

Asset Management Report for 24th Period

(Semi-Annual Report for 24th Period)

From January 1, 2018 to June 30, 2018



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 24th period (from January 1, 2018 to June 30, 2018).

During the 24th period, we implemented asset replacement by acquiring two properties from Dai-ichi Life Insurance, the sponsor, and transferring Ebina Prime Tower, in order to improve unrealized profit and enhance the profitability of the portfolio.

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. The occupancy rate remained at a high level with the period-end occupancy rate marking a record high of 99.6%.

Furthermore, we successfully realized extending the average remaining period of interest-bearing debt while at the same time lowering the average interest rate by issuing JEI's longest-ever (15-year) super long-term investment corporation bonds and refinancing borrowings.

As a result, JEI recorded operating revenue of 10,535 million yen, operating income of 4,025 million yen and net income of 3,339 million yen. Distribution per unit increased by 130 yen from the previous period to 2,800 yen.

In July 2018, JEI acquired co-ownership interest in AKASAKA INTERCITY AIR, a large, cutting-edge building developed by Nippon Steel Kowa Real Estate, the sponsor, and completed in August, 2017.

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 strong 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 level of 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		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	24th Period January 1, 2018 to June 30, 2018
Operating revenue	(Millions of yen)	10,223	10,653	10,642	11,085	10,535
(Rental revenues)	(Millions of yen)	(10,223)	(10,653)	(10,642)	(10,806)	(10,535)
Operating expenses	(Millions of yen)	6,240	6,431	6,488	6,565	6,509
(Property operating expenses)	(Millions of yen)	(5,655)	(5,849)	(5,890)	(5,931)	(5,754)
Operating income	(Millions of yen)	3,982	4,221	4,154	4,519	4,025
Ordinary income	(Millions of yen)	3,113	3,407	3,460	3,701	3,340
Net income	(Millions of yen)	3,112	3,406	3,459	3,700	3,339
Total assets	(Millions of yen)	283,653	296,081	297,177	282,197	285,008
(Period-on-period change)	(%)	(-0.3)	(4.4)	(0.4)	(-5.0)	(1.0)
Net assets	(Millions of yen)	137,808	143,640	143,693	143,933	143,786
(Period-on-period change)	(%)	(-0.0)	(4.2)	(0.0)	(0.2)	(-0.1)
Unitholders' capital	(Millions of yen)	134,434	139,972	139,972	139,972	139,972
Total outstanding investment units	(units)	1,264,450	1,305,700	1,305,700	1,305,700	1,305,700
Net assets per unit	(yen)	108,987	110,010	110,050	110,234	110,122
Net income per unit (Note 1)	(yen)	2,461	2,614	2,649	2,833	2,557
Total distribution	(Millions of yen)	3,113	3,406	3,460	3,486	3,655
Distribution per unit	(yen)	2,462	2,609	2,650	2,670	2,800
(Profit distribution per unit)	(yen)	(2,462)	(2,609)	(2,650)	(2,670)	(2,800)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.1	1.2	1.2	1.3	1.2
(Annualized rate)	(%)	(2.2)	(2.3)	(2.4)	(2.5)	(2.4)
Return on equity (Note 3)	(%)	2.3	2.4	2.4	2.6	2.3
(Annualized rate)	(%)	(4.5)	(4.8)	(4.9)	(5.1)	(4.7)
Capital ratio (Note 4)	(%)	48.6	48.5	48.4	51.0	50.5
(Period-on-period change)	(%)	(0.1)	(-0.1)	(-0.2)	(2.7)	(-0.6)
Payout ratio (Note 5)	(%)	100.0	100.0	100.0	94.2	109.5
Number of investment properties	(properties)	30	31	31	29	30
Number of tenants	(tenants)	228	237	242	243	202
Total leasable space (Note 6, 7)	(m ²)	356,884	362,305	362,292	356,854	341,247
Occupancy rate	(%)	99.1	99.0	99.4	99.1	99.6
Depreciation	(Millions of yen)	1,899	1,956	1,967	1,972	1,926
Capital expenditure	(Millions of yen)	729	1,294	1,056	1,092	867
Net operating income (NOI) (Note 8)	(Millions of yen)	6,467	6,760	6,719	6,847	6,707
Funds from operation (FFO) per unit (Note 9)	(yen)	3,964	4,107	4,156	4,131	4,159
FFO multiples (Note 10)	(times)	17.6	18.2	14.9	16.0	17.0
Debt service coverage ratio (DSCR) (Note 11)	(times)	8.2	9.4	10.7	10.7	11.1
Interest-bearing debt	(Millions of yen)	131,900	137,900	137,900	122,500	126,500
Loan-to-value (Note 12)	(%)	46.5	46.6	46.4	43.4	44.4
Number of days in operation	(days)	182	184	181	184	181

- (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 21st period is 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 June 30, 2018, JEI settled its twenty-fourth period.

1) Business conditions and results

Despite some uncertainties stemming from the U.S.-China trade friction, the Japanese economy during the 24th period continued to be on a recovery trend following the previous period and against the backdrop of favorable and expanding European and U.S. economies, solid consumer spending and corporate investment appetites fostered by a growing sense of labor shortage.

As to the interest rate environment in Japan, although U.S. interest rates have shown an upward trend, the long-term interest rate in Japan remains at a low level due to the continuation of the monetary policy of the Bank of Japan.

