

Asset Management Report for 17th Period

(Semi-Annual Report for 17th Period)

From July 1, 2014 to December 31, 2014



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 17th period (from July 1, 2014 to December 31, 2014).

JEI recorded total revenues of 9,695 million yen, net income of 3,040 million yen and the distribution per unit for the period was 2,507 yen. JEI realized increase in revenue, income and distribution following the previous period.

As a result of focusing on leasing activities in close collaboration with the respective property management companies, JEI achieved a further increase in the occupancy rate of its portfolio of 99.1% at the end of the period under review from 98.3% at the end of the previous period. The occupancy rate steadily remains at a high level far exceeding the market level.

In terms of finance, JEI continuously conducts stable financial operations by achieving 100% fixed interest rates as a measure against the risk of interest rate rises in the future.

About Future Asset Management

The Japanese economy continues to be on a mild recovery trend due to additional monetary easing by the Bank of Japan, improvement in the corporate performance and employment income environment and other factors.

In the office building leasing market, rising rents are observed centering on excellent buildings in central Tokyo, and such movements are expected to gradually spread into other areas.

In the real estate investment market, real estate transaction prices are in a state where they may rise as the supply of excellent properties is limited, especially in central Tokyo and metropolitan areas, while favorable fund procurement environment and expansion in market players are expected.

With this perspective, in addition to maintaining a high occupancy rate, JEI will endeavor to improve profitability of the entire portfolio by keeping and raising the rent level based on market trends. Furthermore, JEI will pursue opportunities to invest in excellent 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 while cautiously assessing the sense of overheating in the real estate investment market.

In terms of financing, we will continue our efforts in conducting stable financial operations by striving to diversify maturity dates and minimize financing costs.

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		13th Period July 1, 2012 to December 31, 2012	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
Revenues	(Millions of yen)	7,599	8,418	8,850	9,558	9,695
(Rental revenues)	(Millions of yen)	(7,597)	(8,409)	(8,848)	(9,558)	(9,695)
Operating expenses	(Millions of yen)	4,427	4,871	5,140	5,592	5,731
(Property operating expenses)	(Millions of yen)	(3,950)	(4,350)	(4,605)	(5,022)	(5,180)
Operating income	(Millions of yen)	3,172	3,546	3,709	3,966	3,963
Ordinary income	(Millions of yen)	2,310	2,589	2,775	3,011	3,041
Net income	(Millions of yen)	2,309	2,598	2,774	3,010	3,040
Total assets	(Millions of yen)	228,020	257,613	257,901	277,842	278,037
(Period-on-period change)	(%)	(-0.3)	(12.9)	(0.1)	(7.7)	(0.1)
Net assets	(Millions of yen)	104,545	120,683	120,713	130,998	131,028
(Period-on-period change)	(%)	(0.0)	(15.4)	(0.0)	(8.5)	(0.0)
Unitholders' capital	(Millions of yen)	102,052	117,901	117,901	127,950	127,950
Outstanding investment units	(units)	188,650	224,950	224,950	1,212,750	1,212,750
Net assets per unit (Note 1)	(yen)	554,175	107,297	107,324	108,017	108,042
Net income per unit (Note 2)	(yen)	12,241	2,376	2,466	2,511	2,506
Total distribution	(Millions of yen)	2,309	2,744	2,774	3,010	3,040
Distribution per unit (Distribution per unit after split) (Note 3)	(yen)	12,242	12,200 (2,440)	12,334 (2,466)	2,482	2,507
(Profit distribution per unit) (Of this, profit distribution per unit after split) (Note 4)	(yen)	12,242	12,200 (2,440)	12,334 (2,466)	2,482	2,507
(Distribution in excess of earnings per unit) (Of this, distribution in excess of earnings per unit after split) (Note 5)	(yen)	(-)	(-) (-)	(-) (-)	(-)	(-)
Return on assets (Note 4)	(%)	1.0	1.1	1.1	1.1	1.1
(Annualized rate)	(%)	(2.0)	(2.2)	(2.1)	(2.3)	(2.2)
Return on equity (Note 5)	(%)	2.2	2.3	2.3	2.4	2.3
(Annualized rate)	(%)	(4.4)	(4.7)	(4.6)	(4.8)	(4.6)
Capital ratio (Note 6)	(%)	45.8	46.8	46.8	47.1	47.1
(Period-on-period change)	(%)	(0.1)	(1.0)	(-0.0)	(0.3)	(-0.0)
Payout ratio (Note 7)	(%)	100.0	105.6	99.9	99.9	100.0
Number of investment properties	(properties)	24	28	28	30	30
Number of tenants	(tenants)	134	152	157	206	214
Total leasable space (Note 8)	(㎡)	266,915	302,505	302,505	330,285	330,179

Occupancy rate	(%)	94.0	97.1	98.7	98.3	99.1
Depreciation	(Millions of yen)	1,284	1,433	1,504	1,624	1,657
Capital expenditure	(Millions of yen)	283	572	775	558	415
Net operating income (NOI) (Note 9)	(Millions of yen)	4,932	5,493	5,747	6,160	6,172
Funds from operation (FFO) per unit (Note 10)	(yen)	19,050	3,584	3,804	3,822	3,873
FFO multiples (Note 11, 12)	(times)	12.7	15.4	16.3	17.4	20.8
Debt service coverage ratio (DSCR) (Note 13)	(times)	4.0	4.4	4.4	4.8	5.0
Interest-bearing debt	(Millions of yen)	113,300	125,400	125,400	133,900	133,900
Loan-to-value (Note 14)	(%)	49.7	48.7	48.6	48.2	48.2
Number of days in operation	(days)	184	181	184	181	184

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

(Note 9) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 10) FFO per unit = (Net income + Depreciation – Gain on sale real estate + Loss on sale of real estate) / 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. Outstanding investment units are calculated assuming the split of investment units was implemented at the beginning of the fourteenth period.

(Note 11) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 12) 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 13) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds)

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

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, 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 December 31, 2014, we settled our seventeenth period.

1) Business conditions and results

The Japanese GDP posted negative growth for the two consecutive quarters of April – June 2014 and July – September 2014 from the reactionary decrease in demand following the rush demand ahead of the consumption tax hike and impact of inventory adjustment. However, the Japanese economy continues to be on a mild recovery trend due to additional monetary easing by the Bank of Japan, improvement in the corporate performance and employment income environment and other factors.

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 expectations for improvement in corporate performance, and the vacancy rate continues to be on an improving trend. JEI succeeded in maintaining a higher occupancy rate of the portfolio of 99.1% at the end of the period under review from 98.3% at the end of the previous period. Although rent rises are being observed centering on excellent buildings in central Tokyo, the pace of rent rise in the leasing market as a whole is expected to remain slow.

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 even some sense of overheating. In addition to the new listings of J-REITs, even more overseas investors, private funds, private REITs, etc. are beginning to participate in the market.

The entire real estate portfolio of JEI at the end of the period was 30 properties in terms of the number of properties held, 265.4 billion yen in investment amount (on an acquisition price basis) and 330,179.79m² in total leasable space at a period-end.

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.

As the refinancing of long-term fixed interest loans of 4.0 billion yen which matured on July 31, 2014, JEI procured 2.0 billion yen of loans (period of 6.92 years) and 2.0 billion yen of loans (period of 7.92 years), both long-term fixed interest loans, on the same date.

