

# Asset Management Report for 19<sup>th</sup> Period

## (Semi-Annual Report for 19<sup>th</sup> Period)

From July 1, 2015 to December 31, 2015



**Japan Excellent, Inc.**

## **I. Greetings**

### **To Our Unitholders**

We would like to express our sincere gratitude for your continued support of Japan Excellent, Inc. (JEI) and Japan Excellent Asset Management Co., Ltd.

We hereby report the financial results of JEI for the 19th period (from July 1, 2015 to December 31, 2015).

I recorded total revenues of 10,839 million yen and net income of 3,384 million yen, and realized the distribution per unit of 2,500 yen as forecast in the financial report for the 18th period (August 2015).

During the 19th period, JEI acquired JEI Naha Building (\*) and transferred No.32 Kowa Building and No. 35 Kowa Building to Nippon Steel Kowa Real Estate Co., Ltd., the sponsor, as part of portfolio replacement strategy. Furthermore, JEI realized increases in revenue and income for the sixth consecutive period as a result of raising occupancy rates and promoting leasing that emphasized rent levels. In terms of finance, JEI continues to retain rating of AA- from the rating agency as JEI's ongoing stable finance management under our basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates was recognized, as was in the previous period.

### **About Future Asset Management**

The Japanese economy is on a moderate recovery trend due to improved employment situation in addition to improved terms of foreign trade resulting from fall in resource prices and a recovery trend in corporate earnings.

In the real estate transaction market, real estate transaction prices have continued to rise amid favorable fund procurement environment and increase of market players, thus the market remains rather overheated. In the office building leasing market, the rent level is expected to continue rising backed by demand for offices against the backdrop of improvement in corporate performance and other factors for the time being.

With this perspective, JEI will endeavor to further enhance profitability by improving the occupancy rate of the entire portfolio, setting appropriate new rents based on market trends, promoting upward rent revision to suit the value of properties and pursuing opportunities to invest in prime real estate properties. In terms of financing, JEI will continue its efforts in conducting stable financial operations by striving to diversify maturity dates and minimize financing costs while promoting conversion to fixed interest rates and extension of borrowing periods.

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.

(\*Change of name is scheduled for the current Okinawa No. 27 Daikyo Building on July 1, 2016.)

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		15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015
Revenues	(Millions of yen)	8,850	9,558	9,695	10,121	10,839
(Rental revenues)	(Millions of yen)	(8,848)	(9,558)	(9,695)	(10,121)	(10,669)
Operating expenses	(Millions of yen)	5,140	5,592	5,731	6,102	6,537
(Property operating expenses)	(Millions of yen)	(4,605)	(5,022)	(5,180)	(5,533)	(5,916)
Operating income	(Millions of yen)	3,709	3,966	3,963	4,018	4,301
Ordinary income	(Millions of yen)	2,775	3,011	3,041	3,098	3,385
Net income	(Millions of yen)	2,774	3,010	3,040	3,097	3,384
Total assets	(Millions of yen)	257,901	277,842	278,037	300,976	284,443
(Period-on-period change)	(%)	(0.1)	(7.7)	(0.1)	(8.3)	(-5.5)
Net assets	(Millions of yen)	120,713	130,998	131,028	131,085	137,857
(Period-on-period change)	(%)	(0.0)	(8.5)	(0.0)	(0.0)	(5.2)
Unitholders' capital	(Millions of yen)	117,901	127,950	127,950	127,950	134,434
Total outstanding investment units	(units)	224,950	1,212,750	1,212,750	1,212,750	1,264,450
Net assets per unit (Note 1)	(yen)	107,324	108,017	108,042	108,089	109,025
Net income per unit (Note 2)	(yen)	2,466	2,511	2,506	2,554	2,685
Total distribution	(Millions of yen)	2,774	3,010	3,040	3,097	3,161
Distribution per unit (Distribution per unit after split) (Note 3)	(yen)	12,334 (2,466)	2,482	2,507	2,554	2,500
(Profit distribution per unit) (Of this, profit distribution per unit after split) (Note 3)	(yen)	12,334 (2,466)	2,482	2,507	2,554	2,500
(Distribution in excess of earnings per unit) (Of this, distribution in excess of earnings per unit after split) (Note 3)	(yen)	(-) (-)	(-)	(-)	(-)	(-)
Return on assets (Note 4)	(%)	1.1	1.1	1.1	1.1	1.2
(Annualized rate)	(%)	(2.1)	(2.3)	(2.2)	(2.2)	(2.3)
Return on equity (Note 5)	(%)	2.3	2.4	2.3	2.4	2.5
(Annualized rate)	(%)	(4.6)	(4.8)	(4.6)	(4.8)	(5.0)
Capital ratio (Note 6)	(%)	46.8	47.1	47.1	43.6	48.5
(Period-on-period change)	(%)	(-0.0)	(0.3)	(-0.0)	(-3.6)	(4.9)
Payout ratio (Note 7)	(%)	99.9	99.9	100.0	99.9	93.4
Number of investment properties	(properties)	28	30	30	31	30
Number of tenants	(tenants)	157	206	214	219	224
Total leasable space (Note 8, 9)	(m <sup>2</sup> )	302,505	330,285	330,180	370,671	356,918
Occupancy rate	(%)	98.7	98.3	99.1	97.9	98.5
Depreciation	(Millions of yen)	1,504	1,624	1,657	1,786	1,908
Capital expenditure	(Millions of yen)	775	558	415	790	635
Net operating income (NOI) (Note 10)	(Millions of yen)	5,747	6,160	6,172	6,374	6,662

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Funds from operation (FFO) per unit (Note 11)	(yen)	3,804	3,822	3,873	4,027	4,051
FFO multiples (Note 12, 13)	(times)	16.3	17.4	20.8	17.4	16.5
Debt service coverage ratio (DSCR) (Note 14)	(times)	4.4	4.8	5.0	5.0	5.6
Interest-bearing debt	(Millions of yen)	125,400	133,900	133,900	155,400	131,900
Loan-to-value (Note15)	(%)	48.6	48.2	48.2	51.6	46.4
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 fifteenth 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 fifteenth 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 fifteenth 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 (figures for the 18th period and before are rounded down to one decimal place while figures for the 19th period is rounded to one decimal place.)

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

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

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

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

(Note 12) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place before 18th fiscal period.)

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

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

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

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (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, 2015, we settled our nineteenth period.

### 1) Business conditions and results

The Japanese economy is on a moderate recovery trend due to improved employment situation in addition to improved terms of foreign trade resulting from fall in resource prices and a recovery trend in corporate earnings.

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

In the office building leasing market, tenant needs for floor area increase in the same building and relocation for expansion have become apparent backed by improvement in corporate performance and the employment situation, and the vacancy rate continues to be on an improving trend. JEI conducts leasing activities emphasizing rent levels and has promoted upward rent revision to suit the value of properties for current contracts by ensuring to seize opportunities for upward revision. As to new contracts, filling vacancies was promoted while setting higher rent levels based on market trends. As a result, the portfolio occupancy rate improved to 98.5% at the end of the period from 97.9% at the end of the previous period.

JEI acquired Okinawa No. 27 Daikyo Building (Note 1) in December 2015 with cooperation of The Dai-Ichi Building Co., Ltd., JEI’s sponsor which conducts nationwide PM operations and has an operating base also in Okinawa. On another front, JEI transferred aging No. 32 Kowa Building and No. 35 Kowa Building to Nippon Steel Kowa Real Estate Co., Ltd., the sponsor. As a result, the total number of properties owned and managed by JEI at the end of the current period was 30 with total acquisition price of 275.5 billion yen and total leasable space of 356,917.89 m<sup>2</sup> (107,967.66 tsubo). A total of 170 million yen of gain on sale of properties was recorded in line with the transfer of No. 32 Kowa Building and No. 35 Kowa Building.

### 2) Fund raising highlights

During the period, JEI conducted financial operations under the basic policies of extending borrowing periods, diversifying maturity dates and converting to fixed-rate loans, as it did in the previous period.

JEI issued 10-year investment corporation bonds of 5 billion yen with the interest rate of 1.03% in September 2015. This was to refinance 5-year investment corporation bonds which matured in June 2015 (previous period) at the right timing. Furthermore, long-term fixed interest loans of 10,540 million yen in total which matured in November 2015 (current period) was refinanced with 8-year loans and 9-year loans, half the amount for each.

In both cases above, JEI successfully realized extending borrowing periods while reducing borrowing costs by taking advantage of financing environment with low interest rates.

Short-term loans of 24.5 billion yen made in line with the acquisition of Nisseki Yokohama Building in April 2015 (previous period) was fully repaid with the sales proceeds from the transfer of the two owned properties at the end of December 2015 to the sponsor, after the partial repayment using proceeds from the public offering conducted in July 2015. The new loans of 1 billion yen for the acquisition of Okinawa No. 27 Daikyo Building were made as short-term loans taking into account the interest rate trends.

