

Asset Management Report for 18th Period

(Semi-Annual Report for 18th Period)

From January 1, 2015 to June 30, 2015



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 18th period (from January 1, 2015 to June 30, 2015).

JEI recorded total revenues of 10,212 million yen, net income of 3,097 million yen and the distribution per unit for the period was 2,554 yen. JEI realized increases in revenue, income and distribution for the fourth consecutive period.

During the 18th period, JEI acquired a prime large property, Nisseki Yokohama Building, for 24.5 billion yen with the cooperation of Mizuho Bank, Ltd., the sponsor. Nisseki Yokohama Building is a symbolic large-scale tower office building located in Minato Mirai 21 serving as a key business base for the JX Group, which is the largest energy-related company in Japan. In addition to being able to acquire such a prime property, JEI was able to realize increases in income and distribution due to progress in upward rent revision with existing tenants and successfully continuing to retain high occupancy rates that are above the market average, etc.

In terms of finance, JEI continues to retain rating of AA- from the rating agency as JEI's ongoing stable finance management was recognized.

About Future Asset Management

The Japanese economy is on a recovery trend due to additional monetary easing by the Bank of Japan, improvement in the corporate performance brought by the weak yen and continuation of high stock prices and low and stable long-term interest rates.

In the office building leasing market, the vacancy rate is forecast to continue to be on a downward trend as demand for offices is expected to steadily grow going forward. In addition, the rent level is starting to gradually rise since new rents have begun to show a turnaround centering on large-scale, prime buildings in central Tokyo, indicating an increase in the number of upward rent revisions.

In the real estate investment market, real estate transaction prices are expected to continue rising as the supply of prime properties is still limited in central Tokyo and metropolitan areas, while favorable fund procurement environment and expansion in market players are observed.

With this perspective, in addition to maintaining a high occupancy rate, JEI will endeavor to further improve the occupancy rate and profitability of the entire portfolio by setting appropriate new rents based on market trends and promoting upward rent revision to suit the value of properties. Furthermore, JEI will pursue opportunities to invest in prime real estate properties, including asset replacements, for increasing asset size over the medium to long term. Concurrently, JEI will strictly adhere to appropriate portfolio management and maintain the quality of the portfolio while cautiously assessing the sense of overheating in the real estate investment market.

In terms of financing, JEI will continue its efforts in conducting stable financial operations by striving to diversify maturity dates and minimize financing costs while promoting conversion to fixed interest rates and extension of average remaining period of interest-bearing debt in preparation for the risk of interest rate rises in the future.

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

We kindly ask for your continued understanding and support.

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

II. Asset Management Report

1. Outline of asset management operation

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

Fiscal period		14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015
Revenues	(Millions of yen)	8,418	8,850	9,558	9,695	10,121
(Rental revenues)	(Millions of yen)	(8,409)	(8,848)	(9,558)	(9,695)	(10,121)
Operating expenses	(Millions of yen)	4,871	5,140	5,592	5,731	6,102
(Property operating expenses)	(Millions of yen)	(4,350)	(4,605)	(5,022)	(5,180)	(5,533)
Operating income	(Millions of yen)	3,546	3,709	3,966	3,963	4,018
Ordinary income	(Millions of yen)	2,589	2,775	3,011	3,041	3,098
Net income	(Millions of yen)	2,598	2,774	3,010	3,040	3,097
Total assets	(Millions of yen)	257,613	257,901	277,842	278,037	300,976
(Period-on-period change)	(%)	(12.9)	(0.1)	(7.7)	(0.1)	(8.3)
Net assets	(Millions of yen)	120,683	120,713	130,998	131,028	131,085
(Period-on-period change)	(%)	(15.4)	(0.0)	(8.5)	(0.0)	(0.0)
Unitholders' capital	(Millions of yen)	117,901	117,901	127,950	127,950	127,950
Total outstanding investment units	(units)	224,950	224,950	1,212,750	1,212,750	1,212,750
Net assets per unit (Note 1)	(yen)	107,297	107,324	108,017	108,042	108,089
Net income per unit (Note 2)	(yen)	2,376	2,466	2,511	2,506	2,554
Total distribution	(Millions of yen)	2,744	2,774	3,010	3,040	3,097
Distribution per unit (Distribution per unit after split) (Note 3)	(yen)	12,200 (2,440)	12,334 (2,466)	2,482	2,507	2,554
(Profit distribution per unit) (Of this, profit distribution per unit after split) (Note 3)	(yen)	12,200 (2,440)	12,334 (2,466)	2,482	2,507	2,554
(Distribution in excess of earnings per unit) (Of this, distribution in excess of earnings per unit after split) (Note 3)	(yen)	(-) (-)	(-) (-)	(-)	(-)	(-)
Return on assets (Note 4)	(%)	1.1	1.1	1.1	1.1	1.1
(Annualized rate)	(%)	(2.2)	(2.1)	(2.3)	(2.2)	(2.2)
Return on equity (Note 5)	(%)	2.3	2.3	2.4	2.3	2.4
(Annualized rate)	(%)	(4.7)	(4.6)	(4.8)	(4.6)	(4.8)
Capital ratio (Note 6)	(%)	46.8	46.8	47.1	47.1	43.6
(Period-on-period change)	(%)	(1.0)	(-0.0)	(0.3)	(-0.0)	(-3.6)
Payout ratio (Note 7)	(%)	105.6	99.9	99.9	100.0	99.9
Number of investment properties	(properties)	28	28	30	30	31
Number of tenants	(tenants)	152	157	206	214	219
Total leasable space (Note 8, 9)	(m ²)	302,505	302,505	330,285	330,179	370,671

Occupancy rate	(%)	97.1	98.7	98.3	99.1	97.9
Depreciation	(Millions of yen)	1,433	1,504	1,624	1,657	1,786
Capital expenditure	(Millions of yen)	572	775	558	415	790
Net operating income (NOI) (Note 10)	(Millions of yen)	5,493	5,747	6,160	6,172	6,374
Funds from operation (FFO) per unit (Note 11)	(yen)	3,584	3,804	3,822	3,873	4,027
FFO multiples (Note 12, 13)	(times)	15.4	16.3	17.4	20.8	17.4
Debt service coverage ratio (DSCR) (Note 14)	(times)	4.4	4.4	4.8	5.0	5.0
Interest-bearing debt	(Millions of yen)	125,400	125,400	133,900	133,900	155,400
Loan-to-value (Note 15)	(%)	48.7	48.6	48.2	48.2	51.6
Number of days in operation	(days)	181	184	181	184	181

(Note 1) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Net assets per unit is calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 2) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period. Moreover, a five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Net income per unit is calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 3) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Distribution per unit after split, of this, profit distribution per unit after split and of this, distribution in excess of earnings per unit after split are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period (figures are rounded down to the nearest whole number).

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

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

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

(Note 7) Payout ratio = Total distribution / Net income × 100

(Note 8) For properties with joint ownership, a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.

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

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

(Note 11) FFO per unit = (Net income + Depreciation – Gain on sale real estate + Loss on sale of real estate) / Total Number of Outstanding investment units (the figure is rounded down to the whole number). Moreover, a five-for-one split of investment units was implemented with January 1, 2014 as the effective date. Total outstanding investment units are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 12) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 13) A five-for-one split of investment units was implemented with January 1, 2014 as the effective date. FFO multiples are calculated based on the period end investment unit price calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 14) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds)

(Note 15) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau Director (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On June 30, 2015, we settled our eighteenth period.

1) Business conditions and results

The Japanese GDP posted positive growth for the two consecutive quarters of October – December 2014 and January – March 2015 due to a continuous recovery trend in personal consumption and exports as well as to buoyed capital investment. Although the recovery trend currently seems to be taking a break in exports, personal consumption, etc., the Japanese economy continues to show underlying strength as capital investment and the employment situation continue to improve.

