

Asset Management Report for 23rd Period

(Semi-Annual Report for 23rd Period)

From July 1, 2017 to December 31, 2017



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 23rd period (from July 1, 2017 to December 31, 2017).

During the 23rd period, we worked to improve profitability by transferring properties (24.3 billion yen in total) with low profitability as part of future asset replacement, in addition to additionally acquiring properties (8.3 billion yen in total) centering on a joint ownership property from the sponsor.

In addition, we worked to attract new tenants while prioritizing the increase of the rent level and conclude upward rent revisions, promoting an increase of rental revenues.

Furthermore, we successfully strengthened financial standing by lowering the LTV level, raising the ratio of fixed interest rates and extending the average remaining period of interest-bearing debt, through repayment and refinancing of borrowings.

As a result, JEI recorded operating revenue of 11,085 million yen, operating income of 4,519 million yen and net income of 3,700 million yen, all marking a new record high. Distribution per unit increased by 20 yen from the previous period to 2,670 yen.

About Future Asset Management

The real estate transaction market is expected to see real estate transaction prices remaining high, backed by the continuing favorable fund procurement environment, strong appetite for investment by market participants and other factors. In the office building transaction market, the vacancy rate and rent levels are expected to continue to improve for the time being supported by active office demand. On the other hand, market trends must be watched more carefully as an increase in supply of office space is expected especially in central Tokyo.

With this perspective, JEI will continue with growth through investment in prime real estate as well as asset replacement utilizing also the sponsor pipeline, with an aim to expand its asset size and improve profitability over the medium to long term. Furthermore, JEI will endeavor to enhance profitability of the entire portfolio by not only maintaining the high occupancy rate but also by improving the rent level based on market trends and proactively implementing renovation work to maintain and improve competitiveness going forward. In terms of finance, JEI will strive to conduct stable financial management by working to reduce financing costs, while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

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

We kindly ask for your continued understanding and support.

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

II. Asset Management Report

1. Outline of asset management operation

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

Fiscal period		19th Period July 1, 2015 to December 31, 2015	20th Period, January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017
Operating revenue	(Millions of yen)	10,839	10,223	10,653	10,642	11,085
(Rental revenues)	(Millions of yen)	(10,669)	(10,223)	(10,653)	(10,642)	(10,806)
Operating expenses	(Millions of yen)	6,537	6,240	6,431	6,488	6,565
(Property operating expenses)	(Millions of yen)	(5,916)	(5,655)	(5,849)	(5,890)	(5,931)
Operating income	(Millions of yen)	4,301	3,982	4,221	4,154	4,519
Ordinary income	(Millions of yen)	3,385	3,113	3,407	3,460	3,701
Net income	(Millions of yen)	3,384	3,112	3,406	3,459	3,700
Total assets	(Millions of yen)	284,443	283,653	296,081	297,177	282,197
(Period-on-period change)	(%)	(-5.5)	(-0.3)	(4.4)	(0.4)	(-5.0)
Net assets	(Millions of yen)	137,857	137,808	143,640	143,693	143,933
(Period-on-period change)	(%)	(5.2)	(-0.0)	(4.2)	(0.0)	(0.2)
Unitholders' capital	(Millions of yen)	134,434	134,434	139,972	139,972	139,972
Total outstanding investment units	(units)	1,264,450	1,264,450	1,305,700	1,305,700	1,305,700
Net assets per unit	(yen)	109,025	108,987	110,010	110,050	110,234
Net income per unit (Note 1)	(yen)	2,685	2,461	2,614	2,649	2,833
Total distribution	(Millions of yen)	3,161	3,113	3,406	3,460	3,486
Distribution per unit	(yen)	2,500	2,462	2,609	2,650	2,670
(Profit distribution per unit)	(yen)	(2,500)	(2,462)	(2,609)	(2,650)	(2,670)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.2	1.1	1.2	1.2	1.3
(Annualized rate)	(%)	(2.3)	(2.2)	(2.3)	(2.4)	(2.5)
Return on equity (Note 3)	(%)	2.5	2.3	2.4	2.4	2.6
(Annualized rate)	(%)	(5.0)	(4.5)	(4.8)	(4.9)	(5.1)
Capital ratio (Note 4)	(%)	48.5	48.6	48.5	48.4	51.0
(Period-on-period change)	(%)	(4.9)	(0.1)	(-0.1)	(-0.2)	(2.7)
Payout ratio (Note 5)	(%)	93.4	100.0	100.0	100.0	94.2
Number of investment properties	(properties)	30	30	31	31	29
Number of tenants	(tenants)	224	228	237	242	243
Total leasable space (Note 6, 7)	(m ²)	356,918	356,884	362,305	362,292	356,854
Occupancy rate	(%)	98.5	99.1	99.0	99.4	99.1
Depreciation	(Millions of yen)	1,908	1,899	1,956	1,967	1,972
Capital expenditure	(Millions of yen)	635	729	1,294	1,056	1,092
Net operating income (NOI) (Note 8)	(Millions of yen)	6,662	6,467	6,760	6,719	6,847
Funds from operation (FFO) per unit (Note 9)	(yen)	4,051	3,964	4,107	4,156	4,131
FFO multiples (Note 10)	(times)	16.5	17.6	18.2	14.9	16.0
Debt service coverage ratio (DSCR) (Note 11)	(times)	8.1	8.2	9.4	10.7	10.7
Interest-bearing debt	(Millions of yen)	131,900	131,900	137,900	137,900	122,500
Loan-to-value (Note 12)	(%)	46.4	46.5	46.6	46.4	43.4
Number of days in operation	(days)	184	182	184	181	184

(Note 1) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.

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

(Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100

(Note 4) Capital ratio = Period end net assets / Period end total assets × 100

(Note 5) Payout ratio = (Distribution per unit (not including distribution in excess of earnings per unit) / Net income per unit) × 100
(Figures are rounded to the first decimal place.)

The payout ratio for the 19th and 21st periods are calculated with the following formula as new investment units were issued.

Payout ratio = Total distributions (not including distribution in excess of earnings) / Net income) × 100

(Note 6) 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 7) Spaces are rounded to the nearest specified unit. The same applies hereinafter.

(Note 8) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 9) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Total number of outstanding investment units (the figure is rounded down to the whole number).

(Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit

(Note 11) DSCR = Net income before interest and taxes + Depreciation / (Interest expenses + Interest expense on investment corporation bonds)

(Note 12) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

(2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, JEI has continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2017, JEI settled its twenty-third period.

1) Business conditions and results

The Japanese economy during the 23rd period (ended December 2017) is on a recovery trend continuing from the previous period, against the backdrop of the recovery of the world economy and the pickup in consumer spending, as well as of corporates’ investment appetite fostered by growing sense of labor shortage among other factors.

In the real estate transaction market, transaction yields were at low level amid the continuing favorable fund procurement environment, and real estate transaction prices remain high. Market participation of overseas investors, private funds, private REITs and general companies, etc. is also continuing.

In the office building leasing market, tenant needs for floor area increase in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and asking rent levels are improving. JEI has conducted leasing activities emphasizing rent levels and has promoted upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities of upward rent revision. n. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result, rental revenues at the end of the 23rd period increased 0.9% from the previous period to 9,851 million yen.

The total number of properties owned and managed by JEI at the end of the current period was 29 with total acquisition price of 270.0 billion yen and total leasable space of 356,853.73 m² (107,948.25 tsubo).