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 light of such environment for the transaction market, JEI implemented asset replacement which involves transfer of owned properties and acquisition of new properties with an aim to improve the portfolio.

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 further strengthened efforts for upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities for upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result, both the increased amount of monthly rent and period-end occupancy rate (Note 1) for existing properties reached new record highs at 27 million yen and 99.6%, respectively.

The total number of properties owned and managed by JEI at the end of the current period was 30 with total acquisition price of 266.9 billion yen and total leasable space of 341,247.30 m² (103,227.31 tsubo).

2) Fund procurement highlights

During the 24th period, out of 7 billion yen of redemption funds for investment corporation bonds maturing in November 2018, JEI procured 4 billion yen in April in advance, considering interest rate trends and situations of the market for issuing investment corporation bonds. JEI issued 2 billion yen of super long-term investment corporation bonds (15 years; interest rate: 0.95%) for the first time as well as 2 billion yen of 5-year bonds (interest rate: 0.24%) at the same time.

Moreover, JEI refinanced a total of 14 billion yen in loans that matured in June (average borrowing period: 5.4 years; average interest rate: 0.99%) with loans with an average borrowing period of 6.9 years and an average interest rate of 0.65%.

As a result of the above, as of the end of the 24th period the average remaining period of interest-bearing debt (Note 2) was 4.8 years (extended by 0.4 years from the end of the previous period) and the period-end average interest-bearing debt interest rate (Note 3) was 0.80% (down 0.05% from the end of the previous period) and the total assets loan-to-value ratio (total assets-based LTV) was 44.4% (up 1.0% 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 June 30, 2018)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 4)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Rating and Investment Information, Inc. (R&I)	Issuer rating A+ (Stable)	A+
Moody's Japan	Issuer rating A3 (Stable)	—

3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,535 million yen in operating revenue, 4,025 million yen in operating income, 3,340 million yen in ordinary income and 3,339 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income, after reversing part of reduction entry (316,498,238 yen) and adding the amount to the unappropriated retained earnings. Accordingly, distribution per unit for the period was 2,800 yen.

(Note 1) Occupancy rate is a percentage of total leased space to total leasable space of each real estate or real estate in trust.

(Note 2) Average remaining period of interest-bearing debt is calculated by applying at the end of the period a weighted average of the remaining period until the repayment date or redemption date of borrowings and investment corporation bonds to the balance of each interest-bearing debt, for all interest-bearing debt.

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

(Note 4) The rating 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, 11th series unsecured investment corporation bonds, 12th series unsecured investment corporation bonds and 13th 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.

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- (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 24th period.

[Market price of the investment securities]

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

Investment unit market price	Fiscal period (closing date)	20th period (June 2016)	21st period (December 2016)	22nd period (June 2017)	23rd period (December 2017)	24th period (June 2018)
	Highest (yen)	161,000	149,200	147,200	137,200	147,400
	Lowest (yen)	123,200	132,900	125,100	121,100	131,400

(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

Considering distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law) which allows for JEI to deduct the amount of profit distribution from its taxable income upon reversing part of reduction entry (316,498,238 yen) and adding the amount to unappropriated retained earnings. Accordingly, distribution per unit for the period was 2,800 yen.

Fiscal period	20th period	21st period	22nd period	23rd period	24th period
Accounting period	January 1, 2016 to June 30, 2016	July 1, 2016 to December 31, 2016	January 1, 2017 to June 30, 2017	July 1, 2017 to December 31, 2017	January 1, 2018 to June 30, 2018
Unappropriated retained earnings at end of period (Thousands of yen)	3,113,717	3,406,981	3,460,111	3,700,279	3,339,461
Retained income (Thousands of yen)	641	409	6	214,060	—
Total cash distribution amount (Thousands of yen)	3,113,075	3,406,571	3,460,105	3,486,219	3,655,960
(Cash distributions per unit) (yen)	(2,462)	(2,609)	(2,650)	(2,670)	(2,800)
Of which, total profit distributions (Thousands of yen)	3,113,075	3,406,571	3,460,105	3,486,219	3,655,960
(Profit distribution per unit) (yen)	(2,462)	(2,609)	(2,650)	(2,670)	(2,800)
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)	(—)	(—)	(—)	(—)	(—)

(5) Policy and Issues on Future Investment Management

1) Outlook for investment environment

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

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

2) Policy and issues on future investment management

For external growth, JEI will continue striving for acquisition of competitive properties, including through the replacement of assets, by means of well-balanced investments based on size and target area, to increase asset size and improve portfolio quality 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

(Reference Material)

1. Acquisition of an Asset (AKASAKA INTERCITY AIR)

JEI concluded the trust beneficiary interest in real estate transaction agreement on June 27, 2018 and received the property on July 2, 2018 as described below.

(Overview of acquired asset)

Acquired asset	Trust beneficiary interest in real estate (quasi co-ownership)
Name of asset	AKASAKA INTERCITY AIR
Location	1-8-1 Akasaka, Minato-ku, Tokyo
Acquisition price (Note)	6,590,000,000 yen
Date of conclusion of agreement	June 27, 2018
Acquisition date	July 2, 2018
Seller	Nippon Steel Kowa Real Estate Co., Ltd.

(Note) Acquisition price is the acquisition value of trust beneficiary interest, excluding acquisition-related expenses, JEI's share of real estate tax and city planning tax or consumption tax.