In addition, as the refinancing of long-term floating interest loans of 11.5 billion yen which matured on December 29, 2014, JEI procured 5.75 billion yen of loans (period of 7 years) and 5.75 billion yen of loans (period of 8 years), both long-term floating interest loans, on the same date. Furthermore, the interest rates of the long-term floating interest loans were fixed through interest rate swap transactions.

As a result, as of the end of the period, JEI had the average remaining debt maturity of interest-bearing debts (Note 1) at 3.60 years, long-term borrowing ratio (Note 2) and fixed rate ratio (Note 3) are both at 100.0%, and weighted average interest rate for loans purchased (Note 4) at 1.13%. Outstanding interest-bearing debts totaled 133.9 billion yen, 103.9 billion yen in long-term loans (including 15.54 billion yen in long-term loans due within one year) and 30.0 billion yen in investment corporation bonds (including 5.0 billion yen of investment corporation bonds scheduled to be redeemed within one year). (The loan to value ratio to the total assets was 48.2%.)

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 December 31, 2014)

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 2nd series unsecured investment corporation bonds, 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 2nd series unsecured investment corporation bonds, 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 9,695 million yen in total revenues, 3,963 million yen in operating income, 3,041 million yen in ordinary income and 3,040 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 2,507 yen.

3) Capital Increase

JEI had no changes in the number of outstanding investment units for the period under review. The outline of the changes in the 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.

[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)	13th period (December 2012)	14th period (June 2013)	15th period (December 2013)		16th period (June 2014)	17th period (December 2014)
				Before ex-rights date	After ex-rights date		
	Highest (yen)		511,000	739,000	639,000	123,300	141,600
Lowest (yen)		371,000	463,000	515,000	117,600	114,200	133,400

(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 seventeenth period) was 2,507 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	13th period	14th period	15th period	16th period	17th period
Accounting period	July 1, 2012 to December 31, 2012	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
Retained earnings at end of period (Thousands of yen)	2,309,504	2,598,369	2,774,683	3,010,447	3,040,640
Retained income (Thousands of yen)	51	–	149	402	275
Total cash distribution amount (Thousands of yen)	2,309,453	2,744,390	2,774,533	3,010,045	3,040,364
(Cash distributions per unit) (yen)	(12,242)	(12,200)	(12,334)	(2,482)	(2,507)
(Distribution per unit after split) (yen) (Note)		(2,440)	(2,466)		
Of which, total profit distributions (Thousands of yen)	2,309,453	2,744,390	2,774,533	3,010,045	3,040,364
(Profit distribution per unit) (yen)	(12,242)	(12,200)	(12,334)	(2,482)	(2,507)
(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

In the Japanese economy ahead, a mild recovery is expected along with factors such as the recovery in personal consumption due to improvements in the employment and income situations, improvements in corporate earnings and improvements in terms of trade stemming from the decline in crude oil prices. However, future trends must be carefully watched since risks remain that the political issues and concerns about continuous deflation in Europe, a slowdown in overseas economies mainly of emerging nations and heightening geopolitical tension could affect the Japanese economy.

In the office building leasing market, the vacancy rate is expected to continue to be on an ongoing trend of improving since office demand is on the rise due to improvement in the employment situation, increased needs for new store openings and relocations for expansion among companies. Furthermore, the trend of rising new rents are becoming apparent centering on excellent buildings in central Tokyo, and such movements are expected to gradually spread into other areas. It is expected that the rent level will gradually make a turnaround if tenants' ability to pay rent increase in line with improvements in corporate earnings.

In the real estate investment market, real estate transaction prices are in a state where they may rise as the supply of excellent properties is limited, especially in central Tokyo and metropolitan areas, while favorable fund procurement environment and expansion in market players are expected. Cautiously assessing whether the sense of overheating isn't nurtured in the real estate investment market is needed.

2) Policy and issues on future investment management

In addition to maintaining a high occupancy rate, JEI will strive to maintain and improve earnings of the entire portfolio by promoting measures to increase rental revenue. Moreover, in order to maintain asset value and improve property competitiveness over the medium to long term, JEI will consistently implement additional strategic investment plans.

For external growth, JEI will continue striving to acquire competitive properties with well-balanced investments based on size, concentration and target area in mind to increase asset size and realize stable profitability in our portfolio over the medium- to long-term. Moreover, JEI will also work on strategic asset replacements in an aim to improve growth and stability of the entire portfolio. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have our 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.

Regarding financial operations, JEI achieved a fixed interest rate ratio of 100% by executing interest-rate swap agreements to convert floating-rate debts to fixed-rate debts after refinancing floating interest loans of 11.5 billion yen which matured in December 2014 through procuring two loans of half the amount each (period of 7 years and 8 years) while realizing lengthening of the remaining period of debts to 3.60 years for the average remaining period of interest-bearing debt as of the end of the 17th period.

Although the fund-raising environment is generally favorable for JEI, 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

None

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	13th As of December 31, 2012	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
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	10,000,000 units	10,000,000 units
Number of units issued and outstanding	188,650 units	224,950 units	224,950 units	1,212,750 units	1,212,750 units
Unitholders' capital	102,052 million yen	117,901 million yen	117,901 million yen	127,950 million yen	127,950 million yen
Number of unitholders	6,760 individuals	7,361 individuals	6,846 individuals	8,451 individuals	7,917 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 December 31, 2014 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	349,255	28.80
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	74,784	6.17
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.90
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	68,745	5.67
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	46,885	3.87
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	17,825	1.47
Bank of Kyoto, Ltd.	700 Yakushimae-cho, Karasuma-dori, Matsubara-Agaru, Shimogyo-ku, Kyoto-shi, Kyoto	13,006	1.07
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka-shi, Osaka	12,400	1.02
RBC ISB A/C DUB NON RESIDENT - TREATY RATE	14 PORTE DE FRANCE, ESCH-SUR-ALZETTE, LUXEMBOURG, L-4360	12,000	0.99
Total		687,120	56.66

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2014 (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	–	13,000 (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 December 31, 2014 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	16th Period (June 30, 2014)		17th Period (December 31, 2014)	
			Total acquisition price (Millions of yen)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,844	1.4	3,847	1.4
		Area II	5,826	2.1	5,786	2.1
Trust beneficiary interest in real estate		Area I	121,910	43.9	121,502	43.7
		Area II	9,229	3.3	9,203	3.3
		Area III	79,475	28.6	78,920	28.4
		Area IV	17,960	6.5	17,922	6.4
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,853	6.8	18,710	6.7
Total			257,099	92.5	255,892	92.0
Deposits in bank and other assets			20,742	7.5	22,144	8.0
Total assets			277,842	100.0	278,037	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 December 31, 2014 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	29,742	38,375.66	38,288.61	99.8	9.8	Office building
AKASAKA INTERCITY	27,489	11,021.03	10,727.29	97.3	6.0	Office building
Akasaka Garden City	22,544	8,769.53	8,769.53	100.0	3.9	Office building
Omori Bellport D	21,359	25,801.66	25,801.66	100.0	9.8	Office building
HAMARIKYU INTERCITY	18,710	19,718.11	19,615.79	99.5	7.5	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,580	25,159.49	25,159.49	100.0	8.2	Office building
Daiba Garden City Building	10,465	12,122.85	12,122.85	100.0	3.5	Office building
Kowa Kawasaki Higashiguchi Building	9,817	18,612.72	18,612.72	100.0	(Note 4)	Office building
Shiba 2-Chome Building	9,030	11,749.30	11,654.49	99.2	3.8	Office building
JEI Hamamatsucho Building	8,411	6,411.26	6,411.26	100.0	2.0	Office building
Total	170,152	177,741.61	177,163.69	99.7	–	–

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2014. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased space refers to space with lease contracts concluded with end tenants as of December 31, 2014. For properties with joint ownership, the value is obtained by multiplying the total leased space of the shared real estate by the percentage of the interest owned by JEI. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on “leased space” in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2014.

