance costs	149,873	162,503
Total deferred assets	<u>149,873</u>	<u>162,503</u>
Total assets	<u>286,172,297</u>	<u>285,400,167</u>

	As of June 30, 2019	As of December 31, 2018
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,657,518	1,385,707
Short-term loans <i>(Notes 6 and 9)</i>	7,000,000	2,000,000
Investment corporation bonds due within one year <i>(Notes 6 and 10)</i>	—	5,000,000
Long-term debt due within one year <i>(Notes 6 and 9)</i>	9,600,000	4,750,000
Accounts payable – other	439,565	433,933
Accrued expenses	149,470	153,947
Accrued corporation taxes	742	1,159
Accrued consumption taxes	221,152	—
Advances received	85,689	82,728
Other current liabilities	1,332	0
Total current liabilities	<u>19,155,471</u>	<u>13,807,474</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 6 and 10)</i>	32,000,000	32,000,000
Long-term debt <i>(Notes 6 and 9)</i>	78,000,000	82,850,000
Security deposits from tenants <i>(Note 6)</i>	1,129,346	1,126,906
Security deposits from tenants for trust accounts <i>(Note 6)</i>	12,065,244	11,888,617
Total long-term liabilities	<u>123,194,591</u>	<u>127,865,523</u>
Total liabilities	<u>142,350,062</u>	<u>141,672,998</u>
Net assets <i>(Note 11)</i>		
Unitholders' equity:		
Unitholders' capital	139,972,885	139,972,885
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	158,039	158,039
Retained earnings	3,691,310	3,596,244
Total surplus	<u>3,849,350</u>	<u>3,754,283</u>
Total unitholders' equity	<u>143,822,235</u>	<u>143,727,168</u>
Total net assets	<u>143,822,235</u>	<u>143,727,168</u>
Total liabilities and net assets	<u>286,172,297</u>	<u>285,400,167</u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2019 to June 30, 2019
and from July 1, 2018 to December 31, 2018

	For the period from January 1, 2019 to June 30, 2019	For the period from July 1, 2018 to December 31, 2018
<i>(Thousands of yen)</i>		
Revenues <i>(Note 14)</i> :		
Rental business revenues	9,850,159	9,779,867
Other	818,102	877,818
Total revenues	10,668,262	10,657,685
Operating expenses <i>(Note 14)</i> :		
Property operating expenses	5,747,936	5,780,672
Asset management fees	447,411	445,785
Custodian fees	21,278	21,250
Administrative service fees	39,215	39,428
Compensation for directors	6,540	6,540
Other	87,096	79,890
Total operating expenses	6,349,477	6,373,568
Operating income	4,318,784	4,284,116
Other income:		
Interest income	127	132
Other	1,051	1,274
Other expenses:		
Interest expense	358,380	363,145
Loan arrangement fees	126,920	148,049
Interest expense on investment corporation bonds	129,970	153,761
Amortization of investment corporation bond issuance costs	12,630	16,989
Other	315	6,167
Ordinary income	3,691,747	3,597,409
Income before income taxes	3,691,747	3,597,409
Income taxes <i>(Note 13)</i> :		
Current	762	1,179
Deferred	20	(13)
Net income	3,690,964	3,596,244
Retained earnings at beginning of period	346	—
Retained earnings at end of period	3,691,310	3,596,244

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2019 to June 30, 2019
and from July 1, 2018 to December 31, 2018

For the period from January 1, 2019 to June 30, 2019

	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus		
(Thousands of yen)							
Balance as of December 31, 2018	1,305,700	139,972,885	158,039	3,596,244	3,754,283	143,727,168	143,727,168
Changes during the fiscal period:							
Distributions from retained earnings	—	—	—	(3,595,897)	(3,595,897)	(3,595,897)	(3,595,897)
Net income	—	—	—	3,690,964	3,690,964	3,690,964	3,690,964
Total changes during the fiscal period	—	—	—	95,066	95,066	95,066	95,066
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

For the period from July 1, 2018 to December 31, 2018

	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus		
(Thousands of yen)							
Balance as of June 30, 2018	1,305,700	139,972,885	474,537	3,339,461	3,813,999	143,786,884	143,786,884
Changes during the fiscal period:							
Provision of reserve for reduction entry	—	—	(316,498)	316,498	—	—	—
Distributions from retained earnings	—	—	—	(3,655,960)	(3,655,960)	(3,655,960)	(3,655,960)
Net income	—	—	—	3,596,244	3,596,244	3,596,244	3,596,244
Total changes during the fiscal period	—	—	(316,498)	256,782	(59,715)	(59,715)	(59,715)
Balance as of December 31, 2018	1,305,700	139,972,885	158,039	3,596,244	3,754,283	143,727,168	143,727,168

