

Asset Management Report for 27th Period

(Semi-Annual Report for 27th Period)

From July 1, 2019 to December 31, 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 27th period (from July 1, 2019 to December 31, 2019).

During the 27th period, we transferred part of JEI Nishi-Honmachi Building and Kowa Kawasaki Nishiguchi Building as the final phase of asset replacement which we worked on under the aim of improving portfolio quality. JEI Nishi-Honmachi Building will be transferred entirely over the next two fiscal periods while another part of Kowa Kawasaki Nishiguchi Building will be transferred in the next fiscal period. Meanwhile, we newly acquired BIZCORE AKASAKA-MITSUKE of the BIZCORE series comprising medium-scale office buildings from Nippon Steel Kowa Real Estate Co., Ltd., the sponsor, in addition to Senshin Building boasting high visibility standing close to Sendai Station. Furthermore, we acquired GRAND FRONT OSAKA, a landmark situated in front of Osaka Station/Umeda Station, in the 28th period.

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

Furthermore, on the financial front, JEI issued its first 20-year investment corporation bonds to extend the financing term while also lowering the interest rate. As a result, JEI recorded operating revenue of 10,890 million yen, operating income of 2,912 million yen and net income of 2,242 million yen, and distribution per unit stood at 2,918 yen.

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 strong needs for floor expansion against the backdrop of a tight employment situation.

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

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 stable financial management by working to reduce financing costs while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

In addition, JEI remains committed to strict adherence to the Financial Instruments and Exchange Act and other laws and regulations to promote compliance, as well as to accurate and easy-to-understand disclosure of the status of our operations 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		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	27th Period July 1, 2019 to December 31, 2019
Operating revenue	(Millions of yen)	11,085	10,535	10,657	10,668	10,890
(Rental revenues)	(Millions of yen)	(10,806)	(10,535)	(10,657)	(10,668)	(10,890)
Operating expenses	(Millions of yen)	6,565	6,509	6,373	6,349	7,978
(Property operating expenses)	(Millions of yen)	(5,931)	(5,754)	(5,780)	(5,747)	(5,906)
Operating income	(Millions of yen)	4,519	4,025	4,284	4,318	2,912
Ordinary income	(Millions of yen)	3,701	3,340	3,597	3,691	2,247
Net income	(Millions of yen)	3,700	3,339	3,596	3,690	2,246
Total assets	(Millions of yen)	282,197	285,008	285,400	286,172	288,790
(Period-on-period change)	(%)	(-5.0)	(1.0)	(0.1)	(0.3)	(0.9)
Net assets	(Millions of yen)	143,933	143,786	143,727	143,822	142,377
(Period-on-period change)	(%)	(0.2)	(-0.1)	(-0.0)	(0.1)	(-1.0)
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)	110,234	110,122	110,076	110,149	109,042
Net income per unit (Note 1)	(yen)	2,833	2,557	2,754	2,826	1,720
Total distribution	(Millions of yen)	3,486	3,655	3,595	3,691	3,810
Distribution per unit	(yen)	2,670	2,800	2,754	2,827	2,918
(Profit distribution per unit)	(yen)	(2,670)	(2,800)	(2,754)	(2,827)	(1,841)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(1,077)
(Note 2)						
Return on assets (Note 3)	(%)	1.3	1.2	1.3	1.3	0.8
(Annualized rate)	(%)	(2.5)	(2.4)	(2.5)	(2.6)	(1.6)
Return on equity (Note 4)	(%)	2.6	2.3	2.5	2.6	1.6
(Annualized rate)	(%)	(5.1)	(4.7)	(5.0)	(5.2)	(3.1)
Capital ratio (Note 5)	(%)	51.0	50.5	50.4	50.3	49.3
(Period-on-period change)	(%)	(2.7)	(-0.6)	(-0.1)	(-0.1)	(-1.0)
Payout ratio (Note 6)	(%)	94.2	109.5	100.0	100.0	107.0
Number of investment properties	(properties)	29	30	31	31	33
Number of tenants	(tenants)	243	202	204	204	200
Total leasable space (Note 7, 8)	(m ²)	356,854	341,247	343,830	343,830	345,940
Occupancy rate	(%)	99.1	99.6	99.6	99.4	99.6
Depreciation	(Millions of yen)	1,972	1,926	1,920	1,935	1,929
Capital expenditure	(Millions of yen)	1,092	867	809	1,285	1,726
Net operating income (NOI) (Note 9)	(Millions of yen)	6,847	6,707	6,797	6,856	6,913
Funds from operation (FFO) per unit (Note 10)	(yen)	4,131	4,159	4,225	4,309	4,367
FFO multiples (Note 11)	(times)	16.0	17.0	17.7	18.2	20.3
Debt service coverage ratio (DSCR) (Note 12)	(times)	10.7	11.1	11.7	12.5	9.4
Interest-bearing debt	(Millions of yen)	122,500	126,500	126,600	126,600	129,600
Loan-to-value (Note 13)	(%)	43.4	44.4	44.4	44.2	44.9
Number of days in operation	(days)	184	181	184	181	184

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- (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) Distribution in excess of earnings per unit in the 27th period is from reserve for temporary difference adjustments.
- (Note 3) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100
- (Note 4) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100
- (Note 5) Capital ratio = Period end net assets / Period end total assets × 100
- (Note 6) 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 7) 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 8) Spaces are rounded to the nearest specified unit. The same applies hereinafter.
- (Note 9) NOI = Rental revenues – Property operating expenses + Depreciation
- (Note 10) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate + Impairment loss) / Total number of outstanding investment units (the figure is rounded down to the whole number).
- (Note 11) FFO multiples = Period end investment unit price / Annualized FFO per unit
- (Note 12) DSCR = (Net income before interest and taxes + Depreciation) / (Interest expenses + Interest expense on investment corporation bonds)
- (Note 13) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (Law No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, JEI has continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2019, JEI settled its twenty-seventh period.

1) Business conditions and results

The world economy during the 27th period clearly indicated a declining growth rate amid concerns over the escalating U.S.-China trade friction and a hard Brexit. In light of such overseas economic slowdown, the Japanese economy saw sluggish exports and lacked robustness due to weak personal spending despite capital investment remaining solid.

With regard to the financial environment in the U.S., amid the ongoing global trends of monetary easing, the long-term interest rate increased modestly towards the end of the year in positive response to the progress in the U.S.-China talks, widening the gap between the long-term and short-term interest rates. In Japan as well, there have been times in which the yield of 10-year government bonds increased to the positive range in response to the rise in the long-term interest rate in the U.S. and Europe as the Bank of Japan maintains its policy of monetary easing while assessing the impact of the consumption tax hike implemented in October.

In the real estate transaction market, amid the continuing favorable environment for fund procurement, transaction yields are at a 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, with needs for floor expansion within the same buildings, relocation for expansion and better location, etc. continuing to be strong, vacancy rates and levels of asking rent have improved. 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 99.6%.

The total number of properties owned and managed by JEI at the end of the current period was 33 with total acquisition price of 279.4 billion yen and total leasable space of 345,940.29 m² (104,646.94 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 27th period, with regard to the 1.0 billion yen in loans that matured in October, JEI issued its first 20-year bonds (1.0 billion yen, 1.07%) in September prior to the maturity, taking into consideration the market environment. In addition, JEI took out a short-term loan (4.0 billion yen, 1 year) from a bank as funds to acquire BIZCORE AKASAKA-MITSUKE in October. Furthermore, as for the 1.0 billion yen in loans that matured in December, JEI extended the borrowing period from 3.0 years to 5.0 years.