2) Fund procurement highlights

During the 23rd period, JEI borrowed a total of 8.6 billion yen in August as funds to acquire Kowa Nishi-Shimbashi Building and additional interest in Akasaka Garden City, etc., with an average borrowing period of 7.8 years and an average interest rate of 0.77%.

Moreover, JEI refinanced the total of 12 billion yen of loans matured in November (average borrowing period: 5.9 years; average interest rate: 1.41%) with loans with an average borrowing period of 5.2 years and an average interest rate of 0.57%.

In addition, JEI conducted an early repayment of loans totaling 24 billion yen in December using proceeds from the sales of Akasaka Garden City and No. 44 Kowa Building.

As a result of the above, as of the end of the 23rd period the average remaining period of interest-bearing debts (Note 1) was 4.4 years (extended by 0.7 years from the end of the previous period) and the period end average interest-bearing debt interest rate (Note 2) was 0.85% (up 0.03% from the end of the previous period) and the loan to value ratio to the total assets (total assets-based LTV) was 43.4% (down 3.0% from the end of the previous period).

In addition, JEI continues to have commitment lines of 14.0 billion yen 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, 2017)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 3)
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 11,085 million yen in operating revenue, 4,519 million yen in operating income, 3,701 million yen in ordinary income and 3,700 million yen in net income for the period under review.

Upon considering distributions in the period under review, JEI applied special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law) as well as the “Special Provisions for Taxation in Cases of Repurchase of Specified Assets” (Article 65-7 of the Special Taxation Measures Law) for the purpose of stabilizing the distribution level.

Based on the above, JEI determined to internally reserve part of unappropriated retained earnings at the end of period (214,060,652 yen) as reduction entry and to distribute 3,486,219,000 yen, which is the maximum integral multiple to 1,305,700 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 2,670 yen.

(Note 1) Average remaining period of interest-bearing debts = Remaining period of borrowings and investment corporation bonds before repayment dates and maturity dates as of the end of the period ÷ Balance of relevant borrowings and investment corporation bonds as of the end of the period (weighted average)

(Note 2) The period end average interest-bearing debt interest rate is calculated by using a weighted-average of the interest at the end of the current period, by balance of respective interest-bearing debt with all the interest-bearing debts.

(Note 3) The rating of JCR is for the 4th series unsecured investment corporation bonds, 5th series unsecured investment corporation bonds, 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds and 11th series unsecured investment corporation bonds. The rating of R&I is for the 4th series unsecured investment corporation bonds.

3) Capital Increase

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

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

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

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

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

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

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

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

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

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

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

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

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

- (Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.
- (Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.
- (Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 15) New investment units were issued at an offer price of 138,742 yen per unit (issue price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.
- (Note 16) New investment units were issued at an issue price of 134,259 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 17) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of 23rd period.

Fiscal period	19th period	20th period	21st period	22nd period	23rd period
Accounting period	July 1, 2015 to December 31, 2015	January 1, 2016 to June 30, 2016	July 1, 2016 to December 31, 2016	January 1, 2017 to June 30, 2017	January 1, 2017 to June 30, 2017
Unappropriated retained earnings at end of period (Thousands of yen)	3,385,019	3,113,717	3,406,981	3,460,111	3,700,279
Retained income (Thousands of yen)	261,241	641	409	6	214,060
Total cash distribution amount (Thousands of yen)	3,161,125	3,113,075	3,406,571	3,460,105	3,486,219
(Cash distributions per unit) (yen)	(2,500)	(2,462)	(2,609)	(2,650)	(2,670)
Of which, total profit distributions (Thousands of yen)	3,161,125	3,113,075	3,406,571	3,460,105	3,486,219
(Profit distribution per unit) (yen)	(2,500)	(2,462)	(2,609)	(2,650)	(2,670)
Of which, total refund of investment equity	—	—	—	—	—
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

[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)	19th period (December 2015)	20th period (June 2016)	21st period (December 2016)	22nd period (June 2017)	23rd period (December 2017)
	Highest (yen)	141,900	161,000	149,200	147,200	137,200
	Lowest (yen)	122,400	123,200	132,900	125,100	121,100

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

(4) Distributions Paid

Upon considering distributions in the period under review, JEI applied special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law) as well as the "Special Provisions for Taxation in Cases of Repurchase of Specified Assets" (Article 65-7 of the Special Taxation Measures Law) for the purpose of stabilizing the distribution level.

Based on the above, JEI determined to internally reserve part of unappropriated retained earnings at the end of period (214,060,652 yen) as reduction entry and to distribute 3,486,219,000 yen, which is the maximum integral multiple to 1,305,700 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 2,670 yen.

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

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

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

2) Policy and issues on future investment management

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

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, while fund procurement for long-term and with fixed interest rates will remain as its basic policies, JEI will consistently work on stable and sound financial operations.

(6) Subsequent Events

None

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	19th As of December 31, 2015	20th As of June 30, 2016	21st As of December 31, 2016	22nd As of June 30, 2017	23rd As of December 31, 2017
Total number of units authorized	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	1,264,450 units	1,264,450 units	1,305,700 units	1,305,700 units	1,305,700 units
Unitholders' capital	134,434 million yen	134,434 million yen	139,972 million yen	139,972 million yen	139,972 million yen
Number of unitholders	8,465 individuals	7,686 individuals	7,850 individuals	8,086 individuals	7,680 individuals

(2) Unitholders

Major unitholders as of December 31, 2017 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	353,977	27.11
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	171,525	13.14
Nippon Steel Kowa Real Estate Co., Ltd.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	71,560	5.48
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	64,469	4.94
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	52,772	4.04
STATE STREET BANK AND TRUST COMPANY 505012	ONE LINCOLN STREET, BOSTON MA USA 02111	23,722	1.82
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	21,219	1.63
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.58
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	16,913	1.30
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	16,086	1.23
Total		812,903	62.26

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2017 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	12,200 (Note 2)

(Note 1) There are no investment units of JEI held by either the Executive Director or the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there 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 indicates the total of the amount paid as compensation for auditing during the 23rd period (11,000 thousand yen) and the fee for the English financial statements audit.

2) Policy on dismissal and discontinuation of re-election of accounting auditor

The board of directors of JEI shall deliberate dismissal of accounting auditor in accordance with the provisions set out in the Investment Trust Law, and deliberate discontinuation of re-election based on circumstances in all respects.

3) Matters concerning an entity which received a business suspension order in the past two years

The accounting auditor of JEI received an order to suspend accepting new engagements for 3 months (from January 1, 2016, to March 31, 2016) from the Financial Services Agency on December 22, 2015.