As a result, JEI was able to lower the loan to value ratio to the total assets to 46.4%, extend the average remaining debt maturity of interest-bearing debts (Note 2) to 3.85 years and raise both long-term borrowing ratio (Note 3) and fixed rate ratio (Note 4) to 99.2%. The total outstanding investment corporation bonds stood at 30 billion yen and the total outstanding interest-bearing debts at 131.9 billion yen.

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, 2015)

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

### 3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,839 million yen in total revenues, 4,301 million yen in operating income, 3,385 million yen in ordinary income and 3,384 million yen in net income for the period under review.

Concerning distributions in the period under review, JEI applied the special provisions of the tax system on investment corporations (Article 67-15 of the Special Taxation Measures Law), and the “Special Provisions on Taxation in the case of advance acquisition of land and such in 2009 and 2010” (Article 66-2 of the Special Taxation Measures Law) for the purpose of stabilizing the distribution level.

Based on the above, while reversing the entire amount of 37,347,034 yen in existing reserve for reduction entry and adding it to unappropriated retained earnings at the end of period, JEI determined to internally reserve part of unappropriated retained earnings at the end of period (260,476,700 yen) as reduction entry and to distribute 3,161,125,000 yen, which is the maximum integral multiple to 1,264,450 units issued and outstanding as the distribution of earnings, not exceeding unappropriated retained earnings after deducting the internal reserve. Accordingly, distribution per unit for the period was 2,500 yen.

(Note 1) Okinawa No. 27 Daikyo Building is scheduled to change its name to JEI Naha Building on July 1, 2016. The same shall apply hereinafter.

(Note 2) 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 3) 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 4) 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 5) The rating of JRC is for the 3rd series unsecured investment corporation bonds, 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds and 8th series unsecured investment corporation bonds. The rating of R&I is for the 3rd series unsecured investment corporation bonds and 4th series unsecured investment corporation bonds.

### 3) Capital Increase

JEI carried out additional capital increase by public offering (47,000 units) on July 13, 2015, followed by issuance of investment units by third-party allotment (4,700 units) as a result of exercise of a greenshoe option by Mizuho Securities Co., Ltd. (the lead manager of the primary offering) on August 12, 2015, raising a total amount of 6,484 million yen in funds. The outline of the changes in the number of investment units issued and outstanding and unitholders' capital is as follows:

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

(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 *Asset Management Report for 19<sup>th</sup> period (Semi-Annual Report for 19<sup>th</sup> Period)*

public offering in order to fund acquisition of new properties which were acquired at the sixteenth period.

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

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

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

(Note 15) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of the nineteenth period.

[Market price of the investment securities]

The period-on-period fluctuations in the highest and lowest (closing) prices of JEI's investment units listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange during each period is as follows:

Investment unit market price	Fiscal period (closing date)	15th period (December 2013)		16th period (June 2014)	17th period (December 2014)	18th period (June 2015)	17th period (December 2015)
		Before ex-rights date	After ex-rights date				
	Highest (yen)		639,000	123,300	141,600	164,700	168,400
Lowest (yen)		515,000	117,600	114,200	133,400	141,400	122,400

(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**

Concerning distributions in the period under review, JEI applied the special provisions of the tax system on investment corporations (Article 67-15 of the Special Taxation Measures Law), and the "Special Provisions on Taxation in the case of advance acquisition of land and such in 2009 and 2010" (Article 66-2 of the Special Taxation Measures Law) for the purpose of stabilizing the distribution level.

Based on the above, while reversing the entire amount of 37,347,034 yen in existing reserve for reduction entry and adding it to unappropriated retained earnings at the end of period, JEI determined to internally reserve part of unappropriated retained earnings at the end of period (260,476,700 yen) as reduction entry and to distribute 3,161,125,000 yen, which is the maximum integral multiple to 1,264,450 units issued and outstanding as the distribution of earnings, not exceeding unappropriated retained earnings after deducting the internal reserve. Accordingly, distribution per unit for the period was 2,500 yen.

Fiscal period	15th period	16th period	17th period	18th period	19th period
Accounting period	July 1, 2013 to December 31, 2013	January 1, 2014 to June 30, 2014	July 1, 2014 to December 31, 2014	January 1, 2015 to June 30, 2015	July 1, 2015 to December 31, 2015
Retained earnings at end of period (Thousands of yen)	2,774,683	3,010,447	3,040,640	3,098,080	3,385,019
Retained income (Thousands of yen)	149	402	275	717	261,241
Total cash distribution amount (Thousands of yen)	2,774,533	3,010,045	3,040,364	3,097,363	3,161,125
(Cash distributions per unit) (yen)	(12,334)	(2,482)	(2,507)	(2,554)	(2,500)
(Distribution per unit after split) (yen) (Note)	(2,466)				
Of which, total profit distributions (Thousands of yen)	2,774,533	3,010,045	3,040,364	3,097,363	3,161,125
(Profit distribution per unit) (yen)	(12,334)	(2,482)	(2,507)	(2,554)	(2,500)
(Profit distribution per unit after split) (yen) (Note)	(2,466)				

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Total refund of investment equity	-	-	-	-	-
(Refund of investment per unit)	(-)	(-)	(-)	(-)	(-)
(Refund of investment per unit after split) (yen) (Note)	(-)				
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	-	-	-	-	-
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(-)	(-)	(-)	(-)	(-)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	-	-	-	-	-
(Of refund of investment equity per unit, distribution amount from distribution reducing unitholders' capital for tax purpose)	(-)	(-)	(-)	(-)	(-)

(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 fifteenth period.

## **(5) Policy and Issues on Future Investment Management**

### 1) Outlook for investment environment

2016 has seen more anxiety factors overseas such as slowdown in the Chinese economy, risk of capital outflow from emerging nations in line with U.S. interest rate rise, etc. On the other hand, the global low interest situation is likely to continue due to outlook for continuous interest-rate policy and quantitative/qualitative monetary easing in Japan and Europe as well as to the expected solid growth in the U.S., positively affecting the growth of the world economy.

The Japanese economy has been gradually getting back on a recovery trend supported by the continuation of monetary easing by the Bank of Japan and stable low long-term interest rate. In 2016, solid economy is expected, if concerns arising from the aforementioned overseas factors are set aside, due to recovery in corporate performance and significant fall in crude oil prices on top of the gradual improvement in personal consumption backed by wage increase amid ongoing improvement in employment environment.

It is believed that domestic long-term interest rates will continue to be pressed downward for the time being due to the expectation for continuous monetary easing by the Bank of Japan against the background of stagnating inflation rate. However, close attention to possible risks of turnaround in interest rate will remain necessary.

In the real estate transaction market, real estate transaction prices are continued to remain at a high range as the supply of prime properties is still limited, especially in central Tokyo and metropolitan areas, while a favorable fund procurement environment and expansion in market players are expected.

In the office building leasing market, the vacancy rate is expected to continue to be on an improving trend though moderate since office demand is anticipated to steadily expand going forward. Furthermore, rent levels of both new rents and ongoing rents are expected to moderately rise centering on competitive buildings following the tightened office supply/demand balance, etc.

### 2) Policy and issues on future investment management

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to proactively gain access to market information and thereby keep seizing the right business opportunities.

For internal growth, JEI will continue to make efforts to capture the needs of existing tenants in a timely manner by further strengthening finely-tuned relationships. JEI will aim to enhance earnings of the entire portfolio by continuously making additional strategic investments in order to maintain asset value and improve property competitiveness over the medium to long term while setting new rents based on market trends as well as promoting upward rent revisions to realize rents that are more suitable for the property value, along with the aforementioned initiatives.

Regarding financial operations, the fund-raising environment is likely to remain generally favorable for JEI as the low interest rate situation is expected to continue for the time being. We will consistently work, with an 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 with an eye toward interest rate movements, diversify maturity dates, ensure liquidity by renewing commitment lines and maintain an appropriate loan-to-value.

## **(6) Subsequent Events**

None

## 2. Outline of the Investment Corporation

### (1) Investment units

Fiscal period	15th As of December 31, 2013	16th As of June 30, 2014 (Note)	17th As of December 31, 2014	18th As of June 30, 2015	19th As of December 31, 2015
Total number of units authorized	2,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	224,950 units	1,212,750 units	1,212,750 units	1,212,750 units	1,264,450 units
Unitholders' capital	117,901 million yen	127,950 million yen	127,950 million yen	127,950 million yen	134,434 million yen
Number of unitholders	6,846 individuals	8,451 individuals	7,917 individuals	7,848 individuals	8,465 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, 2015 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	380,474	30.09
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	109,889	8.69
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	89,253	7.06
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.66
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	47,210	3.73
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.63
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON, MASSACHUSETTS 02101, U.S.A.	18,217	1.44
RBC ISB A/C DUB NON RESIDENT/DOMESTIC RATE—UCITS CLIENTS ACCOUNT	14 PORTE DE FRANCE, ESCH-SUR- ALZETTE, LUXEMBOURG, L-4360	14,000	1.11
STATE STREET BANK — WEST PENSION FUND CLIENTS — EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	12,817	1.01
The Fuji Fire and Marine Insurance	1-18-11 Minami-Senba, Chuo-ku, Osaka- shi, Osaka	12,400	0.98
Total		776,480	61.41

### (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	–	21,100 (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 and the preparation of a comfort letter upon the issuance of new investment units conducted in July 2015, etc.