As a result of the above, as of the end of the 27th period, the average remaining period of interest-bearing debt (Note 2) was 4.2 years (shortened by 0.4 years from the end of the previous period) and the period-end average interest-bearing debt interest rate (Note 3) was 0.77% (the same level as at the end of the previous period) and the loan-to-value ratio of total assets (total assets-based LTV) was 44.9% (up 0.7% from the end of the previous period).

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

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

(Ratings as of December 31, 2019)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 4)
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 60.0% of the entire portfolio (as of December 31, 2019; based on leasable space excluding land with leasehold interest).

Such initiatives for sustainability by JEI earned high recognition including a fifth consecutive “Green Star” rating (Note 6) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 5) Real Estate Assessment conducted in 2019, as well as “4 Star” or higher in “GRESB Rating” (Note 7), a rating of overall score according to global ranking.

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 10,890 million yen in operating revenue, 2,912 million yen in operating income, 2,247 million yen in ordinary income and 2,246 million yen in net income for the period under review.

Concerning distributions in the period under review, to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) after adding to unappropriated retained earnings the 158 million yen from reversal of reserve for advanced depreciation of non-current assets, which allows JEI to deduct the amount of profit distribution from its taxable income. In addition, JEI decided to distribute allowance for temporary difference adjustment (stipulated by Article 2 Paragraph 2 Item 30 of the Ordinance on Accountings of Investment Corporations) as distribution in excess of earnings considering the impact of a major book-tax difference (stipulated by Article 2 Paragraph 2 Item 30 (a) of the Ordinance on Accountings of Investment Corporations) on distribution.

As a result, distribution per unit for the period was 2,918 yen, up 91 yen from the previous period.

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

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

(Note 4) The rating is for 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds, 11th series unsecured investment corporation bonds, 12th series unsecured investment corporation bonds, 13th series unsecured investment corporation bonds, 14th series unsecured investment corporation bonds and 15th series unsecured investment corporation bonds.

(Note 5) 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 6) “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 7) “GRESB Rating” is a rating of the overall score according to the global ranking, and “5 Star” is given to the top 20% of participants, “4 Star” to the following 20% and so forth.

(3) Capital Increase

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	Third-party allotment	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	Third-party allotment	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	Third-party allotment	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	Third-party allotment	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	Third-party allotment	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	Third-party allotment	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	Third-party allotment	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 issue price of 520,000 yen per unit (purchase price of 501,800 yen per unit) through a public offering in order to fund acquisition of new properties which were acquired at the time of the listing.

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

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

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

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

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

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

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

(Note 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 issue price of 118,072 yen per unit (purchase price of 114,196 yen per unit) through a public offering in order to fund acquisition of new properties.

(Note 12) New investment units were issued at a purchase price of 114,196 yen per unit through third-party allotment in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.

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

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

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

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

(Note 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 27th 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)	23rd period (December 2017)	24th period (June 2018)	25th period (December 2018)	26th period (June 2019)	27th period (December 2019)
	Highest (yen)	137,200	147,400	156,200	164,500	189,600
	Lowest (yen)	121,100	131,400	141,000	147,600	159,600

(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, to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) after adding to unappropriated retained earnings 158,039,114 yen from reversal of reserve for advanced depreciation of non-current assets, which allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 1,841 yen.

In addition, JEI distributed the amount equivalent to impairment loss as distribution in excess of earnings in the 27th period, and the distribution amount per unit from reserve for temporary difference adjustments was 1,077 yen.

As a result, distribution per unit for the period was 2,918 yen.

Fiscal period	23rd period	24th period	25th period	26th period	27th period
Accounting period	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	July 1, 2019 to December 31, 2019
Unappropriated retained earnings at end of period (Thousands of yen)	3,700,279	3,339,461	3,596,244	3,691,310	2,246,223
Retained income (Thousands of yen)	214,060	—	346	97	469
Total cash distribution amount (Thousands of yen)	3,486,219	3,655,960	3,595,897	3,691,213	3,810,032
(Cash distributions per unit) (yen)	(2,670)	(2,800)	(2,754)	(2,827)	(2,918)
Of which, total profit distributions (Thousands of yen)	3,486,219	3,655,960	3,595,897	3,691,213	2,403,793
(Profit distribution per unit) (yen)	(2,670)	(2,800)	(2,754)	(2,827)	(1,841)
Of which, total refund of investment equity	—	—	—	—	1,406,238
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(1,077)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	1,406,238
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(1,077)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

In the real estate market, although 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

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

B. Internal growth

JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. 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

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

The board of directors of JEI resolved the following issuance of new investment units through public offering at its meetings held on January 6, 2020, and January 15, 2020. The payment for the offering was completed on January 21, 2020.

<Issuance of new units through public offering>

Number of units issued	43,000 units
Issue price	173,355 yen per unit
Total issue price	7,454,265,000 yen
Paid-in amount (purchase price)	167,754 yen per unit
Total paid-in amount (total purchase price)	7,213,422,000 yen
Payment date	January 21, 2020

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

The board of directors of JEI resolved the following issuance of new investment units through third-party allotment at its meetings held on January 6, 2020, and January 15, 2020. The payment for the offering was completed on February 13, 2020.

As a result, unitholders' capital is 147,907,649,350 yen, including the amount increased through the above primary offering, and the number of investment units issued and outstanding is 1,353,000 as of February 13, 2020.

<Issuance of new units through third-party allotment>

Number of units issued	4,300 units
Paid-in amount (purchase price)	167,754 yen per unit
Total paid-in amount (total purchase price)	721,342,200 yen
Allottee	Mizuho Securities Co., Ltd.
Payment date	February 13, 2020

(Reference Material)

1. Acquisition of Asset (GRAND FRONT OSAKA (Umekita Plaza/South Building))

JEI concluded a transaction agreement for trust beneficiary interest in real estate on January 6, 2020, as follows and acquired it on February 3, 2020.

< Overview of the Acquired Asset >

Acquired asset	Trust beneficiary interest in real estate (quasi co-ownership interest)
Name of asset	GRAND FRONT OSAKA (Umekita Plaza/South Building)
Location	4-1 Ofuka-cho, Kita-ku, Osaka-shi, Osaka (Umekita Plaza) 4-20 Ofuka-cho, Kita-ku, Osaka-shi, Osaka (South Building)
Acquisition price (Note)	4,868,050,000 yen
Date of conclusion of agreement	January 6, 2020
Acquisition date	February 3, 2020
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. Acquisition of Asset (GRAND FRONT OSAKA (North Building))

JEI concluded a transaction agreement for trust beneficiary interest in real estate on January 6, 2020, as follows and acquired it on February 3, 2020.

< Overview of the Acquired Asset >

Acquired asset	Trust beneficiary interest in real estate (quasi co-ownership interest)
Name of asset	GRAND FRONT OSAKA (North Building)
Location	3-1 Ofuka-cho, Kita-ku, Osaka-shi, Osaka
Acquisition price (Note)	3,982,950,000 yen
Date of conclusion of agreement	January 6, 2020
Acquisition date	February 3, 2020
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.

3. Borrowing of Funds

JEI concluded a loan agreement on January 28, 2020, as described below to allot funds to the repayment of an existing borrowing.