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2019 to June 30, 2019
and from July 1, 2018 to December 31, 2018

	For the period from January 1, 2019 to June 30, 2019	For the period from July 1, 2018 to December 31, 2018
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,691,747	3,597,409
Depreciation and amortization	1,936,097	1,920,714
Amortization of investment corporation bond issuance costs	12,630	16,989
Interest income	(127)	(132)
Interest expense	488,350	516,906
Decrease (increase) in rental receivables	29,029	2,497
Decrease (increase) in consumption taxes refundable	28,951	53,759
Decrease (increase) in prepaid expense	(17,900)	52,025
Increase (decrease) in accounts payable – trade	(7,940)	170,364
Increase (decrease) in accounts payable – other	6,138	11,329
Increase (decrease) in unpaid consumption taxes	221,152	—
Increase (decrease) in advances received	2,961	(580)
Decrease (increase) in long-term prepaid expenses	(56,306)	31,361
Other, net	(8,828)	(33,176)
Subtotal	6,325,955	6,339,467
Interest received	127	132
Interest paid	(492,827)	(509,400)
Income taxes paid	(1,178)	(901)
Net cash provided by (used in) operating activities	5,832,077	5,829,298
Cash flows from investing activities		
Purchases of property and equipment	(240,408)	(5,704)
Purchases of property and equipment for trust accounts	(755,652)	(7,363,421)
Purchases of intangible assets	(11,000)	—
Proceeds from security deposits from tenants	2,440	22,569
Proceeds from security deposits in trust accounts from tenants	368,962	231,706
Payments for security deposits in trust accounts to tenants	(192,334)	(151,371)
Net cash provided by (used in) investing activities	(827,993)	(7,266,221)
Cash flows from financing activities		
Proceeds from short-term loans	5,000,000	8,000,000
Repayment for short-term loans	—	(6,900,000)
Proceeds from long-term debt	3,750,000	5,750,000
Repayment for long-term debt	(3,750,000)	(3,750,000)
Proceeds from issuance of investment corporation bonds	—	3,973,700
Payments for redemption of investment corporation bonds	(5,000,000)	(7,000,000)
Distributions to unitholders	(3,595,570)	(3,656,349)
Net cash provided by (used in) financing activities	(3,595,570)	(3,582,649)
Net increase (decrease) in cash and cash equivalents	1,408,513	(5,019,572)
Cash and cash equivalents at beginning of period	24,239,320	29,258,892
Cash and cash equivalents at end of period (Note 5)	25,647,834	24,239,320

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2019 to June 30, 2019
and from July 1, 2018 to December 31, 2018

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, 2019, JEI held 31 properties with 343,830.44 square meters of total leasable space and had leases with 204 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.

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:

Brand and trademark	10 years
Software	5 years

Deferred assets

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

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from July 1, 2018 to December 31, 2018 was ¥14,068 thousand. The capitalized amount for the period from January 1, 2019 to June 30, 2019 was ¥687 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, 2019 and December 31, 2018 consisted of the following:

	<u>As of June 30, 2019</u>	<u>As of December 31, 2018</u>
	<i>(Thousands of yen)</i>	
Cash and cash deposits	9,553,228	8,224,411
Cash and deposits in trust	16,094,605	16,014,909
Cash and cash equivalents including trust accounts	<u>25,647,834</u>	<u>24,239,320</u>

5. Financial Instruments

For the periods from January 1, 2019 to June 30, 2019 and from July 1, 2018 to December 31, 2018

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 89.9% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2019. 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 9, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of June 30, 2019). 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, 2019 and December 31, 2018 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, 2019			As of December 31, 2018		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	9,553,228	9,553,228	—	8,224,411	8,224,411	—
(2) Cash and deposits in trust	16,094,605	16,094,605	—	16,014,909	16,014,909	—
Total assets	<u>25,647,834</u>	<u>25,647,834</u>	<u>—</u>	<u>24,239,320</u>	<u>24,239,320</u>	<u>—</u>
(3) Short-term loans (Note C)	7,000,000	7,000,000	—	2,000,000	2,000,000	—
(4) Investment corporation bonds due within one year (Note C)	—	—	—	5,000,000	5,002,800	2,800
(5) Long-term debt due within one year (Note C)	9,600,000	9,685,985	85,985	4,750,000	4,754,243	4,243
(6) Investment corporation bonds (Note C)	32,000,000	32,733,763	733,763	32,000,000	32,484,079	484,079
(7) Long-term debt (Note C)	78,000,000	79,777,491	1,777,491	82,850,000	84,648,708	1,798,708
Total liabilities	<u>126,600,000</u>	<u>129,197,240</u>	<u>2,597,240</u>	<u>126,600,000</u>	<u>128,889,831</u>	<u>2,289,831</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 16, "Derivative Transactions."