#### 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.

#### 3) Business suspension order issued to an Accounting Auditor

Details of disciplinary measures, etc. announced by the Financial Services Agency on December 22, 2015

##### (a) Subject of the order

Ernst & Young ShinNihon LLC

##### (b) Contents of the order

- Suspension of accepting new engagements for 3 months (from January 1, 2016, to March 31, 2016)
- Operational improvement order (improvement of the operational management system, etc.)

##### (c) Reason of the order

- The seven certified public accountants of Ernst & Young ShinNihon LLC (the “Audit Firm”) had, in negligence of due care, attested the financial statements of TOSHIBA CORPORATION for years that ended March 31, 2010, 2012 and 2013 containing material misstatements as if the statements contained no material misstatements.
- The Audit Firm’s operations are recognized as significantly inappropriate.

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

Our asset management company, asset custodian and administrative agents as of December 31, 2015 are as follows:

Classification	Name
Asset management company	Japan Excellent Asset Management Co., Ltd.
Asset custodian	Mizuho Trust & Banking Co., Ltd.
Administrative agent (Transfer agent and other administrative work for accounting and institution operation)	Mizuho Trust & Banking Co., Ltd. (Note)
Administrative agent (Investment corporation bonds)	Mizuho Bank, Ltd.

(Note) Based on the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure, JEI concluded a memorandum for an entrustment of business concerning the handling of individual number and corporate number for unitholders and subscribers with Mizuho Trust & Banking Co., Ltd., which is the transfer agent, on October 1, 2015.

*Asset Management Report for 19<sup>th</sup> period (Semi-Annual Report for 19<sup>th</sup> Period)*

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	18th Period (June 30, 2015)		19th Period (December 31, 2015)	
			Total acquisition price (Millions of yen) (Note 2)	Total acquisition price (Millions of yen)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,830	1.3	3,814	1.3
		Area II	5,838	1.9	5,774	2.0
Trust beneficiary interest in real estate		Area I	121,109	40.2	105,290	37.0
		Area II	9,178	3.0	9,154	3.2
		Area III	103,223	34.3	102,635	36.1
		Area IV	17,847	5.9	19,146	6.7
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,574	6.2	18,436	6.5
Total			279,602	92.9	264,252	92.9
Deposits in bank and other assets			21,374	7.1	20,191	7.1
Total assets			300,976	100.0	284,443	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, 2015 are as follows:

Name	Book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,342	38,375.66	37,863.42	98.7	8.4	Office building
AKASAKA INTERCITY	27,371	11,021.03	11,021.03	100.0	5.2	Office building
Nisseki Yokohama Building	24,348	40,440.73	39,748.67	98.3	10.4	Office building
Akasaka Garden City	22,432	8,769.53	8,769.53	100.0	3.6	Office building
Omori Bellport D	21,288	25,801.66	25,801.66	100.0	8.8	Office building
HAMARIKYU INTERCITY	18,436	19,718.11	19,555.56	99.2	6.8	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,704	25,159.49	25,159.49	100.0	7.5	Office building
Daiba Garden City Building	10,303	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,672	18,612.72	18,612.72	100.0	(Note 4)	Office building
Shiba 2-Chome Building	8,956	11,749.30	11,654.49	99.2	3.5	Office building
Total	184,856	211,771.08	210,309.42	99.3	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2015. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of December 31, 2015. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2015.

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

### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31, 2015 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I -1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	25,000	21,288
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	8,956
I -3	JEI Hamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,680	8,352
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,200	22,432
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	25,100	27,371
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,010	4,820
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,200	10,303
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	21,900	18,436
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,900	1,765
I -14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	4,200	3,814
Area I				131,190	127,542
II -1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,650	5,774
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,420	7,288
II -3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,030	1,865
Area II				12,100	14,928
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	18,200	12,704
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,890	9,672
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,510	5,086
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,000	4,441
III-6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,450	1,000
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,250	2,296
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,820	5,794
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,600	29,342
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,360	1,652
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	7,670	6,295
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	25,700	24,348
Area III				102,450	102,635
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,080	3,109
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,930	2,664
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	6,390	5,379
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,140	2,211
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,910	4,351
IV-7	Okinawa No. 27 Daikyo Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,420	1,429
Area IV				22,870	19,146
Total				268,610	264,252

(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, 2015 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Property No.	Property name	18th Period January 1, 2015 to June 30, 2015				19th Period July 1, 2015 to December 31, 2015			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I -1	Omori Bellport D	1	100.0	932	9.2	1	100.0	939	8.8
I -2	Shiba 2-Chome Building	2	100.0	372	3.7	2	99.2	373	3.5
I -3	JEI Hamamatsucho Building	1	100.0	203	2.0	1	100.0	210	2.0
I -4	No. 32 Kowa Building (Note 3)	1	100.0	252	2.5	-	-	242	2.3
I -7	Akasaka Garden City	1	100.0	370	3.7	1	100.0	385	3.6
I -8	AKASAKA INTERCITY	13	100.0	554	5.5	14	100.0	557	5.2
I -9	Kowa Shirokanedai Building	1	94.7	168	1.7	1	89.3	162	1.5
I -10	Daiba Garden City Building	1	100.0	335	3.3	1	100.0	335	3.1
I -11	No. 35 Kowa Building (Note 3)	1	100.0	(Note 2)	(Note 2)	-	-	(Note 2)	(Note 2)
I -12	HAMARIKYU INTERCITY	1	95.2	727	7.2	1	99.2	724	6.8
I -13	Shintomicho Building	11	100.0	72	0.7	10	95.4	72	0.7
I -14	Kowa Nishi-Shimbashi Building	6	100.0	(Note 2)	(Note 2)	6	100.0	(Note 2)	(Note 2)
Area I		40	99.0	-	-	38	99.1	-	-
II -1	NHK Nagoya Housou Center	29	90.4	366	3.6	30	94.2	362	3.4
II -2	JEI Nishi-Honmachi Building	1	100.0	208	2.1	1	100.0	196	1.8
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	83	0.8
Area II		31	95.6	-	-	32	97.3	-	-
III -1	Musashikosugi Tower Place	36	100.0	786	7.8	37	100.0	795	7.5
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	190	1.9	1	100.0	191	1.8
III -6	No. 44 Kowa Building	1	100.0	87	0.9	1	100.0	88	0.8
III -7	JEI Ryogoku Building	1	95.9	99	1.0	1	100.0	102	1.0
III -8	Ebina Prime Tower	35	98.2	426	4.2	36	98.8	419	3.9
III -9	Kowa Kawasaki Nishiguchi Building	1	95.6	943	9.3	1	98.7	901	8.4
III -10	Pacific Square Sengoku	8	86.9	63	0.6	9	100.0	47	0.4
III -11	Core City Tachikawa	1	100.0	298	3.0	1	100.0	306	2.9
III -12	Nisseki Yokohama Building	1	95.9	537	5.3	1	98.3	1,109	10.4
Area III		87	97.6	-	-	90	99.2	-	-
IV -2	JEI Kyobashi Building	1	100.0	184	1.8	1	84.9	181	1.7
IV -3	JEI Hiroshima Hacchobori Building	1	98.9	142	1.4	1	100.0	145	1.4
IV -4	SE Sapporo Building	1	98.5	359	3.5	1	97.0	362	3.4
IV -5	Aoba-dori Plaza	48	90.0	172	1.7	50	93.8	178	1.7
IV -6	Daiwa Minami-morimachi Building	10	100.0	196	1.9	10	100.0	197	1.9
IV -7	Okinawa No. 27 Daikyo Building	-	-	-	-	1	95.6	10	0.1
Area IV		61	97.8	-	-	64	95.2	-	-
Total		219	97.9	10,121	100.0	224	98.5	10,669	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.

(Note 3) JEI completed sales of No. 32 Kowa Building and No. 35 Kowa Building on December 24, 2015.