<Overview of Borrowing>

Lender	Mizuho Bank, Ltd. MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Trust & Banking Co., Ltd. The Norinchukin Bank
Loan amount	5,600,000,000 yen
Interest rate (Note)	Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) + 0.49000%
Drawdown date	January 31, 2020
Principal repayment date	January 31, 2029
Principal repayment method	To be repaid in full on the principal repayment date
Collateral	Unsecured / Non-guaranteed

(Note) JEI concluded an interest rate swap agreement on January 29, 2020, and fixed the interest rate at 0.71200%.

4. Borrowing of Funds

JEI concluded a loan agreement on January 28, 2020, as described below to allot funds to the repayment of an existing borrowing.

<Overview of Borrowing>

Lender	The Dai-ichi Life Insurance Company Limited
Loan amount	1,000,000,000 yen
Interest rate	0.77000%
Drawdown date	January 31, 2020
Principal repayment date	January 31, 2029
Principal repayment method	To be repaid in full on the principal repayment date
Collateral	Unsecured / Non-guaranteed

5. Borrowing of Funds

JEI concluded a loan agreement on January 28, 2020, as described below to allot funds to the repayment of an existing borrowing.

<Overview of Borrowing>

Lender	The Dai-ichi Life Insurance Company Limited
Loan amount	2,000,000,000 yen
Interest rate	0.68778%
Drawdown date	January 31, 2020
Principal repayment date	July 31, 2028

Principal repayment method	To be repaid in full on the principal repayment date
Collateral	Unsecured / Non-guaranteed

2. Outline of the Investment Corporation

(1) Investment Units

Fiscal period	23rd As of December 31, 2017	24th As of June 30, 2018	25th As of December 31, 2018	26th As of June 30, 2019	27th As of December 31, 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	7,680 individuals	7,189 individuals	6,741 individuals	6,393 individuals	6,046 individuals

(2) Unitholders

Major unitholders as of December 31, 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	322,541	24.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	205,153	15.71
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	63,977	4.90
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	55,747	4.27
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.	18,166	1.39
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	15,027	1.15
JPMorgan Securities Japan Co., Ltd.	2-7-3 Marunouchi, Chiyoda-ku, Tokyo	14,978	1.15
The Chukyo Bank, Ltd.	3-33-13 Sakae, Naka-ku, Nagoya-shi, Aichi	13,799	1.06
Total		801,608	61.39

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2019 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama (Note 2)	Advisor, Anderson, Mori & Tomotsune	6,220
Supervisory Director	Osamu Hirakawa (Note 3)	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	14,900 (Note 4)

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

(Note 2) Tsuyoshi Nagahama retired as Supervisory Director on October 31, 2019, upon the expiration of the term of office.

(Note 3) Osamu Hirakawa was elected as Supervisory Director at the eighth general unitholders' meeting held on September 26, 2019, and assumed the office on November 1, 2019.

(Note 4) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 27th period (11,000 thousand yen), the fee for the English financial statements audit and the preparation of a comfort letter upon the issuance of the 15th Series Unsecured Investment Corporation Bonds in September 2019.

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 December 31, 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)	26th Period (As of June 30, 2019)		27th Period (As of December 31, 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	11,016	3.8	10,997	3.8
		Area II	5,683	2.0	5,603	1.9
		Area IV	-	-	1,628	0.6
Trust beneficiary interest in real estate		Area I	99,067	34.6	104,923	36.3
		Area II	8,896	3.1	8,495	2.9
		Area III	94,555	33.0	92,056	31.9
		Area IV	21,256	7.4	21,300	7.4
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,551	6.1	17,437	6.0
Total			258,028	90.2	262,443	90.9
Deposits in bank and other assets			28,144	9.8	26,347	9.1
Total assets			286,172	100.0	288,790	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 December 31, 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
AKASAKA INTERCITY	26,824	11,021.03	11,021.03	100.0	5.6	Office building
Kowa Kawasaki Nishiguchi Building	26,769	36,456.87	36,456.87	100.0	9.0	Office building
Nisseki Yokohama Building	23,106	40,440.72	40,440.72	100.0	10.8	Office building
Omori Bellport D	20,763	25,801.66	25,801.66	100.0	8.7	Office building
HAMARIKYU INTERCITY	17,437	19,718.11	19,474.50	98.8	6.7	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,494	25,043.93	25,043.93	100.0	7.6	Office building
Mansard Daikanyama	11,275	5,420.80	5,278.26	97.4	2.8	Office building
Kowa Nishi-Shimbashi Building	10,997	8,949.04	8,949.04	100.0	(Note 4)	Office building
Kowa Kawasaki Higashiguchi Building	9,872	18,612.72	18,612.72	100.0	(Note 4)	Office building
Daiba Garden City Building	9,654	12,122.85	12,122.85	100.0	3.1	Office building
Total	169,193	203,587.73	203,201.58	99.8	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 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 December 31, 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 December 31, 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 December 31, 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	25,900	20,763
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,500	9,061
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,000	8,145
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	30,000	26,824
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,390	4,684
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,300	9,654
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,900	17,437
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,170	1,738
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	13,200	10,997
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,500	11,275
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,770	6,559
I-17	Bizcore Akasaka-mitsuke	3-1-2 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,610	6,216
Area I				163,240	133,358
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	6,160	5,603
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,470	6,630
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,470	1,865
Area II				14,100	14,099
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,300	12,494
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,950	9,872
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,700	4,991
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,710	4,203
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,620	2,209
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	23,900	26,769
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,580	1,617
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	9,400	6,129
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	29,900	23,106
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	672	663
Area III				108,732	92,056
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,380	2,839
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,780	2,562
IV-4	SE Sapporo Building	1-1-2 Kitanaononishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	8,890	5,132
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,460	2,205
IV-6	Daiwa Minami-morimachi Building	2-6, Kita Tenjinbashi, Kita-ku 2-chome, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,200	4,213
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,940	1,481
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,270	2,866
IV-9	Senshin Building	1-6-27 Chuo, Aoba-ku, Sendai-shi, Miyagi	Real estate	1,670	1,628
Area IV				33,590	22,929
Total				319,662	262,443