In the office building leasing market, tenant needs for floor area increase in the same building and relocation for expansion have become apparent backed by improvement in corporate performance and the employment situation, and the vacancy rate generally continues to be on an improving trend. However, the leasing market in Osaka and Nagoya areas appears to be in a bit of a stalemate due to the effect of new supply and such. Under such circumstances, the occupancy rate of JEI’s portfolio achieved an extremely high level of 99.1% at the end of the previous period. However, as a result of leasing activities focused on rent levels when filling vacancies after some departures, the occupancy rate at the end of the period under review stood at 97.9% (98.2% based on the assets owned at the end of the previous period).

In the real estate investment market, a rise in real estate transaction prices due mainly to a decrease in expected yields is observed amid the continuing favorable fund procurement environment, and there is sense of overheating compared to the previous period. In addition to the new listings of J-REITs, market participation of not only overseas investors, private funds and private REITs but also of general companies, etc. has become more noticeable.

JEI acquired Nisseki Yokohama building on a negotiation basis in April 2015 using information provided by the Mizuho Financial Group, and the entire real estate portfolio of JEI at the end of the period was 31 properties in terms of the number of properties held, 289.9 billion yen in investment amount (on an acquisition price basis) and 370,671.48 m² in total leasable space.

2) Fund raising highlights

During the period, JEI also aimed to reduce borrowing costs and convert floating-rate debts to fixed rate debts by taking advantage of financing environment with low interest rate while continuing to make efforts as during the previous period to extend borrowing period and diversify maturity dates.

Out of long-term fixed interest loans of 5.0 billion yen which matured in June 2015, 2.0 billion yen was refinanced with long-term fixed interest loans (period of 8 years) (the remaining 3.0 billion yen was repaid with liquidity on hand). Furthermore, in addition to refinancing investment corporation bonds of 5.0 billion yen which matured in June 2015 with short-term loans (period of 3 months), JEI newly procured 24.5 billion yen for the acquisition of Nisseki Yokohama Building in April 2015 with short-term loans and conducted weekly renewal of interest rate during the interest bearing period. These resulted in realizing a further reduction in borrowing costs and the average remaining period of interest bearing debt was shortened.

As a result, as of the end of the period, JEI had the average remaining debt maturity of interest-bearing debts (Note 1) at 2.9 years, long-term borrowing ratio (Note 2) and fixed rate ratio (Note 3) both at 81.0%, and weighted average interest rate for loans purchased (Note 4) at 0.95%. Outstanding interest-bearing debts totaled 155.4 billion yen, 29.5 billion yen in short-term loans, 100.9 billion yen in long-term loans (including 23.54 billion yen in long-term loans due within one year) and 25.0 billion yen in investment corporation bonds (The loan to value ratio to the total assets was 51.6% as of the end of the period).

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

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

(Ratings as of June 30, 2015)

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

(Note 1) Calculated using a weighted-average of the remaining maturity of all interest-bearing debts from the end of the period under review by respective interest-bearing debt.

(Note 2) Long-term borrowing ratio = (long-term loans (including long-term loans due within one year) + investment corporation bonds (including investment corporation bonds due within one year) / total interest-bearing debts

(Note 3) Fixed rate ratio = Total interest-bearing debts at fixed interest rate (including long-term loans which interest rates were fixed through interest rate swap transactions) / total interest-bearing debts

(Note 4) Calculated using a weighted-average of interest rates at the end of the period under review by outstanding amount of respective interest-bearing debt for all interest-bearing debts.

(Note 5) The rating of JRC is for the 3rd series unsecured investment corporation bonds, 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds and 7th series unsecured investment corporation bonds. The rating of R&I is for the 3rd series unsecured investment corporation bonds and 4th series unsecured investment corporation bonds.

3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,121 million yen in total revenues, 4,018 million yen in operating income, 3,098 million yen in ordinary income and 3,097 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,554 yen.

3) Capital Increase

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

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

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

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

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

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

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

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

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

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

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

(Note 10) With December 31, 2013 as the record date, JEI implemented a 5-for-1 split of its investment units held by Unitholders stated or recorded on that date's final unitholder registry with January 1, 2014 as the effective date.

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

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

(Note 13) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of the eighteenth 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)	14th period (June 2013)	15th period (December 2013)		16th period (June 2014)	17th period (December 2014)	18th period (June 2015)
			Before ex-rights date	After ex-rights date			
Highest (yen)		739,000	639,000	123,300	141,600	164,700	168,400
Lowest (yen)		463,000	515,000	117,600	114,200	133,400	141,400

(Note 1) 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.

(Note 2) JEI implemented a 5-for-1 split of its investment units with January 1, 2014 as the effective date.

(4) Distributions Paid

The distribution per unit for the period (the eighteenth period) was 2,554 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	14th period	15th period	16th period	17th period	18th period
Accounting period	January 1, 2013 to June 30, 2013	July 1, 2013 to December 31, 2013	January 1, 2014 to June 30, 2014	July 1, 2014 to December 31, 2014	January 1, 2015 to June 30, 2015
Retained earnings at end of period (Thousands of yen)	2,598,369	2,774,683	3,010,447	3,040,640	3,098,080
Retained income (Thousands of yen)	–	149	402	275	717
Total cash distribution amount (Thousands of yen)	2,744,390	2,774,533	3,010,045	3,040,364	3,097,363
(Cash distributions per unit) (yen)	(12,200)	(12,334)	(2,482)	(2,507)	(2,554)
(Distribution per unit after split) (yen) (Note)	(2,440)	(2,466)			
Of which, total profit distributions (Thousands of yen)	2,744,390	2,774,533	3,010,045	3,040,364	3,097,363
(Profit distribution per unit) (yen)	(12,200)	(12,334)	(2,482)	(2,507)	(2,554)
(Profit distribution per unit after split) (yen) (Note)	(2,440)	(2,466)			
Total refund of investment equity	–	–	–	–	–
(Refund of investment per unit)	(–)	(–)	(–)	(–)	(–)
(Refund of investment per unit after split) (yen) (Note)	(–)	(–)			

(Note) JEI implemented a five-for-one split of investment units with January 1, 2014 as the effective date. Distribution per unit after split, profit distribution per unit after split and refund of investment per unit after split are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

The world economy in 2016 is expected to slightly improve due to mild growth brought by recovery in advanced nations centering on the U.S. and weakening of downward pressure against growth of resource-rich nations brought on by low crude oil prices.

While the plunge in crude oil prices which started in the latter half of last year has boosted economies centering on oil importing countries, it has caused instability, heightened credit risks, etc. in resource-rich nations generating anxiety factors for the world economy. Still, the global low interest environment is likely to continue for the foreseeable future and positively affecting the growth of the world economy, due to the effects of continuous quantitative monetary easing including the purchase of government bonds in Japan and Europe as well as the expected solid growth mainly led by strong personal consumption in the U.S.

However, although moderate growth can be expected due to quantitative monetary easing, the weak euro and low crude oil prices in the euro zone, factors of concern continue to linger as the Greek financial crisis is expected to continue, and concerns remain over the UK's possible breakaway from the EU, etc. Although Asian economies will continue to be strong in general, the speed of economic growth is expected to slow. Particularly in China, repayment of debts related to local governments and real estate are a concern because of the slowdown in growth rate in addition to the uncertainties of the Shanghai stock market. Also for emerging nations, cautious attention should be given to various smoldering global risks that could push down economies, including projected negative growth in Russia and Brazil in 2015, possible capital outflow risk upon the expected raising of interest rates by the U.S. and the continuation of geopolitical risks centering on the Ukraine and the Middle East.

The Japanese economy has been gradually getting back on a recovery trend supported by the continuation of the weak yen, high stock prices and stable low long-term interest rate brought on by monetary easing by the Bank of Japan and implementation of emergency financial measures. Although negative growth of -0.9% was posted in fiscal 2014, personal consumption is expected to be strong in fiscal 2015 as a wage-increase trend was observed in the spring wage negotiations amid ongoing improvement in the employment environment. Close to 2% growth rate is forecast for fiscal 2015 since economic expansion is expected due to a recovery in exports and increase in capital investment supported by the weak yen, high stock prices and substantial drop in crude oil price.