(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Fixed interest rate payable Floating interest rate receivable	76,900,000	60,140,000	–

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

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

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

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

#### 4. Capital Expenditures for Owned Properties

##### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 19th period (ended December 31, 2015). The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended December 31, 2015	Total of advance payment
Nisseki Yokohama Building	Yokohama-shi, Kanagawa	Renewal of air-conditioning systems	From April 2015 To March 2016	150	—	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (3/5th term)	From January 2016 To March 2016	117	—	—
JEI Hongo Building	Bunkyo-ku, Tokyo	Renovation of exterior walls	From June 2015 To June 2016	85	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment	From November 2015 To February 2016	68	—	—
Kawasaki Nisshincho Building	Kawasaki-shi, Kanagawa	Renovation of exterior wall sealing	From March 2016 To April 2016	39	—	—
JEI Nishi-Honmachi Building	Osaka-shi, Osaka	Renewal of air-conditioning systems on standard floor (9/10th term)	From April 2016 To June 2016	30	—	—

##### (2) Capital Expenditures for the Six months Ended December 31, 2015

The following table shows constructions conducted by JEI during the period ended December 2015 and expensed as capital expenditures. Capital expenditures for the period ended December 2015 were 635 million yen and, when combined with repairs and maintenance costs of 269 million yen classified as expenses, the amount of constructions completed totaled 904 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of wall-through type air conditioner (2/5th term)	From July 2015 To December 2015	117
Omori Bellport	Shinagawa-ku, Tokyo	Renewal of disaster prevention systems	From April 2015 To December 2015	99
Other constructions			—	418
Total				635

### (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	15th Period July 1, 2013 to December 31, 2013	16th Period January 1, 2014 to June 30, 2014	17th Period July 1, 2014 to December 31, 2014	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015
Reserved funds at beginning of period	299	309	368	316	317
Increase	364	143	80	119	65
Decrease	354	83	132	118	72
Reserved funds at the end of period	309	368	316	317	310

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

(Unit: Thousands of yen)

Account	18th Period January 1, 2015 to June 30, 2015	19th Period July 1, 2015 to December 31, 2015
(a) Asset management fees	415,782	442,299
(b) Custodian fees	20,762	22,368
(c) Administrative service fees	39,719	41,825
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	75,640	97,565
Total	569,444	621,598

## (2) Borrowings

Borrowings by each financing source as of the end of the 19th period (ended December 31, 2015) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1) (Note 2)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Mizuho Bank, Ltd.	June 30, 2015	7,500,000	—	0.35818	July 21, 2015	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	June 25, 2015	5,000,000	—	0.42091	September 25, 2015		Redemption of investment corporation bonds	
	Mizuho Bank, Ltd.	June 30, 2015	17,000,000	—	0.38000	March 31, 2016 (Note 3)		Repayment of existing borrowing	
	Nippon Life Insurance Company	December 10, 2015	—	1,000,000	0.36000	December 10, 2016		Acquisition of real estate	
Sub Total			29,500,000	1,000,000					
Long-term loans due within one year	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	—	1.13750	November 30, 2015	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	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				
	Mitsubishi UFJ Trust and Banking		500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Aozora Bank, Ltd.		200,000	—					
	The Bank of Fukuoka		300,000	—					
	The Norinchukin Bank	July 31, 2012	2,000,000	—	0.97125				
	Mizuho Trust & Banking Co., Ltd.		1,500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Mitsubishi UFJ Trust and Banking	June 29, 2011	4,600,000	4,600,000	1.36375				
	Mizuho Bank, Ltd.		4,400,000	4,400,000					
	Sumitomo Mitsui Banking Corporation		4,000,000	4,000,000					
	Mitsui Sumitomo Trust & Banking Co., Ltd.	November 29, 2011	—	1,620,000	1.24375				
Sumitomo Mitsui Banking Corporation	—		1,080,000						
Mitsubishi UFJ Trust and Banking	—		540,000						
Mizuho Bank, Ltd.	—		520,000						
Sub Total			23,540,000	16,760,000					

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1) (Note 2)	Maturity date	Repayment method	Use	Remarks	
	Lender									
Long-term loans	Mitsui Sumitomo Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	—	1.24375	November 29, 2016	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Sumitomo Mitsui Banking Corporation		1,080,000	—						
	Mitsubishi UFJ Trust and Banking		540,000	—						
	Mizuho Bank, Ltd.		520,000	—						
	Mizuho Bank, Ltd.	January 31, 2012	2,000,000	2,000,000	1.24750	January 31, 2017				
	Mitsubishi UFJ Trust and Banking		1,500,000	1,500,000						
	Sumitomo Mitsui Banking Corporation		1,500,000	1,500,000						
	Mizuho Bank, Ltd.	July 31, 2012	1,500,000	1,500,000	1.03000					
	Mitsubishi UFJ Trust and Banking		1,300,000	1,300,000						
	Sumitomo Mitsui Banking Corporation		1,200,000	1,200,000						
	Sompo Japan Nipponkoa Insurance Inc.		2,000,000	2,000,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000	1.09734					
	Development Bank of Japan Inc.	November 30, 2010	6,000,000	6,000,000	1.73875					November 30, 2017
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	1,000,000	1.08375					
	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					
	Aozora Bank, Ltd.		500,000	500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Sompo Japan Nipponkoa Insurance Inc.		500,000	500,000						
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000	1.19212					
	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125	June 29, 2018				
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225	June 30, 2018				
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000						
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000						
	The Norinchukin Bank		1,000,000	1,000,000						
	Resona Bank, Ltd.		200,000	200,000						
	The Bank of Fukuoka		700,000	700,000						
Shinkin Central Bank	1,000,000		1,000,000							
The Norinchukin Bank	1,450,000		1,450,000	0.74500			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								
The Norinchukin Bank	March 11, 2014	1,450,000	1,450,000	0.77500	March 8, 2019					
Mizuho Bank, Ltd.		850,000	850,000							
Mitsubishi UFJ Trust and Banking		850,000	850,000							
Mizuho Trust & Banking Co., Ltd.		600,000	600,000							

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1) (Note 2)	Maturity date	Repayment method	Use	Remarks	
	Lender									
Long-term loans	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000	January 31, 2020	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400					
	Mitsubishi UFJ Trust and Banking		500,000	500,000						
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000	1.31261					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000						
	The Norinchukin Bank		December 27, 2013	1,162,500	1,162,500					1.00000
	Mizuho Bank, Ltd.			675,000	675,000					
	Mitsubishi UFJ Trust and Banking			675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.			487,500	487,500					
	Development Bank of Japan Inc.		June 28, 2013	2,000,000	2,000,000	1.60750				June 30, 2021
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834					
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.81875	December 30, 2021				
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417	June 30, 2022				
	Mitsubishi UFJ Trust and Banking	December 29, 2014	2,000,000	2,000,000	0.93625	December 30, 2022				
	Mizuho Bank, Ltd.		1,950,000	1,950,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250	June 30, 2023				
	Mizuho Trust & Banking Co., Ltd.	November 30, 2015	—	1,560,000	0.84375	November 30, 2023				
	The Norinchukin Bank		—	1,500,000						
	Aozora Bank, Ltd.		—	750,000						
	Resona Bank, Ltd.		—	500,000						
	Mizuho Bank, Ltd.		—	420,000						
Mitsubishi UFJ Trust and Banking	—		250,000							
The Bank of Fukuoka	—		150,000							
Sumitomo Mitsui Banking Corporation	—		140,000							
Mizuho Trust & Banking Co., Ltd.	November 30, 2015	—	1,560,000	0.96275	November 30, 2024					
Resona Bank, Ltd.		—	1,000,000							
Mizuho Bank, Ltd.		—	870,000							
Aozora Bank, Ltd.		—	750,000							
Mitsubishi UFJ Trust and Banking		—	590,000							
Sumitomo Mitsui Banking Corporation		—	350,000							
The Bank of Fukuoka		—	150,000							
Sub Total		77,360,000	84,140,000							
Total		130,400,000	101,900,000							

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

(Note 3) Early repayment was conducted for the entire amount on December 30, 2015.

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2015 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016	Lump-sum	(Note 1)	(Note 4)
4th series unsecured investment corporation bonds		2,000,000	2,000,000	1.40000	November 2, 2018			
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000			March 11, 2019	
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2024			
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000				
8th series unsecured investment corporation bonds	September 9, 2015	-	5,000,000	1.03000	September 9, 2025		(Note 2)	
Total		25,000,000	30,000,000					

(Note 1) The funds were used for acquiring new properties.

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

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

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

### (4) Short-Term Investment Corporation Bonds

None

### (5) Subscription rights for New Investment Units

None



## 6. Condition of Investment Transactions

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

(millions of yen)

Type of assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Trust beneficiary interest in real estate	Okinawa No.27 Daikyo Building	December 7, 2015	1,380	—	—	—	—
Trust beneficiary interest in real estate	No. 32 Kowa Building	—	—	December 24, 2015	6,390	7,359	(970)
Trust beneficiary interest in real estate	No. 35 Kowa Building	—	—	December 24, 2015	9,320	8,177	1,140
Total		—	1,380	—	15,710	15,537	170

(Note1) The acquisition price and the transfer amount indicate the amounts excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition or transfer, thus are the purchase/sales amounts of real estate stated in the trust beneficiary interest purchase/sales agreements.

(Note 2) Figures indicate book value at the time of transfer.