2. Issuance of Investment Corporation Bonds (Green Bonds)

JEI decided on the issuance of investment corporation bonds (Green Bonds) on August 3, 2018 as described below.

(Overview of investment corporation bonds)

Name of investment corporation bonds	14th Series Unsecured Investment Corporation Bonds
Total amount of investment corporation bonds issued	4 billion yen
Interest rate	0.630% per annum
Offering date	August 3, 2018
Payment date	August 10, 2018
Redemption method and redemption date	The entire amount will be redeemed on August 10, 2028
Collateral	Unsecured/ Unguaranteed

2. Outline of the Investment Corporation

(1) Investment units

Fiscal period	20th As of June 30, 2016	21st As of December 31, 2016	22nd As of June 30, 2017	23rd As of December 31, 2017	24th As of June 30, 2018
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	1,305,700 units	1,305,700 units	1,305,700 units	1,305,700 units
Unitholders' capital	134,434 million yen	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen
Number of unitholders	7,686 individuals	7,850 individuals	8,086 individuals	7,680 individuals	7,189 individuals

(2) Unitholders

Major unitholders as of June 30, 2018 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	329,034	25.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	179,937	13.78
Nippon Steel Kowa Real Estate Co., Ltd.	1-8-1 Akasaka, Minato-ku, Tokyo	71,560	5.48
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	65,381	5.01
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	52,914	4.05
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	17,393	1.33
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	17,329	1.33
STATE STREET BANK AND TRUST COMPANY 505012	ONE LINCOLN STREET, BOSTON MA USA 02111	15,824	1.21
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	14,317	1.10
Total		784,349	60.07

(3) Officers

1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended June 30, 2018 (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, Sugiyaama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC (Note 2)	–	14,700 (Note 3)

(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 Japanese name of Ernst & Young ShinNihon LLC was changed on July 1, 2018 (English name remains unchanged.)

(Note 3) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 24th period (11,000 thousand yen), the fee for the English financial statements audit and the preparation of a comfort letter upon the issuance of the 12th Series Unsecured Investment Corporation Bonds and 13th Series Unsecured Investment Corporation Bonds in April 2018.

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

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

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

JEI's asset management company, asset custodian and administrative agents as of June 30, 2018 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)	23rd Period (As of December 31, 2017)		24th Period (As of June 30, 2018)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	11,032	3.9	11,045	3.9
		Area II	5,583	2.0	5,626	2.0
Area I		93,492	33.1	93,210	32.7	
Area II		9,057	3.2	9,004	3.2	
Area III		100,441	35.6	95,051	33.4	
Area IV		18,747	6.6	21,425	7.5	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,918	6.3	17,817	6.3
Total			256,272	90.8	253,180	88.8
Deposits in bank and other assets			25,925	9.2	31,827	11.2
Total assets			282,197	100.0	285,008	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

(2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2018 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	29,188	38,375.65	38,375.65	100.0	9.0	Office building
AKASAKA INTERCITY	27,065	11,021.03	11,021.03	100.0	5.4	Office building
Nisseki Yokohama Building	23,703	40,440.73	39,938.39	98.8	10.7	Office building
Omori Bellport D	21,047	25,801.66	25,801.66	100.0	8.9	Office building
HAMARIKYU INTERCITY	17,817	19,718.11	19,718.11	100.0	7.0	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,639	25,043.93	25,043.93	100.0	7.7	Office building
Mansard Daikanyama	11,365	5,420.80	5,420.80	100.0	2.8	Office building
Kowa Nishi-Shimbashi Building	11,045	8,949.04	8,949.04	100.0	(Note 4)	Office building
Daiba Garden City Building	9,896	12,122.85	12,122.85	100.0	3.2	Office building
Kowa Kawasaki Higashiguchi Building	9,414	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	173,185	205,506.52	205,004.18	99.8	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2018. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2018. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the co-ownership interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2018.

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

(3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2018 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	25,900	21,047
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,300	9,126
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,950	8,189
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	27,500	27,065
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,090	4,748
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,000	9,896
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	23,600	17,817
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,070	1,769
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	12,500	11,045
I-15	Mansard Daikanyama	10-1 Sarugakucho, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	12,900	11,365
Area I				140,810	122,073
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,850	5,626
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,960	7,138
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,260	1,865
Area II				13,070	14,631
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,100	12,639
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,690	9,414
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,790	5,056
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,570	4,320
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,290	2,249
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	25,900	29,188
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,300	1,640
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	8,590	6,177
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	28,400	23,703
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	659	660
Area III				107,289	95,051
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,250	2,899
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,460	2,600
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	7,960	5,213
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	3,880	2,195
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,170	4,251
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,720	1,419
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,000	2,844
Area IV				29,440	21,425
Total				290,609	253,180