It is believed that domestic long-term interest rates will continue to be pressed downward for the time being due to quantitative purchase of government bonds by the Bank of Japan. However, with the high stock prices and progressing rise in interest rates in the U.S., domestic interest rates may also feel gradual upward pressure. Furthermore, close attention should be paid to speculation about additional monetary easing amid heightened dependency on the purchase of government bonds by the Bank of Japan and concerns over possible further volatility in line with the long-term interest moves in the U.S. and Germany.

In the office building leasing market, the vacancy rate is expected to continue to be on an improving trend though moderate since office demand is anticipated to steadily expand going forward. Furthermore, new rents have started to make a turnaround at properties whose vacancies are being eliminated centering on large-scale prime buildings in central Tokyo. The rent level has begun to gradually rise as actual cases of upward rent revisions have been observed.

In the real estate investment market, real estate transaction prices are continued to be expected to rise as the supply of prime properties is still limited, especially in central Tokyo and metropolitan areas, while a favorable fund procurement environment and expansion in market players are expected. Cautiously assessing whether the sense of overheating is further growing in the real estate investment market is needed.

2) Policy and issues on future investment management

JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. With these efforts and promotion of upward revisions to realize rents

that are more suitable for the property value as well as setting of new rents based on market trends, JEI will pursue to enhance both the occupancy rate and earnings of the entire portfolio and existing properties at the same time. Moreover, in order to maintain asset value and improve property competitiveness over the medium to long term, JEI will consistently make additional strategic investments.

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to proactively gain access to market information and thereby keep seizing the right business opportunities. The acquisition of Nisseki Yokohama Building during the period under review was realized with the information provided by the Mizuho Financial Group and the bridge finance from Mizuho Bank, Ltd., the sponsor.

Regarding financial operations, in the 17th period ended December 2014, JEI achieved a fixed interest rate ratio of 100% and realized lengthening of the remaining period of debts to 3.6 years for the average remaining period of interest-bearing debt as of the end of the period

In the 18th period, out of long-term fixed interest loans of 5.0 billion yen which matured in June 2015, 2.0 billion yen was refinanced with long-term fixed interest loans (period of 8 years) (the remaining 3.0 billion yen was repaid with liquidity on hand). Furthermore, in addition to refinancing investment corporation bonds of 5.0 billion yen which matured in June 2015 with short-term loans (period of 3 months), JEI newly procured 24.5 billion yen for the acquisition of Nisseki Yokohama Building in April 2015 with short-term loans and conducted weekly renewal of interest rate during the interest bearing period. These resulted in realizing a further reduction in borrowing costs and the average remaining period of interest bearing debt was shortened to 2.9 years.

Although the fund-raising environment is generally favorable for JEI, volatile movements in the finance market attributable especially to overseas factors such as Greek financial crisis, Shanghai stock market plunge are recently noticeable. We will consistently work, with a continuous aim to reduce borrowing costs taking advantage of current low interest financing environment, on stable and sound financial operations while carefully watching future changes in situations within and outside Japan and endeavoring to lengthen the remaining period of debts, diversify maturity dates, ensure liquidity by renewing commitment lines and maintain an appropriate ratio of interest-bearing debts.

(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 June 24, 2015 and July 6, 2015. The payment for the offering was completed on July 13, 2015.

<Overview of the issuance of new investment units through public offering>

Number of new investment units to be issued	47,000 units
Offer price	¥129,675 per unit
Total offer price	¥6,094,725,000
Issue price	¥125,419 per unit
Amount to be paid in (Issue value)	¥5,894,693,000
Payment date	July 13, 2015

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 June 24, 2015 and July 6, 2015. The payment for the offering was completed on August 12, 2015.

As a result, unitholders' capital is 134,434,701,400 yen, including the amount increased through the above primary offering, and the number of investment units issued and outstanding is 1,264,450 as of August 12, 2015.

<Overview of issuance of new investment units through third-party allotment>

Number of new investment units to be issued	4,700 units
Issue price	¥125,419 per unit
Amount to be paid in (Issue value)	¥589,469,300
Alottee	Mizuho Securities Co., Ltd.
Payment date	August 12, 2015

〈Reference Information〉

Issuance of investment corporation bonds

On September 9, 2015, JEI issued investment corporation bonds as described below based on the comprehensive resolution on the issuance of investment corporation bonds adopted at its meeting held on February 16, 2015 to partially fund repayment of existing short-term borrowings.

〈Overview of Investment Corporation Bond〉

Name	8th Series Unsecured Investment Corporation Bonds
Issue date	September 9, 2015
Total issue amount	5 billion yen
Interest rate	1.030%
Redemption date	September 9, 2025
Collateral	Unsecured/Non-guaranteed <small>(Note)</small>

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

The following is the balance of borrowings as of today.

Investment corporation bonds (Including bonds maturing within one year)	30,000 million yen
Short-term borrowings	17,000 million yen
Long-term borrowings (Including borrowings due within one year)	100,900 million yen
Total interest-bearing debt	147,900 million yen

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	14th As of June 30, 2013	15th As of December 31, 2013	16th As of June 30, 2014 (Note)	17th As of December 31, 2014	18th As of June 30, 2015
Total number of units authorized	2,000,000 units	2,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	224,950 units	224,950 units	1,212,750 units	1,212,750 units	1,212,750 units
Unitholders' capital	117,901 million yen	117,901 million yen	127,950 million yen	127,950 million yen	127,950 million yen
Number of unitholders	7,361 individuals	6,846 individuals	8,451 individuals	7,917 individuals	7,848 individuals

(Note) JEI implemented a five-for-one split of its investment units with January 1, 2014 as the effective date.

(2) Unitholders

Major unitholders as of June 30, 2015 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	354,755	29.25
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	87,948	7.25
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	79,848	6.58
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.90
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	40,535	3.34
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.70
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A	17,564	1.45
NOMURA BANK (LUXEMBURG) S. A.	BATIMENT A, 33, RUE DE GASPERICH, L-5826, LUXEMBOURG	12,538	1.03
RBC ISB A/C DUB NON RESIDENT - TREATY RATE	14 PORTE DE FRANCE, ESCH-SUR-ALZETTE, LUXEMBOURG, L-4360	12,500	1.03
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka-shi, Osaka	12,400	1.02
Total		710,308	58.57

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2015 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	12,500 (Note 2)

(Note 1) There are no investment units of JEI held by neither the Executive Director nor the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there is no conflict of interests between those companies, including those listed above, and JEI.

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the fee for the English financial statements audit.

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 Law Concerning Investment Trusts and Investment Corporations, and deliberate discontinuation of reelection based on circumstances in all respects.

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

Our asset management company, asset custodian and administrative agents as of June 30, 2015 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)	17th Period (December 31, 2014)		18th Period (June 30, 2015)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,847	1.4	3,830	1.3
		Area II	5,786	2.1	5,838	1.9
Trust beneficiary interest in real estate		Area I	121,502	43.7	121,109	40.2
		Area II	9,203	3.3	9,178	3.0
		Area III	78,920	28.4	103,223	34.3
		Area IV	17,922	6.4	17,847	5.9
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,710	6.7	18,574	6.2
Total			255,892	92.0	279,602	92.9
Deposits in bank and other assets			22,144	8.0	21,374	7.1
Total assets			278,037	100.0	300,976	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2015 are as follows:

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,541	38,375.66	36,683.47	95.6	9.3	Office building
AKASAKA INTERCITY	27,422	11,021.03	11,021.03	100.0	5.5	Office building
Nisseki Yokohama Building	24,565	40,440.73	38,775.79	95.9	5.3	Office building
Akasaka Garden City	22,488	8,769.53	8,769.53	100.0	3.7	Office building
Omori Bellport D	21,272	25,801.66	25,801.66	100.0	9.2	Office building
HAMARIKYU INTERCITY	18,574	19,718.11	18,769.52	95.2	7.2	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,682	25,159.49	25,159.49	100.0	7.8	Office building
Daiba Garden City Building	10,385	12,122.85	12,122.85	100.0	3.3	Office building
Kowa Kawasaki Higashiguchi Building	9,757	18,612.72	18,612.72	100.0	(Note 4)	Office building
Shiba 2-Chome Building	8,996	11,749.30	11,749.30	100.0	3.7	Office building
Total	185,687	211,771.08	207,465.36	98.0	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2015. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2015. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2015.