(Note 3) Gain (loss) on transfer indicate transfer amounts less book value and other transfer expenses.

### (2) Transactions of Other Assets

None

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

1) Real estate, etc.

(millions of yen)

Acquisition or transfer	Name of property	Type of assets	Acquisition or transfer date	Acquisition or transfer price (Note)	Appraisal Value	Appraiser	Appraisal Date
Acquisition	Okinawa No.27 Daikyo Building	Trust beneficiary interest in real estate	December 7, 2015	1,380	1,420	Japan Real Estate Institute	October 31, 2015
Transfer	No. 32 Kowa Building	Trust beneficiary interest in real estate	December 24, 2015	6,390	6,390	Chuo Real Estate Appraisal Co., Ltd.	December 1, 2015
Transfer	No. 35 Kowa Building	Trust beneficiary interest in real estate	December 24, 2015	9,320	9,320	Japan Real Estate Institute	December 1, 2015

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

#### 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, those other than what are described in 1) Real estate, etc. is researched and reported by Ernst & Young ShinNihon LLC.

Two interest rate swap contracts were subject to the research during the period from July 1, 2015 to December 31, 2015 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

contracts.

#### (4) Transactions with Interested Parties

##### 1) Transactions

(Unit: Million yen)

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	1,380	15,710
Breakdown for transactions with interested parties		
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	— (—%)	15,710 (100.0%)
Total	— (—%)	15,710 (100.0%)

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

##### 2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,440,425	NIPPON STEEL KOWA REAL ESTATE CO., LTD.	163,716	11.4%
		Kowa Real Estate Facilities, Co., Ltd.	290,192	20.1%
Total	1,440,425	—	453,909	31.5%

(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, 2015.

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

NIPPON STEEL KOWA REAL ESTATE CO., LTD.	3,860 thousand yen
KOWA REAL ESTATE FACILITIES CO., LTD.	84,835 thousand yen

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

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

## 7. Accounting

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

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

### (2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

## 8. Others

### (1) Notice

#### 1) General unitholders' meeting

The sixth general unitholders' meeting of JEI was held on September 29, 2015. The following table summarizes the major matters approved by the unitholders' meeting.

Agenda	Summary
Partial amendments to the articles of incorporation	The articles of incorporation was amended as follows: <ul style="list-style-type: none"><li>• In response to the amendment of the Ordinance for Enforcement of the Act on Investment Trusts and Investment Corporations, amend relevant provisions and modify related wording in order to clarify that the purpose shall be to manage assets mainly as investment in real estate, etc.</li><li>• In line with the deletion of special provisions for real estate investment corporations due to the amendment of the Ordinance for Enforcement of the Act on Special Measures Concerning Taxation, delete the provisions and clauses previously required to be included.</li><li>• In line with the measures taken to eliminate the difference between accounting and taxation procedures at investment corporations through the amendment of the Ordinance on Accountings of Investment Corporations and the Act on Special Measures Concerning Taxation, establish a provision that allows distribution of cash in excess of earnings in order to reduce the burden of taxation on JEI.</li><li>• As it has become possible to issue options for new investment units due to the amendment to the Act on Investment Trusts and Investment Corporations, amend the relevant provisions in order to clarify that that expenses relating to the issuance of options for new investment units shall be borne by JEI.</li><li>• Other changes are changes in the text for the alteration, consolidation and clarification of expressions, modification of wording and number of clauses.</li></ul>
Election of one executive director	Hideki Ogawa was elected as an executive director. The term of his office is two years from November 1, 2015.
Election of one substitute executive director	Toshihiko Sasaki was elected as a substitute executive director.
Election of three supervisory directors	Tsuyoshi Nagahama, Shunichi Maekawa and Eiji Takagi were elected as supervisory directors. The term of their office is two years from November 1, 2015.

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, 2015 is summarized below.

Approval date	Approved agenda	Description
July 6, 2015	Conclusion of new investment units underwriting agreement (agreement for entrustment of general administrative duties concerning offering of investment units)	With issuance of new investment units, an underwriting agreement for the new investment units was concluded with Mizuho Securities Co., Ltd., Nomura Securities Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., SMBC Nikko Securities Inc. and Mito Securities Co., Ltd., entrusting them with general administrative duties concerning the offering of investment units.

(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.

## 9. Risk Factors

An investment in JEI's units involves significant risks. The principal risks with respect to investment in JEI are as follows.

### Property and Business Risks

- Any adverse conditions in the Japanese economy could adversely affect JEI.
- JEI may not be able to acquire properties to execute its growth and investment strategy in a manner that is accretive to earnings.
- Illiquidity in the real estate market may limit JEI's ability to grow or adjust its portfolio.
- The past experience of the Asset Management Company in the Japanese real estate market is not an indicator or guarantee of the future results.
- JEI's reliance on the core sponsors, the Asset Management Company and third party service providers could have a material adverse effect on its business.
- There are potential conflicts of interest between JEI and the core sponsors as well as the Asset Management Company.
- JEI's revenues largely comprise leasing revenues from the portfolio properties, which may be negatively affected by factors including vacancies, decreases in rent, and late or missed payments by tenants.
- JEI invests primarily in office properties, the market for which may be affected by macro-economic trends and other forces which JEI cannot control.
- JEI faces significant competition in seeking tenants and it may be difficult to find replacement tenants.
- Increases in prevailing market interest rates may increase JEI's interest expense and may result in a decline in the market price of JEI's units.
- JEI may suffer large losses if any of its properties incurs damage from a natural or man-made disaster such as an earthquake, fire, flood, tsunami or typhoon.
- Due to the concentration of JEI's portfolio in the Tokyo metropolitan area, JEI's business is highly susceptible to circumstances and developments that may adversely impact that area.
- Any inability to obtain financing for future acquisitions could adversely affect the growth of JEI's portfolio.
- The ownership rights in some of JEI's properties may be declared invalid or limited.
- JEI's lack of control over operating costs may adversely affect its business.
- Liquidity and other limitations on JEI's activities under debt financing arrangements may adversely affect its business, financial condition and results of operations.
- Entering into forward commitment contracts or contracts to purchase properties under development may expose JEI to contractual penalties and market risks.
- Decreases in tenant leasehold deposits and/or security deposits may increase JEI's funding costs.
- JEI may lose rental revenues in the event of lease terminations, decreased lease renewals, or the default of a tenant as a result of financial difficulty or insolvency, and is exposed to the risk of careless or imprudent management of properties by tenants.
- Master leases may give rise to certain risks.
- JEI's cost of complying with regulations applicable to its properties could adversely affect the results of its operations.
- Any property defect may adversely affect JEI's financial condition and results of operations.
- JEI relies on expert appraisals and engineering, environmental and seismic reports, which are subject to

significant uncertainties.

- JEI relies on industry and market data that are subject to significant uncertainties.
- The environmental assessments of JEI's properties made prior to its ownership may not uncover all environmental liabilities, and Japanese laws subject property owners to strict environmental liabilities.
- JEI's performance depends on the efforts of key personnel of the Asset Management Company.
- JEI's success depends on the performance of service providers to which it is required to assign various key functions.
- J-REITs and its asset managers are subject to tight supervision by the regulatory authorities.

### **Taxation Risks**

- JEI's failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify JEI from certain taxation benefits and significantly reduce the cash distributions to the unitholders.
- If the Japanese tax authorities disagree with our interpretations of the Japanese tax laws and regulations for prior periods, JEI may be forced to pay additional taxes for those periods.
- JEI may not be able to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs.
- Changes in Japanese tax laws may significantly increase JEI's tax burden.
- JEI expects to be treated as a "passive foreign investment company" for U.S. federal income tax purposes.
- Unitholders may be subject to U.S. Foreign Account Tax Compliance Act (FATCA) withholding tax after 2016.

### **Legal and Regulatory Risks**

- JEI's ownership rights in some of its properties may be declared invalid or limited.
- JEI may lose its rights in a property if the purchase of the property is recharacterized as a secured financing.
- JEI's leasehold or subleasehold rights may be terminated or may not be asserted against a third party in some cases.
- JEI's properties may be held in the form of stratified ownership (*kubun shoyū*) interests, and its rights relating to such properties may be affected by the intentions of other owners.
- JEI's properties may be held in the form of a property or trust co-ownership interest (*kyōyū-mochibun*), and its rights relating to such properties may be affected by the intentions of other owners.
- JEI may hold interests in some properties through preferred shares of special purpose companies (*tokutei mokuteki kaisha*), and illiquidity in the market for such shares may limit its ability to sell its interest, and its rights relating to the properties held by such special purpose companies may be limited.
- JEI's properties may be subject to preferential negotiation rights of others.
- JEI may hold interests in some properties through Japanese anonymous association (*tokumei kumiai*) agreements, and JEI's rights relating to such properties may be limited.
- JEI owns all of its properties through trust beneficiary interests and may suffer losses as a trust beneficiary.
- There are important differences regarding the rights of unitholders in a J-REIT compared to those of

shareholders in a corporation.