(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 December 31, 2014 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	23,800	21,359
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,800	9,030
I -3	JEI Hamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,360	8,411
I -4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,690	7,367
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	16,800	22,544
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,200	27,489
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,040	4,841
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	10,465
I -11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,320	8,212
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	21,400	18,710
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,810	1,778
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,130	3,847
Area I				144,350	144,059
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,550	5,786
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,340	7,338
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	1,890	1,865
Area II				11,780	14,989
III -1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	17,000	12,580
III -2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,460	9,817
III -3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,580	5,135
III -5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	3,870	4,486
III -6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,480	979
III -7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,160	2,311
III -8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,740	5,870
III -9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,900	29,742
III -10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,430	1,647

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III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	7,290	6,348
Area III				74,910	78,920
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,010	3,160
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,700	2,705
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,120	5,431
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	2,890	2,208
IV-6	Daiwa Minami-morimachi Building	2-2-, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,800	4,416
Area IV				20,520	17,922
Total				251,560	255,892

(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 December 31, 2014 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	16th Period January 1, 2014 to June 30, 2014				17th Period July 1, 2014 to December 31, 2014			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	100.0	923	9.7	1	100.0	950	9.8
I -2	Shiba 2-Chome Building	2	100.0	370	3.9	2	99.2	371	3.8
I -3	JEI Hamamatsucho Building	1	87.1	237	2.5	1	100.0	190	2.0
I -4	No. 32 Kowa Building	1	100.0	249	2.6	1	100.0	252	2.6
I -7	Akasaka Garden City	1	100.0	366	3.8	1	100.0	379	3.9
I -8	AKASAKA INTERCITY	13	100.0	516	5.4	12	97.3	578	6.0
I -9	Kowa Shirokanedai Building	1	100.0	175	1.8	1	100.0	176	1.8
I -10	Daiba Garden City Building	1	100.0	336	3.5	1	100.0	335	3.5
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	99.4	637	6.7	1	99.5	723	7.5
I -13	Shintomicho Building	11	100.0	71	0.8	11	100.0	73	0.8
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
Area I		40	99.2	-	-	39	99.6	-	-
II -1	NHK Nagoya Housou Center	29	97.0	349	3.7	30	98.9	395	4.1
II -2	JEI Nishi-Honmachi Building	1	100.0	208	2.2	1	100.0	211	2.2
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.9	1	100.0	83	0.9
Area II		31	98.6	-	-	32	99.5	-	-
III -1	Musashikosugi Tower Place	36	100.0	787	8.2	37	100.0	796	8.2
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	193	2.0	1	100.0	194	2.0
III -6	No. 44 Kowa Building	1	100.0	91	1.0	1	100.0	97	1.0
III -7	JEI Ryogoku Building	1	98.0	102	1.1	1	93.9	101	1.0
III -8	Ebina Prime Tower	33	97.2	477	5.0	33	97.2	406	4.2
III -9	Kowa Kawasaki Nishiguchi Building	1	99.6	945	9.9	1	99.8	950	9.8
III -10	Pacific Square Sengoku	5	69.1	67	0.7	7	94.7	55	0.6
III -11	Core City Tachikawa	1	87.7	363	3.8	1	97.9	285	2.9
Area III		81	97.9	-	-	84	99.0	-	-
IV -2	JEI Kyobashi Building	1	100.0	182	1.9	1	100.0	186	1.9
IV -3	JEI Hiroshima Hacchobori Building	1	98.5	142	1.5	1	98.7	144	1.5
IV -4	SE Sapporo Building	1	99.2	363	3.8	1	100.0	369	3.8
IV -5	Aoba-dori Plaza	42	84.7	137	1.4	47	88.1	174	1.8
IV -6	Daiwa Minami-morimachi Building	9	97.7	162	1.7	9	95.7	194	2.0
Area IV		54	96.8	-	-	59	97.2	-	-
Total		206	98.3	9,558	100.0	214	99.1	9,695	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.

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(4) Securities Portfolio
None

(5) Other Assets

1) Contract amount and fair value of specified transactions and foreign exchange forwards transactions

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Fixed interest rate payable Floating interest rate receivable	76,900,000	66,360,000	—

(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.

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 December 31, 2014. The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended December 31, 2014	Total of advance payment
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 March 2015	90	—	—
SE Sapporo Building	Sapporo-shi, Hokkaido	Replacement of multi-level parking lot no. 1 pallet floorboard	From June 2015 To June 2015	49	—	—
No. 44 Kowa Building	Meguro-ku, Tokyo	Renewal of drainpipes for restrooms and office kitchenettes in respective floor	From February 2015 To June 2015	30	—	—

(2) Capital Expenditures for the Six months Ended December 31, 2014

The following table shows constructions conducted by JEI during the period for properties it owned as of December 31, 2014 and expensed as capital expenditures. Capital expenditures for the period ended December 31, 2014 were 415 million yen and, when combined with repairs and maintenance costs of 176 million yen classified as expenses, the amount of constructions completed totaled 591 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
SE Sapporo Building	Sapporo-shi, Hokkaido	Replacement of multi-level parking lot no. 2 pallet floorboard	From December 2014 To December 2014	51
Daiwa Minami-morimachi Building	Osaka-shi, Osaka	Renewal of air-conditioning systems	From March 2014 To July 2014	47
Other constructions			—	315
Total				415

(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	13th Period July 1, 2012 to December 31, 2012	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
Reserved funds at beginning of period	267	281	299	309	368
Increase	14	25	364	143	80
Decrease	–	7	354	83	132
Reserved funds at the end of period	281	299	309	368	316

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

(Unit: Thousands of yen)

Account	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014
(a) Asset management fees	397,206	409,168
(b) Custodian fees	19,353	20,748
(c) Administrative service fees	37,294	40,643
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	98,152	63,016
Total	569,545	551,117

(2) Borrowings

Borrowings by each financing source as of the end of the 17th period (ended December 31, 2014) are as follows:

	Classification		Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
	Lender										
Long-term loans due within one year	The Dai-ichi Life Insurance Company Limited	July 31, 2007	2,000,000	–	2.25875 (Note 2)	July 31, 2014	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed		
	Development Bank of Japan Inc.		2,000,000	–	2.28417 (Note 2)						
	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,000,000	–	0.85954	December 29, 2014		Repayment of existing borrowing			
	Mizuho Bank, Ltd.		3,900,000	–							
	Mizuho Trust & Banking Co., Ltd.		2,400,000	–							
	Resona Bank, Ltd.	October 24, 2008	1,200,000	–	2.27344 (Note 2)	June 30, 2015					
	The Dai-ichi Life Insurance Company Limited		3,000,000	3,000,000							
	Development Bank of Japan Inc.	November 29, 2011	2,000,000	2,000,000	1.13750 (Note 2)	November 30, 2015		Repayment of existing borrowing			
	Mizuho Trust & Banking Co., Ltd.		–	1,620,000							
	Aozora Bank, Ltd.		–	1,620,000							
	Aozora Bank, Ltd.		–	650,000							
	Mizuho Bank, Ltd.		–	370,000							
	Sumitomo Mitsui Banking Corporation		–	280,000							
	Mizuho Bank, Ltd.		January 31, 2012	–				500,000		1.14125 (Note 2)	Repayment of existing borrowing
	Mitsubishi UFJ Trust and Banking			–				500,000			
	Resona Bank, Ltd.			–				500,000			
	Aozora Bank, Ltd.			–				200,000			
	The Bank of Fukuoka	July 31, 2012	–	300,000	0.97125 (Note 2)						
The Norinchukin Bank	–		2,000,000								
Mizuho Trust & Banking Co., Ltd.	–		1,500,000								
Resona Bank, Ltd.		–	500,000								
Sub Total			20,500,000	15,540,000							
Long-term loans	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	–	1.13750 (Note 2)	Lump-sum	Repayment of existing borrowing				
	Aozora Bank, Ltd.		1,620,000	–							
	Aozora Bank, Ltd.		650,000	–							
	Mizuho Bank, Ltd.		370,000	–							
	Sumitomo Mitsui Banking Corporation		280,000	–							
	Mizuho Bank, Ltd.	January 31, 2012	500,000	–	1.14125 (Note 2)		November 30, 2015	Acquisition of real estate			
	Mitsubishi UFJ Trust and Banking		500,000	–							
	Resona Bank, Ltd.		500,000	–							
	Aozora Bank, Ltd.		200,000	–							
	The Bank of Fukuoka	July 31, 2012	300,000	–	0.97125 (Note 2)		Repayment of existing borrowing				
	The Norinchukin Bank		2,000,000	–							
	Mizuho Trust & Banking Co., Ltd.		1,500,000	–							
	Resona Bank, Ltd.	November 29, 2011	500,000	–	1.24375 (Note 2)		November 29, 2016				
	Mitsubishi UFJ Trust and Banking		4,600,000	4,600,000							
	Mizuho Bank, Ltd.		4,400,000	4,400,000							
	Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000							
	Sumitomo Mitsui Trust Bank, Limited		1,620,000	1,620,000							
	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)	Maturity date	Repayment method	Use	Remarks
	Lender									
Long-term loans	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	2,000,000	1.24750 (Note 2)	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 (Note 2)	January 31, 2017				
	Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000						
	Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000	1.09734 (Note 2)					
	Sompo Japan Nipponkoa Insurance Inc. (Note 3)		2,000,000	2,000,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875 (Note 2)	November 30, 2017				
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	1,000,000	1.08375 (Note 2)					
	Mitsubishi UFJ Trust and Banking		1,000,000	1,000,000						
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	1,000,000	1.04550 (Note 2)					
	Aozora Bank, Ltd.		500,000	500,000						
	Resona Bank, Ltd.		500,000	500,000	1.19212 (Note 2)					
	Sompo Japan Nipponkoa Insurance Inc. (Note 3)		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	1.65125 (Note 2)					June 29, 2018
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225 (Note 2)	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						
	The Norinchukin Bank	March 11, 2014	1,450,000	1,450,000	0.74500 (Note 2)	November 1, 2018				
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	0.77500 (Note 2)	March 8, 2019					
The Norinchukin Bank	1,450,000		1,450,000							
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	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks			
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed			
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 2)							
	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								
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000						1.31261 (Note 2)		
	The Norinchukin Bank	December 27, 2013	1,162,500	1,162,500	1.00000 (Note 2)							
	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 (Note 2)	June 30, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	–	2,000,000	1.98834 (Note 2)							
	Mitsubishi UFJ Trust and Banking	December 29, 2014	–	2,000,000	0.81875 (Note 2)	December 30, 2020						
	Mizuho Bank, Ltd.		–	1,950,000								
	Mizuho Trust & Banking Co., Ltd.		–	1,200,000								
	Resona Bank, Ltd.		–	600,000								
	Development Bank of Japan Inc.		July 31, 2014	–						2,000,000	1.15417 (Note 2)	June 30, 2021
	Mitsubishi UFJ Trust and Banking	December 29, 2014	–	2,000,000	0.93625 (Note 2)	December 30, 2021						
	Mizuho Bank, Ltd.		–	1,950,000								
	Mizuho Trust & Banking Co., Ltd.		–	1,200,000								
Resona Bank, Ltd.	–		600,000									
Sub Total		83,400,000	88,360,000									
Total		103,900,000	103,900,000									

(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) The loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(Note 3) Sompo Japan Insurance Inc. changed its trade name to Sompo Japan Nipponkoa Insurance Inc. on September 1, 2014.

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2014 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	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	30,000,000					

(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 and Asset-Backed Securities, Etc.

None

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

None

2) Others

Of the transactions of JEI that are subject to research for specified assets value and other particulars under Section 201 of the Investment Trust Law are researched and reported by Ernst & Young ShinNihon LLC.

Two interest rate swap transactions were subject to the research during the period from July 1, 2014 to December 31, 2014 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is requested to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap transactions.

(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	1,246,265	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	136,263	10.9%
		Kowa Real Estate Facilities, Co., Ltd.	285,276	22.9%
Total	1,246,265	–	421,540	33.8%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended December 31, 2014.

(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.. 2,442 thousand yen

KOWA REAL ESTATE FACILITIES CO., LTD. 95,417 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 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 December 31, 2014 is summarized below.

Approval date	Approved agenda	Description
September 19, 2014	Conclusion of amendment agreement to the asset management agreement	Provisions on compensations paid for operations commissioned to the Asset Management Company were partially revised.

(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
December 31, 2014 and June 30, 2014
with Independent Auditor's Report*



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Independent Auditor's Report

The Board of Directors
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 2014, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at December 31, 2014, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

March 20, 2015
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2014 and June 30, 2014

	As of December 31, 2014	As of June 30, 2014	As of December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Current assets:			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	¥ 20,133,942	¥ 18,431,014	\$ 167,045,066
Rental receivables	891,341	857,232	7,395,183
Consumption taxes refundable	–	374,253	–
Prepaid expenses and other current assets	187,374	253,502	1,554,587
Total current assets	<u>21,212,657</u>	<u>19,916,001</u>	<u>175,994,836</u>
Property and equipment <i>(Note 7)</i> :			
Buildings and building improvements	5,681,734	5,637,229	47,139,579
Machinery and equipment	6,253	6,253	51,882
Furniture and fixtures	10,716	10,716	88,909
Land	3,032,789	3,022,966	25,162,105
Construction in progress	3,690	11,266	30,617
Buildings and building improvements for trust accounts	103,706,287	103,368,528	860,418,875
Machinery and equipment for trust accounts	646,734	590,461	5,365,752
Furniture and fixtures for trust accounts	159,601	152,432	1,324,159
Land for trust accounts	152,291,495	152,290,671	1,263,515,262
Construction in progress for trust accounts	6,177	9,469	51,249
Less: accumulated depreciation	(18,759,432)	(17,101,867)	(155,641,181)
Net property and equipment	<u>246,786,044</u>	<u>247,998,124</u>	<u>2,047,507,208</u>
Intangible assets:			
Leasehold rights	1,721,608	1,721,403	14,283,644
Brand and trademark	308	366	2,560
Leasehold rights for trust accounts	7,380,017	7,380,017	61,229,708
Other intangible assets for trust accounts	5,071	–	42,075
Total intangible assets	<u>9,107,004</u>	<u>9,101,786</u>	<u>75,557,987</u>
Investments and other assets:			
Security deposits	15,182	15,182	125,958
Long-term prepaid expenses	483,751	370,695	4,013,533
Other assets	321,631	315,397	2,668,476
Total investments and other assets	<u>820,564</u>	<u>701,274</u>	<u>6,807,967</u>
Deferred assets:			
Investment corporation bond issuance costs	110,838	125,301	919,585
Total deferred assets	<u>110,838</u>	<u>125,301</u>	<u>919,585</u>
Total assets	<u>¥278,037,107</u>	<u>¥277,842,486</u>	<u>\$ 2,306,787,583</u>