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

JEI's asset management company, asset custodian and administrative agents as of December 31, 2017 are as follows:

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

3. Investment Portfolio of the Investment Corporation

(1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	22nd Period (As of June 30, 2017)		23rd Period (As of December 31, 2017)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	3,796	1.3	11,032	3.9
		Area II	5,650	1.9	5,583	2.0
Area I		116,027	39.0	93,492	33.1	
Area II		9,111	3.1	9,057	3.2	
Area III		101,644	34.2	100,441	35.6	
Area IV		18,883	6.4	18,747	6.6	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	18,025	6.1	17,918	6.3
Total			273,139	91.9	256,272	90.8
Deposits in bank and other assets			24,037	8.1	25,925	9.2
Total assets			297,177	100.0	282,197	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 Honmachi 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, 2017 are as follows:

Name	Book value (Millions of yen)	Leasable space (m ²) (Note 1)	Leased space (m ²) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,076	38,375.65	37,371.15	97.4	8.7	Office building
AKASAKA INTERCITY	27,138	11,021.03	10,870.26	98.6	5.4	Office building
Nisseki Yokohama Building	23,933	40,440.73	40,314.37	99.7	10.6	Office building
Omori Bellport D	21,040	25,801.66	25,801.66	100.0	8.7	Office building
HAMARIKYU INTERCITY	17,918	19,718.11	19,558.46	99.2	6.8	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,659	25,043.93	25,043.93	100.0	7.5	Office building
Mansard Daikanyama	11,405	5,420.80	4,625.14	85.3	2.7	Office building
Kowa Nishi-Shimbashi Building	11,032	8,949.04	8,949.04	100.0	(Note 4)	Office building
Daiba Garden City Building	9,981	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,483	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	173,668	205,506.52	203,269.58	98.9	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2017. 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, 2017. 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, 2017.

(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, 2017 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	25,700	21,040
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,000	9,160
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,680	8,219
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	26,700	27,138
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,090	4,766
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,500	9,981
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	22,400	17,918
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,050	1,780
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	12,000	11,032
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	12,200	11,405
Area I				137,320	122,442
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,720	5,583
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,700	7,192
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,200	1,865
Area II				12,620	14,640
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	20,700	12,659
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,650	9,483
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,750	5,086
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,230	4,355
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,250	2,265
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	4,340	5,735
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,800	29,076
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,300	1,643
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	8,340	6,201
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	27,600	23,933
Area III				108,960	100,441
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,230	2,924
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,410	2,619
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	7,450	5,286
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,690	2,205
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,240	4,271
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,640	1,438
Area IV				25,660	18,747
Total				284,560	256,272

(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, 2017 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	22nd Period January 1, 2017 to June 30, 2017				23rd Period July 1, 2017 to December 31, 2017			
		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	940	8.8	1	100.0	937	8.7
I -2	Shiba 2-Chome Building	2	100.0	371	3.5	2	99.2	158	1.5
I -3	JEI Hamamatsucho Building	1	100.0	209	2.0	1	100.0	226	2.1
I -7	Akasaka Garden City (Note 3)	1	100.0	390	3.7	-	-	402	3.7
I -8	AKASAKA INTERCITY	14	100.0	578	5.4	13	98.6	587	5.4
I -9	Kowa Shirokanedai Building	1	100.0	170	1.6	1	100.0	179	1.7
I -10	Daiba Garden City Building	1	100.0	334	3.1	1	100.0	334	3.1
I -12	HAMARIKYU INTERCITY	1	98.9	719	6.8	1	99.2	734	6.8
I -13	Shintomicho Building	11	100.0	71	0.7	11	100.0	71	0.7
I -14	Kowa Nishi-Shimbashi Building	5	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
I -15	Mansard Daikanyama	7	97.4	291	2.7	8	85.3	294	2.7
Area I		45	99.7	-	-	44	98.9	-	-
II -1	NHK Nagoya Housou-Center Building	31	94.2	366	3.4	35	96.4	353	3.3
II -2	JEI Nishi-Honmachi Building	1	100.0	193	1.8	1	96.9	210	2.0
II -3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	83	0.8
Area II		33	97.3	-	-	37	97.0	-	-
III -1	Musashikosugi Tower Place	40	100.0	778	7.3	40	100.0	812	7.5
III -2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III -5	Kawasaki Nishincho Building	1	100.0	190	1.8	1	100.0	195	1.8
III -6	No. 44 Kowa Building (Note 3)	1	100.0	90	0.8	-	-	85	0.8
III -7	JEI Ryogoku Building	1	95.8	104	1.0	1	100.0	107	1.0
III -8	Ebina Prime Tower	39	99.6	429	4.0	38	99.7	442	4.1
III -9	Kowa Kawasaki Nishiguchi Building	1	100.0	938	8.8	1	97.4	939	8.7
III -10	Pacific Square Sengoku	10	100.0	54	0.5	10	100.0	55	0.5
III -11	Core City Tachikawa	1	98.5	308	2.9	1	100.0	311	2.9
III -12	Nisseki Yokohama Building	1	99.7	1,138	10.7	1	99.7	1,149	10.6
Area III		97	99.7	-	-	95	99.3	-	-
IV -2	JEI Kyobashi Building	1	100.0	168	1.6	1	100.0	182	1.7
IV -3	JEI Hiroshima Hacchobori Building	1	98.0	141	1.3	1	100.0	148	1.4
IV -4	SE Sapporo Building	1	98.6	361	3.4	1	100.0	368	3.4
IV -5	Aoba-dori Plaza	53	98.5	189	1.8	53	99.4	191	1.8
IV -6	Daiwa Minami-morimachi Building	10	100.0	195	1.8	10	100.0	198	1.8
IV -7	JEI Naha Building	1	91.7	74	0.7	1	100.0	80	0.7
Area IV		67	98.5	-	-	67	99.9	-	-
Total		242	99.4	10,642	100.0	243	99.1	10,806	100.0

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

(Note 2) Rental revenue (interim) and ratio of rental revenue to total rental revenues for Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi Building and JEI Hongo Building are not disclosed as consents on disclosure of rents from the end tenants have not been obtained.

(Note 3) JEI completed sales of Akasaka Garden City and No. 44 Kowa Building on December 20, 2017.

(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 Floating interest rate receivable Fixed interest rate payable	46,140,000	31,390,000	—

(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 23rd period (ended December 31, 2017). 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, 2017	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 1/4)	From November 2017 To June 2018	219	—	—
JEI Naha Building	Naha-shi, Okinawa	Renovation of exterior wall	From February 2018 To June 2018	100	—	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment (Phase 1/2)	From October 2017 To March 2018	90	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 1)	From January 2018 To June 2017	83	—	—
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renovation of bathrooms/kitchens (Phase 1/2)	From April 2017 To March 2018	79	—	—
HAMARIKYU INTERCITY	Minato-ku, Tokyo	Repair of common space lighting	From January 2018 To May 2018	33	—	—
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renewal of security cameras	From September 2017 To February 2018	31	—	—

(2) Capital Expenditures for the Six Months Ended December 31, 2017

The following table shows constructions conducted by JEI during the period ended December 2017 and expensed as capital expenditures. Capital expenditures for the period ended December 2017 were 1,092 million yen and, when combined with repairs and maintenance costs of 202 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,295 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renewal of common space	From March 2017 To December 2017	408
Shiba 2-Chome Building	Minato-ku, Tokyo	Renovation of common spaces of entire office building	From April 2017 To June 2017	96
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Repair of refractory coating alongside update of passenger elevators	From November 2017 To December 2017	90
Omori Bellport D	Shinagawa-ku, Tokyo	Renewal of automatic air conditioning control equipment (Phase 1/5)	From December 2017 To December 2017	48
Aoba-dori Plaza	Sendai-shi, Miyagi	Update of heat accumulator	From October 2017 To December 2017	38
Other constructions			—	410
Total				1,092

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

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

(Unit: Millions of yen)

Item	19th Period July 1, 2015 to December 31, 2015	20th Period January 1, 2016 to June 30, 2016	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017
Reserved funds at beginning of period	317	310	436	450	546
Increase	65	619	675	468	484
Decrease	72	492	662	371	742
Reserved funds at the end of period	310	436	450	546	289