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd., Daiwa Real Estate Appraisal Co., Ltd. and The Tanizawa Sogo Appraisal Co., Ltd. as of December 31, 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	26th Period January 1, 2019 to June 30, 2019				27th Period July 1, 2019 to December 31, 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	923	8.7	1	100.0	948	8.7
I-2	Shiba 2-Chome Building	2	100.0	373	3.5	2	99.2	373	3.4
I-3	JEI Hamamatsucho Building	1	100.0	230	2.2	1	100.0	232	2.1
I-8	AKASAKA INTERCITY	14	100.0	594	5.6	14	100.0	614	5.6
I-9	Kowa Shirokanedai Building	1	100.0	184	1.7	1	100.0	191	1.8
I-10	Daiba Garden City Building	1	100.0	335	3.1	1	100.0	334	3.1
I-12	HAMARIKYU INTERCITY	1	92.6	722	6.8	1	98.8	727	6.7
I-13	Shintomicho Building	11	100.0	70	0.7	11	100.0	73	0.7
I-14	Kowa Nishi-Shimbashi Building	5	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	10	100.0	315	3.0	10	97.4	299	2.8
I-16	AKASAKA INTERCITY AIR	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I-17	Bizcore Akasaka-mitsuke	-	-	-	-	1	88.9	48	0.4
	Area I	48	98.7	-	-	45	99.3	-	-
II-1	NHK Nagoya Housou-Center Building	38	99.9	385	3.6	37	100.0	387	3.6
II-2	JEI Nishi-Honmachi Building	1	98.4	217	2.0	1	100.0	243	2.2
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	89	0.8	1	100.0	89	0.8
	Area II	40	99.3	-	-	39	100.0	-	-
III-1	Musashikosugi Tower Place	40	100.0	810	7.6	40	100.0	822	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	217	2.0	1	100.0	222	2.0
III-7	JEI Ryogoku Building	1	100.0	112	1.1	1	100.0	114	1.1
III-9	Kowa Kawasaki Nishiguchi Building	1	100.0	949	8.9	1	100.0	984	9.0
III-10	Pacific Square Sengoku	1	100.0	53	0.5	1	100.0	54	0.5
III-11	Core City Tachikawa	1	100.0	322	3.0	1	100.0	316	2.9
III-12	Nisseki Yokohama Building	1	99.2	1,173	11.0	1	100.0	1,175	10.8
III-13	Yokohama Bentendori Dai-ichi Seimei Building	1	100.0	42	0.4	1	100.0	41	0.4
	Area III	49	99.8	-	-	49	100.0	-	-
IV-2	JEI Kyobashi Building	1	100.0	177	1.7	1	96.8	182	1.7
IV-3	JEI Hiroshima Hacchobori Building	1	98.6	153	1.4	1	96.0	156	1.4
IV-4	SE Sapporo Building	1	100.0	403	3.8	1	100.0	417	3.8
IV-5	Aoba-dori Plaza	52	99.4	196	1.8	51	99.4	195	1.8
IV-6	Daiwa Minami-morimachi Building	10	100.0	198	1.9	10	100.0	199	1.8
IV-7	JEI Naha Building	1	100.0	82	0.8	1	100.0	84	0.8
IV-8	Hiroshima Dai-ichi Seimei OS Building	1	100.0	142	1.3	1	100.0	143	1.3
IV-9	Senshin Building	-	-	-	-	1	98.4	17	0.2
	Area IV	67	99.7	-	-	67	98.9	-	-
	Total	204	99.4	10,668	100.0	200	99.6	10,890	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 27th period (ended December 31, 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 December 31, 2019	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air- conditioning systems (Phase 3-2)	From December 2019 To June 2020	192	—	—
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of restrooms (Phase 1)	From February 2020 To June 2020	115	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Update of automatic fire alarm system	From April 2019 To March 2020	123	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Update of heat source equipment of heat supply facility (Phase 1)	From August 2019 To March 2020	68	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Update of extra-high voltage substation of heat source facility (Phase 1)	From August 2019 To March 2020	46	—	—
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Update of lighting in common spaces on standard floors (conversion to LED)	From January 2020 To June 2020	33	—	—
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Application of waterproof coating material on exterior walls	From March 2020 To May 2020	9	—	—

(2) Capital Expenditures for the Six Months Ended December 31, 2019

The following table shows constructions conducted by JEI during the period ended December 31, 2019, and expensed as capital expenditures. Capital expenditures for the period ended December 31, 2019, were 1,726 million yen and, when combined with repairs and maintenance costs of 311 million yen classified as expenses in the period under review, the amount of constructions completed totaled 2,038 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 2)	From January 2019 To December 2019	615
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 3-1)	From July 2019 To December 2019	225
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 4)	From April 2019 To October 2019	136
Hiroshima Dai-ichi Seimei OS Building	Hiroshima-shi, Hiroshima	Renovation of common use area	From June 2019 To December 2019	99
SE Sapporo Building	Sapporo-shi, Hokkaido	Update of automatic fire alarm system	From April 2019 To August 2019	70
Omori Bellport D	Shinagawa-ku, Tokyo	Update of automatic air conditioning control equipment (Phase 2)	From August 2019 To October 2019	47
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 5)	From October 2019 To October 2019	40
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	34
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Change of vibration control device system	From December 2019 To December 2019	31
Yokohama Bentendori Dai-ichi Seimei Building	Yokohama-shi, Kanagawa	Update of air-conditioner heat source	From October 2019 To November 2019	16
Other constructions			–	408
Total				1,726

(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	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	27th Period July 1, 2019 to December 31, 2019
Reserved funds at beginning of period	546	289	258	290	284
Increase	484	636	469	411	899
Decrease	742	667	437	417	884
Reserved funds at the end of period	289	258	290	284	300

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	26th Period January 1, 2019 to June 30, 2019	27th Period July 1, 2019 to December 31, 2019
(a) Asset management fees	447,411	390,335
(b) Custodian fees	21,278	21,332
(c) Administrative service fees	39,215	38,715
(d) Compensation for directors	6,540	6,220
(e) Accounting auditor fees	11,000	11,000
(f) Other	76,096	76,044
Total	601,541	543,647

(2) Borrowings

Borrowings by each financing source as of the end of the 27th period (ended December 31, 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	—	0.27237	October 8, 2019	Lump-sum	Redemption of investment corporation bonds	Unsecured and non-guaranteed	
		March 8, 2019	5,000,000	5,000,000	0.27193	March 8, 2020				
		October 1, 2019	—	4,000,000	0.27377	October 1, 2020				
Sub Total			7,000,000	9,000,000						
Long-term loans due within one year	Nippon Life Insurance Company	December 12, 2016	1,000,000	—	0.25000 (Note 2)	December 12, 2019	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed	
	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020				
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 2)					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000						
	MUFG Bank, Ltd.		500,000	500,000						
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000						1.31261 (Note 2)
	Mizuho Bank, Ltd.		675,000	675,000						
	The Norinchukin Bank	December 27, 2013	1,162,500	1,162,500	1.00000 (Note 2)					
	MUFG Bank, Ltd.		675,000	675,000						
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500						
	Mizuho Bank, Ltd.	September 28, 2018	—	2,000,000	0.27193	September 30, 2020				
Sub Total			9,600,000	10,600,000						

	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	Mizuho Bank, Ltd.		September 28, 2018	2,000,000	—	0.27193	September 30, 2020			
	Development Bank of Japan Inc.		June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	The Dai-ichi Life Insurance Company Limited		July 31, 2014	2,000,000	2,000,000	0.98834 (Note 2)				
	Mizuho Bank, Ltd.		November 29, 2016	520,000	520,000	0.41787	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	0.46000 (Note 2)				
	Mizuho Bank, Ltd.		November 30, 2015	420,000	420,000	0.84375 (Note 2)	November 30, 2023			
	MUFG Bank, Ltd.			250,000	250,000					
	Sumitomo Mitsui Banking Corporation			140,000	140,000					
	Mizuho Trust & Banking Co., Ltd.			1,560,000	1,560,000					
	The Norinchukin Bank			1,500,000	1,500,000					
	Resona Bank, Ltd.			500,000	500,000					
	Aozora Bank, Ltd.			750,000	750,000					
	The Bank of Fukuoka, Ltd.			150,000	150,000					
	MUFG Bank, Ltd.		November 30, 2017	1,000,000	1,000,000	0.64801 (Note 2)	November 30, 2023			
	Sumitomo Mitsui Banking Corporation			3,500,000	3,500,000					
Resona Bank, Ltd.		500,000		500,000						
Aozora Bank, Ltd.		500,000		500,000						
Development Bank of Japan Inc.			3,500,000	3,500,000	0.68431 (Note 2)	May 31, 2024				
Mizuho Bank, Ltd.		November 30, 2015	870,000	870,000	0.96275 (Note 2)	November 30, 2024				
MUFG Bank, Ltd.			590,000	590,000						
Sumitomo Mitsui Banking Corporation			350,000	350,000						
Mizuho Trust & Banking Co., Ltd.			1,560,000	1,560,000						
Resona Bank, Ltd.			1,000,000	1,000,000						
Aozora Bank, Ltd.			750,000	750,000						
The Bank of Fukuoka, Ltd.			150,000	150,000						