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

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2015 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	24,500	21,272
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	8,996
I -3	JEI Hamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,520	8,380
I -4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,390	7,363
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,200	22,488
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	24,400	27,422
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,010	4,833
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,100	10,385
I -11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,320	8,196
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	22,100	18,574
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,870	1,770
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,190	3,830
Area I				145,600	143,514
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,590	5,838
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,380	7,312
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Korabashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	1,990	1,865
Area II				11,960	15,016
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	17,900	12,682
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,780	9,757
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,500	5,108
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	3,930	4,454
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,450	1,003
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,200	2,310
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,770	5,834
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,000	29,541
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,400	1,653
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	7,490	6,311
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	25,200	24,565
Area III				101,620	103,223
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,030	3,146
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,830	2,685
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,200	5,432
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,030	2,198
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,840	4,385
Area IV				20,930	17,847
Total				280,110	279,602

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2015 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	17th Period July 1, 2014 to December 31, 2014				18th Period January 1, 2015 to June 30, 2015			
		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	950	9.8	1	100.0	932	9.2
I -2	Shiba 2-Chome Building	2	99.2	371	3.8	2	100.0	372	3.7
I -3	JEI Hamamatsucho Building	1	100.0	190	2.0	1	100.0	203	2.0
I -4	No. 32 Kowa Building	1	100.0	252	2.6	1	100.0	252	2.5
I -7	Akasaka Garden City	1	100.0	379	3.9	1	100.0	370	3.7
I -8	AKASAKA INTERCITY	12	97.3	578	6.0	13	100.0	554	5.5
I -9	Kowa Shirokeandai Building	1	100.0	176	1.8	1	94.7	168	1.7
I -10	Daiba Garden City Building	1	100.0	335	3.5	1	100.0	335	3.3
I -11	No. 35 Kowa Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
I -12	HAMARIKYU INTERCITY	1	99.5	723	7.5	1	95.2	727	7.2
I -13	Shintomicho Building	11	100.0	73	0.8	11	100.0	72	0.7
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
Area I		39	99.6	-	-	40	99.0	-	-
II -1	NHK Nagoya Housou Center	30	98.9	395	4.1	29	90.4	366	3.6
II -2	JEI Nishi-Honmachi Building	1	100.0	211	2.2	1	100.0	208	2.1
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.9	1	100.0	83	0.8
Area II		32	99.5	-	-	31	95.6	-	-
III -1	Musashikosugi Tower Place	37	100.0	796	8.2	36	100.0	786	7.8
III -2	Kowa Kawasaki Higashiguchi	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	194	2.0	1	100.0	190	1.9
III -6	No. 44 Kowa Building	1	100.0	97	1.0	1	100.0	87	0.9
III -7	JEI Ryogoku Building	1	93.9	101	1.0	1	95.9	99	1.0
III -8	Ebina Prime Tower	33	97.2	406	4.2	35	98.2	426	4.2
III -9	Kowa Kawasaki Nishiguchi Building	1	99.8	950	9.8	1	95.6	943	9.3
III -10	Pacific Square Sengoku	7	94.7	55	0.6	8	86.9	63	0.6
III -11	Core City Tachikawa	1	97.9	285	2.9	1	100.0	298	3.0
III -12	Nisseki Yokohama Building	-	-	-	-	1	95.9	537	5.3
Area III		84	99.0	-	-	87	97.6	-	-
IV -2	JEI Kyobashi Building	1	100.0	186	1.9	1	100.0	184	1.8
IV -3	JEI Hiroshima Hacchobori Building	1	98.7	144	1.5	1	98.9	142	1.4
IV -4	SE Sapporo Building	1	100.0	369	3.8	1	98.5	359	3.5
IV -5	Aoba-dori Plaza	47	88.1	174	1.8	48	90.0	172	1.7
IV -6	Daiwa Minami-morimachi Building	9	95.7	194	2.0	10	100.0	196	1.9
Area IV		59	97.2	-	-	61	97.8	-	-
Total		214	99.1	9,695	100.0	219	97.9	10,121	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) No. 35 Kowa Building, Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi and JEI Hongo Building are not disclosed as consents on disclosure from the end tenants have not been obtained.

(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) Other Assets

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 Fixed interest rate payable Floating interest rate receivable	76,900,000	53,360,000	—

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

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

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

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

4. Capital Expenditures for Owned Properties

(1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of June 30, 2015. The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2015	Total of advance payment
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (2/5th term)	From July 2015 To December 2015	117	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Renewal of disaster prevention systems	From March 2015 To October 2015	99	—	—
No. 35 Kowa Building	Minato-ku, Tokyo	Renovation of exterior walls	From November 2015 To December 2015	82	—	—
No. 32 Kowa Building	Minato-ku, Tokyo	Renovation of exterior walls	From November 2015 To December 2015	73	—	—
JEI Nishi-Honmachi Building	Osaka-shi, Osaka	Renewal of air-conditioning systems on standard floor (8/10th term)	From October 2015 To December 2015	30	—	—

(2) Capital Expenditures for the Six months Ended June 30, 2015

The following table shows constructions conducted by JEI during the period for properties it owned as of June 30, 2015 and expensed as capital expenditures. Capital expenditures for the period ended June 2015 were 790 million yen and, when combined with repairs and maintenance costs of 171 million yen classified as expenses, the amount of constructions completed totaled 962 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (1/5th term)	From October 2014 To March 2015	191
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renewal of heat source	From July 2014 To February 2015	96
SE Sapporo Building	Sapporo-shi, Hokkaido	Replacement of multi-level parking lot No. 1 pallet floorboard	From June 2015 To June 2015	51
Other constructions			—	451
Total				790

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

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

(Unit: Millions of yen)

Item	14th Period January 1, 2013 to June 30, 2013	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015
Reserved funds at beginning of period	281	299	309	368	316
Increase	25	364	143	80	119
Decrease	7	354	83	132	118
Reserved funds at the end of period	299	309	368	316	317

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

(Unit: Thousands of yen)

Account	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015
(a) Asset management fees	409,168	415,782
(b) Custodian fees	20,748	20,762
(c) Administrative service fees	40,643	39,719
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	63,016	75,640
Total	551,117	569,444