- The Alternative Investment Fund Managers Directive (AIFMD) may negatively affect JEI's ability to market its units in the EEA and increase its compliance costs associated with the marketing of its units in the EEA.
- JEI's units may be deemed to constitute "plan assets" for ERISA purposes, which may lead to the rescission of certain of its transactions, tax or fiduciary liability and JEI being held in violation of ERISA requirements.



# **Financial Statements**

## **Japan Excellent, Inc.**

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

## Independent Auditor's Report

The Board of Directors  
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 2015, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at December 31, 2015, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

March 22, 2016  
Tokyo, Japan

# Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2015 and June 30, 2015

	As of December 31, 2015	As of June 30, 2015
	<i>(Thousands of yen)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents including trust accounts ( <i>Notes 4 and 5</i> )	17,970,143	18,447,139
Rental receivables	795,482	867,254
Consumption taxes refundable	—	801,341
Prepaid expenses and other current assets	164,012	200,300
Total current assets	<u>18,929,637</u>	<u>20,316,035</u>
Property and equipment ( <i>Note 7</i> ):		
Buildings and building improvements	5,814,316	5,806,732
Machinery and equipment	6,253	6,253
Furniture and fixtures	10,716	10,716
Land	3,032,788	3,032,788
Buildings and building improvements for trust accounts	115,641,899	116,180,982
Machinery and equipment for trust accounts	730,465	709,585
Furniture and fixtures for trust accounts	172,325	173,626
Land for trust accounts	151,752,645	165,111,023
Construction in progress for trust accounts	37,375	9,254
Less: accumulated depreciation	<u>(22,053,080)</u>	<u>(20,545,518)</u>
Net property and equipment	<u>255,145,705</u>	<u>270,495,444</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	194	251
Leasehold rights for trust accounts	7,380,016	7,380,016
Other intangible assets for trust accounts	4,816	4,943
Total intangible assets	<u>9,106,635</u>	<u>9,106,819</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	775,886	612,425
Other assets	351,768	334,087
Total investments and other assets	<u>1,142,836</u>	<u>961,694</u>
Deferred assets:		
Investment corporation bond issuance costs	118,909	96,374
Total deferred assets	<u>118,909</u>	<u>96,374</u>
Total assets	<u><u>284,443,725</u></u>	<u><u>300,976,368</u></u>

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

	<b>As of December 31, 2015</b>	<b>As of June 30, 2015</b>
	<i>(Thousands of yen)</i>	
<b>Liabilities</b>		
Current liabilities:		
Accounts payable – trade	1,363,057	1,216,219
Short-term loans <i>(Notes 5 and 8)</i>	1,000,000	29,500,000
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	5,000,000	–
Long-term debt due within one year <i>(Notes 5 and 8)</i>	16,760,000	23,540,000
Accounts payable – other	435,955	435,855
Accrued expenses	190,650	181,834
Accrued corporation taxes	542	766
Accrued consumption taxes	530,377	–
Advances received	77,102	91,717
Other current liabilities	12,669	317
Total current liabilities	<u>25,370,355</u>	<u>54,966,711</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	25,000,000	25,000,000
Long-term debt <i>(Notes 5 and 8)</i>	84,140,000	77,360,000
Security deposits from tenants <i>(Note 5)</i>	734,945	723,465
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,341,356	11,840,224
Total long-term liabilities	<u>121,216,301</u>	<u>114,923,690</u>
Total liabilities	<u>146,586,656</u>	<u>169,890,401</u>
<b>Net assets (Note 10)</b>		
Unitholders' equity:		
Unitholders' capital	134,434,701	127,950,539
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	37,347	37,347
Retained earnings	3,385,019	3,098,080
Total surplus	<u>3,422,366</u>	<u>3,135,427</u>
Total unitholders' equity	<u>137,857,068</u>	<u>131,085,966</u>
Total net assets	<u>137,857,068</u>	<u>131,085,966</u>
Total liabilities and net assets	<u>284,443,725</u>	<u>300,976,368</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, 2015 to December 31, 2015  
and from January 1, 2015 to June 30, 2015

	<b>For the period from July 1, 2015 to December 31, 2015</b>	<b>For the period from January 1, 2015 to June 30, 2015</b>
	<i>(Thousands of yen)</i>	
Revenues ( <i>Notes 13 and 14</i> ):		
Rental revenues	9,697,871	9,215,979
Other	971,892	905,368
Gain on sales of real estate properties	170,002	—
Total revenues	<u>10,839,766</u>	<u>10,121,347</u>
Operating expenses ( <i>Note 13</i> ):		
Property operating expenses	5,916,331	5,533,045
Asset management fees	442,299	415,782
Custodian fees	22,368	20,762
Administrative service fees	41,825	39,719
Compensation for directors	6,540	6,540
Other	108,565	86,640
Total operating expenses	<u>6,537,930</u>	<u>6,102,489</u>
Operating income	<u>4,301,836</u>	<u>4,018,858</u>
Other income:		
Interest income	2,181	1,938
Other	2,659	875
Other expenses:		
Interest expense	616,982	634,385
Loan arrangement fees	145,627	105,178
New investment unit issuance costs	15,817	30,447
Interest expense on investment corporation bonds	123,986	137,980
Amortization of investment corporation bond issuance costs	12,890	14,463
Other	6,077	263
Ordinary income	<u>3,385,295</u>	<u>3,098,954</u>
Income before income taxes	3,385,295	3,098,954
Income taxes ( <i>Note 12</i> ):		
Current	986	1,159
Deferred	7	(10)
Net income	<u>3,384,302</u>	<u>3,097,804</u>
Retained earnings at beginning of period	<u>717</u>	<u>275</u>
Retained earnings at end of period	<u><u>3,385,019</u></u>	<u><u>3,098,080</u></u>

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

# Japan Excellent, Inc.

## Statements of Changes in Net Assets

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

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

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

### For the period from July 1, 2015 to December 31, 2015

	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings		
<i>(Thousands of yen)</i>							
Balance as of June 30, 2015	1,212,750	127,950,539	37,347	3,098,080	3,135,427	131,085,966	131,085,966
Changes during the fiscal period:							
Issuance of new units	51,700	6,484,162	-	-	-	6,484,162	6,484,162
Distributions from retained earnings	-	-	-	(3,097,363)	(3,097,363)	(3,097,363)	(3,097,363)
Net income	-	-	-	3,384,302	3,384,302	3,384,302	3,384,302
Total changes during the fiscal period	51,700	6,484,162	-	286,939	286,939	6,771,101	6,771,101
Balance as of December 31, 2015	<u>1,264,450</u>	<u>134,434,701</u>	<u>37,347</u>	<u>3,385,019</u>	<u>3,422,366</u>	<u>137,857,068</u>	<u>137,857,068</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, 2015 to December 31, 2015  
and from January 1, 2015 to June 30, 2015

	<b>For the period from July 1, 2015 to December 31, 2015</b>	<b>For the period from January 1, 2015 to June 30, 2015</b>
	<i>(Thousands of yen)</i>	
<b>Cash flows from operating activities</b>		
Income before income taxes	3,385,295	3,098,954
Depreciation and amortization	1,908,887	1,786,271
Amortization of investment corporation bond issuance costs		
	12,890	14,463
New unit issuance costs	15,817	30,447
Interest income	(2,181)	(1,938)
Interest expense	740,968	772,365
Decrease (increase) in rental receivables	71,772	24,086
Decrease (increase) in consumption taxes refundable	801,341	(801,341)
Decrease (increase) in prepaid expenses	34,949	(7,708)
Increase (decrease) in accounts payable – trade	208,798	151,080
Increase (decrease) in accounts payable – other	20,510	68,402
Increase (decrease) in unpaid consumption taxes	530,377	(432,931)
Increase (decrease) in advances received	(14,614)	4,835
Decrease (increase) in long-term prepaid expenses	(163,461)	(128,674)
Decrease in property and equipment for trust accounts due to sale	15,537,679	–
Decrease in intangible assets for trust accounts due to sale	148	–
Other, net	(4,954)	(31,715)
Subtotal	23,084,225	4,546,598
Interest received	2,181	1,938
Interest paid	(732,153)	(795,931)
Income taxes paid	(1,209)	(996)
Net cash provided by operating activities	22,353,044	3,751,608
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(3,234)	(125,225)
Purchases of property and equipment for trust accounts	(2,150,745)	(25,091,268)
Purchases of intangible assets for trust accounts	–	(5,092)
Proceeds from security deposits from tenants	21,980	12,872
Payments for security deposits to tenants	(10,500)	(54,192)
Proceeds from security deposits in trust accounts from tenants		
	402,231	1,571,632
Payments for security deposits in trust accounts to tenants	(901,100)	(199,725)
Net cash used in investing activities	(2,641,368)	(23,890,997)
<b>Cash flows from financing activities</b>		
Proceeds from short-term loans	1,000,000	54,000,000
Repayment for short-term loans	(29,500,000)	(24,500,000)
Proceeds from long-term debt	10,540,000	2,000,000
Repayment for long-term debt	(10,540,000)	(5,000,000)
Proceeds from issuance of investment corporation bonds	4,964,574	–
Payments for investment corporation bond redemption	–	(5,000,000)
Proceeds from issuance of investment units	6,484,162	–
Payments for new unit issuance costs	(40,127)	(6,138)
Distributions to unitholders	(3,097,281)	(3,041,275)
Net cash provided by (used in) financing activities	(20,188,671)	18,452,586
Net increase (decrease) in cash and cash equivalents	(476,996)	(1,686,802)
Cash and cash equivalents at beginning of period	18,447,139	20,133,941
Cash and cash equivalents at end of period	17,970,143	18,447,139

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

# Japan Excellent, Inc.

## Notes to Financial Statements

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

### **1. Organization**

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2015, JEI held 30 properties with 356,918 square meters of total leasable space and had leases with 224 tenants excluding residential tenants.