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans	Nippon Life Insurance Company	December 12, 2019	—	1,000,000	0.42000 (Note 2)	December 12, 2024	Lump-sum	Repayment of existing borrowing	Unsecured and non-guaranteed
	Mizuho Bank, Ltd.	June 29, 2018	3,700,000	3,700,000	0.67400 (Note 2)	June 30, 2025			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		400,000	400,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Bank of Fukuoka, Ltd.		700,000	700,000					
	Resona Bank, Ltd.		200,000	200,000					
	Mizuho Bank, Ltd.		November 1, 2018	850,000					
	MUFG Bank, Ltd.	850,000		850,000					
	Mizuho Trust & Banking Co., Ltd.	600,000		600,000					
	The Norinchukin Bank	1,450,000		1,450,000					
	Mizuho Bank, Ltd.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026			
	MUFG Bank, Ltd.		1,750,000	1,750,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		850,000	850,000					
	Aozora Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.	March 8, 2019	850,000	850,000	0.57100 (Note 2)				
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Bank, Ltd.		600,000	600,000					
The Norinchukin Bank	1,450,000		1,450,000						
Development Bank of Japan Inc.	September 29, 2017	1,300,000	1,300,000	0.83071 (Note 2)	September 30, 2026				
Mizuho Bank, Ltd.	June 29, 2018	1,300,000	1,300,000	0.79100 (Note 2)	December 30, 2026				
MUFG Bank, Ltd.		1,000,000	1,000,000						
Sumitomo Mitsui Banking Corporation		700,000	700,000						
Sub Total			78,000,000	77,000,000					
Total			94,600,000	96,600,000					

(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 December 31, 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	7th series unsecured investment corporation bonds	March 10, 2014	8,000,000	8,000,000	1.13000	March 11, 2024	Lump-sum	(Note 1)	(Note 4)
	8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)	
	9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 3)	
	10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 2)	
	11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027			
	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			
	15th series unsecured investment corporation bonds	September 10, 2019	—	1,000,000	1.07000	September 9, 2039		(Note 2)	
	Sub Total			28,000,000	29,000,000				
Green bonds	14th series unsecured investment corporation bonds	August 10, 2018	4,000,000	4,000,000	0.63000	August 10, 2028	Lump-sum	(Note 2)	(Note 4)
	Sub Total		4,000,000	4,000,000					
Total			32,000,000	33,000,000					

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

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

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

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

(4) Short-Term Investment Corporation Bonds

None

(5) Subscription Rights for New Investment Units

None

6. Condition of Investment Transactions

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

(Millions of yen)

Type of asset	Property name	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer price (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Trust beneficiary interest in real estate	Bizcore Akasaka-mitsuke	October 1, 2019	6,200	—	—	—	—
Real estate	Senshin Building	November 13, 2019	1,580	—	—	—	—
Trust beneficiary interest in real estate	JEI Nishi-honmachi Building (quasi co-ownership interest 5.0%)	—	—	December 20, 2019	450	348	101
Trust beneficiary interest in real estate	Kowa Kawasaki Nishiguchi Building (quasi co-ownership interest 5.0%)	—	—	December 20, 2019	1,260	1,481	(222)
Total		—	7,780	—	1,710	1,830	(120)

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

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

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

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

Acquisition or transfer	Name of property	Type of asset	Acquisition/transfer date	Acquisition/transfer price (millions of yen) (Note 1)	Appraisal value (millions of yen)	Appraiser	Appraisal date
Acquisition	Bizcore Akasaka-mitsuke	Trust beneficiary interest in real estate	October 1, 2019	6,200	6,570	Japan Real Estate Institute	July 31, 2019
Acquisition	Senshin Building	Real estate	November 13, 2019	1,580	1,670	The Tanizawa Sogo Appraisal Co., Ltd.	October 1, 2019
Transfer	JEI Nishi-honmachi Building (quasi co-ownership interest 5.0%)	Trust beneficiary interest in real estate	December 20, 2019	450	293 (Note 2)	Daiwa Real Estate Appraisal Co., Ltd.	October 1, 2019
Transfer	Kowa Kawasaki Nishiguchi Building (quasi co-ownership interest 5.0%)	Trust beneficiary interest in real estate	December 20, 2019	1,260	1,260 (Note 3)	Japan Valuers Co., Ltd.	October 1, 2019

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

(Note 2) Appraisal value for JEI Nishi-honmachi Building indicates the amount obtained by multiplying the appraisal value for the entire property by 5.0%, which is the quasi co-ownership trust beneficiary interest subject to transfer.

(Note 3) Appraisal value for Kowa Kawasaki Nishiguchi Building indicates the amount equivalent to the 5.0% quasi co-ownership trust beneficiary interest subject to transfer and is based on the appraisal value for the 35.0% quasi co-ownership interest of the property.

- 2) Others
None

(4) Transactions with Interested Parties

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	7,780 million yen	1,710 million yen
Breakdown for transactions with interested parties		
Nippon Steel Kowa Real Estate Co., Ltd.	6,200 million yen (79.7%)	- million yen (-%)
Total	6,200 million yen (79.7%)	- million yen (-%)

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

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,458,956	Nippon Steel Kowa Real Estate Co., Ltd.	572,901	39.3%
		The Dai-ichi Building Co., Ltd.	188,551	12.9%
		Akasaka Intercity Management Co., Ltd.	23,975	1.6%
Total	1,458,956	—	785,429	53.8%

(Note 1) Figures indicate fees paid to interested parties of the asset management company with whom JEI had direct transactions during the six months ended December 31, 2019.

(Note 2) The Dai-ichi Building Co., Ltd. became a subsidiary of Dai-ichi Life Holdings, Inc. on October 1, 2019, and therefore falls under the category of interested parties of the asset management company thereafter.

(Note 3) Other than the Total amount paid indicated above, the following payments were made for maintenance and repair work, etc. which were ordered to interested parties during the period.

Nippon Steel Kowa Real Estate Co., Ltd.	35,227 thousand yen
Kowa Real Estate Facilities Co., Ltd.	307,081 thousand yen
Nihon Sekkei Co., Ltd.	11,300 thousand yen
Nippon Steel Community Service Co., Ltd.	2,848 thousand yen
The Dai-ichi Building Co., Ltd.	13,134 thousand yen

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

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

7. Accounting

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

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

(2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

8. Others

(1) Notice

1) General unitholders' meeting

The eighth general unitholders' meeting of JEI was held on September 26, 2019. The following table summarizes the major matters approved at the unitholders' meeting.

Agenda	Summary
Election of one executive director	Hidehiko Ogawa was elected as an executive director. The term of his office is two years from November 1, 2019.
Election of one substitute executive director	Toshihiko Sasaki was elected as a substitute executive director.
Election of three supervisory directors	Osamu Hirakawa, Shunichi Maekawa and Eiji Takagi were elected as supervisory directors. Their term of office is two years from November 1, 2019.

2) Board of directors' meeting

There were no applicable items during the period.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

(4) Other

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

Financial Statements

Japan Excellent, Inc.