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

(Unit: Thousands of yen)

Account	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017
(a) Asset management fees	442,866	457,509
(b) Custodian fees	22,025	22,102
(c) Administrative service fees	41,489	41,804
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	73,724	95,510
Total	597,646	634,466

(2) Borrowings

Borrowings by each financing source as of the end of the 23rd period (ended December 31, 2017) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity Date	Repayment method	Use	Remarks
Short-term loans	Mizuho Bank, Ltd.	August 10, 2017	—	900,000	0.25952	July 31, 2018	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
Sub Total			—	900,000					
Long-term loans due within one year	Development Bank of Japan Inc.	November 30, 2010	6,000,000	—	1.73875 (Note 3)	November 30, 2017	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	July 31, 2012	1,000,000	—	1.08375 (Note 3)				
	Mitsubishi UFJ Trust and Banking		1,000,000	—					
	Sumitomo Mitsui Banking Corporation		1,000,000	—					
	Mizuho Bank, Ltd.	June 28, 2013	1,000,000	—	1.04550 (Note 3)				
	Aozora Bank, Ltd.		500,000	—					
	Resona Bank, Ltd.		500,000	—					
	Sompo Japan Nipponkoa Insurance Inc.		500,000	—					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	June 29, 2011	500,000	—	1.19212 (Note 3)				
	The Dai-ichi Life Insurance Company Limited		3,000,000	3,000,000		1.65125 (Note 3)			
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	5,000,000	0.81225 (Note 3)	June 30, 2018			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	Shinkin Central Bank		1,000,000	1,000,000					
	The Norinchukin Bank		1,000,000	1,000,000					
	The Bank of Fukuoka		700,000	700,000					
	Resona Bank, Ltd.		200,000	200,000					
Mizuho Bank, Ltd.	March 11, 2014	—	850,000	0.74500 (Note 3)	November 1, 2018				
The Norinchukin Bank		—	1,450,000						
Mitsubishi UFJ Trust and Banking		—	850,000						
Mizuho Trust & Banking Co., Ltd.		—	600,000						
Sub Total			26,000,000	17,750,000					

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Mizuho Bank, Ltd.	January 31, 2017	3,500,000	—	0.21538	July 31, 2018 (Note 2)	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mitsubishi UFJ Trust and Banking Corporation		2,800,000	—					
	Sumitomo Mitsui Banking Corporation		2,700,000	—					
	Mizuho Bank, Ltd.	March 11, 2014	850,000	—	0.74500 (Note 3)	November 1, 2018			
	The Norinchukin Bank		1,450,000	—					
	Mitsubishi UFJ Trust and Banking Corporation		850,000	—					
	Mizuho Trust & Banking Co., Ltd.		600,000	—					
	Mizuho Bank, Ltd.	March 11, 2014	850,000	850,000	0.77500 (Note 3)	March 8, 2019			
	The Norinchukin Bank		1,450,000	1,450,000					
	Mitsubishi UFJ Trust and Banking Corporation		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	Nippon Life Insurance Company	December 12, 2016	1,000,000	1,000,000	0.25000 (Note 3)	December 12, 2019			
	Mizuho Bank, Ltd.	June 29, 2016	4,400,000	—	0.28538	December 30, 2019 (Note 2)			
	Mitsubishi UFJ Trust and Banking Corporation		4,600,000	—					
	Sumitomo Mitsui Banking Corporation		4,000,000	—					
	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 3)	January 31, 2020			
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 3)				
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	Mitsubishi UFJ Trust and Banking Corporation		500,000	500,000					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.31261 (Note 3)				
	Mizuho Bank, Ltd.	December 27, 2013	675,000	675,000	1.00000 (Note 3)				
	The Norinchukin Bank		1,162,500	1,162,500					
	Mitsubishi UFJ Trust and Banking Corporation		675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500					
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 3)	June 30, 2021			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 3)				
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.40896	November 29, 2021			
	Mitsubishi UFJ Trust and Banking Corporation		540,000	540,000					
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000					
Sumitomo Mitsui Trust Bank Limited	1,620,000		1,620,000						
Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.81875 (Note 3)	December 30, 2021				
Mitsubishi UFJ Trust and Banking Corporation		2,000,000	2,000,000						
Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
Resona Bank, Ltd.		600,000	600,000						
Sompo Japan Nipponkoa Insurance Inc.	January 31, 2017	2,000,000	2,000,000	0.35000 (Note 3)	January 31, 2022				
Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 3)	June 30, 2022				

	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans	Sompo Japan Nipponkoa Insurance Inc.	November 30, 2017	—	500,000	0.35000 (Note 3)	November 30, 2022	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		—	500,000					
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 3)	December 30, 2022			
	Mitsubishi UFJ Trust and Banking		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000					
	Resona Bank, Ltd.	June 30, 2015	600,000	600,000	1.20250 (Note 3)	June 30, 2023			
	Development Bank of Japan Inc.		2,000,000	2,000,000					
	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.84375 (Note 3)	November 30, 2023			
	Mitsubishi UFJ Trust and Banking		250,000	250,000					
	Sumitomo Mitsui Banking Corporation		140,000	140,000					
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000					
	The Norinchukin Bank		1,500,000	1,500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Aozora Bank, Ltd.		750,000	750,000					
	The Bank of Fukuoka		150,000	150,000					
	Mitsubishi UFJ Trust and Banking	November 30, 2017	—	1,000,000	0.64801 (Note 3)				
	Sumitomo Mitsui Banking Corporation		—	3,500,000					
	Resona Bank, Ltd.		—	500,000					
	Aozora Bank, Ltd.		—	500,000					
	Development Bank of Japan Inc.	November 30, 2015	—	3,500,000	0.68431 (Note 3)	May 31, 2024			
	Mizuho Bank, Ltd.		870,000	870,000					
	Mitsubishi UFJ Trust and Banking		590,000	590,000					
	Sumitomo Mitsui Banking Corporation		350,000	350,000					
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000					
	Resona Bank, Ltd.		1,000,000	1,000,000					
	Aozora Bank, Ltd.		750,000	750,000					
	The Bank of Fukuoka		150,000	150,000					
	Mizuho Bank, Ltd.	September 29, 2017	—	2,200,000	0.83441 (Note 3)	March 31, 2026			
Mitsubishi UFJ Trust and Banking	—		1,750,000						
Sumitomo Mitsui Banking Corporation	—		1,100,000						
The Norinchukin Bank	—		850,000						
Aozora Bank, Ltd.	—		500,000						
Development Bank of Japan Inc.	—		1,300,000	0.83071 (Note 3)			September 30, 2026		
Sub Total		75,900,000	67,850,000						
Total		101,900,000	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) Conducted early repayment in full on December 29, 2017.

(Note 3) Loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2017 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	
4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	2,000,000	1.40000	November 2, 2018	Lump-sum	(Note 1)	(Note 5)	
5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	5,000,000	0.46000					
6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2019		(Note 2)		
7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024		(Note 3)		
8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 3)		
9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 2)		
10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 4)		
11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027		(Note 2)		
Total		36,000,000	36,000,000						

(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 funds are used for redeeming existing investment corporation bonds.