(2) Borrowings

Borrowings by each financing source as of the end of the 18th period (ended June 30, 2015) 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) (Note 2)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Mizuho Bank, Ltd.	June 30, 2015	—	7,500,000	0.35818	July 21, 2015	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	June 25, 2015	—	5,000,000	0.42091	September 25, 2015		Redemption of investment corporation bonds	
	Mizuho Bank, Ltd.	June 30, 2015	—	17,000,000	0.38000	March 31, 2016		Repayment of existing borrowing	
Sub Total			—	29,500,000					
Long-term loans due within one year	The Dai-ichi Life Insurance Company Limited	October 24, 2008	3,000,000	—	2.27344	June 30, 2015	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Development Bank of Japan Inc.		2,000,000	—					
	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.13750	November 30, 2015		Acquisition of real estate	
	Aozora Bank, Ltd.		1,620,000	1,620,000					
	Aozora Bank, Ltd.		650,000	650,000					
	Mizuho Bank, Ltd.		370,000	370,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2012	280,000	280,000	1.14125			Repayment of existing borrowing	
	Mizuho Bank, Ltd.		500,000	500,000					
	Mitsubishi UFJ Trust and Banking		500,000	500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Aozora Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka	July 31, 2012	300,000	300,000	0.97125			Repayment of existing borrowing	
	The Norinchukin Bank		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.		1,500,000	1,500,000					
	Resona Bank, Ltd.	June 29, 2011	500,000	500,000	1.36375			June 29, 2016	
Mitsubishi UFJ Trust and Banking	—		4,600,000						
Mizuho Bank, Ltd.	—		4,400,000						
Sumitomo Mitsui Banking Corporation		—	4,000,000						
Sub Total			15,540,000	23,540,000					
Long-term loans	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,600,000	—	1.36375	November 29, 2016	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.		4,400,000	—					
	Sumitomo Mitsui Banking Corporation		4,000,000	—					
	Mitsui Sumitomo Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.24375				
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
	Mitsubishi UFJ Trust and Banking		540,000	540,000					
	Mizuho Bank, Ltd.		520,000	520,000					

	Classification		Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1) (Note 2)	Maturity date	Repayment method	Use	Remarks
	Lender									
Long-term loans	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	2,000,000	1.24750	January 31, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mitsubishi UFJ Trust and Banking		1,500,000	1,500,000						
	Sumitomo Mitsui Banking Corporation		1,500,000	1,500,000						
	Mizuho Bank, Ltd.	July 31, 2012	1,500,000	1,500,000	1.03000					
	Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000						
	Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000						
	Sompo Japan Nipponkoa Insurance Inc.		2,000,000	2,000,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	November 30, 2010	1,000,000	1,000,000	1.09734					
	Development Bank of Japan Inc.		6,000,000	6,000,000		1.73875				
	Mizuho Bank, Ltd.		1,000,000	1,000,000						
	Mitsubishi UFJ Trust and Banking	July 31, 2012	1,000,000	1,000,000	1.08375					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Bank, Ltd.		1,000,000	1,000,000						
	Aozora Bank, Ltd.	June 28, 2013	500,000	500,000	1.04550	November 30, 2017				
	Resona Bank, Ltd.		500,000	500,000						
	Sompo Japan Nipponkoa Insurance Inc.		500,000	500,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000						
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.19212	June 29, 2018				
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225	June 30, 2018				
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000						
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000						
	The Norinchukin Bank		1,000,000	1,000,000						
	Resona Bank, Ltd.		200,000	200,000						
The Bank of Fukuoka	700,000		700,000							
Shinkin Central Bank	1,000,000		1,000,000							
The Norinchukin Bank	1,450,000		1,450,000							
Mizuho Bank, Ltd.	March 11, 2014	850,000	850,000	0.74500	November 1, 2018					
Mitsubishi UFJ Trust and Banking		850,000	850,000							
Mizuho Trust & Banking Co., Ltd.		600,000	600,000							
The Norinchukin Bank		1,450,000	1,450,000	0.77500	March 8, 2019					
Mizuho Bank, Ltd.		850,000	850,000							
Mitsubishi UFJ Trust and Banking		850,000	850,000							
Mizuho Trust & Banking Co., Ltd.		600,000	600,000							

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1) (Note 2)	Maturity date	Repayment method	Use	Remarks	
	Lender									
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400					
	Mitsubishi UFJ Trust and Banking		500,000	500,000						
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000	1.31261					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000						
	The Norinchukin Bank		December 27, 2013	1,162,500	1,162,500					1.00000
	Mizuho Bank, Ltd.			675,000	675,000					
	Mitsubishi UFJ Trust and Banking			675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.			487,500	487,500					
	Development Bank of Japan Inc.		June 28, 2013	2,000,000	2,000,000	1.60750	June 30, 2021	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834					
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.81875	December 30, 2021	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417	June 30, 2022	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.93625	December 30, 2022				
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
Resona Bank, Ltd.	600,000		600,000							
Development Bank of Japan Inc.	June 30, 2015	—	2,000,000	1.20250	June 30, 2023	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed		
Sub Total			88,360,000	77,360,000						
Total			103,900,000	130,400,000						

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance during the period. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted average rate adjusting the effect of the interest rate swaps.

(Note 2) All short-term loans are floating-rate loans. All long-term loans due within one year and other long-term loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2015 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	-	1.29000	June 26, 2015	Lump-sum	(Note 1)	(Note 4)
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016		(Note 2)	
4th series unsecured investment corporation bonds		2,000,000	2,000,000	1.40000	November 2, 2018		(Note 1)	
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000			(Note 1)	
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2019		(Note 3)	
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024			
Total		30,000,000	25,000,000					

(Note 1) The funds were used for repaying existing borrowings.

(Note 2) The funds were used for acquiring new properties.

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

(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 assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price <small>(Note)</small>	Transfer date	Transfer amount	Net book value	Gain (loss) on transfer
Trust beneficiary interest in real estate	Nisseki Yokohama Building	April 1, 2015	24,500	—	—	—	—
Total		—	24,500	—	—	—	—

(Note) The acquisition price indicates the contracted amount of the property in each purchase agreement or trust beneficiary interest transfer agreement excluding related expenses (brokerage fee, taxes, etc.).

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

(millions of yen)

Acquisition or transfer	Name of property	Type of assets	Acquisition date	Acquisition price <small>(Note)</small>	Appraisal Value	Appraiser	Appraisal Date
Acquisition	Nisseki Yokohama Building	Trust beneficiary interest in real estate	April 1, 2015	24,500	24,600	Japan Real Estate Institute	March 3, 2015

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

2) Others

None

(4) Transactions with Interested Parties

1) Transactions

None

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,406,073	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	195,596	13.9%
		Kowa Real Estate Facilities, Co., Ltd.	290,249	20.6%
Total	1,406,073	—	485,846	34.6%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2015.

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

NIPPON STEEL KOWA REAL ESTATE CO., LTD. 6,203 thousand yen

KOWA REAL ESTATE FACILITIES CO., LTD. 179,374 thousand yen

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

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

7. Accounting

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

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

(2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

8. Others

(1) Notice

1) General unitholders' meeting

There were no applicable items during the period.

2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2015 is summarized below.

Approval date	Approved agenda	Description
February 16, 2015	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 17, 2015 to February 8, 2016. The board of directors approved the respective candidate general administrator for "administrative duties concerning offering of investment corporation bonds" and "administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period," and assigned decisions on all other necessary matters to the Executive Director.

(2) Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

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

There were no applicable items during the period.

(4) Other

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

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
June 30, 2015 and December 31, 2014
with Independent Auditor's Report*

Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2015, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2015, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

September 17, 2015
Tokyo, Japan

Balance Sheets

As of June 30, 2015 and December 31, 2014

	As of June 30, 2015	As of December 31, 2014
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts (<i>Notes 4 and 5</i>)	18,447,139	20,133,941
Rental receivables	867,254	891,341
Consumption taxes refundable	801,341	–
Prepaid expenses and other current assets	200,300	187,374
Total current assets	<u>20,316,035</u>	<u>21,212,657</u>
Property and equipment (<i>Note 7</i>):		
Buildings and building improvements	5,806,732	5,681,733
Machinery and equipment	6,253	6,253
Furniture and fixtures	10,716	10,716
Land	3,032,788	3,032,788
Construction in progress	–	3,690
Buildings and building improvements for trust accounts	116,180,982	103,706,287
Machinery and equipment for trust accounts	709,585	646,734
Furniture and fixtures for trust accounts	173,626	159,600
Land for trust accounts	165,111,023	152,291,494
Construction in progress for trust accounts	9,254	6,177
Less: accumulated depreciation	(20,545,518)	(18,759,431)
Net property and equipment	<u>270,495,444</u>	<u>246,786,043</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	251	308
Leasehold rights for trust accounts	7,380,016	7,380,016
Other intangible assets for trust accounts	4,943	5,071
Total intangible assets	<u>9,106,819</u>	<u>9,107,004</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	612,425	483,751
Other assets	334,087	321,631
Total investments and other assets	<u>961,694</u>	<u>820,564</u>
Deferred assets:		
Investment corporation bond issuance costs	96,374	110,837
Total deferred assets	<u>96,374</u>	<u>110,837</u>
Total assets	<u><u>300,976,368</u></u>	<u><u>278,037,107</u></u>