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

	As of December 31, 2014	As of June 30, 2014	As of December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
Liabilities			
Current liabilities:			
Accounts payable – trade	¥ 791,737	¥ 900,124	\$ 6,568,794
Investment corporation bonds due within one year (Notes 5 and 9)	5,000,000	5,000,000	41,483,448
Long-term debt due within one year (Notes 5 and 8)	15,540,000	20,500,000	128,930,557
Accounts payable – other	344,430	332,909	2,857,628
Accrued expenses	205,401	236,686	1,704,150
Accrued corporation taxes	542	33	4,496
Accrued consumption taxes	432,931	–	3,591,896
Advances received	86,882	98,801	720,830
Total current liabilities	<u>22,401,923</u>	<u>27,068,553</u>	<u>185,861,799</u>
Long-term liabilities:			
Investment corporation bonds (Notes 5 and 9)	25,000,000	25,000,000	207,417,240
Long-term debt (Notes 5 and 8)	88,360,000	83,400,000	733,095,495
Security deposits from tenants (Note 5)	764,785	775,322	6,345,182
Security deposits from tenants for trust accounts (Note 5)	10,481,873	10,600,277	86,964,852
Total long-term liabilities	<u>124,606,658</u>	<u>119,775,599</u>	<u>1,033,822,769</u>
Total liabilities	<u>147,008,581</u>	<u>146,844,152</u>	<u>1,219,684,568</u>
Net assets (Note 10):			
Unitholders' equity:			
Unitholders' capital	127,950,539	127,950,539	1,061,565,910
Units authorized: 10,000,000 units as of December 31, 2014			
Units issued and outstanding: 1,212,750 units as of December 31, 2014			
Surplus			
Voluntary reserve			
Reserve for advanced depreciation of non-current assets	37,347	37,347	309,857
Retained earnings	3,040,640	3,010,448	25,227,248
Total surplus	<u>3,077,987</u>	<u>3,047,795</u>	<u>25,537,105</u>
Total unitholders' equity	<u>131,028,526</u>	<u>130,998,334</u>	<u>1,087,103,015</u>
Total net assets	<u>131,028,526</u>	<u>130,998,334</u>	<u>1,087,103,015</u>
Total liabilities and net assets	<u>¥278,037,107</u>	<u>¥277,842,486</u>	<u>\$ 2,306,787,583</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 July 1, 2014 to December 31, 2014
and from January 1, 2014 to June 30, 2014

	For the period from July 1, 2014 to December 31, 2014	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Revenues:			
Rental revenues <i>(Note 13)</i>	¥8,754,613	¥8,599,070	\$72,634,312
Other <i>(Note 13)</i>	941,199	959,325	7,808,833
Total revenues	9,695,812	9,558,395	80,443,145
Operating expenses:			
Property operating expenses <i>(Note 13)</i>	5,180,793	5,022,564	42,983,432
Asset management fees	409,168	397,206	3,394,746
Custodian fees	20,749	19,353	172,148
Administrative service fees	40,644	37,294	337,209
Compensation for directors	6,540	6,540	54,260
Other	74,016	109,152	614,089
Total operating expenses	5,731,910	5,592,109	47,555,884
Operating income	3,963,902	3,966,286	32,887,261
Other income:			
Interest income	1,799	1,760	14,926
Other	2,419	1,849	20,076
Other expenses:			
Interest expense	627,936	632,100	5,209,793
Loan arrangement fees	143,137	115,117	1,187,566
New investment unit issuance costs	–	35,702	–
Interest expense on investment corporation bonds	140,904	151,857	1,169,038
Amortization of investment corporation bond issuance costs	14,464	16,304	119,998
Other	526	7,416	4,362
Ordinary income	3,041,153	3,011,399	25,231,506
Income before income taxes	3,041,153	3,011,399	25,231,506
Income taxes <i>(Note 12)</i> :			
Current	907	1,100	7,528
Deferred	8	1	65
Net income	3,040,238	3,010,298	25,223,913
Retained earnings at beginning of period	402	150	3,335
Retained earnings at end of period	¥3,040,640	¥3,010,448	\$25,227,248

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

Japan Excellent, Inc.

Statements of Changes in Net Assets

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

For the period from January 1, 2014 to June 30, 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
Balance as of December 31, 2013	224,950	¥117,901,291	¥37,347	¥ 2,774,683	¥ 2,812,030	¥120,713,321	¥120,713,321
Changes during the fiscal period:							
Split of units	899,800	–	–	–	–	–	–
Issuance of new units	88,000	10,049,248	–	–	–	10,049,248	10,049,248
Distributions from retained earnings	–	–	–	(2,774,533)	(2,774,533)	(2,774,533)	(2,774,533)
Net income	–	–	–	3,010,298	3,010,298	3,010,298	3,010,298
Total changes during the fiscal period	987,800	10,049,248	–	235,765	235,765	10,285,013	10,285,013
Balance as of June 30, 2014	<u>1,212,750</u>	<u>¥127,950,539</u>	<u>¥37,347</u>	<u>¥ 3,010,448</u>	<u>¥ 3,047,795</u>	<u>¥130,998,334</u>	<u>¥130,998,334</u>
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
Balance as of June 30, 2014	1,212,750	¥127,950,539	¥37,347	¥ 3,010,448	¥ 3,047,795	¥130,998,334	¥130,998,334
Changes during the fiscal period:							
Distributions from retained earnings	–	–	–	(3,010,046)	(3,010,046)	(3,010,046)	(3,010,046)
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	<u>1,212,750</u>	<u>¥127,950,539</u>	<u>¥37,347</u>	<u>¥ 3,040,640</u>	<u>¥ 3,077,987</u>	<u>¥131,028,526</u>	<u>¥131,028,526</u>
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
Balance as of June 30, 2014	1,212,750	\$1,061,565,910	\$309,857	\$ 24,976,748	\$ 25,286,605	\$1,086,852,515	\$1,086,852,515
Changes during the fiscal period:							
Distributions from retained earnings	–	–	–	(24,973,413)	(24,973,413)	(24,973,413)	(24,973,413)
Net income	–	–	–	25,223,913	25,223,913	25,223,913	25,223,913
Total changes during the fiscal period	–	–	–	250,500	250,500	250,500	250,500
Balance as of December 31, 2014	<u>1,212,750</u>	<u>\$1,061,565,910</u>	<u>\$309,857</u>	<u>\$ 25,227,248</u>	<u>\$ 25,537,105</u>	<u>\$1,087,103,015</u>	<u>\$1,087,103,015</u>

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

Japan Excellent, Inc.