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2018 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	23rd Period July 1, 2017 to December 31, 2017				24th Period January 1, 2018 to June 30, 2018			
		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	937	8.7	1	100.0	937	8.9
I-2	Shiba 2-Chome Building	2	99.2	158	1.5	2	98.4	368	3.5
I-3	JEI Hamamatsucho Building	1	100.0	226	2.1	1	100.0	228	2.2
I-8	AKASAKA INTERCITY	13	98.6	587	5.4	14	100.0	572	5.4
I-9	Kowa Shirokanedai Building	1	100.0	179	1.7	1	95.5	168	1.6
I-10	Daiba Garden City Building	1	100.0	334	3.1	1	100.0	335	3.2
I-12	HAMARIKYU INTERCITY	1	99.2	734	6.8	1	100.0	736	7.0
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	8	85.3	294	2.7	10	100.0	292	2.8
Area I		44	98.9	-	-	47	99.6	-	-
II-1	NHK Nagoya Housou-Center Building	35	96.4	353	3.3	36	98.9	363	3.5
II-2	JEI Nishi-Honmachi Building	1	96.9	210	2.0	1	96.9	208	2.0
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	83	0.8	1	100.0	88	0.8
Area II		37	97.0	-	-	38	98.2	-	-
III-1	Musashikosugi Tower Place	40	100.0	812	7.5	40	100.0	806	7.7
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-5	Kawasaki Nisshincho Building	1	100.0	195	1.8	1	100.0	208	2.0
III-7	JEI Ryogoku Building	1	100.0	107	1.0	1	100.0	107	1.0
III-8	Ebina Prime Tower (Note 3)	38	99.7	442	4.1	-	-	390	3.7
III-9	Kowa Kawasaki Nishiguchi Building	1	97.4	939	8.7	1	100.0	951	9.0
III-10	Pacific Square Sengoku	10	100.0	55	0.5	1	100.0	55	0.5
III-11	Core City Tachikawa	1	100.0	311	2.9	1	100.0	318	3.0
III-12	Nisseki Yokohama Building	1	99.7	1,149	10.6	1	98.8	1,125	10.7
III-13	Yokohama Bentendori Dai-ichi Seimei Building	-	-	-	-	1	100.0	3	0.0
Area III		95	99.3	-	-	49	99.7	-	-
IV-2	JEI Kyobashi Building	1	100.0	182	1.7	1	100.0	179	1.7
IV-3	JEI Hiroshima Hacchobori Building	1	100.0	148	1.4	1	100.0	147	1.4
IV-4	SE Sapporo Building	1	100.0	368	3.4	1	100.0	384	3.6
IV-5	Aoba-dori Plaza	53	99.4	191	1.8	53	99.4	191	1.8
IV-6	Daiwa Minami-morimachi Building	10	100.0	198	1.8	10	100.0	197	1.9
IV-7	JEI Naha Building	1	100.0	80	0.7	1	100.0	79	0.8
IV-8	Hiroshima Dai-ichi Seimei OS Building	-	-	-	-	1	100.0	12	0.1
Area IV		67	99.9	-	-	68	99.9	-	-
Total		243	99.1	10,806	100.0	202	99.6	10,535	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. Pacific Square Sengoku changed to a master lease agreement on May 1, 2018.

(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 Ebina Prime Tower on June 15, 2018.

(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	38,640,000	—

(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 24th period (ended June 30, 2018). The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended June 30, 2018	Total of advance payment
Kowa Kawasaki Higashiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 1)	From July 2018 To December 2018	150	—	—
JEI Naha Building	Naha-shi, Okinawa	Renovation of exterior wall	From February 2018 To July 2018	97	—	—
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment (Phase 2/2)	From April 2018 To December 2018	94	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 2)	From June 2017 To December 2018	77	—	—
Hiroshima Dai-ichi Seimei OS Building	Hiroshima-shi, Hiroshima	Renovation of exterior wall tiles	From September 2018 To December 2018	70		
Core City Tachikawa	Tachikawa-shi, Tokyo	Renewal of disaster prevention equipment (receivers)	From May 2018 To November 2018	30		

(2) Capital Expenditures for the Six Months Ended June 30, 2018

The following table shows constructions conducted by JEI during the period ended June 2018 and expensed as capital expenditures. Capital expenditures for the period ended June 2018 were 867 million yen and, when combined with repairs and maintenance costs of 160 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,027 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air-conditioning systems (Phase 1/4)	From November 2017 To June 2018	225
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 1)	From December 2017 To June 2018	85
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renovation of bathrooms/kitchens (Phase 1/2)	From October 2017 To March 2018	71
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment (Phase 1/2)	From October 2017 To March 2018	65
HAMARIKYU INTERCITY	Minato-ku, Tokyo	Repair of common space lighting	From March 2018 To June 2018	38
NHK Nagoya Housou-Center Building	Nagoya-shi, Aichi	Renewal of security cameras	From September 2017 To March 2018	32
Other constructions			—	348
Total				867

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

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

(Unit: Millions of yen)

Item	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	24th Period January 1, 2018 to June 30, 2018
Reserved funds at beginning of period	310	436	450	546	289
Increase	619	675	468	484	636
Decrease	492	662	371	742	667
Reserved funds at the end of period	436	450	546	289	258

5. Expenses and Liabilities

(1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	23rd Period July 1, 2017 to December 31, 2017	24th Period January 1, 2018 to June 30, 2018
(a) Asset management fees	457,509	431,747
(b) Custodian fees	22,102	21,053
(c) Administrative service fees	41,804	39,666
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	95,510	80,383
Total	634,466	590,391

(2) Borrowings

Borrowings by each financing source as of the end of the 24th period (ended June 30, 2018) are as follows:

Classification	Lender (Note 3)	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	900,000	0.26469	July 31, 2018	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
Sub Total			900,000	900,000					
Long-term loans due within one year	The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	—	1.65125 (Note 2)	June 29, 2018	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	June 28, 2013	5,000,000	—	0.81225 (Note 2)	June 30, 2018			
	MUFG Bank, Ltd.		2,000,000	—					
	Sumitomo Mitsui Banking Corporation		1,100,000	—					
	Shinkin Central Bank		1,000,000	—					
	The Norinchukin Bank		1,000,000	—					
	The Bank of Fukuoka, Ltd.		700,000	—					
	Resona Bank, Ltd.		200,000	—					
	Mizuho Bank, Ltd.	March 11, 2014	850,000	850,000	0.74500 (Note 2)	November 1, 2018			
	The Norinchukin Bank		1,450,000	1,450,000					
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000	0.77500 (Note 2)	March 8, 2019			
	Mizuho Bank, Ltd.		—	850,000					
	The Norinchukin Bank		—	1,450,000					
MUFG Bank, Ltd.	—		850,000						
Mizuho Trust & Banking Co., Ltd.	—	600,000							
Sub Total			17,750,000	7,500,000					

	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 (Note 3)									
Long-term loans	Mizuho Bank, Ltd.	March 11, 2014	850,000	—	0.77500 (Note 2)	March 8, 2019	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	The Norinchukin Bank		1,450,000	—						
	MUFG Bank, Ltd.		850,000	—						
	Mizuho Trust & Banking Co., Ltd.		600,000	—						
	Nippon Life Insurance Company	December 12, 2016	1,000,000	1,000,000	0.25000 (Note 2)	December 12, 2019				
	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020				
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 2)					
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000						
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000						
	MUFG Bank, Ltd.		500,000	500,000						
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000						1.31261 (Note 2)
	Mizuho Bank, Ltd.	December 27, 2013	675,000	675,000	1.00000 (Note 2)					
	The Norinchukin Bank		1,162,500	1,162,500						
	MUFG Bank, Ltd.		675,000	675,000						
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500						
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)					June 30, 2021
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 2)					
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.41132					November 29, 2021
	MUFG Bank, Ltd.		540,000	540,000						
	Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000						
	Sumitomo Mitsui Trust Bank Limited		1,620,000	1,620,000						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.81875 (Note 2)	December 30, 2021				
	MUFG Bank, Ltd.		2,000,000	2,000,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Sompo Japan Nipponkoa Insurance Inc.	January 31, 2017	2,000,000	2,000,000	0.35000 (Note 2)	January 31, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 2)	June 30, 2022				
	Sompo Japan Nipponkoa Insurance Inc.	November 30, 2017	500,000	500,000	0.35000 (Note 2)	November 30, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 2)	December 30, 2022				
	MUFG Bank, Ltd.		2,000,000	2,000,000						
Mizuho Trust & Banking Co., Ltd.	1,200,000		1,200,000							
Resona Bank, Ltd.	600,000		600,000							
Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 2)	June 30, 2023					
The Dai-ichi Life Insurance Company Limited	June 29, 2018	—	3,000,000	0.46000 (Note 2)						

	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 (Note 3)									
Long-term loans	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.84375 (Note 2)	November 30, 2023	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	MUFG Bank, Ltd.		250,000	250,000						
	Sumitomo Mitsui Banking Corporation		140,000	140,000						
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000						
	The Norinchukin Bank		1,500,000	1,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		750,000	750,000						
	The Bank of Fukuoka, Ltd.		150,000	150,000						
	MUFG Bank, Ltd.	November 30, 2017	1,000,000	1,000,000	0.64801 (Note 2)					
	Sumitomo Mitsui Banking Corporation		3,500,000	3,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		500,000	500,000						
	Development Bank of Japan Inc.		3,500,000	3,500,000	0.68431 (Note 2)	May 31, 2024				
	Mizuho Bank, Ltd.	November 30, 2015	870,000	870,000	0.96275 (Note 2)	November 30, 2024				
	MUFG Bank, Ltd.		590,000	590,000						
	Sumitomo Mitsui Banking Corporation		350,000	350,000						
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000						
	Resona Bank, Ltd.		1,000,000	1,000,000						
	Aozora Bank, Ltd.		750,000	750,000						
	The Bank of Fukuoka, Ltd.		150,000	150,000						
	Mizuho Bank, Ltd.	June 29, 2018	—	3,700,000	0.67400 (Note 2)	June 30, 2025				
	MUFG Bank, Ltd.		—	1,000,000						
	Sumitomo Mitsui Banking Corporation		—	400,000						
	The Norinchukin Bank		—	1,000,000						
	Shinkin Central Bank		—	1,000,000						
	The Bank of Fukuoka, Ltd.		—	700,000						
	Resona Bank, Ltd.		—	200,000						
	Mizuho Bank, Ltd.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026				
	MUFG Bank, Ltd.		1,750,000	1,750,000						
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000						
The Norinchukin Bank	850,000		850,000							
Aozora Bank, Ltd.	500,000		500,000							
Development Bank of Japan Inc.	1,300,000		1,300,000							
Mizuho Bank, Ltd.	June 29, 2018	—	1,300,000	0.79100 (Note 2)	December 30, 2026					
MUFG Bank, Ltd.		—	1,000,000							
Sumitomo Mitsui Banking Corporation		—	700,000							
Sub Total		67,850,000	78,100,000							
Total		86,500,000	86,500,000							

(Note 1) Average interest rate is calculated by applying a weighted average to the loan balance during the period. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated by applying a weighted average rate in consideration of the effect of the interest rate swaps.