(Note 5) 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	Property name	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer price (Note 1)	Net book value (Note 2)	Gain (loss) on transfer (Note 3)
Real estate property	Kowa Nishi-Shimbashi Building (Additional acquisition of ownership interest, etc.)	August 1, 2017	7,500	—	—	—	—
Real estate property	Akasaka Garden City (Additional acquisition of co-ownership interest)	August 10, 2017	869	—	—	—	—
Trust beneficiary interest in real estate	Akasaka Garden City	—	—	December 20, 2017	22,500	23,106	(608)
Trust beneficiary interest in real estate	No. 44 Kowa Building	—	—	December 20, 2017	1,890	1,001	887
Total		—	8,369	—	24,390	24,108	279

(Note 1) The acquisition price and the transfer price indicate the amounts excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition or the transfer, thus are the purchase amounts of real estate stated in the trust beneficiary interest purchase agreements.

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

(Note 3) Gain (loss) on transfer indicates the amount obtained by subtracting book value and other sales-related expenses from the transfer price.

(2) Transactions of Other Assets

None

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

1) Real estate, etc.

Acquisition or Transfer	Name of property	Type of assets	Acquisition/transfer date	Acquisition/transfer price (millions of yen) (Note)	Appraisal Value (millions of yen)	Appraiser	Appraisal Date
Acquisition	Kowa Nishi-Shimbashi Building (Additional acquisition of ownership interest, etc.)	Real estate property	August 1, 2017	7,500	7,820	Japan Real Estate Institute	June 1, 2017
Acquisition	Akasaka Garden City (Additional acquisition of co-ownership interest)	Real estate property	August 10, 2017	869	1,040	Japan Real Estate Institute	July 31, 2017
Transfer	Akasaka Garden City	Trust beneficiary interest in real estate	December 20, 2017	22,500	19,100	Japan Real Estate Institute	November 1, 2017
Transfer	No. 44 Kowa Building	Trust beneficiary interest in real estate	December 20, 2017	1,890	1,810	Japan Real Estate Institute	November 1, 2017

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

2) Others None

(4) Transactions with Interested Parties

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	8,369 million yen	24,390 million yen
Breakdown for transactions with interested parties		
Nippon Steel Kowa Real Estate Co., Ltd.	7,500 million yen (89.6%)	1,890 million yen (7.7%)
Total	7,500 million yen (89.6%)	1,890 million yen (7.7%)

(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	1,441,309	Nippon Steel Kowa Real Estate Co., Ltd.	171,910	11.9%
		Kowa Real Estate Facilities, Co., Ltd.	294,386	20.4%
		Nippon Steel Community Service Co., Ltd.	72	0.0%
Total	1,441,309	–	466,370	32.4%

(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, 2017.

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

Nippon Steel Kowa Real Estate Co., Ltd.	21,433 thousand yen
Kowa Real Estate Facilities Co., Ltd.	662,054 thousand yen
Nihon Sekkei, Inc.	1,709 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 seventh general unitholders' meeting of JEI was held on September 29, 2017. The following table summarizes the major matters approved by the unitholders' meeting.

Agenda	Summary
Election of one executive director	Hidehiko Ogawa was elected as an executive director. The term of his office is two years from November 1, 2017.
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, 2017.

2) Board of directors meeting

There were no applicable items during the period.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

(4) Other

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

9. Risk Factors

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

The principal risks with respect to investment in JEI are as follows:

- 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;
- 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; and
- the ownership rights in some of JEI's properties may be declared invalid or limited.

In addition, JEI is subject to the following risks:

- risks related to increasing operating costs;
- risks related to JEI's dependence on the efforts of the Asset Management Company's key personnel;
- risks related to the restrictive covenants under debt financing arrangements;
- risks related to entering into forward commitment contracts;
- risks related to third party leasehold interests in the land underlying JEI's properties;
- risks related to holding property in the form of stratified ownership (*kubun shoyū*) interests or co-ownership interests (*kyōyū-mochibun*);
- risks related to properties not in operation (including properties under development);
- risks related to the defective title, design, construction or other defects or problems in the properties;
- risks related to suffering impairment losses relating to the properties;
- risks related to decreases in tenant leasehold deposits and/or security deposits;
- risks related to tenants' default as a result of financial difficulty or insolvency;
- risks related to the insolvency of master lessees;
- risks related to relying on expert appraisals and engineering, environmental and seismic reports as well as industry and market data;
- risks related to the presence of hazardous or toxic substances in JEI's properties, or the failure to properly remediate such substances;
- risks related to strict environmental liability for the properties;
- risks related to potential amendment of applicable administrative laws and local ordinances;
- risks related to holding interests in Japanese anonymous association (*tokumei kumiai*);
- risks related to holding properties through trust beneficiary interests;
- risks related to JEI's tight supervision by regulatory authorities and compliance with applicable rules and regulations;
- risks related to the possibility that tax authorities may disagree with the Asset Management Company's interpretations of the Japanese tax laws and regulations;

- risks related to being unable to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs;
- risks related to changes in Japanese tax laws; and
- the risk of dilution as a result of further issuances of units.

Financial Statements

Japan Excellent, Inc.

*For the six-month periods ended
December 31, 2017 and June 30, 2017
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, 2017, 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, 2017, 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 20, 2018
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of December 31, 2017 and June 30, 2017

	As of December 31, 2017	As of June 30, 2017
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	23,591,162	22,182,030
Rental receivables	456,268	486,122
Prepaid expenses and other current assets	191,862	196,472
Total current assets	<u>24,239,293</u>	<u>22,864,624</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	6,949,821	5,922,283
Machinery and equipment	6,253	6,253
Furniture and fixtures	12,270	12,270
Land	9,272,487	3,032,788
Construction in progress	12,606	12,606
Buildings and building improvements for trust accounts	116,764,611	121,130,825
Machinery and equipment for trust accounts	815,194	797,332
Furniture and fixtures for trust accounts	225,151	194,343
Land for trust accounts	141,454,273	160,660,425
Construction in progress for trust accounts	99,194	139,031
Less: accumulated depreciation	(28,447,970)	(27,877,107)
Net property and equipment	<u>247,163,894</u>	<u>264,031,052</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	88	113
Leasehold rights for trust accounts	7,382,016	7,382,016
Other intangible assets for trust accounts	4,710	4,848
Total intangible assets	<u>9,108,423</u>	<u>9,108,586</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	796,524	628,970
Other assets	738,882	379,051
Total investments and other assets	<u>1,550,588</u>	<u>1,023,203</u>
Deferred assets:		
Investment corporation bond issuance costs	135,216	149,786
Total deferred assets	<u>135,216</u>	<u>149,786</u>
Total assets	<u><u>282,197,416</u></u>	<u><u>297,177,254</u></u>