Statements of Cash Flows

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

	For the period from July 1, 2014 to December 31, 2014	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
Cash flows from operating activities			
Income before income taxes	¥ 3,041,153	¥ 3,011,399	\$ 25,231,506
Depreciation and amortization	1,657,642	1,624,902	13,752,945
Amortization of investment corporation bond issuance costs	14,464	16,304	119,998
New unit issuance costs	–	35,702	–
Interest income	(1,799)	(1,760)	(14,926)
Interest expense	768,840	783,957	6,378,831
Decrease (increase) in rental receivables	(34,109)	(23,332)	(282,996)
Decrease (increase) in consumption taxes refundable	374,253	(374,253)	3,105,064
Decrease (increase) in prepaid expenses	64,350	(108,871)	533,889
Increase (decrease) in accounts payable – trade	(28,379)	136,074	(235,450)
Increase (decrease) in accounts payable – other	11,646	(4,094)	96,619
Increase (decrease) in unpaid consumption taxes	432,931	(243,807)	3,591,896
Increase (decrease) in advances received	(11,919)	(38,000)	(98,893)
Decrease (increase) in long-term prepaid expenses	(113,056)	22,776	(937,989)
Other, net	(5,141)	17,540	(42,655)
Subtotal	6,170,876	4,854,537	51,197,839
Interest received	1,799	1,760	14,926
Interest paid	(800,126)	(802,252)	(6,638,393)
Income taxes paid	(1,029)	(1,722)	(8,537)
Net cash provided by operating activities	5,371,520	4,052,323	44,565,835
Cash flows from investing activities			
Purchases of investment securities	–	97,285	–
Purchases of property and equipment	(51,915)	(866,748)	(430,723)
Purchases of property and equipment for trust accounts	(478,670)	(19,217,065)	(3,971,382)
Purchases of intangible assets	(204)	(536,359)	(1,692)
Proceeds from security deposits from tenants	6,536	136,497	54,227
Payments for security deposits to tenants	(17,074)	–	(141,654)
Proceeds from security deposits in trust accounts from tenants	209,992	1,515,515	1,742,239
Payments for security deposits in trust accounts to tenants	(328,395)	(327,854)	(2,724,595)
Net cash used in investing activities	(659,730)	(19,198,729)	(5,473,580)
Cash flows from financing activities			
Proceeds from short-term loans	–	9,000,000	–
Repayment for short-term loans	–	(9,000,000)	–
Proceeds from long-term debt	15,500,000	7,500,000	128,598,689
Repayment for long-term debt	(15,500,000)	–	(128,598,689)
Proceeds from issuance of new units	–	10,049,248	–
Proceeds from issuance of investment corporation bonds	–	13,000,000	–
Payments for investment corporation bond redemption	–	(12,000,000)	–
Payments for investment corporation bond issuance costs	–	(76,000)	–
Payments for new unit issuance costs	–	(35,702)	–
Distributions to unitholders	(3,008,862)	(2,774,560)	(24,963,594)
Net cash provided by (used in) financing activities	(3,008,862)	15,662,986	(24,963,594)
Net increase (decrease) in cash and cash equivalents	1,702,928	516,580	14,128,661
Cash and cash equivalents at beginning of period	18,431,014	17,914,434	152,916,405
Cash and cash equivalents at end of period	¥ 20,133,942	¥ 18,431,014	\$ 167,045,066

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from July 1, 2014 to December 31, 2014
and from January 1, 2014 to June 30, 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 54% by NIPPON STEEL KOWA REAL ESTATE CO., LTD., 26% by The Dai-ichi Life Insurance Company, Limited, and 20% by other corporations. Due to the transfer of ownership by Sekisui House on May 12, 2014, ownership interests of 9% and 6% were each acquired by NIPPON STEEL KOWA REAL ESTATE CO., LTD., and The Dai-ichi Life Insurance Company, Limited, respectively.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2014, JEI held 30 properties with 330,179.79 square meters of total leasable space and had leases with 214 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. Amounts have been rounded to the nearest thousand yen in the accompanying financial statements and in the notes thereto, whereas amounts were truncated in the Japanese financial statements prepared in accordance with Japanese GAAP.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.53 = U.S. \$1.00, the foreign exchange rate prevailing on December 31, 2014, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

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, 2014 to June 30, 2014 was ¥121,674 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 treatments, assessments of hedge effectiveness are not performed.

Properties in trust accounts

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

4. Cash and Cash Equivalents

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

	As of December 31, 2014	As of June 30, 2014	As of December 31 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 5,591,016	¥ 3,967,721	\$ 46,386,926
Cash and deposits in trust	14,542,926	14,463,293	120,658,140
Cash and cash equivalents including trust accounts	<u>¥20,133,942</u>	<u>¥18,431,014</u>	<u>\$167,045,066</u>

5. Financial Instruments

For the periods from July 1, 2014 to December 31, 2014 and from January 1, 2014 to June 30, 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 rate, 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 Risks)

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, thorough 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 its entire maturity by the end of December 31, 2014. 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 (the risk of being unable to procure funds required for repayments)

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2014). Liquidity risk is also mitigated through the constant management of liquidity on hand.

5. Financial Instruments (continued)

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

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

Fair value of financial instruments

The following are carrying values and fair values as of December 31, 2014 and June 30, 2014 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note 2).

	As of December 31, 2014			As of June 30, 2014			As of December 31, 2014		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 5,591,016	¥ 5,591,016	¥ -	¥ 3,967,721	¥ 3,967,721	¥ -	\$ 46,386,926	\$ 46,386,926	\$ -
(2) Cash in trust and deposits in trust	14,542,926	14,542,926	-	14,463,293	14,463,293	-	120,658,140	120,658,140	-
Total assets	¥ 20,133,942	¥ 20,133,942	¥ -	¥ 18,431,014	¥ 18,431,014	¥ -	\$ 167,045,066	\$ 167,045,066	\$ -
(3) Short-term loans	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
(4) Investment corporation bonds due within one year	5,000,000	5,025,300	25,300	5,000,000	5,049,400	49,400	41,483,448	41,693,354	209,906
(5) Long-term debt due within one year	15,540,000	15,665,910	125,910	20,500,000	20,644,680	144,680	128,930,557	129,975,193	1,044,636
(6) Investment corporation bonds	25,000,000	25,443,840	443,840	25,000,000	25,302,410	302,410	207,417,240	211,099,643	3,682,403
(7) Long-term debt	88,360,000	89,716,287	1,356,287	83,400,000	84,827,154	1,427,154	733,095,495	744,348,189	11,252,694
Total liabilities	¥ 133,900,000	¥ 135,851,337	¥ 1,951,337	¥ 133,900,000	¥ 135,823,644	¥ 1,923,644	\$ 1,110,926,740	\$ 1,127,116,379	\$ 16,189,639
(8) Derivative transactions *	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -

* The value of assets and liabilities arising from derivative transactions is shown at net value.

(Note 1)

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
- (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.

5. Financial Instruments (continued)

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 2)

Financial instruments for which fair value is deemed extremely difficult to determine

	As of December 31, 2014	As of June 30, 2014	As of December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Security deposits from tenants*	¥ 764,785	¥ 775,322	\$ 6,345,182
(2) Security deposits from tenants for trust accounts*	¥ 10,481,873	¥ 10,600,277	\$ 86,964,852

* 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 its characteristics it is extremely difficult to estimate the security deposits in advance because of the uncertainty of the timing when the tenant vacates. Therefore, it is impossible to rationally estimate the exact cash flow from such security deposits.