(Note 2) Loans are fixed-rate loans (including loans with fixed-rate interest using interest rate swaps).

(Note 3) Lending business, etc. for domestic corporations by Mitsubishi UFJ Trust and Banking Corporation were succeeded to MUFG Bank, Ltd. on April 16, 2018.

(3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2018 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 2)			
9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 4)			
10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 2)			
11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027		(Note 4)			
12th series unsecured investment corporation bonds	April 20, 2018	—	2,000,000	0.24000	April 20, 2023		(Note 4)			
13th series unsecured investment corporation bonds		—	2,000,000	0.95000	April 20, 2033					
Total		36,000,000	40,000,000							

(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)
Trust beneficiary interest in real estate	Hiroshima Dai-ichi Seimei OS Building	June 15, 2018	2,780	—	—	—	—
Trust beneficiary interest in real estate	Yokohama Bentendori Dai-ichi Seimei Building	June 15, 2018	640	—	—	—	—
Trust beneficiary interest in real estate	Ebina Prime Tower	—	—	June 15, 2018	5,600	5,670	-165
Total		—	3,420	—	5,600	5,670	-165

(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	Hiroshima Dai-ichi Seimei OS Building	Trust beneficiary interest in real estate	June 15, 2018	2,780	3,000	Japan Real Estate Institute	April 1, 2018
Acquisition	Yokohama Bentendori Dai-ichi Seimei Building	Trust beneficiary interest in real estate	June 15, 2018	640	659	Japan Real Estate Institute	April 1, 2018
Transfer	Ebina Prime Tower	Trust beneficiary interest in real estate	June 15, 2018	5,600	4,340	Japan Real Estate Institute	April 1, 2018

(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

Of the transactions of JEI that are subject to research for specified asset value and other particulars under Article 201 of the Investment Trust Law, those other than what are described in 1) Real estate, etc. is researched and reported by Ernst & Young ShinNihon LLC.

Two interest rate swap contracts were subject to the research during the period from January 1, 2018 to June 30, 2018 and we have received the consensus report on procedure operation results from Ernst & Young ShinNihon LLC. Concerning the interest rate swap contracts, Ernst & Young ShinNihon LLC was requested to report on the name of counterparty, quantity, contractual figures, transaction term and other matters pertaining to the over-the-counter derivative transactions.

This research is not part of the audit of financial statements and will not provide a guarantee of the *Asset Management Report for 24th period (Semi-Annual Report for 24th Period)*

adequacy of prices and the internal control system.

(4) Transactions with Interested Parties

1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	3,420 million yen	5,600 million yen
Breakdown for transactions with interested parties		
The Dai-ichi Life Insurance Company Limited	3,420 million yen (100.0%)	- million yen (-%)
Total	3,420 million yen (100.0%)	- million yen (-%)

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

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,476,177	Nippon Steel Kowa Real Estate Co., Ltd.	251,363	17.0%
		Kowa Real Estate Facilities, Co., Ltd.	287,916	19.5%
		Nippon Steel Community Service Co., Ltd.	74	0.0%
Total	1,476,177	-	539,354	36.5%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2018.

(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.	14,502 thousand yen
Kowa Real Estate Facilities Co., Ltd.	221,401 thousand yen

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

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

7. Accounting

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

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

(2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

8. Others

(1) Notice

- 1) General unitholders’ meeting
There were no applicable items during the period.

- 2) Board of directors meeting
Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2018 are summarized below.

Approval date	Approved agenda	Description
February 15, 2018	Entrustment of general administrative duties concerning investment corporation bonds	The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 15, 2018 to February 14, 2019. The board of directors approved the respective candidate general administrator for “administrative duties concerning offering of investment corporation bonds” and “administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period,” and assigned decisions on all other necessary matters to the Executive Director.

(2) 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
June 30, 2018 and December 31, 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 June 30, 2018, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2018, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

September 19, 2018
Tokyo, Japan

Japan Excellent, Inc.

Balance Sheets

As of June 30, 2018 and December 31, 2017

	As of June 30, 2018	As of December 31, 2017
	<i>(Thousands of yen)</i>	
Assets		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 4 and 5)</i>	29,258,892	23,591,162
Rental receivables	394,487	456,268
Consumption taxes refundable	82,710	—
Prepaid expenses and other current assets	259,546	191,862
Total current assets	<u>29,995,637</u>	<u>24,239,293</u>
Property and equipment <i>(Note 7)</i> :		
Buildings and building improvements	7,053,880	6,949,821
Machinery and equipment	6,253	6,253
Furniture and fixtures	48,213	12,270
Land	9,292,709	9,272,487
Construction in progress	14,169	12,606
Buildings and building improvements for trust accounts	113,626,364	116,764,611
Machinery and equipment for trust accounts	826,418	815,194
Furniture and fixtures for trust accounts	227,219	225,151
Land for trust accounts	141,532,889	141,454,273
Construction in progress for trust accounts	105,704	99,194
Less: accumulated depreciation	<u>(28,661,403)</u>	<u>(28,447,970)</u>
Net property and equipment	<u>244,072,419</u>	<u>247,163,894</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	63	88
Leasehold rights for trust accounts	7,382,016	7,382,016
Other intangible assets for trust accounts	4,572	4,710
Total intangible assets	<u>9,108,260</u>	<u>9,108,423</u>
Investments and other assets:		
Security deposits	15,181	15,181
Long-term prepaid expenses	877,064	796,524
Other assets	786,630	738,882
Total investments and other assets	<u>1,678,876</u>	<u>1,550,588</u>
Deferred assets:		
Investment corporation bond issuance costs	153,193	135,216
Total deferred assets	<u>153,193</u>	<u>135,216</u>
Total assets	<u><u>285,008,387</u></u>	<u><u>282,197,416</u></u>