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

	As of December 31, 2017	As of June 30, 2017
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,627,141	1,465,612
Short-term loans <i>(Notes 5 and 8)</i>	900,000	—
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	7,000,000	—
Long-term debt due within one year <i>(Notes 5 and 8)</i>	17,750,000	26,000,000
Accounts payable – other	445,675	438,800
Accrued expenses	144,768	133,136
Accrued corporation taxes	977	678
Accrued consumption taxes	677,350	289,887
Advances received	79,326	83,886
Other current liabilities	0	—
Total current liabilities	<u>28,625,240</u>	<u>28,412,001</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	29,000,000	36,000,000
Long-term debt <i>(Notes 5 and 8)</i>	67,850,000	75,900,000
Security deposits from tenants <i>(Note 5)</i>	1,084,728	723,098
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,703,805	12,448,681
Total long-term liabilities	<u>109,638,534</u>	<u>125,071,779</u>
Total liabilities	<u>138,263,774</u>	<u>153,483,781</u>
Net assets <i>(Note 10)</i>		
Unitholders' equity:		
Unitholders' capital	139,972,885	139,972,885
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	260,476	260,476
Retained earnings	3,700,279	3,460,111
Total surplus	<u>3,960,756</u>	<u>3,720,588</u>
Total unitholders' equity	<u>143,933,641</u>	<u>143,693,473</u>
Total net assets	<u>143,933,641</u>	<u>143,693,473</u>
Total liabilities and net assets	<u>282,197,416</u>	<u>297,177,254</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, 2017 to December 31, 2017
and from January 1, 2017 to June 30, 2017

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
	<i>(Thousands of yen)</i>	
Revenues <i>(Note 13 and 14)</i> :		
Rental business revenues	9,851,628	9,760,176
Other	954,398	882,490
Gain on sales of real estate properties	279,042	—
Total revenues	<u>11,085,069</u>	<u>10,642,667</u>
Operating expenses <i>(Note 13)</i> :		
Property operating expenses	5,931,137	5,890,983
Asset management fees	457,509	442,866
Custodian fees	22,102	22,025
Administrative service fees	41,804	41,489
Compensation for directors	6,540	6,540
Other	106,510	84,724
Total operating expenses	<u>6,565,603</u>	<u>6,488,630</u>
Operating income	<u>4,519,465</u>	<u>4,154,037</u>
Other income:		
Interest income	105	98
Other	658	1,034
Other expenses:		
Interest expense	442,384	437,910
Loan arrangement fees	221,464	114,622
Interest expense on investment corporation bonds	140,286	123,538
Amortization of investment corporation bond issuance costs	14,570	13,554
Other	271	5,143
Ordinary income	<u>3,701,251</u>	<u>3,460,399</u>
Income before income taxes	<u>3,701,251</u>	<u>3,460,399</u>
Income taxes <i>(Note 12)</i> :		
Current	993	693
Deferred	(14)	4
Net income	<u>3,700,272</u>	<u>3,459,701</u>
Retained earnings at beginning of period	<u>6</u>	<u>409</u>
Retained earnings at end of period	<u><u>3,700,279</u></u>	<u><u>3,460,111</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, 2017 to December 31, 2017
and from January 1, 2017 to June 30, 2017

For the period from July 1, 2017 to December 31, 2017							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve			Total surplus	Total unitholders' equity	Total net assets
		Reserve for advanced depreciation of non-current assets	Retained earnings				
<i>(Thousands of yen)</i>							
Balance as of June 30, 2017	1,305,700	139,972,885	260,476	3,460,111	3,720,588	143,693,473	143,693,473
Changes during the fiscal period:							
Distributions from retained earnings	—	—	—	(3,460,105)	(3,460,105)	(3,460,105)	(3,460,105)
Net income	—	—	—	3,700,272	3,700,272	3,700,272	3,700,272
Total changes during the fiscal period	—	—	—	240,167	240,167	240,167	240,167
Balance as of December 31, 2017	1,305,700	139,972,885	260,476	3,700,279	3,960,756	143,933,641	143,933,641
For the period from January 1, 2017 to June 30, 2017							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve			Total surplus	Total unitholders' equity	Total net assets
		Reserve for advanced depreciation of non-current assets	Retained earnings				
<i>(Thousands of yen)</i>							
Balance as of December 31, 2016	1,305,700	139,972,885	260,476	3,406,981	3,667,457	143,640,343	143,640,343
Changes during the fiscal period:							
Distributions from retained earnings	—	—	—	(3,406,571)	(3,406,571)	(3,406,571)	(3,406,571)
Net income	—	—	—	3,459,701	3,459,701	3,459,701	3,459,701
Total changes during the fiscal period	—	—	—	53,130	53,130	53,130	53,130
Balance as of June 30, 2017	1,305,700	139,972,885	260,476	3,460,111	3,720,588	143,693,473	143,693,473

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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from July 1, 2017 to December 31, 2017
and from January 1, 2017 to June 30, 2017

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,701,251	3,460,399
Depreciation and amortization	1,972,950	1,967,549
Amortization of investment corporation bond issuance costs	14,570	13,554
Interest income	(105)	(98)
Interest expense	582,670	561,449
Decrease (increase) in rental receivables	29,853	73,336
Decrease (increase) in consumption taxes refundable	—	58,187
Decrease (increase) in prepaid expense	1,540	(7,422)
Increase (decrease) in accounts payable – trade	(103,534)	124,373
Increase (decrease) in accounts payable – other	6,463	5,780
Increase (decrease) in unpaid consumption taxes	387,463	289,887
Increase (decrease) in advances received	(4,559)	7,744
Decrease (increase) in long-term prepaid expenses	(167,553)	76,246
Decrease in property and equipment for trust accounts due to sale	24,108,013	—
Other, net	(358,243)	(2,806)
Subtotal	30,170,782	6,628,182
Interest received	105	98
Interest paid	(571,039)	(610,586)
Income taxes paid	(694)	(779)
Net cash provided by operating activities	29,599,154	6,016,915
Cash flows from investing activities		
Purchases of property and equipment	(7,267,725)	(102,514)
Purchases of property and equipment for trust accounts	(1,680,016)	(909,906)
Proceeds from security deposits from tenants	395,152	13,393
Payments for security deposits to tenants	(33,522)	(23,387)
Proceeds from security deposits in trust accounts from tenants	656,954	628,846
Payments for security deposits in trust accounts to tenants	(1,401,829)	(89,501)
Net cash used in investing activities	(9,330,987)	(483,068)
Cash flows from financing activities		
Proceeds from short-term loans	10,600,000	—
Repayment for short-term loans	(9,700,000)	(1,000,000)
Proceeds from long-term debt	17,700,000	12,000,000
Repayment for long-term debt	(34,000,000)	(18,000,000)
Proceeds from issuance of investment corporation bonds	—	6,959,000
Distributions to unitholders	(3,459,034)	(3,407,199)
Net cash provided by (used in) financing activities	(18,859,034)	(3,448,199)
Net increase (decrease) in cash and cash equivalents	1,409,132	2,085,647
Cash and cash equivalents at beginning of period	22,182,030	20,096,382
Cash and cash equivalents at end of period (<i>Note 4</i>)	23,591,162	22,182,030

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

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from July 1, 2017 to December 31, 2017
and from January 1, 2017 to June 30, 2017

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, 2017, JEI held 29 properties with 356,853.73 square meters of total leasable space and had leases with 243 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 and building improvements	2 – 60 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.