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

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 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 December 31, 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

March 18, 2020
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2019 and June 30, 2019

	As of December 31, 2019	As of June 30, 2019
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	23,884,427	25,647,834
Rental receivables	380,012	362,961
Prepaid expenses and other current assets	236,429	219,297
Total current assets	<u>24,500,869</u>	<u>26,230,092</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	7,641,213	7,312,013
Machinery and equipment	6,253	6,253
Furniture and fixtures	49,835	49,835
Land	10,607,317	9,292,709
Buildings and building improvements for trust accounts	118,078,827	116,973,957
Machinery and equipment for trust accounts	1,024,281	942,708
Furniture and fixtures for trust accounts	301,435	265,897
Land for trust accounts	149,590,759	146,475,849
Construction in progress for trust accounts	115,459	116,057
Less: accumulated depreciation	(34,079,697)	(32,515,031)
Net property and equipment	<u>253,335,685</u>	<u>248,920,250</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	—	12
Leasehold rights for trust accounts	7,382,016	7,382,016
Software	9,533	10,633
Other intangible assets for trust accounts	3,969	4,297
Total intangible assets	<u>9,117,127</u>	<u>9,118,567</u>
Investments and other assets:		
Deferred tax assets	50	7
Security deposits	15,181	15,181
Long-term prepaid expenses	820,887	902,009
Other assets	845,077	836,314
Total investments and other assets	<u>1,681,196</u>	<u>1,753,513</u>
Deferred assets:		
Investment corporation bond issuance costs	155,922	149,873
Total deferred assets	<u>155,922</u>	<u>149,873</u>
Total assets	<u><u>288,790,801</u></u>	<u><u>286,172,297</u></u>

	As of December 31, 2019	As of June 30, 2019
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	2,321,419	1,657,518
Short-term loans <i>(Notes 5 and 8)</i>	9,000,000	7,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	10,600,000	9,600,000
Accounts payable – other	405,506	439,565
Accrued expenses	153,400	149,470
Accrued corporation taxes	1,514	742
Accrued consumption taxes	77,233	221,152
Advances received	200,331	85,689
Other current liabilities	5	1,332
Total current liabilities	<u>22,759,411</u>	<u>19,155,471</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	33,000,000	32,000,000
Long-term debt <i>(Notes 5 and 8)</i>	77,000,000	78,000,000
Security deposits from tenants <i>(Note 5)</i>	1,174,194	1,129,346
Security deposits from tenants for trust accounts <i>(Note 5)</i>	12,480,048	12,065,244
Total long-term liabilities	<u>123,654,242</u>	<u>123,194,591</u>
Total liabilities	<u>146,413,653</u>	<u>142,350,062</u>
Net assets <i>(Note 10)</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	2,246,223	3,691,310
Total surplus	<u>2,404,262</u>	<u>3,849,350</u>
Total unitholders' equity	<u>142,377,147</u>	<u>143,822,235</u>
Total net assets	<u>142,377,147</u>	<u>143,822,235</u>
Total liabilities and net assets	<u>288,790,801</u>	<u>286,172,297</u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

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

	For the period from July 1, 2019 to December 31, 2019	For the period from January 1, 2019 to June 30, 2019
	<i>(Thousands of yen)</i>	
Revenues <i>(Note 13)</i> :		
Rental business revenues	9,984,107	9,850,159
Other	906,756	818,102
Total revenues	<u>10,890,864</u>	<u>10,668,262</u>
Operating expenses <i>(Note 13)</i> :		
Property operating expenses	5,906,910	5,747,936
Loss on sales of real estate properties <i>(Note 14)</i>	120,673	—
Impairment loss <i>(Note 15)</i>	1,407,147	—
Asset management fees	390,335	447,411
Custodian fees	21,332	21,278
Administrative service fees	38,715	39,215
Compensation for directors	6,220	6,540
Other	87,044	87,096
Total operating expenses	<u>7,978,378</u>	<u>6,349,477</u>
Operating income	<u>2,912,485</u>	<u>4,318,784</u>
Other income:		
Interest income	122	127
Other	594	1,051
Other expenses:		
Interest expense	367,351	358,380
Loan arrangement fees	134,676	126,920
Interest expense on investment corporation bonds	130,647	129,970
Amortization of investment corporation bond issuance costs	11,550	12,630
Other	21,360	315
Ordinary income	<u>2,247,617</u>	<u>3,691,747</u>
Income before income taxes	2,247,617	3,691,747
Income taxes <i>(Note 12)</i> :		
Current	1,533	762
Deferred	(42)	20
Net income	<u>2,246,126</u>	<u>3,690,964</u>
Retained earnings at beginning of period	<u>97</u>	<u>346</u>
Retained earnings at end of period	<u><u>2,246,223</u></u>	<u><u>3,691,310</u></u>

Japan Excellent, Inc.

Statements of Changes in Net Assets

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

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

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

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
			Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings		
(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:							
Provision of reserve for reduction entry	—	—	—	—	—	—	—
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

Japan Excellent, Inc.

Statements of Cash Flows

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

	For the period from July 1, 2019 to December 31, 2019	For the period from January 1, 2019 to June 30, 2019
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	2,247,617	3,691,747
Depreciation and amortization	1,930,311	1,936,097
Amortization of investment corporation bond issuance costs	11,550	12,630
Impairment loss	1,407,147	—
Interest income	(122)	(127)
Interest expense	497,999	488,350
Decrease (increase) in rental receivables	(17,050)	29,029
Decrease (increase) in consumption taxes refundable	—	28,951
Decrease (increase) in prepaid expense	2,716	(17,900)
Increase (decrease) in accounts payable – trade	113,902	(7,940)
Increase (decrease) in accounts payable – other	(35,959)	6,138
Increase (decrease) in unpaid consumption taxes	(143,919)	221,152
Increase (decrease) in advances received	114,642	2,961
Decrease (increase) in long-term prepaid expenses	81,121	(56,306)
Decrease in property and equipment for trust accounts due to sale	1,830,607	—
Decrease in property and intangible assets for trust accounts due to sale	189	—
Other, net	(30,931)	(8,828)
Subtotal	8,009,820	6,325,955
Interest received	122	127
Interest paid	(494,068)	(492,827)
Income taxes paid	(761)	(1,178)
Net cash provided by (used in) operating activities	7,515,112	5,832,077
Cash flows from investing activities		
Purchases of property and equipment	(1,641,801)	(240,408)
Purchases of property and equipment for trust accounts	(7,387,277)	(755,652)
Purchases of intangible assets	—	(11,000)
Proceeds from security deposits from tenants	48,212	2,440
Payments for security deposits to tenants	(3,364)	—
Proceeds from security deposits in trust accounts from tenants	756,307	368,962
Payments for security deposits in trust accounts to tenants	(341,503)	(192,334)
Net cash provided by (used in) investing activities	(8,569,427)	(827,993)
Cash flows from financing activities		
Proceeds from short-term loans	4,000,000	5,000,000
Repayment for short-term loans	(2,000,000)	—
Proceeds from long-term debt	1,000,000	3,750,000
Repayment for long-term debt	(1,000,000)	(3,750,000)
Proceeds from issuance of investment corporation bonds	982,400	—
Payments for redemption of investment corporation bonds	—	(5,000,000)
Distributions to unitholders	(3,691,491)	(3,595,570)
Net cash provided by (used in) financing activities	(709,091)	(3,595,570)
Net increase (decrease) in cash and cash equivalents	(1,763,406)	1,408,513
Cash and cash equivalents at beginning of period	25,647,834	24,239,320
Cash and cash equivalents at end of period <i>(Note 4)</i>	23,884,427	25,647,834

Japan Excellent, Inc.

Notes to Financial Statements

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

1. Organization

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2019, JEI held 33 properties with 345,940.29 square meters of total leasable space and had leases with 200 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 13).