	As of June 30, 2018	As of December 31, 2017
	<i>(Thousands of yen)</i>	
Liabilities		
Current liabilities:		
Accounts payable – trade	1,154,693	1,627,141
Short-term loans <i>(Notes 5 and 8)</i>	900,000	900,000
Investment corporation bonds due within one year <i>(Notes 5 and 9)</i>	12,000,000	7,000,000
Long-term debt due within one year <i>(Notes 5 and 8)</i>	7,500,000	17,750,000
Accounts payable – other	423,558	445,675
Accrued expenses	146,440	144,768
Accrued corporation taxes	880	977
Accrued consumption taxes	—	677,350
Advances received	83,308	79,326
Other current liabilities	—	0
Total current liabilities	<u>22,208,883</u>	<u>28,625,240</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 5 and 9)</i>	28,000,000	29,000,000
Long-term debt <i>(Notes 5 and 8)</i>	78,100,000	67,850,000
Security deposits from tenants <i>(Note 5)</i>	1,104,337	1,084,728
Security deposits from tenants for trust accounts <i>(Note 5)</i>	11,808,282	11,703,805
Total long-term liabilities	<u>119,012,619</u>	<u>109,638,534</u>
Total liabilities	<u><u>141,221,503</u></u>	<u><u>138,263,774</u></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	474,537	260,476
Retained earnings	3,339,461	3,700,279
Total surplus	<u>3,813,999</u>	<u>3,960,756</u>
Total unitholders' equity	<u>143,786,884</u>	<u>143,933,641</u>
Total net assets	<u>143,786,884</u>	<u>143,933,641</u>
Total liabilities and net assets	<u><u>285,008,387</u></u>	<u><u>282,197,416</u></u>

Japan Excellent, Inc.

Statements of Income and Retained Earnings

For the periods from January 1, 2018 to June 30, 2018
and from July 1, 2017 to December 31, 2017

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 2017
	<i>(Thousands of yen)</i>	
Revenues (Notes 13 and 14) :		
Rental business revenues	9,692,018	9,851,628
Other	843,357	954,398
Gain on sales of real estate properties	—	279,042
Total revenues	10,535,375	11,085,069
Operating expenses (Notes 13 and 14) :		
Property operating expenses	5,754,046	5,931,137
Loss on sales of real estate properties	165,344	—
Asset management fees	431,747	457,509
Custodian fees	21,053	22,102
Administrative service fees	39,666	41,804
Compensation for directors	6,540	6,540
Other	91,383	106,510
Total operating expenses	6,509,782	6,565,603
Operating income	4,025,593	4,519,465
Other income:		
Interest income	121	105
Other	773	658
Other expenses:		
Interest expense	376,796	442,384
Loan arrangement fees	145,278	221,464
Interest expense on investment corporation bonds	142,530	140,286
Amortization of investment corporation bond issuance costs	15,557	14,570
Other	5,959	271
Ordinary income	3,340,365	3,701,251
Income before income taxes	3,340,365	3,701,251
Income taxes (Note 12) :		
Current	899	993
Deferred	4	(14)
Net income	3,339,461	3,700,272
Retained earnings at beginning of period	—	6
Retained earnings at end of period	3,339,461	3,700,279

Japan Excellent, Inc.

Statements of Changes in Net Assets

For the periods from January 1, 2018 to June 30, 2018
and from July 1, 2017 to December 31, 2017

For the period from January 1, 2018 to June 30, 2018							
Net assets							
Unitholders' equity							
Surplus							
Number of units in issue	Unitholders' capital	Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>							
Balance as of December 31, 2017	1,305,700	139,972,885	260,476	3,700,279	3,960,756	143,933,641	143,933,641
Changes during the fiscal period:							
Provision of reserve for reduction entry	—	—	214,060	(214,060)	—	—	—
Distributions from retained earnings	—	—	—	(3,486,219)	(3,486,219)	(3,486,219)	(3,486,219)
Net income	—	—	—	3,339,461	3,339,461	3,339,461	3,339,461
Total changes during the fiscal period	—	—	214,060	(360,817)	(146,757)	(146,757)	(146,757)
Balance as of June 30, 2018	1,305,700	139,972,885	474,537	3,339,461	3,813,999	143,786,884	143,786,884
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	Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus	Total unitholders' equity	Total net assets
<i>(Thousands of yen)</i>							
Balance as of June 30, 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

Japan Excellent, Inc.