(Note 3)

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

	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	14,542,926	–	–	–	–	–
Total	<u>¥20,133,942</u>	<u>¥ –</u>				

	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>(U.S. dollars)</i>					
Cash and cash deposits	\$ 46,386,926	\$ –	\$ –	\$ –	\$ –	\$ –
Cash in trust and deposits in trust	120,658,140	–	–	–	–	–
Total	<u>\$167,045,066</u>	<u>\$ –</u>				

5. Financial Instruments (continued)

	As of June 30, 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	¥ 3,967,721	¥ -	¥ -	¥ -	¥ -	¥ -
Cash in trust and deposits in trust	14,463,293	-	-	-	-	-
Total	<u>¥18,431,014</u>	<u>¥ -</u>				

(Note 4)

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

	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	<u>¥20,540,000</u>	<u>¥21,760,000</u>	<u>¥24,000,000</u>	<u>¥24,750,000</u>	<u>¥ 8,750,000</u>	<u>¥34,100,000</u>

	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>(U.S. dollars)</i>					
Short-term loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment corporation bonds due within one year	41,483,448	-	-	-	-	-
Long-term debt due within one year	128,930,557	-	-	-	-	-
Investment corporation bonds	-	41,483,448	-	58,076,827	41,483,448	66,373,517
Long-term debt	-	139,052,518	199,120,551	147,266,241	31,112,586	216,543,599
Total	<u>\$170,414,005</u>	<u>\$180,535,966</u>	<u>\$199,120,551</u>	<u>\$205,343,068</u>	<u>\$ 72,596,034</u>	<u>\$282,917,116</u>

	As of June 30, 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	20,500,000	-	-	-	-	-
Investment corporation bonds	-	-	5,000,000	-	12,000,000	8,000,000
Long-term debt	-	23,540,000	15,760,000	26,000,000	7,500,000	10,600,000
Total	<u>¥25,500,000</u>	<u>¥23,540,000</u>	<u>¥20,760,000</u>	<u>¥26,000,000</u>	<u>¥19,500,000</u>	<u>¥18,600,000</u>

6. Investment and Rental Property

For the periods from July 1, 2014 to December 31, 2014 and from January 1, 2014 to June 30, 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 December 31, 2014 and June 30, 2014 for such real estate for lease.

Carrying value		Fair value	
As of June 30, 2014	Change during period ^(*1)	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

Carrying value		Fair value	
As of June 30, 2014	Change during period ^(*1)	As of December 31, 2014	As of December 31, 2014
<i>(U.S. dollars)</i>			
\$2,133,075,122	\$(10,012,487)	\$2,123,062,635	\$2,087,115,241

Carrying value		Fair value	
As of December 31, 2013	Change during period ^(*2)	As of June 30, 2014	As of June 30, 2014
<i>(Thousands of yen)</i>			
¥238,103,099	¥18,996,445	¥257,099,544	¥248,390,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(*1) A decrease of ¥1,206,805 thousand (\$10,012,487) during period is mainly due to depreciation costs of ¥1,657,585 thousand (\$13,752,472).

(*2) Changes during the period comprise increases of ¥12,099,982 thousand related to the acquisition of HAMARIKYU INTERCITY (Additional acquisition of compartmentalized ownership), ¥2,190,578 thousand related to the acquisition of Aoba-dori Plaza, ¥4,435,960 thousand related to the acquisition of Daiwa Minami-morimachi Building, ¥1,335,694 thousand related to the acquisition of NHK Nagoya Housou-Center Building (Additional acquisition of co-ownership interest), and a decrease of ¥1,624,845 thousand for depreciation costs.

(Note 3)

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

7. Property and Equipment

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

	As of December 31, 2014			As of June 30, 2014			As of December 31, 2014		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
Buildings and building improvements	¥ 5,681,734	¥ (819,946)	¥ 4,861,788	¥ 5,637,229	¥ (737,078)	¥ 4,900,151	\$ 47,139,579	\$ (6,802,836)	\$ 40,336,743
Machinery and equipment	6,253	(848)	5,405	6,253	(566)	5,687	51,882	(7,036)	44,846
Furniture and fixtures	10,716	(2,010)	8,706	10,716	(1,429)	9,287	88,909	(16,676)	72,233
Land	3,032,789	–	3,032,789	3,022,966	–	3,022,966	25,162,105	–	25,162,105
Construction in progress	3,690	–	3,690	11,266	–	11,266	30,617	–	30,617
Buildings and building improvements for trust accounts	103,706,287	(17,619,383)	86,086,904	103,368,528	(16,075,495)	87,293,033	860,418,875	(146,182,551)	714,236,324
Machinery and equipment for trust accounts	646,734	(244,505)	402,229	590,461	(223,973)	366,488	5,365,752	(2,028,583)	3,371,169
Furniture and fixtures for trust accounts	159,601	(72,740)	86,861	152,432	(63,326)	89,106	1,324,159	(603,499)	720,660
Land for trust accounts	152,291,495	–	152,291,495	152,290,671	–	152,290,671	1,263,515,262	–	1,263,515,262
Construction in progress for trust accounts	6,177	–	6,177	9,469	–	9,469	51,249	–	51,249
Total	¥265,545,476	¥ (18,759,432)	¥246,786,044	¥265,099,991	¥ (17,101,867)	¥247,998,124	\$2,203,148,389	\$ (155,641,181)	\$2,047,507,208

8. Short-Term Loans and Long-Term Debt

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

	As of December 31, 2014		As of June 30, 2014		As of
	Amount	Weighted-average interest rate ^(*)	Amount	Weighted-average interest rate ^(*)	December, 2014
	(Thousands of yen)		(Thousands of yen)		(U.S. dollars)
Long-term debt due within one year:					
Unsecured loans from an insurance company due on July 31, 2014	¥ —	—	¥ 2,000,000	2.25875% ^(*)	\$ —
Unsecured loans from a bank due on July 31, 2014	—	—	2,000,000	2.28417% ^(*)	—
Unsecured loans from banks due on December 29, 2014	—	—	11,500,000	0.86000%	—
Unsecured loans from a bank due on June 30, 2015	2,000,000	2.27344% ^(*)	2,000,000	2.27344% ^(*)	16,593,379
Unsecured loans from an insurance company due on June 30, 2015	3,000,000	2.27344% ^(*)	3,000,000	2.27344% ^(*)	24,890,069
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% ^(*)	—	—	37,666,971
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% ^(*)	—	—	16,593,379
Unsecured loans from banks due on November 30, 2015	4,000,000	0.97125% ^(*)	—	—	33,186,759
Subtotal	15,540,000		20,500,000		128,930,557
Long-term debt:					
Unsecured loans from banks due on November 30, 2015	—	—	4,540,000	1.13750% ^(*)	—
Unsecured loans from banks due on November 30, 2015	—	—	2,000,000	1.14125% ^(*)	—
Unsecured loans from banks due on November 30, 2015	—	—	4,000,000	0.97125% ^(*)	—
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% ^(*)	13,000,000	1.36375% ^(*)	107,856,966
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% ^(*)	3,760,000	1.24375% ^(*)	31,195,553
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% ^(*)	5,000,000	1.24750% ^(*)	41,483,448
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% ^(*)	4,000,000	1.03000% ^(*)	33,186,759
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% ^(*)	3,000,000	1.09734% ^(*)	24,890,069
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% ^(*)	6,000,000	1.73875% ^(*)	49,780,138
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% ^(*)	3,000,000	1.08375% ^(*)	24,890,069
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% ^(*)	2,000,000	1.04550% ^(*)	16,593,379
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% ^(*)	1,000,000	1.19212% ^(*)	8,296,690
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% ^(*)	3,000,000	1.65125% ^(*)	24,890,069
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% ^(*)	11,000,000	0.81225% ^(*)	91,263,587
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% ^(*)	3,750,000	0.74500% ^(*)	31,112,586
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% ^(*)	3,750,000	0.77500% ^(*)	31,112,586
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% ^(*)	2,000,000	1.60000% ^(*)	16,593,379
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% ^(*)	2,600,000	1.36400% ^(*)	21,571,393
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% ^(*)	1,000,000	1.31261% ^(*)	8,296,690
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% ^(*)	3,000,000	1.00000% ^(*)	24,890,069
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% ^(*)	2,000,000	1.60750% ^(*)	16,593,379
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% ^(*)	—	—	16,593,378
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% ^(*)	—	—	47,705,965
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% ^(*)	—	—	16,593,378
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% ^(*)	—	—	47,705,965
Subtotal	88,360,000		83,400,000		733,095,495
Total	¥103,900,000		¥103,900,000		\$ 862,026,052