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from January 1, 2019 to June 30, 2019 was ¥687 thousand. The capitalized amount for the period from July 1, 2019 to December 31, 2019 was ¥6,668 thousand.

Revenue recognition

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

Derivatives and hedge accounting

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

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

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

Properties in trust accounts

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

4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at December 31, 2019 and June 30, 2019 consisted of the following:

	<u>As of December 31, 2019</u>	<u>As of June 30, 2019</u>
	<i>(Thousands of yen)</i>	
Cash and cash deposits	7,165,726	9,553,228
Cash and deposits in trust	16,718,701	16,094,605
Cash and cash equivalents including trust accounts	<u>23,884,427</u>	<u>25,647,834</u>

5. Financial Instruments

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

Overview

(1) Policy for Financial Instruments

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

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations principally using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 88.6% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 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 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 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 December 31, 2019 and June 30, 2019 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of December 31, 2019			As of June 30, 2019		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	7,165,726	7,165,726	—	9,553,228	9,553,228	—
(2) Cash and deposits in trust	16,718,701	16,718,701	—	16,094,605	16,094,605	—
Total assets	<u>23,884,427</u>	<u>23,884,427</u>	<u>—</u>	<u>25,647,834</u>	<u>25,647,834</u>	<u>—</u>
(3) Short-term loans (Note C)	9,000,000	9,000,000	—	7,000,000	7,000,000	—
(4) Investment corporation bonds due within one year (Note C)	—	—	—	—	—	—
(5) Long-term debt due within one year (Note C)	10,600,000	10,637,781	37,781	9,600,000	9,685,985	85,985
(6) Investment corporation bonds (Note C)	33,000,000	33,281,107	281,107	32,000,000	32,733,763	733,763
(7) Long-term debt (Note C)	<u>77,000,000</u>	<u>78,227,367</u>	<u>1,227,367</u>	<u>78,000,000</u>	<u>79,777,491</u>	<u>1,777,491</u>
Total liabilities	<u>129,600,000</u>	<u>131,146,256</u>	<u>1,546,256</u>	<u>126,600,000</u>	<u>129,197,240</u>	<u>2,597,240</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 17, “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>December 31, 2019</u>	<u>As of</u> <u>June 30, 2019</u>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	1,174,194	1,129,346
② Security deposits from tenants for trust accounts*	12,480,048	12,065,244

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

5. Financial Instruments (continued)

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

	As of December 31, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	7,165,726	—	—	—	—	—
Cash and deposits in trust	16,718,701	—	—	—	—	—
Total	23,884,427	—	—	—	—	—

	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	—	—	—	—	—

(Note C)

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

	As of December 31, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	9,000,000	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	10,600,000	—	—	—	—	—
Investment corporation bonds	—	—	—	4,000,000	8,000,000	21,000,000
Long-term debt	—	13,510,000	11,750,000	15,770,000	9,770,000	26,200,000
Total	19,600,000	13,510,000	11,750,000	19,770,000	17,770,000	47,200,000

	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

6. Investment and Rental Property

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

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

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

Carrying value			Fair value
As of January 1, 2019	Change during period (*2)	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

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

B) Details of change during period:

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

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

C) Fair value

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

7. Property and Equipment

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

	As of December 31, 2019			As of June 30, 2019		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,641,213	(1,774,682)	5,866,531	7,312,013	(1,663,787)	5,648,225
Machinery and equipment	6,253	(3,662)	2,591	6,253	(3,380)	2,872
Furniture and fixtures	49,835	(18,274)	31,560	49,835	(14,862)	34,973
Land	10,607,317	—	10,607,317	9,292,709	—	9,292,709
Buildings and building improvements for trust accounts	118,078,827	(31,611,230)	86,467,596	116,973,957	(30,201,675)	86,772,281
Machinery and equipment for trust accounts	1,024,281	(511,390)	512,890	942,708	(480,429)	462,278
Furniture and fixtures for trust accounts	301,435	(160,456)	140,978	265,897	(150,895)	115,002
Land for trust accounts	149,590,759	—	149,590,759	146,475,849	—	146,475,849
Construction in progress for trust accounts	115,459	—	115,459	116,057	—	116,057
Total	<u>287,415,383</u>	<u>(34,079,697)</u>	<u>253,335,685</u>	<u>281,435,282</u>	<u>(32,515,031)</u>	<u>248,920,250</u>

8. Short-Term Loans and Long-Term Debt

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

	As of December 31, 2019		As of June 30, 2019	
	Amount	Weighted-average interest rate (*1)	Amount	Weighted-average interest rate (*1)
Short-term loans:	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured loans from a bank due on October 8, 2019	—	0.27237%	2,000,000	0.26224%
Unsecured loans from a bank due on March 8, 2020	5,000,000	0.27193%	5,000,000	0.26123%
Unsecured loans from a bank due on October 1, 2020	<u>4,000,000</u>	0.27377%	—	
Subtotal	<u>9,000,000</u>		<u>7,000,000</u>	
Long-term debt due within one year:				
Unsecured loans from an insurance company due on December 12, 2019	—	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)	2,000,000	1.60000% (*2)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*2)	2,600,000	1.36400% (*2)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*2)	1,000,000	1.31261% (*2)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*2)	3,000,000	1.00000% (*2)
Unsecured loans from a bank due on September 30, 2020	<u>2,000,000</u>	0.27193%	—	
Subtotal	<u>10,600,000</u>		<u>9,600,000</u>	

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

Long-term debt:

Unsecured loans from a bank due on September 30, 2020	—	0.27193%	2,000,000	0.26121%
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	0.41787%	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 December 12, 2024	1,000,000	0.42000% (*2)	—	
Unsecured loans from banks due on June 30, 2025	8,000,000	0.67400% (*2)	8,000,000	0.67400% (*2)
Unsecured loans from banks due on November 1, 2025	3,750,000	0.70600% (*2)	3,750,000	0.70600% (*2)
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*2)	6,400,000	0.83441% (*2)
Unsecured loans from banks due on March 31, 2026	3,750,000	0.57100% (*2)	3,750,000	0.57100% (*2)
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*2)	1,300,000	0.83071% (*2)
Unsecured loans from banks due on December 30, 2026	<u>3,000,000</u>	0.79100% (*2)	<u>3,000,000</u>	0.79100% (*2)
Subtotal	<u>77,000,000</u>		<u>78,000,000</u>	
Total	<u><u>96,600,000</u></u>		<u><u>94,600,000</u></u>	

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

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

The scheduled repayment amounts of long-term debt as of December 31, 2019 are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Long-term debt	10,600,000	13,510,000	11,750,000	15,770,000	9,770,000	26,200,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2019, these commitment lines have never been utilized.

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9. Investment Corporation Bonds

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

	As of December 31, 2019		As of June 30, 2019	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	2,000,000	0.45000%
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	2,000,000	0.39000%
Unsecured bond #11 due on April 23, 2027	7,000,000	0.65000%	7,000,000	0.65000%
Unsecured bond #12 due on April 20, 2023	2,000,000	0.24000%	2,000,000	0.24000%
Unsecured bond #13 due on April 20, 2033	2,000,000	0.95000%	2,000,000	0.95000%
Unsecured bond #14 due on August 10, 2028	4,000,000	0.63000%	4,000,000	0.63000%
Unsecured bond #15 due on September 9, 2039	1,000,000	1.07000%	—	—
Total	33,000,000		32,000,000	

The scheduled redemption amounts of investment corporation bonds as of December 31, 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	—	—	—	4,000,000	8,000,000	21,000,000

10. Net Assets

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

11. Per Unit Information

Net assets per unit as of December 31, 2019 and June 30, 2019 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 July 1, 2019 to December 31, 2019 and January 1, 2019 to June 30, 2019 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 ¥109,042 as of December 31, 2019 and ¥110,149 as of June 30, 2019. Net income per unit was ¥1,720 for the period from July 1, 2019 to December 31, 2019 and ¥2,826 for the period from January 1, 2019 to June 30, 2019.