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

	As of June 30, 2015	As of December 31, 2014
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,216,219	791,736
Short-term loans <i>(Notes 5 and 8)</i>	29,500,000	–
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	–	5,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	23,540,000	15,540,000
Accounts payable – other	435,855	344,429
Accrued expenses	181,834	205,401
Accrued corporation taxes	766	541
Accrued consumption taxes	–	432,931
Advances received	91,717	86,881
Other current liabilities	317	–
Total current liabilities	<u>54,966,711</u>	<u>22,401,922</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	25,000,000	25,000,000
Long-term debt <i>(Notes 5 and 8)</i>	77,360,000	88,360,000
Security deposits from tenants <i>(Note 5)</i>	723,465	764,784
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,840,224	10,481,873
Total long-term liabilities	<u>114,923,690</u>	<u>124,606,658</u>
Total liabilities	<u>169,890,401</u>	<u>147,008,581</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	127,950,539	127,950,539
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	37,347	37,347
Retained earnings	3,098,080	3,040,640
Total surplus	<u>3,135,427</u>	<u>3,077,987</u>
Total unitholders' equity	<u>131,085,966</u>	<u>131,028,526</u>
Total net assets	<u>131,085,966</u>	<u>131,028,526</u>
Total liabilities and net assets	<u><u>300,976,368</u></u>	<u><u>278,037,107</u></u>

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

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2015 to June 30, 2015
and from July 1, 2014 to December 31, 2014

	For the period from January 1, 2015 to June 30, 2015	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>	
Revenues (<i>Note 13</i>):		
Rental revenues	9,215,979	8,754,613
Other	905,368	941,198
Total revenues	<u>10,121,347</u>	<u>9,695,812</u>
Operating expenses (<i>Note 13</i>):		
Property operating expenses	5,533,045	5,180,793
Asset management fees	415,782	409,168
Custodian fees	20,762	20,748
Administrative service fees	39,719	40,643
Compensation for directors	6,540	6,540
Other	86,640	74,016
Total operating expenses	<u>6,102,489</u>	<u>5,731,910</u>
Operating income	<u>4,018,858</u>	<u>3,963,901</u>
Other income:		
Interest income	1,938	1,799
Other	875	2,419
Other expenses:		
Interest expense	634,385	627,936
Loan arrangement fees	105,178	143,137
New investment unit issuance costs	30,447	–
Interest expense on investment corporation bonds	137,980	140,904
Amortization of investment corporation bond issuance costs	14,463	14,463
Other	263	525
Ordinary income	<u>3,098,954</u>	<u>3,041,153</u>
Income before income taxes	3,098,954	3,041,153
Income taxes (<i>Note 12</i>):		
Current	1,159	907
Deferred	(10)	7
Net income	<u>3,097,804</u>	<u>3,040,238</u>
Retained earnings at beginning of period	<u>275</u>	<u>402</u>
Retained earnings at end of period	<u><u>3,098,080</u></u>	<u><u>3,040,640</u></u>

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

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2015 to June 30, 2015
and from July 1, 2014 to December 31, 2014

For the period from July 1, 2014 to December 31, 2014

	Net assets							
	Unitholders' equity							
	Surplus							
	Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>								
Balance as of June 30, 2014	1,212,750	127,950,539	37,347	3,010,447	3,047,794	130,998,333	130,998,333	
Changes during the fiscal period:								
Distributions from retained earnings	-	-	-	(3,010,045)	(3,010,045)	(3,010,045)	(3,010,045)	
Net income	-	-	-	3,040,238	3,040,238	3,040,238	3,040,238	
Total changes during the fiscal period	-	-	-	30,192	30,192	30,192	30,192	
Balance as of December 31, 2014	1,212,750	127,950,539	37,347	3,040,640	3,077,987	131,028,526	131,028,526	

For the period from January 1, 2015 to June 30, 2015

	Net assets							
	Unitholders' equity							
	Surplus							
	Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>								
Balance as of December 31, 2014	1,212,750	127,950,539	37,347	3,040,640	3,077,987	131,028,526	131,028,526	
Changes during the fiscal period:								
Distributions from retained earnings	-	-	-	(3,040,364)	(3,040,364)	(3,040,364)	(3,040,364)	
Net income	-	-	-	3,097,804	3,097,804	3,097,804	3,097,804	
Total changes during the fiscal period	-	-	-	57,440	57,440	57,440	57,440	
Balance as of June 30, 2015	1,212,750	127,950,539	37,347	3,098,080	3,135,427	131,085,966	131,085,966	

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2015 to June 30, 2015
and from July 1, 2014 to December 31, 2014

	For the period from January 1, 2015 to June 30, 2015	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,098,954	3,041,153
Depreciation and amortization	1,786,271	1,657,642
Amortization of investment corporation bond issuance costs	14,463	14,463
New unit issuance costs	30,447	-
Interest income	(1,938)	(1,799)
Interest expense	772,365	768,840
Decrease (increase) in rental receivables	24,086	(34,109)
Decrease (increase) in consumption taxes refundable	(801,341)	374,253
Decrease (increase) in prepaid expenses	(7,708)	64,349
Increase (decrease) in accounts payable – trade	151,080	(28,378)
Increase (decrease) in accounts payable – other	68,402	11,645
Increase (decrease) in unpaid consumption taxes	(432,931)	432,931
Increase (decrease) in advances received	4,835	(11,919)
Decrease (increase) in long-term prepaid expenses	(128,674)	(113,055)
Other, net	(31,715)	(5,141)
Subtotal	4,546,598	6,170,875
Interest received	1,938	1,799
Interest paid	(795,931)	(800,125)
Income taxes paid	(996)	(1,029)
Net cash provided by operating activities	3,751,608	5,371,520
Cash flows from investing activities		
Purchases of property and equipment	(125,225)	(51,915)
Purchases of property and equipment for trust accounts	(25,091,268)	(478,670)
Purchases of intangible assets	-	(204)
Purchases of intangible assets for trust accounts	(5,092)	-
Proceeds from security deposits from tenants	12,872	6,536
Payments for security deposits to tenants	(54,192)	(17,073)
Proceeds from security deposits in trust accounts from tenants	1,571,632	209,992
Payments for security deposits in trust accounts to tenants	(199,725)	(328,395)
Net cash used in investing activities	(23,890,997)	(659,730)
Cash flows from financing activities		
Proceeds from short-term loans	54,000,000	-
Repayment for short-term loans	(24,500,000)	-
Proceeds from long-term debt	2,000,000	15,500,000
Repayment for long-term debt	(5,000,000)	(15,500,000)
Payments for investment corporation bond redemption	(5,000,000)	-
Payments for new unit issuance costs	(6,138)	-
Distributions to unitholders	(3,041,275)	(3,008,861)
Net cash provided by (used in) financing activities	18,452,586	(3,008,861)
Net increase (decrease) in cash and cash equivalents	(1,686,802)	1,702,927
Cash and cash equivalents at beginning of period	20,133,941	18,431,014
Cash and cash equivalents at end of period	18,447,139	20,133,941

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2015 to June 30, 2015
and from July 1, 2014 to December 31, 2014

1. Organization

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2015, JEI held 31 properties with 370,671 square meters of total leasable space and had leases with 219 tenants excluding residential tenants.