(*) The weighted-average interest rate is weighted-average figures during the period. As for the borrowings, which were 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 debts (incl. Fixed-rate debts 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 December 31, 2014 (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	¥16,760,000	¥24,000,000	¥17,750,000	¥3,750,000	¥26,100,000
	<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>(U.S. dollars)</i>				
Long-term debt	\$139,052,518	\$199,120,551	\$147,266,241	\$31,112,586	\$216,543,599

JEI has commitment lines of ¥14,000 million (\$116,154 thousand) with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2014, these commitment lines have never been utilized.

9. Investment Corporation Bonds

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

	<u>As of December 31, 2014</u>		<u>As of June 30, 2014</u>		<u>As of December 31,2014</u>
	<u>Amount</u>	<u>Weighted- average interest rate</u>	<u>Amount</u>	<u>Weighted- average interest rate</u>	<u>Amount</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Unsecured bond #2 due on June 26, 2015	¥ 5,000,000	1.29000%	¥ 5,000,000	1.29000%	\$ 41,483,448
Unsecured bond #3 due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%	41,483,448
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%	16,593,379
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%	41,483,448
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%	41,483,448
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%	66,373,517
Total	<u>¥30,000,000</u>		<u>¥30,000,000</u>		<u>\$248,900,688</u>

9. Investment Corporation Bonds (continued)

The scheduled redemption amounts of investment corporation bonds as of December 31, 2014 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	¥5,000,000	–	¥7,000,000	¥5,000,000	¥8,000,000

	<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>(U.S. dollars)</i>					
Investment corporation bonds	\$41,483,448	\$41,483,448	–	\$58,076,827	\$41,483,448	\$66,373,517

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

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

Net assets per unit as of December 31, 2014 and June 30, 2014 were calculated based on the number of units outstanding as of each date respectively, i.e. 1,212,750 units after completion of the abovementioned five-for-one split of its investment units.

Net income per unit for the period from July 1, 2014 to December 31, 2014 was calculated based on the number of units outstanding during the respective period, i.e. 1,212,750 units.

Net income per unit for the period from January 1, 2014 to June 30, 2014 were calculated based on the weighted-average number of units outstanding during the period, i.e. 1,198,783 units.

Accordingly, net assets per unit were ¥108,042 (\$896) as of December 31, 2014 and ¥108,017 as of June 30, 2014. Net income per unit was ¥2,506 (\$21) for the period from July 1, 2014 to December 31, 2014, and ¥2,511 for the period from January 1, 2014 to June 30, 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 December 31, 2014 and June 30, 2014 are summarized as follows:

	As of December 31, 2014	As of June 30, 2014	As of December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥14	¥23	\$122
Total deferred tax assets	14	23	122
Net deferred tax assets	¥14	¥23	\$122

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

	For the period from July 1, 2014 to December 31, 2014	For the period from January 1, 2014 to June 30, 2014
Statutory tax rate	34.16%	36.59%
Reconciliation:		
Deductible distributions paid	(34.15)	(36.57)
Other	0.02	0.02
Effective tax rate	0.03%	0.04%

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

The "Act for Partial Revision of Income Tax Act" (Act No.10 of 2014) promulgated on March 31, 2014 partially revised the "Special Measures to Secure the Funds to Realize the Restoration of the Damages following the Great East Japan Earthquake" (Act No.117 of 2011) to limit the taxation period of the special corporate tax for restoration to March 31, 2014, 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, 2014 and after to 34.16%. The impact of this change is minimal.

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.

13. Breakdown of Property Rental Business Revenues and Expenses

	For the period from July 1, 2014 to December 31, 2014	For the period from January 1, 2014 to June 30, 2014	For the period from July 1, 2014 to December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥8,754,613	¥8,599,070	\$72,634,312
Other	941,199	959,325	7,808,833
Total rental business revenues	<u>9,695,812</u>	<u>9,558,395</u>	<u>80,443,145</u>
Property operating expenses:			
Property management costs and fees	1,246,265	1,272,707	10,339,874
Utilities	1,118,202	1,013,223	9,277,373
Property and other taxes	753,159	699,483	6,248,726
Insurance	27,048	27,459	224,409
Repairs and maintenance	176,671	189,162	1,465,786
Depreciation	1,657,585	1,624,845	13,752,472
Other	201,863	195,685	1,674,791
Total property operating expenses	<u>5,180,793</u>	<u>5,022,564</u>	<u>42,983,432</u>
Profit	<u>¥4,515,019</u>	<u>¥4,535,831</u>	<u>\$37,459,713</u>

14. Leases

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

	As of December 31, 2014	As of June 30, 2014	As of December 31, 2014
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥ 466,260	¥ 606,136	\$3,868,415
Due after one year	694,741	489,252	5,764,052
Total	<u>¥1,161,001</u>	<u>¥1,095,388</u>	<u>\$9,632,467</u>

15. Derivative Transactions

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	Contract amount		Fair value	Method of calculating the fair value
				More than one year				More than one year		
						<i>(Thousands of yen)</i>				
						<i>(U.S. dollars)</i>				
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥76,900,000	¥66,360,000	*	/	\$638,015,432	\$550,568,323	*	/

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

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

Derivative Transactions as of June 30, 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 June 30, 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	¥65,400,000	¥65,400,000	*	/

* 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 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)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Hidehiko Ogawa	Payment of asset management fees to JEAM	¥409,169	\$3,394,746	Accounts payable	¥272,759	\$2,262,998

For the period from January 1, 2014 to June 30, 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	¥397,206		Accounts payable	¥269,840	

17. Segment Information

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

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 ¥3,040,364,250 (\$25,224,959), which is the maximum integral multiple of the 1,212,750 units issued, but not exceeding ¥3,040,640,250, which is the amount of retained earnings at December 31, 2014. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 16, 2015, the Board of Directors approved a resolution to make a cash distribution of ¥2,507 (\$20.8) per unit aggregating to ¥3,040,364,250 (\$25,224,959) to unitholders of record as of December 31, 2014.

19. Significant Subsequent Events

Not applicable.