### **2. Basis of Presentation**

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

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

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



### **3. Summary of Significant Accounting Policies**

#### **Cash and cash equivalents**

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

#### **Property and equipment including trust accounts and trademark rights**

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

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

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

#### **Deferred assets**

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

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

#### **Income taxes**

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

#### **Consumption taxes**

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

#### **Property-related taxes**

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

### 3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from January 1, 2015 to June 30, 2015 was ¥186,039 thousand, whereas the capitalized amount for the period from July 1, 2015 to December 31, 2015 was ¥639 thousand.

#### Revenue recognition

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

#### Derivatives and hedge accounting

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

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

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

#### Properties in trust accounts

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

### 4. Cash and Cash Equivalents

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

	<b>As of, December 31, 2015</b>	<b>As of June 30, 2015</b>
	<i>(Thousands of yen)</i>	
Cash and cash deposits	2,207,430	2,472,809
Cash and deposits in trust	15,762,712	15,974,329
Cash and cash equivalents including trust accounts	<u>17,970,143</u>	<u>18,447,139</u>

## **5. Financial Instruments**

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

### Overview

#### (1) Policy for Financial Instruments

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

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

##### (a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 99.2% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2015. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2015). Liquidity risk is also mitigated through the constant management of liquidity on hand.

## 5. Financial Instruments (continued)

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

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

#### Fair value of financial instruments

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

	As of December 31, 2015			As of June 30, 2015		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	2,207,430	2,207,430	–	2,472,809	2,472,809	–
(2) Cash in trust and deposits in trust	15,762,712	15,762,712	–	15,974,329	15,974,329	–
Total assets	<u>17,970,143</u>	<u>17,970,143</u>	<u>–</u>	<u>18,447,139</u>	<u>18,447,139</u>	<u>–</u>
(3) Short-term loans (Note C)	1,000,000	1,000,000	–	29,500,000	29,500,000	–
(4) Investment corporation bonds due within one year (Note C)	5,000,000	5,033,200	33,200	–	–	–
(5) Long-term debt due within one year (Note C)	16,760,000	16,861,324	101,324	23,540,000	23,709,560	169,560
(6) Investment corporation bonds (Note C)	25,000,000	25,427,600	427,600	25,000,000	25,373,580	373,580
(7) Long-term debt (Note C)	84,140,000	85,557,635	1,417,635	77,360,000	78,448,019	1,088,019
Total liabilities	<u>131,900,000</u>	<u>133,879,759</u>	<u>1,979,759</u>	<u>155,400,000</u>	<u>157,031,159</u>	<u>1,631,159</u>
(8) Derivative transactions *	–	–	–	–	–	–

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

#### (Note A)

#### Methods for calculating the fair value of financial instruments and matters related to derivatives transactions

##### Assets

- (1) Cash and cash deposits and
- (2) Cash in trust and deposits in trust

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

##### Liabilities

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

## 5. Financial Instruments (continued)

### (7) Long-term debt

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

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

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

### (4) Investment corporation bonds due within one year and

### (6) Investment corporation bonds

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

### (8) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

### (Note B)

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

The fair values of security deposits from tenants and security deposits from tenants for trust accounts are as follows:

	As of December 31, 2015	As of June 30, 2015
	(Thousands of yen)	
① Security deposits from tenants*	734,945	723,465
② Security deposits from tenants for trust accounts*	11,341,356	11,840,224

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

## 5. Financial Instruments (continued)

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

	As of December 31, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	2,207,430	–	–	–	–	–
Cash in trust and deposits in trust	15,762,712	–	–	–	–	–
Total	17,970,143	–	–	–	–	–

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

(Note C)

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

	As of December 31, 2015					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	1,000,000	–	–	–	–	–
Investment corporation bonds due within one year	5,000,000	–	–	–	–	–
Long-term debt due within one year	16,760,000	–	–	–	–	–
Investment corporation bonds	–	–	7,000,000	5,000,000	–	13,000,000
Long-term debt	–	24,000,000	17,750,000	3,750,000	8,600,000	30,040,000
Total	22,760,000	24,000,000	24,750,000	8,750,000	8,600,000	43,040,000

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

## 6. Investment and Rental Property

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

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, 2015 and June 30, 2015 for such real estate for lease.

Carrying value		Fair value	
As of July 1, 2015	Change during period <sup>(*)1</sup>	As of December 31, 2015	As of December 31, 2015
<i>(Thousands of yen)</i>			
279,602,013	(15,349,866)	264,252,146	268,610,000

Carrying value		Fair value	
As of January 1, 2015	Change during period <sup>(*)2</sup>	As of June 30, 2015	As of June 30, 2015
<i>(Thousands of yen)</i>			
255,892,739	23,709,273	279,602,013	280,110,000

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

### ***B) Details of change during period***

(\*1) The decrease of ¥15,349,866 thousand during the period is mainly due to an increase of ¥1,432,381 thousand related to the acquisition of Okinawa No.27 Daikyo Building, and decreases of ¥15,537,828 thousand related to the transfer of No.32 Kowa Building and No.35 Kowa Building, and 1,908,830 thousand for depreciation costs.

(\*2) The increase of ¥23,709,273 thousand during the period is mainly due to an increase of ¥24,705,264 thousand related to the acquisition of Nisseki Yokohama Building, and a decrease of ¥1,786,214 thousand for depreciation costs.

### ***C) Fair value***

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

## 7. Property and Equipment

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

	As of December 31, 2015			As of June 30, 2015		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	5,814,316	(992,003)	4,822,312	5,806,732	(905,612)	4,901,120
Machinery and equipment	6,253	(1,410)	4,842	6,253	(1,129)	5,123
Furniture and fixtures	10,716	(3,170)	7,546	10,716	(2,590)	8,126
Land	3,032,788	–	3,032,788	3,032,788	–	3,032,788
Buildings and building improvements for trust accounts	115,641,899	(20,673,882)	94,968,017	116,180,982	(19,286,673)	96,894,309
Machinery and equipment for trust accounts	730,465	(293,250)	437,214	709,585	(267,598)	441,987
Furniture and fixtures for trust accounts	172,325	(89,363)	82,962	173,626	(81,915)	91,710
Land for trust accounts	151,752,645	–	151,752,645	165,111,023	–	165,111,023
Construction in progress for trust accounts	37,375	–	37,375	9,254	–	9,254
<b>Total</b>	<b>277,198,786</b>	<b>(22,053,080)</b>	<b>255,145,705</b>	<b>291,040,963</b>	<b>(20,545,518)</b>	<b>270,495,444</b>