(Note B)

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

	<u>As of</u> <u>June 30, 2019</u>	<u>As of</u> <u>December 31, 2018</u>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	1,129,346	1,126,906
② Security deposits from tenants for trust accounts*	12,065,244	11,888,617

- * 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, 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	9,553,228	—	—	—	—	—
Cash and deposits in trust	16,094,605	—	—	—	—	—
Total	25,647,834	—	—	—	—	—

	As of December 31, 2018					
	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	8,224,411	—	—	—	—	—
Cash and deposits in trust	16,014,909	—	—	—	—	—
Total	24,239,320	—	—	—	—	—

(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, 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	7,000,000	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	9,600,000	—	—	—	—	—
Investment corporation bonds	—	—	—	2,000,000	10,000,000	20,000,000
Long-term debt	—	6,000,000	14,510,000	11,750,000	14,270,000	31,470,000
Total	16,600,000	6,000,000	14,510,000	13,750,000	24,270,000	51,470,000

	As of December 31, 2018					
	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	2,000,000	—	—	—	—	—
Investment corporation bonds due within one year	5,000,000	—	—	—	—	—
Long-term debt due within one year	4,750,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	4,000,000	28,000,000
Long-term debt	—	10,600,000	13,510,000	11,750,000	15,770,000	31,220,000
Total	11,750,000	10,600,000	13,510,000	11,750,000	19,770,000	59,220,000

6. Investment and Rental Property

For the periods from January 1, 2019 to June 30, 2019 and from July 1, 2018 to December 31, 2018

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, 2019 and December 31, 2018 for such real estate for lease.

Carrying value			Fair value
As of December 31, 2018	Change during period (*1)	As of June 30, 2019	As of June 30, 2019
<i>(Thousands of yen)</i>			
258,689,768	(661,596)	258,028,172	310,488,000

Carrying value			Fair value
As of July 1, 2018	Change during period (*2)	As of December 31, 2018	As of December 31, 2018
<i>(Thousands of yen)</i>			
253,180,617	5,509,151	258,689,768	303,455,000

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

B) Details of change during period:

(*1) A decrease of ¥661,596 thousand during period is mainly due to depreciation costs of ¥1,935,705 thousand.

(*2) The increase of ¥5,509,151 thousand during the period is mainly due to an increase of ¥6,613,775 thousand related to the acquisition of AKASAKA INTERCITY AIR, and a decrease of ¥1,920,688 thousand for depreciation costs.

C) Fair value

Fair value as of June 30, 2019 and December 31, 2018 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2019 and December 31, 2018 consisted of the following:

	As of June 30, 2019			As of December 31, 2018		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,312,013	(1,663,787)	5,648,225	7,087,968	(1,556,856)	5,531,112
Machinery and equipment	6,253	(3,380)	2,872	6,253	(3,099)	3,154
Furniture and fixtures	49,835	(14,862)	34,973	49,835	(11,440)	38,394
Land	9,292,709	—	9,292,709	9,292,709	—	9,292,709
Construction in progress	—	—	—	14,169	—	14,169
Buildings and building improvements for trust accounts	116,973,957	(30,201,675)	86,772,281	115,955,569	(28,423,768)	87,531,801
Machinery and equipment for trust accounts	942,708	(480,429)	462,278	906,063	(448,093)	457,970
Furniture and fixtures for trust accounts	265,897	(150,895)	115,002	263,244	(138,696)	124,547
Land for trust accounts	146,475,849	—	146,475,849	146,475,849	—	146,475,849
Construction in progress for trust accounts	116,057	—	116,057	112,000	—	112,000
Total	281,435,282	(32,515,031)	248,920,250	280,163,664	(30,581,954)	249,581,709

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2019 and December 31, 2018 consisted of the following:

	As of June 30, 2019		As of December 31, 2018	
	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 October 8, 2019	2,000,000	0.26224%	2,000,000	0.26273%
Unsecured loans from a bank due on March 8, 2020	5,000,000	0.26123%	—	—
Subtotal	<u>7,000,000</u>		<u>2,000,000</u>	
Long-term debt due within one year:				
Unsecured loans from banks due on March 8, 2019	—	0.77500% (*2)	3,750,000	0.77500% (*2)
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% (*2)	1,000,000	0.25000% (*2)
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% (*2)	—	—
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*2)	—	—
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*2)	—	—
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*2)	—	—
Subtotal	<u>9,600,000</u>		<u>4,750,000</u>	