2. Basis of Presentation

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

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

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

3. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Property and equipment including trust accounts and trademark rights

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

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

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

Deferred assets

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

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

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. No property-related taxes were capitalized for the period from July 1, 2014 to December 31, 2014, whereas the capitalized amount for the period from January 1, 2015 to June 30, 2015 was ¥186,039 thousand.

Revenue recognition

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

Derivatives and hedge accounting

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

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

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

Properties in trust accounts

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

4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2015 and December 31, 2014 consisted of the following:

	As of June 30, 2015	As of December 31 2014
	<i>(Thousands of yen)</i>	
Cash and cash deposits	2,472,809	5,591,016
Cash and deposits in trust	15,974,329	14,542,925
Cash and cash equivalents including trust accounts	<u>18,447,139</u>	<u>20,133,941</u>

5. Financial Instruments

For the periods from January 1, 2015 to June 30, 2015 and from July 1, 2014 to December 31, 2014

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 Company's Annual Funds Procurement Plan. When procuring funds by means of interest-bearing debt, matters such as seeking longer durations and maturities, securing fixed interest rates over the entire term of the instrument in order to benefit from the recent favorable financial environment with low interest rates, and diversifying maturity dates are taken into consideration to achieve a more stable financial situation and avoid the risk of future interest rate hikes. Surplus funds may be invested in deposits and safe, liquid financial assets and investment securities, but are, in principle, placed in fixed-rate term deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and investment corporation bonds.

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to all existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2015. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions having a high credit rating. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of June 30, 2015). Liquidity risk is also mitigated through the constant management of liquidity on hand.

5. Financial Instruments (continued)

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

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

Fair value of financial instruments

The following are carrying values and fair values as of June 30, 2015 and December 31, 2014 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note B).

	As of June 30, 2015			As of December 31, 2014		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	2,472,809	2,472,809	–	5,591,016	5,591,016	–
(2) Cash in trust and deposits in trust	15,974,329	15,974,329	–	14,542,925	14,542,925	–
Total assets	<u>18,447,139</u>	<u>18,447,139</u>	<u>–</u>	<u>20,133,941</u>	<u>20,133,941</u>	<u>–</u>
(3) Short-term loans (Note C)	29,500,000	29,500,000	–	–	–	–
(4) Investment corporation bonds due within one year (Note C)	–	–	–	5,000,000	5,025,300	25,300
(5) Long-term debt due within one year (Note C)	23,540,000	23,709,560	169,560	15,540,000	15,665,909	125,910
(6) Investment corporation bonds (Note C)	25,000,000	25,373,580	373,580	25,000,000	25,443,840	443,840
(7) Long-term debt (Note C)	<u>77,360,000</u>	<u>78,448,019</u>	<u>1,088,019</u>	<u>88,360,000</u>	<u>89,716,287</u>	<u>1,356,287</u>
Total liabilities	<u>155,400,000</u>	<u>157,031,159</u>	<u>1,631,159</u>	<u>133,900,000</u>	<u>135,851,337</u>	<u>1,951,337</u>
(8) Derivative transactions *	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

* 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 in trust and deposits in trust

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

Liabilities

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

5. Financial Instruments (continued)

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 15, "Derivative Transactions."

(Note B)

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

	As of June 30, 2015	As of December 31, 2014
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	723,465	764,784
② Security deposits from tenants for trust accounts*	11,840,224	10,481,873

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

5. Financial Instruments (continued)

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

	As of June 30, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	2,472,809	–	–	–	–	–
Cash in trust and deposits in trust	15,974,329	–	–	–	–	–
Total	18,447,139	–	–	–	–	–

	As of December 31, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	5,591,016	–	–	–	–	–
Cash in trust and deposits in trust	14,542,925	–	–	–	–	–
Total	20,133,941	–	–	–	–	–

(Note C)

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

	As of June 30, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	29,500,000	–	–	–	–	–
Investment corporation bonds due within one year	–	–	–	–	–	–
Long-term debt due within one year	23,540,000	–	–	–	–	–
Investment corporation bonds	–	5,000,000	–	12,000,000	–	8,000,000
Long-term debt	–	15,760,000	26,000,000	7,500,000	8,600,000	19,500,000
Total	53,040,000	20,760,000	26,000,000	19,500,000	8,600,000	27,500,000

	As of December 31, 2014					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	–	–	–	–	–	–
Investment corporation bonds due within one year	5,000,000	–	–	–	–	–
Long-term debt due within one year	15,540,000	–	–	–	–	–
Investment corporation bonds	–	5,000,000	–	7,000,000	5,000,000	8,000,000
Long-term debt	–	16,760,000	24,000,000	17,750,000	3,750,000	26,100,000
Total	20,540,000	21,760,000	24,000,000	24,750,000	8,750,000	34,100,000

6. Investment and Rental Property

For the periods from January 1, 2015 to June 30, 2015 and from July 1, 2014 to December 31, 2014

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2015 and December 31, 2014 for such real estate for lease.

Carrying value			Fair value
As of December 31, 2014	Change during period ^(*1)	As of June 30, 2015	As of June 30, 2015
<i>(Thousands of yen)</i>			
255,892,739	23,709,273	279,602,013	280,110,000

Carrying value			Fair value
As of June 30, 2014	Change during period ^(*2)	As of December 31, 2014	As of December 31, 2014
<i>(Thousands of yen)</i>			
257,099,544	(1,206,805)	255,892,739	251,560,000

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

B) Details of change during period

(*1) The increase of ¥23,709,273 during the period is mainly due to an increase of ¥24,705,264 thousand related to the acquisition of NISSEKI YOKOHAMA Building, and a decrease of ¥1,786,214 thousand for depreciation costs.

(*2) The decrease of ¥1,206,805 thousand during the period is mainly due to depreciation costs of ¥1,657,585 thousand.

C) Fair value

Fair value as of June 30, 2015 and December 31, 2014 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2015 and December 31, 2014 consisted of the following:

	As of June 30, 2015			As of December 31, 2014		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	5,806,732	(905,612)	4,901,120	5,681,733	(819,945)	4,861,787
Machinery and equipment	6,253	(1,129)	5,123	6,253	(848)	5,405
Furniture and fixtures	10,716	(2,590)	8,126	10,716	(2,010)	8,706
Land	3,032,788	–	3,032,788	3,032,788	–	3,032,788
Construction in progress	–	–	–	3,690	–	3,690
Buildings and building improvements for trust accounts	116,180,982	(19,286,673)	96,894,309	103,706,287	(17,619,382)	86,086,904
Machinery and equipment for trust accounts	709,585	(267,598)	441,987	646,734	(244,505)	402,229
Furniture and fixtures for trust accounts	173,626	(81,915)	91,710	159,600	(72,739)	86,861
Land for trust accounts	165,111,023	–	165,111,023	152,291,494	–	152,291,494
Construction in progress for trust accounts	9,254	–	9,254	6,177	–	6,177
Total	291,040,963	(20,545,518)	270,495,444	265,545,475	(18,759,431)	246,786,043

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2015 and December 31, 2014 consisted of the following:

	As of June 30, 2015		As of December 31, 2014	
	Amount <i>(Thousands of yen)</i>	Weighted-average interest rate ^(*)	Amount <i>(Thousands of yen)</i>	Weighted-average interest rate ^(*)
Short-term loans:				
Unsecured loans from a bank due on July 21, 2015	7,500,000	0.35818%	–	–
Unsecured loans from a bank due on September 25, 2015	5,000,000	0.42091%	–	–
Unsecured loans from a bank due on March 31, 2016	17,000,000	0.38000%	–	–
Subtotal	<u>29,500,000</u>			
Long-term debt due within one year:				
Unsecured loans from a bank due on June 30, 2015	–	–	2,000,000	2.27344% ^(*)
Unsecured loans from an insurance company due on June 30, 2015	–	–	3,000,000	2.27344% ^(*)
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% ^(*)	4,540,000	1.13750% ^(*)
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% ^(*)	2,000,000	1.14125% ^(*)
Unsecured loans from banks due on November 30, 2015	4,000,000	0.97125% ^(*)	4,000,000	0.97125% ^(*)
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% ^(*)	–	–
Subtotal	<u>23,540,000</u>		<u>15,540,000</u>	
Long-term debt:				
Unsecured loans from banks due on June 29, 2016	–	–	13,000,000	1.36375% ^(*)
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% ^(*)	3,760,000	1.24375% ^(*)
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% ^(*)	5,000,000	1.24750% ^(*)
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% ^(*)	4,000,000	1.03000% ^(*)
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% ^(*)	3,000,000	1.09734% ^(*)
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% ^(*)	6,000,000	1.73875% ^(*)
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% ^(*)	3,000,000	1.08375% ^(*)
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% ^(*)	2,000,000	1.04550% ^(*)
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% ^(*)	1,000,000	1.19212% ^(*)
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% ^(*)	3,000,000	1.65125% ^(*)
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% ^(*)	11,000,000	0.81225% ^(*)
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% ^(*)	3,750,000	0.74500% ^(*)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% ^(*)	3,750,000	0.77500% ^(*)
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% ^(*)	2,000,000	1.60000% ^(*)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% ^(*)	2,600,000	1.36400% ^(*)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% ^(*)	1,000,000	1.31261% ^(*)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% ^(*)	3,000,000	1.00000% ^(*)
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% ^(*)	2,000,000	1.60750% ^(*)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% ^(*)	2,000,000	0.98834% ^(*)
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% ^(*)	5,750,000	0.81875% ^(*)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% ^(*)	2,000,000	1.15417% ^(*)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% ^(*)	5,750,000	0.93625% ^(*)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% ^(*)	–	–
Subtotal	<u>77,360,000</u>		<u>88,360,000</u>	
Total	<u>130,400,000</u>		<u>103,900,000</u>	

(*) 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.

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

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

The scheduled repayment amounts of long-term debt as of June 30, 2015 (excluding the long-term debt due within one year) are as follows:

	<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	15,760,000	26,000,000	7,500,000	8,600,000	19,500,000

JEI has commitment lines of ¥14,000 million with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2015, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2015 and December 31, 2014 are summarized as follows:

	<u>As of June 30, 2015</u>		<u>As of December 31, 2014</u>	
	Amount	Weighted- average interest rate	Amount	Weighted- average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #2 due on June 26, 2015	—	—	5,000,000	1.29000%
Unsecured bond #3 due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Total	<u>25,000,000</u>		<u>30,000,000</u>	

9. Investment Corporation Bonds (continued)

The scheduled redemption amounts of investment corporation bonds as of June 30, 2015 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>					
Investment corporation bonds	—	5,000,000	—	12,000,000	—	8,000,000

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 million.

11. Per Unit Information

Net assets per unit as of June 30, 2015 and December 31, 2014 were calculated based on the number of units outstanding as of each date (1,212,750 units).

Net income per unit for the periods from January 1, 2015 to June 30, 2015 and July 1, 2014 to December 31, 2014 was calculated based on the number of units outstanding during the respective periods (1,212,750 units).

Accordingly, net assets per unit were ¥108,089 as of June 30, 2015 and ¥108,042 as of December 31, 2014. Net income per unit was ¥2,554 for the period from January 1, 2015 to June 30, 2015, and ¥2,506 for the period from July 1, 2014 to December 31, 2014.

12. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2015 and December 31, 2014 are summarized as follows:

	As of June 30, 2015	As of December 31, 2014
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	25	14
Total deferred tax assets	25	14
Net deferred tax assets	25	14

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2015 to June 30, 2015 and from July 1, 2014 to December 31, 2014 is as follows:

	For the period from January 1, 2015 to June 30, 2015	For the period from July 1, 2014 to December 31, 2014
Statutory tax rate	34.15%	34.16%
Reconciliation:		
Deductible distributions paid	(34.13)	(34.15)
Other	0.02	0.02
Effective tax rate	0.04%	0.03%

Adjustment in deferred tax assets and deferred tax liabilities due to tax rate change

For the period from July 1, 2014 to December 31, 2014

The "Act for Local Corporation Tax Act" (Act No.11 of 2014) and the "Act for Partial Revision of Local Tax Act" (Act No.4 of 2014) promulgated on March 31, 2014 had led to the establishment of the "Local Corporation Tax Act", as well as partial involvement of "Special Local Corporation Tax" in "Corporation Tax", which resulted in a change of the statutory tax rate applicable to the deferred tax assets and deferred tax liabilities arising from the temporary differences that are expected to be resolved in the fiscal period starting on October 1, 2014 and after to 34.15%. The impact of this change is minimal.

For the period from January 1, 2015 to June 30, 2015

Due to the "Act for Partial Revision of Income Tax Act" (Act No.9 of 2015) on March 31, 2015, the corporation tax rate will be changed effective the fiscal period starting on April 1, 2015 and after, which resulted in a change of the statutory tax rate applicable to the deferred tax assets and deferred tax liabilities arising from the temporary differences that are expected to be resolved in the fiscal period starting on April 1, 2015 and after to 32.31%. The impact of this change is minimal.

13. Breakdown of Property Rental Business Revenues and Expenses

	For the period from January 1, 2015 to June 30, 2015	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>	
Rental business revenues:		
Rental revenues	9,215,979	8,754,613
Other	905,368	941,198
Total rental business revenues	10,121,347	9,695,812
Property operating expenses:		
Property management costs and fees	1,406,073	1,246,265
Utilities	1,153,175	1,118,201
Property and other taxes	791,943	753,158
Insurance	29,068	27,048
Repairs and maintenance	171,479	176,671
Depreciation	1,786,214	1,657,585
Other	195,090	201,862
Total property operating expenses	5,533,045	5,180,793
Profit	4,588,302	4,515,019

14. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2015 and December 31, 2014, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2015	As of December 31, 2014
	<i>(Thousands of yen)</i>	
Due within one year	250,023	466,260
Due after one year	622,613	694,741
Total	872,636	1,161,001

15. Derivative Transactions

Derivative Transactions as of June 30, 2015

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of June 30, 2015 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	76,900,000	53,360,000	*	/

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

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

Derivative Transactions as of December 31, 2014

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of December 31, 2014 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	76,900,000	66,360,000	*	/

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

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

16. Related Party Transactions

For the period from January 1, 2015 to June 30, 2015

- (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	415,782	Accounts payable	335,083

For the period from July 1, 2014 to December 31, 2014

- (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	409,168	Accounts payable	272,759

17. Segment Information

For the periods from January 1, 2015 to June 30, 2015 and from July 1, 2014 to December 31, 2014

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.

17. Segment Information (continued)

Information about geographic area

(1) Revenues

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

(2) Property and equipment

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

Information about major clients

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

18. Distribution Information

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,097,363,500, which is the maximum integral multiple of the 1,212,750 units issued, but not exceeding ¥3,098,080,863 which is the amount of retained earnings at June 30, 2015. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 17, 2015, the Board of Directors approved a resolution to make a cash distribution of ¥2,554 per unit aggregating to ¥3,097,363,500 to unitholders of record as of June 30, 2015.

19. Significant Subsequent Events

(1) Issuance of new units

On June 24, 2015 and July 6, 2015, 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 July 13, 2015 and August 12, 2015 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 ¥134,434 million with 1,264,450 units in issue at August 12, 2015.

A. Issuance of new units through a public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	47,000 units
(iii) Issue price (offer price)	¥129,675 per unit
(iv) Total offer price	¥6,094 million
(v) Proceeds per unit	¥125,419 per unit
(vi) Aggregate proceeds	¥5,894 million
(vii) Payment date	July 13, 2015

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	4,700 units
(iii) Proceeds per unit	¥125,419 per unit
(iv) Aggregate proceeds	¥589 million
(v) Payment date	August 12, 2015
(vi) Allottee	Mizuho Securities Co., Ltd.