## 8. Short-Term Loans and Long-Term Debt

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

	As of December 31, 2015		As of June 30, 2015	
	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*)</sup>	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*)</sup>
<b>Short-term loans:</b>				
Unsecured loans from a bank due on July 21, 2015	–	–	7,500,000	0.35818%
Unsecured loans from a bank due on September 25, 2015	–	–	5,000,000	0.42091%
Unsecured loans from a bank due on March 31, 2016 <sup>(*)3</sup>	–	–	17,000,000	0.38000%
Unsecured loans from an insurance company due on December 10, 2016	1,000,000	0.36000%	–	–
Subtotal	<u>1,000,000</u>		<u>29,500,000</u>	
<b>Long-term debt due within one year:</b>				
Unsecured loans from banks due on November 30, 2015	–	–	4,540,000	1.13750% <sup>(*)2</sup>
Unsecured loans from banks due on November 30, 2015	–	–	2,000,000	1.14125% <sup>(*)2</sup>
Unsecured loans from banks due on November 30, 2015	–	–	4,000,000	0.97125% <sup>(*)2</sup>
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% <sup>(*)2</sup>	13,000,000	1.36375% <sup>(*)2</sup>
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% <sup>(*)2</sup>	–	–
Subtotal	<u>16,760,000</u>		<u>23,540,000</u>	
<b>Long-term debt:</b>				
Unsecured loans from banks due on November 29, 2016	–	–	3,760,000	1.24375% <sup>(*)2</sup>
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% <sup>(*)2</sup>	5,000,000	1.24750% <sup>(*)2</sup>
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% <sup>(*)2</sup>	4,000,000	1.03000% <sup>(*)2</sup>
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% <sup>(*)2</sup>	3,000,000	1.09734% <sup>(*)2</sup>
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% <sup>(*)2</sup>	6,000,000	1.73875% <sup>(*)2</sup>
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% <sup>(*)2</sup>	3,000,000	1.08375% <sup>(*)2</sup>
Unsecured loans from banks due on November 30, 2017	2,000,000	1.04550% <sup>(*)2</sup>	2,000,000	1.04550% <sup>(*)2</sup>
Unsecured loans from insurance companies due on November 30, 2017	1,000,000	1.19212% <sup>(*)2</sup>	1,000,000	1.19212% <sup>(*)2</sup>
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% <sup>(*)2</sup>	3,000,000	1.65125% <sup>(*)2</sup>
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% <sup>(*)2</sup>	11,000,000	0.81225% <sup>(*)2</sup>
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% <sup>(*)2</sup>	3,750,000	0.74500% <sup>(*)2</sup>
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% <sup>(*)2</sup>	3,750,000	0.77500% <sup>(*)2</sup>
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% <sup>(*)2</sup>	2,000,000	1.60000% <sup>(*)2</sup>
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% <sup>(*)2</sup>	2,600,000	1.36400% <sup>(*)2</sup>
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% <sup>(*)2</sup>	1,000,000	1.31261% <sup>(*)2</sup>
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% <sup>(*)2</sup>	3,000,000	1.00000% <sup>(*)2</sup>
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% <sup>(*)2</sup>	2,000,000	1.60750% <sup>(*)2</sup>
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% <sup>(*)2</sup>	2,000,000	0.98834% <sup>(*)2</sup>
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% <sup>(*)2</sup>	5,750,000	0.81875% <sup>(*)2</sup>
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% <sup>(*)2</sup>	2,000,000	1.15417% <sup>(*)2</sup>
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% <sup>(*)2</sup>	5,750,000	0.93625% <sup>(*)2</sup>
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% <sup>(*)2</sup>	2,000,000	1.20250% <sup>(*)2</sup>
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% <sup>(*)2</sup>	–	–
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% <sup>(*)2</sup>	–	–
Subtotal	<u>84,140,000</u>		<u>77,360,000</u>	
Total	<u>101,900,000</u>		<u>130,400,000</u>	

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

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

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

(\*3) This short-term loan was repaid on December 30, 2015 prior to its scheduled maturity.

The scheduled repayment amounts of long-term debt as of December 31, 2015 are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Long-term debt	16,760,000	24,000,000	17,750,000	3,750,000	8,600,000	30,040,000

JEI has commitment lines of ¥14,000 million with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2015, these commitment lines have never been utilized.

## 9. Investment Corporation Bonds

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

	<u>As of December 31, 2015</u>		<u>As of June 30, 2015</u>	
	<u>Amount</u>	<u>Weighted- average interest rate</u>	<u>Amount</u>	<u>Weighted- average interest rate</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured bond #3 due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%
Unsecured bond #4 due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	—	—
Total	<u>30,000,000</u>		<u>25,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2015 are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Investment corporation bonds	5,000,000	—	7,000,000	5,000,000	—	13,000,000

## 10. Net Assets

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

## 11. Per Unit Information

Net assets per unit as of December 31, 2015 and June 30, 2015 were calculated based on the number of units outstanding as of each date, i.e., 1,264,450 units and 1,212,750 units, respectively.

Net income per unit for the periods from July 1, 2015 to December 31, 2015 and January 1, 2015 to June 30, 2015 were calculated based on the weighted-average number of units outstanding during the corresponding periods, i.e., 1,260,312 units and 1,212,750 units, respectively.

Accordingly, net assets per unit were ¥109,025 as of December 31, 2015 and ¥108,089 as of June 30, 2015. Net income per unit was ¥2,685 for the period from July 1, 2015 to December 31, 2015, and ¥2,554 for the period from January 1, 2015 to June 30, 2015.

## 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, 2015 and June 30, 2015 are summarized as follows:

	<b>As of December 31, 2015</b>	<b>As of June 30, 2015</b>
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	18	25
Total deferred tax assets	18	25
Net deferred tax assets	18	25

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

	<b>For the period from July 1, 2015 to December 31, 2015</b>	<b>For the period from January 1, 2015 to June 30, 2015</b>
Statutory tax rate	32.31%	34.15%
Reconciliation:		
Deductible distributions paid	(30.17)	(34.13)
Other	(2.11)	0.02
Effective tax rate	0.03%	0.04%

### 13. Breakdown of Property Rental Business Revenues and Expenses

	<b>For the period from July 1, 2015 to December 31, 2015</b>	<b>For the period from January 1, 2015 to June 30, 2015</b>
	<i>(Thousands of yen)</i>	
Rental business revenues:		
Rental revenues	9,697,871	9,215,979
Other	971,892	905,368
Total rental business revenues	10,669,763	10,121,347
Property operating expenses:		
Property management costs and fees	1,440,425	1,406,073
Utilities	1,192,804	1,153,175
Property and other taxes	838,200	791,943
Insurance	27,515	29,068
Repairs and maintenance	269,088	171,479
Depreciation	1,908,830	1,786,214
Other	239,466	195,090
Total property operating expenses	5,916,331	5,533,045
Profit	4,753,431	4,588,302

### 14. Breakdown of Gain on Sales of Real Estate Properties

Gain on sales of real estate properties for the periods from July 1, 2015 to December 31, 2015 and from January 1, 2015 to June 30, 2015 is as follows:

	<b>For the period from July 1, 2015 to December 31, 2015</b>	<b>For the period from January 1, 2015 to June 30, 2015</b>
	<i>(Thousands of yen)</i>	
No. 32 Kowa Building		
Proceeds from sale of real estate	6,390,000	–
Cost of sales of real estate	7,359,878	–
Other related sale expenses	1,032	–
Loss on sale of real estate	970,910	–
	<i>(Thousands of yen)</i>	
No. 35 Kowa Building		
Proceeds from sale of real estate	9,320,000	–
Cost of sales of real estate	8,177,950	–
Other related sale expenses	1,136	–
Gain on sale of real estate	1,140,913	–

## 15. Interest Income

Interest income received related to negotiable certificates of deposit of ¥153 thousand in the period from July 1, 2015 to December 31, 2015 was included in interest income in the statements of income and retained earnings.

## 16. Leases

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

	As of December 31, 2015	As of June 30, 2015
	<i>(Thousands of yen)</i>	
Due within one year	150,967	250,023
Due after one year	663,468	622,613
Total	814,435	872,636

## 17. Derivative Transactions

### Derivative Transactions as of December 31, 2015

- (1) Hedge accounting not applied

Not applicable.

- (2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of December 31, 2015 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	76,900,000	60,140,000	*	/

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

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

### Derivative Transactions as of June 30, 2015

- (1) Hedge accounting not applied

Not applicable.

## 17. Derivative Transactions (continued)

### (2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of June 30, 2015 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	76,900,000	53,360,000	*	/

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

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

## 18. Related Party Transactions

### For the period from July 1, 2015 to December 31, 2015

#### (1) Parent Company and Major Corporate Unitholders

Not applicable.

#### (2) Subsidiaries and Affiliated Companies

Not applicable.

#### (3) Sister Companies

Not applicable.

#### (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,299	Accounts payable	357,961

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

#### (1) Parent Company and Major Corporate Unitholders

Not applicable.

#### (2) Subsidiaries and Affiliated Companies

Not applicable.

#### (3) Sister Companies

Not applicable.

## 18. Related Party Transactions (continued)

### (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>
Hidehiko Ogawa	Payment of asset management fees to JEAM	415,782	Accounts payable	335,083

## 19. Segment Information

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

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

#### Information about products and services

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

#### Information about geographic area

##### (1) Revenues

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

##### (2) Property and equipment

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

#### Information about major clients

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

## **20. Distribution Information**

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. JEI decided to recognize both provision of reserve for reduction entry due to the transfer of two real estate properties, during the period from July 1, 2015 to December 31, 2015, and reversal of reserve for reduction entry in accordance with Section 66.2 of the Special Taxation Measures Law. Accordingly, income available for distributions of dividends amounted to ¥3,161,125,000, which is the maximum integral multiple of the 1,264,450 units issued, but not exceeding ¥3,385,019,921 as the amount of retained earnings at December 31, 2015. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 18, 2016, the Board of Directors approved a resolution to make a cash distribution of ¥2,500 per unit aggregating to ¥3,161,125,000 to unitholders of record as of December 31, 2015.

## **21. Significant Subsequent Events**

Not applicable.