12. Income Taxes

JEI is subject to income taxes in Japan.

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

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

	As of December 31, 2019	As of June 30, 2019
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	50	7
Impairment loss	442,688	—
Subtotal deferred tax assets	442,738	7
Valuation reserve	(442,688)	—
Total deferred tax assets	50	7
Net deferred tax assets	50	7

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

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

13. Breakdown of Revenues and Expenses

	For the period from July 1, 2019 to December 31, 2019	For the period from January 1, 2019 to June 30, 2019
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,442,609	8,302,097
Common area revenues	1,267,889	1,272,591
Other rental revenues	273,608	275,471
Subtotal	<u>9,984,107</u>	<u>9,850,159</u>
Other		
Utilities revenues	793,195	713,089
Other revenues	113,561	105,013
Subtotal	<u>906,756</u>	<u>818,102</u>
Total rental revenues	<u>10,890,864</u>	<u>10,668,262</u>
Property operating expenses:		
Property management costs and fees	1,458,956	1,399,365
Utilities expenses	1,013,977	959,157
Property and other taxes	944,725	917,694
Insurance	20,796	22,333
Repairs and maintenance	311,820	285,363
Depreciation	1,929,198	1,935,705
Other	227,435	228,316
Total property operating expenses	<u>5,906,910</u>	<u>5,747,936</u>
Profit	<u>4,983,953</u>	<u>4,920,325</u>

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

	For the period from July 1, 2019 to December 31, 2019	For the period from January 1, 2019 to June 30, 2019
	<i>(Thousands of yen)</i>	
JEI Nishi-Honmachi Building		
Proceeds from sale of real estate	450,500	—
Cost of sales of real estate	348,972	—
Other related sale expenses	140	—
Gain on sale of real estate	<u>101,386</u>	<u>—</u>

	For the period from July 1, 2019 to December 31, 2019	For the period from January 1, 2019 to June 30, 2019
	<i>(Thousands of yen)</i>	
Kowa KawasakiNishiguchi Building		
Proceeds from sale of real estate	1,260,143	—
Cost of sales of real estate	1,481,825	—
Other related sale expenses	378	—
Loss on sale of real estate	<u>222,060</u>	<u>—</u>

15. Impairment Loss

In the period ended December 31, 2019, JEI recorded impairment loss on the following asset group.

(Thousands of yen)

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

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

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

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

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

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

16. Leases

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

	As of December 31, 2019	As of June 30, 2019
	<i>(Thousands of yen)</i>	
Due within one year	1,680,109	750,472
Due after one year	3,294,640	2,469,014
Total	<u>4,974,750</u>	<u>3,219,487</u>

17. Derivative Transactions

Derivative Transactions as of December 31, 2019

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

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2019 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	46,140,000	40,540,000	*	

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

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

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 5, "Financial Instruments."

18. Related Party Transactions

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

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

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

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

19. Segment Information

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

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

Information about products and services

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

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

20. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,403,793,700, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥2,404,262,788, which is the amount of retained earnings at December 31, 2019.

Moreover, JEI proposed to provide dividend in excess of earnings as stipulated in Section 33.1.4 of the bylaws set forth by JEI, using reserve for temporary difference adjustments totaling ¥1,406,238,900, which is the maximum value arrived at when the total number of investment units outstanding (1,305,700 units) is multiplied by an integer, to the extent not surpassing the amount equivalent to the impairment loss recorded for the fiscal period.

On February 17, 2020, the Board of Directors approved a resolution to make a cash distribution of ¥2,918 per unit aggregating to ¥3,810,032,600 to unitholders of record as of December 31, 2019.

21. Accounting Standards Issued But Not Yet Applied

As of December 31, 2019, JEI has not yet applied the following accounting standards and their implementation guidance.

- (1) Accounting Standard for Revenue Recognition and its Implementation Guidance
“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29, March 30, 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)
 - (a) Overview
Conducting a joint project to clarify the comprehensive principles for recognizing revenues, the International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the U.S. issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 became effective from fiscal periods beginning on or after January 1, 2018 and Topic 606 became effective from fiscal periods beginning after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and issued a new standard together with its implementation guidance.
As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 in order to enhance comparability of financial statements, which is one of the benefits of consistency with IFRS 15. In addition, for any item to be considered arising from business practices in Japan, alternative treatments shall be added to the extent that comparability is not impaired.
 - (b) Scheduled date of application
JEI will apply the aforementioned standard and guidance from the beginning of the fiscal period ending December 31, 2021.
 - (c) Effect of application of the new accounting standard
The effect of application of the aforementioned standard on JEI’s financial statements is currently under evaluation.

- (2) Accounting Standard for Fair Value Measurement and its Implementation Guidance
“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

(a) Overview

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

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

(b) Scheduled date of application

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

(c) Effect of application of the new accounting standard

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

22. Significant Subsequent Event

Issuance of new units

On January 6, 2020 and January 15, 2020, the Board of Directors approved resolutions to complete a public offering and third-party allocation, respectively, of new units as outlined below. JEI received payments on January 21, 2020 and February 13, 2020 for the said units, which were issued in accordance with the conditions outlined below. As a result of the issuance of new units, JEI had unitholders’ capital of ¥147,907 million with 1,353,000 units in issue at February 13, 2020.

A. Issuance of new units through a public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	43,000 units
(iii) Issue price (offer price)	¥173,355 per unit
(iv) Total offer price	¥7,454 million
(v) Proceeds per unit	¥167,754 per unit
(vi) Aggregate proceeds	¥7,213 million
(vii) Payment date	January 21, 2020

- B. Issuance of new units through allocation to a third party
- (i) Method of issuance Allocation to a third party
 - (ii) Number of units issued 4,300 units
 - (iii) Proceeds per unit ¥167,754 per unit
 - (iv) Aggregate proceeds ¥721 million
 - (v) Payment date February 13, 2020
 - (vi) Allottee Mizuho Securities Co., Ltd.

23. Additional Information

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

This property's transfer will be conducted in three parts as described in (3) and (6) below and completed on July 3, 2020.

(1) Property Name	JEI Nishi-Honmachi Building		
(2) Assets to Be Transferred	Trust beneficiary right in real estate		
(3) Transfer Price	¥9,010 million		
	¥450.5 million (quasi co-ownership 5.0%)	¥7,208 million (quasi co-ownership 80.0%)	¥1,351.5 million (quasi co-ownership 15.0%)
(4) Book Value (As of December 31, 2019)	—	¥6,630 million	
(5) Planned Date of Execution of Purchase Agreement	December 6, 2019		
(6) Transfer Dates (planned)	December 20, 2019	March 27, 2020	July 3, 2020

24. Information on Allowance for Temporary Difference Adjustments

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

- (1) Reason for reversal, related assets and amounts

(Thousands of yen)		
Related assets	Reason of provision	Provision of allowance for temporary difference adjustments
Buildings and building improvements for trust accounts Land for trust accounts	Impairment loss	1,406,238

- (2) Method of reversal

Impairment loss

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