Income taxes

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

Consumption taxes

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

Property-related taxes

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

3. Summary of Significant Accounting Policies (continued)

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. No property-related taxes were capitalized for the period from January 1, 2017 to June 30, 2017. The capitalized amount for the period from July 1, 2017 to December 31, 2017 was ¥24,555 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, 2017 and June 30, 2017 consisted of the following:

	As of December 31, 2017	As of June 30, 2017
	<i>(Thousands of yen)</i>	
Cash and cash deposits	7,486,725	5,373,222
Cash and deposits in trust	16,104,436	16,808,808
Cash and cash equivalents including trust accounts	<u>23,591,162</u>	<u>22,182,030</u>

5. Financial Instruments

For the periods from July 1, 2017 to December 31, 2017 and from January 1, 2017 to June 30, 2017

Overview

(1) Policy for Financial Instruments

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

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

(a) Market Risks (Interest rate fluctuation risk)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations principally using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 96.2% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2017. 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, 2017). 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, 2017 and June 30, 2017 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of December 31, 2017			As of June 30, 2017		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	7,486,725	7,486,725	—	5,373,222	5,373,222	—
(2) Cash and deposits in trust	16,104,436	16,104,436	—	16,808,808	16,808,808	—
Total assets	<u>23,591,162</u>	<u>23,591,162</u>	<u>—</u>	<u>22,182,030</u>	<u>22,182,030</u>	<u>—</u>
(3) Short-term loans (Note C)	900,000	900,000	—	—	—	—
(4) Investment corporation bonds due within one year (Note C)	7,000,000	7,034,020	34,020	—	—	—
(5) Long-term debt due within one year (Note C)	17,750,000	17,819,871	69,871	26,000,000	26,171,999	171,999
(6) Investment corporation bonds (Note C)	29,000,000	29,453,940	453,940	36,000,000	36,436,630	436,630
(7) Long-term debt (Note C)	67,850,000	68,994,628	1,144,628	75,900,000	76,886,676	986,676
Total liabilities	<u>122,500,000</u>	<u>124,202,459</u>	<u>1,702,459</u>	<u>137,900,000</u>	<u>139,495,305</u>	<u>1,595,305</u>
(8) Derivative transactions *	—	—	—	—	—	—

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

(Note A)

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

Assets

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

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

Liabilities

- (3) Short-term loans

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

5. Financial Instruments (continued)

(5) Long-term debt due within one year and

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 16, "Derivative Transactions."

(Note B)

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

	<u>As of</u> <u>December 31, 2017</u>	<u>As of</u> <u>June 30, 2017</u>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	1,084,728	723,098
② Security deposits from tenants for trust accounts*	11,703,805	12,448,681

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

5. Financial Instruments (continued)

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

	As of December 31, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	7,486,725	—	—	—	—	—
Cash and deposits in trust	16,104,436	—	—	—	—	—
Total	23,591,162	—	—	—	—	—

	As of June 30, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	5,373,222	—	—	—	—	—
Cash and deposits in trust	16,808,808	—	—	—	—	—
Total	22,182,030	—	—	—	—	—

(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, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	900,000	—	—	—	—	—
Investment corporation bonds due within one year	7,000,000	—	—	—	—	—
Long-term debt due within one year	17,750,000	—	—	—	—	—
Investment corporation bonds	—	5,000,000	—	—	—	24,000,000
Long-term debt	—	4,750,000	8,600,000	13,510,000	11,750,000	29,240,000
Total	25,650,000	9,750,000	8,600,000	13,510,000	11,750,000	53,240,000

	As of June 30, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	—	—	—	—	—	—
Investment corporation bonds due within one year	—	—	—	—	—	—
Long-term debt due within one year	26,000,000	—	—	—	—	—
Investment corporation bonds	—	12,000,000	—	—	—	24,000,000
Long-term debt	—	16,500,000	22,600,000	4,000,000	14,510,000	18,290,000
Total	26,000,000	28,500,000	22,600,000	4,000,000	14,510,000	42,290,000

6. Investment and Rental Property

For the periods from July 1, 2017 to December 31, 2017 and from January 1, 2017 to June 30, 2017

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, 2017 and June 30, 2017 for such real estate for lease.

Carrying value			Fair value
As of July 1, 2017	Change during period (*1)	As of December 31, 2017	As of December 31, 2017
<i>(Thousands of yen)</i>			
273,139,525	(16,867,295)	256,272,229	284,560,000

Carrying value			Fair value
As of January 1, 2017	Change during period (*2)	As of June 30, 2017	As of June 30, 2017
<i>(Thousands of yen)</i>			
273,958,219	(818,694)	273,139,525	292,790,000

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

B) Details of change during period:

(*1) The decrease of ¥16,867,295 thousand during the period is mainly due to an increase of ¥7,262,043 thousand related to the acquisition of Kowa Nishi-Shimbashi Building (Additional acquisition of ownership interest, etc.), an increase of ¥898,762 thousand related to the acquisition of Akasaka Garden City (Additional acquisition of co-ownership interest), and a decrease of ¥23,106,531 thousand related to the transfer of Akasaka Garden City, a decrease of ¥1,972,924 thousand for depreciation costs, and a decrease of ¥1,001,482 thousand related to the transfer of No.44 Kowa Building.

(*2) The decrease of ¥818,694 thousand during the period is mainly due to a decrease of ¥1,967,524 thousand for depreciation costs.

C) Fair value

Fair value as of December 31, 2017 and June 30, 2017 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at December 31, 2017 and June 30, 2017 consisted of the following:

	As of December 31, 2017			As of June 30, 2017		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	6,949,821	(1,351,554)	5,598,267	5,922,283	(1,253,386)	4,668,896
Machinery and equipment	6,253	(2,536)	3,716	6,253	(2,255)	3,998
Furniture and fixtures	12,270	(5,685)	6,584	12,270	(5,035)	7,234
Land	9,272,487	—	9,272,487	3,032,788	—	3,032,788
Construction in progress	12,606	—	12,606	12,606	—	12,606
Buildings and building improvements for trust accounts	116,764,611	(26,568,337)	90,196,274	121,130,825	(26,126,326)	95,004,498
Machinery and equipment for trust accounts	815,194	(398,497)	416,697	797,332	(375,536)	421,796
Furniture and fixtures for trust accounts	225,151	(121,358)	103,792	194,343	(114,567)	79,775
Land for trust accounts	141,454,273	—	141,454,273	160,660,425	—	160,660,425
Construction in progress for trust accounts	99,194	—	99,194	139,031	—	139,031
Total	<u>275,611,864</u>	<u>(28,447,970)</u>	<u>247,163,894</u>	<u>291,908,160</u>	<u>(27,877,107)</u>	<u>264,031,052</u>

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of December 31, 2017 and June 30, 2017 consisted of the following:

	As of December 31, 2017		As of June 30, 2017	
	Amount	Weighted-average interest rate (*1)	Amount	Weighted-average interest rate (*1)
Short-term loans:	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
Unsecured loans from a bank due on July 31, 2018	900,000	0.25952%	—	—
Subtotal	<u>900,000</u>		<u>—</u>	
Long-term debt due within one year:				
Unsecured loans from a bank due on November 30, 2017	—	1.73875% (*3)	6,000,000	1.73875% (*3)
Unsecured loans from banks due on November 30, 2017	—	1.08375% (*3)	3,000,000	1.08375% (*3)
Unsecured loans from banks due on November 30, 2017	—	1.04550% (*3)	2,000,000	1.04550% (*3)
Unsecured loans from insurance companies due on November 30, 2017	—	1.19212% (*3)	1,000,000	1.19212% (*3)
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% (*3)	3,000,000	1.65125% (*3)
Unsecured loans from banks due on June 30, 2018	11,000,000	0.81225% (*3)	11,000,000	0.81225% (*3)
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% (*3)	—	—
Subtotal	<u>17,750,000</u>		<u>26,000,000</u>	

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

Long-term debt:

Unsecured loans from banks due on July 31, 2018 (*2)	—	0.21538%	9,000,000	0.21000%
Unsecured loans from banks due on November 1, 2018	—	0.74500% (*3)	3,750,000	0.74500% (*3)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% (*3)	3,750,000	0.77500% (*3)
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% (*3)	1,000,000	0.25000% (*3)
Unsecured loans from banks due on December 30, 2019 (*2)	—	0.28538%	13,000,000	0.28000%
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% (*3)	2,000,000	1.60000% (*3)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*3)	2,600,000	1.36400% (*3)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*3)	1,000,000	1.31261% (*3)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*3)	3,000,000	1.00000% (*3)
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*3)	2,000,000	1.60750% (*3)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*3)	2,000,000	0.98834% (*3)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.40896%	3,760,000	0.40727%
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% (*3)	5,750,000	0.81875% (*3)
Unsecured loans from insurance companies due on January 31, 2022	3,000,000	0.35000% (*3)	3,000,000	0.35000% (*3)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% (*3)	2,000,000	1.15417% (*3)
Unsecured loans from insurance companies due on November 30, 2022	1,000,000	0.35000% (*3)	—	—
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% (*3)	5,750,000	0.93625% (*3)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*3)	2,000,000	1.20250% (*3)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*3)	5,270,000	0.84375% (*3)
Unsecured loans from banks due on November 30, 2023	5,500,000	0.64801% (*3)	—	—
Unsecured loans from a bank due on May 31, 2024	3,500,000	0.68431% (*3)	—	—
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*3)	5,270,000	0.96275% (*3)
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*3)	—	—
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*3)	—	—
Subtotal	67,850,000		75,900,000	
Total	86,500,000		101,900,000	

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

(*2) JEI made full early repayments of these borrowing on December 29, 2017.

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

The scheduled repayment amounts of long-term debt as of December 31, 2017 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Long-term debt	17,750,000	4,750,000	8,600,000	13,510,000	11,750,000	29,240,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of December 31, 2017, these commitment lines have never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of December 31, 2017 and June 30, 2017 are summarized as follows:

	As of December 31, 2017		As of June 30, 2017	
	Amount	Weighted-average interest rate	Amount	Weighted-average interest rate
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>	
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%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	2,000,000	0.45000%
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	2,000,000	0.39000%
Unsecured bond #11 due on April 23, 2027	7,000,000	0.65000%	7,000,000	0.65000%
Total	<u>36,000,000</u>		<u>36,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2017 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Investment corporation bonds	7,000,000	5,000,000	—	—	—	24,000,000

10. Net Assets

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

11. Per Unit Information

Net assets per unit as of December 31, 2017 and June 30, 2017 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,305,700 units), respectively.

Net income per unit for the periods from July 1, 2017 to December 31, 2017 and January 1, 2017 to June 30, 2017 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,305,700 units) and (1,305,700 units), respectively.

Accordingly, net assets per unit were ¥110,234 as of December 31, 2017 and ¥110,050 as of June 30, 2017. Net income per unit was ¥2,833 for the period from July 1, 2017 to December 31, 2017 and ¥2,649 for the period from January 1, 2017 to June 30, 2017.

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, 2017 and June 30, 2017 are summarized as follows:

	As of December 31, 2017	As of June 30, 2017
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	18	4
Total deferred tax assets	18	4
Net deferred tax assets	18	4

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from July 1, 2017 to December 31, 2017 and from January 1, 2017 to June 30, 2017 is as follows:

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
Statutory tax rate	31.74%	31.74%
Reconciliation:		
Deductible distributions paid	(29.90)	(31.74)
Provision of reserve for reduction entry	(1.84)	—
Other	0.02	0.02
Effective tax rate	0.03%	0.02%

13. Breakdown of Revenues and Expenses

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,167,243	8,044,157
Common area revenues	1,414,547	1,447,214
Other rental revenues	269,837	268,805
Subtotal	<u>9,851,628</u>	<u>9,760,176</u>
Other		
Utilities revenues	857,938	758,214
Other revenues	96,459	124,276
Subtotal	<u>954,398</u>	<u>882,490</u>
Total rental revenues	<u>10,806,026</u>	<u>10,642,667</u>
Property operating expenses:		
Property management costs and fees	1,441,309	1,477,096
Utilities expenses	1,122,414	1,004,220
Property and other taxes	939,173	915,948
Insurance	26,035	25,047
Repairs and maintenance	202,706	271,949
Depreciation	1,972,924	1,967,524
Other	226,572	229,197
Total property operating expenses	<u>5,931,137</u>	<u>5,890,983</u>
Profit	<u><u>4,874,889</u></u>	<u><u>4,751,684</u></u>

14. Breakdown of Gain on sales of Real estate Properties

Gain on sales of real estate properties for the periods from July 1, 2017 to December 31, 2017 and from January 1, 2017 to June 30, 2017 is as follows:

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
	<i>(Thousands of yen)</i>	
Akasaka Garden City		
Proceeds from sale of real estate	22,500,000	—
Cost of sales of real estate	23,106,531	—
Other related sale expenses	2,012	—
Loss on sale of real estate	<u>608,544</u>	<u>—</u>

	For the period from July 1, 2017 to December 31, 2017	For the period from January 1, 2017 to June 30, 2017
	<i>(Thousands of yen)</i>	
No.44 Kowa Building		
Proceeds from sale of real estate	1,890,000	—
Cost of sales of real estate	1,001,482	—
Other related sale expenses	930	—
Gain on sale of real estate	<u>887,586</u>	<u>—</u>

15. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2017 and June 30, 2017, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of December 31, 2017	As of June 30, 2017
	<i>(Thousands of yen)</i>	
Due within one year	462,366	600,494
Due after one year	849,834	780,089
Total	<u>1,312,201</u>	<u>1,380,583</u>

16. Derivative Transactions

Derivative Transactions as of December 31, 2017

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

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2017 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	46,140,000	31,390,000	*	/

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

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

16. Derivative Transactions (continued)

Derivative Transactions as of June 30, 2017

(1) Transactions to which hedge accounting is not applied
Not applicable.

(2) Transactions to which hedge accounting is applied

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2017 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	51,140,000	35,140,000	*	/

* 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."

17. Related Party Transactions

For the period from July 1, 2017 to December 31, 2017

(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	457,509	Accounts payable	375,287

17. Related Party Transactions (continued)

For the period from January 1, 2017 to June 30, 2017

(1) Parent Company and Major Corporate Unitholders

Not applicable.

(2) Subsidiaries and Affiliated Companies

Not applicable.

(3) Sister Companies

Not applicable.

(4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	442,866	Accounts payable	361,935

18. Segment Information

For the periods from July 1, 2017 to December 31, 2017 and from January 1, 2017 to June 30, 2017

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.

19. 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 provision of reserve for reduction entry due to the transfer of two real estate properties, during the period from July 1, 2017 to December 31, 2017, in accordance with Section 65.7 of the Special Taxation Measures Law. Accordingly, income available for distributions of dividends amounted to ¥3,486,219,000, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,700,279,652 as the amount of retained earnings at December 31, 2017. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 15, 2018, the Board of Directors approved a resolution to make a cash distribution of ¥2,670 per unit aggregating to ¥3,486,219,000 to unitholders of record as of December 31, 2017.

20. Significant Subsequent Event

Not applicable.