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

Long-term debt:				
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	0.26121%	2,000,000	0.26367%
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*2)	2,000,000	1.60750% (*2)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*2)	2,000,000	0.98834% (*2)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.41909%	3,760,000	0.41909%
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 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)	—	—
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)
Subtotal	78,000,000		82,850,000	
Total	94,600,000		89,600,000	

(*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, 2019 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	9,600,000	6,000,000	14,510,000	11,750,000	14,270,000	31,470,000

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, 2019, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2019 and December 31, 2018 are summarized as follows:

	As of June 30, 2019		As of December 31, 2018	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #6 due on March 11, 2019	—	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	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%
Total	32,000,000		37,000,000	

The scheduled redemption amounts of investment corporation bonds as of June 30, 2019 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Investment corporation bonds	—	—	—	2,000,000	10,000,000	20,000,000

10. Net Assets

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

11. Per Unit Information

Net assets per unit as of June 30, 2019 and December 31, 2018 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,305,700 units), respectively.

Net income per unit for the periods from January 1, 2019 to June 30, 2019 and July 1, 2018 to December 31, 2018 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,305,700 units) and (1,305,700 units), respectively.

Accordingly, net assets per unit were ¥110,149 as of June 30, 2019 and ¥110,076 as of December 31, 2018. Net income per unit was ¥2,826 for the period from January 1, 2019 to June 30, 2019 and ¥2,754 for the period from July 1, 2018 to December 31, 2018.

12. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2019 and December 31, 2018 are summarized as follows:

	As of June 30, 2019	As of December 31, 2018
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	7	27
Total deferred tax assets	7	27
Net deferred tax assets	7	27

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2019 to June 30, 2019 and July 1, 2018 to December 31, 2018 is as follows:

	For the period from January 1, 2019 to June 30, 2019	For the period from July 1, 2018 to December 31, 2018
Statutory tax rate	31.51%	31.51%
Reconciliation:		
Deductible distributions paid	(31.51%)	(31.50%)
Other	0.02%	0.02%
Effective tax rate	0.02%	0.03%

13. Breakdown of Revenues and Expenses

	For the period from January 1, 2019 to June 30, 2019	For the period from July 1, 2018 to December 31, 2018
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,302,097	8,224,089
Common area revenues	1,272,591	1,283,197
Other rental revenues	275,471	272,580
Subtotal	<u>9,850,159</u>	<u>9,779,867</u>
Other		
Utilities revenues	713,089	792,175
Other revenues	105,013	85,642
Subtotal	<u>818,102</u>	<u>877,818</u>
Total rental revenues	<u>10,668,262</u>	<u>10,657,685</u>
Property operating expenses:		
Property management costs and fees	1,399,365	1,358,100
Utilities expenses	959,157	1,029,767
Property and other taxes	917,694	894,114
Insurance	22,333	24,388
Repairs and maintenance	285,363	314,615
Depreciation	1,935,705	1,920,688
Other	228,316	238,996
Total property operating expenses	<u>5,747,936</u>	<u>5,780,672</u>
Profit	<u>4,920,325</u>	<u>4,877,012</u>

14. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2019 and December 31, 2018, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2019	As of December 31, 2018
	<i>(Thousands of yen)</i>	
Due within one year	750,472	711,805
Due after one year	2,469,014	1,788,058
Total	<u>3,219,487</u>	<u>2,499,864</u>

15. Derivative Transactions

Derivative Transactions as of June 30, 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 June 30, 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 6, "Financial Instruments."

Derivative Transactions as of December 31, 2018

(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, 2018 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	42,390,000	*	/

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

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

16. Related Party Transactions

For the period from January 1, 2019 to June 30, 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	447,411	Accounts payable	368,885

For the period from July 1, 2018 to December 31, 2018

- (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	445,785	Accounts payable	365,338

17. Segment Information

For the periods from January 1, 2019 to June 30, 2019 and from July 1, 2018 to December 31, 2018

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

Information about products and services

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

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

18. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,691,213,900, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,691,310,948, which is the amount of retained earnings at June 30, 2019. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 19, 2019, the Board of Directors approved a resolution to make a cash distribution of ¥2,827 per unit aggregating to ¥3,691,213,900 to unitholders of record as of June 30, 2019.

19. Significant Subsequent Event

Not applicable.