Statements of Cash Flows

For the periods from January 1, 2018 to June 30, 2018
and from July 1, 2017 to December 31, 2017

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 2017
	<i>(Thousands of yen)</i>	
Cash flows from operating activities		
Income before income taxes	3,340,365	3,701,251
Depreciation and amortization	1,926,111	1,972,950
Amortization of investment corporation bond issuance costs	15,557	14,570
Interest income	(121)	(105)
Interest expense	519,327	582,670
Decrease (increase) in rental receivables	61,780	29,853
Decrease (increase) in consumption taxes refundable	(82,710)	—
Decrease (increase) in prepaid expense	(60,839)	1,540
Increase (decrease) in accounts payable – trade	(121,402)	(103,534)
Increase (decrease) in accounts payable – other	(21,986)	6,463
Increase (decrease) in unpaid consumption taxes	(677,350)	387,463
Increase (decrease) in advances received	3,982	(4,559)
Decrease (increase) in long-term prepaid expenses	(80,540)	(167,553)
Decrease in property and equipment for trust accounts due to sale	5,670,803	24,108,013
Other, net	(54,304)	(358,243)
Subtotal	10,438,673	30,170,782
Interest received	121	105
Interest paid	(517,654)	(571,039)
Income taxes paid	(996)	(694)
Net cash provided by operating activities	9,920,143	29,599,154
Cash flows from investing activities		
Purchases of property and equipment	(164,045)	(7,267,725)
Purchases of property and equipment for trust accounts	(4,693,342)	(1,680,016)
Proceeds from security deposits from tenants	41,208	395,152
Payments for security deposits to tenants	(21,600)	(33,522)
Proceeds from security deposits in trust accounts from tenants	694,141	656,954
Payments for security deposits in trust accounts to tenants	(589,664)	(1,401,829)
Net cash used in investing activities	(4,733,302)	(9,330,987)
Cash flows from financing activities		
Proceeds from short-term loans	—	10,600,000
Repayment for short-term loans	—	(9,700,000)
Proceeds from long-term debt	14,000,000	17,700,000
Repayment for long-term debt	(14,000,000)	(34,000,000)
Proceeds from issuance of investment corporation bonds	3,966,464	—
Distributions to unitholders	(3,485,575)	(3,459,034)
Net cash provided by (used in) financing activities	480,889	(18,859,034)
Net increase (decrease) in cash and cash equivalents	5,667,730	1,409,132
Cash and cash equivalents at beginning of period	23,591,162	22,182,030
Cash and cash equivalents at end of period <i>(Note 4)</i>	29,258,892	23,591,162

Japan Excellent, Inc.

Notes to Financial Statements

For the periods from January 1, 2018 to June 30, 2018
and from July 1, 2017 to December 31, 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 June 30, 2018, JEI held 30 properties with 341,247.30 square meters of total leasable space and had leases with 202 tenants excluding residential tenants.

2. Basis of Presentation

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

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

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

3. Summary of Significant Accounting Policies

Cash and cash equivalents

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

Property and equipment including trust accounts 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. The capitalized amount for the period from July 1, 2017 to December 31, 2017 was ¥24,555 thousand. The capitalized amount for the period from January 1, 2018 to June 30, 2018 was ¥18,581 thousand.

Revenue recognition

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

Derivatives and hedge accounting

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

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

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

Properties in trust accounts

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

4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2018 and December 31, 2017 consisted of the following:

	As of June 30, 2018	As of December 31, 2017
	<i>(Thousands of yen)</i>	
Cash and cash deposits	13,652,251	7,486,725
Cash and deposits in trust	15,606,641	16,104,436
Cash and cash equivalents including trust accounts	<u>29,258,892</u>	<u>23,591,162</u>

5. Financial Instruments

For the periods from January 1, 2018 to June 30, 2018 and from July 1, 2017 to December 31, 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 96.3% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2018. 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 June 30, 2018). Liquidity risk is also mitigated through the constant management of liquidity on hand.

5. Financial Instruments (continued)

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

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

Fair value of financial instruments

The following are carrying values and fair values as of June 30, 2018 and December 31, 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 June 30, 2018			As of December 31, 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	13,652,251	13,652,251	—	7,486,725	7,486,725	—
(2) Cash and deposits in trust	15,606,641	15,606,641	—	16,104,436	16,104,436	—
Total assets	<u>29,258,892</u>	<u>29,258,892</u>	<u>—</u>	<u>23,591,162</u>	<u>23,591,162</u>	<u>—</u>
(3) Short-term loans (Note C)	900,000	900,000	—	900,000	900,000	—
(4) Investment corporation bonds due within one year (Note C)	12,000,000	12,023,611	23,611	7,000,000	7,034,020	34,020
(5) Long-term debt due within one year (Note C)	7,500,000	7,522,761	22,761	17,750,000	17,819,871	69,871
(6) Investment corporation bonds (Note C)	28,000,000	28,400,170	400,170	29,000,000	29,453,940	453,940
(7) Long-term debt (Note C)	78,100,000	79,230,238	1,130,238	67,850,000	68,994,628	1,144,628
Total liabilities	<u>126,500,000</u>	<u>128,076,780</u>	<u>1,576,780</u>	<u>122,500,000</u>	<u>124,202,459</u>	<u>1,702,459</u>
(8) Derivative transactions *	—	—	—	—	—	—

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

(Note A)

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

Assets

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

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

5. Financial Instruments (continued)

Liabilities

(3) Short-term loans

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

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

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 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>June 30, 2018</u>	<u>As of</u> <u>December 31, 2017</u>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	1,104,337	1,084,728
② Security deposits from tenants for trust accounts*	11,808,282	11,703,805

- * 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 June 30, 2018						
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Cash and cash deposits	13,652,251	—	—	—	—	—
Cash and deposits in trust	15,606,641	—	—	—	—	—
Total	<u>29,258,892</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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
	<i>(Thousands of yen)</i>					
Cash and cash deposits	7,486,725	—	—	—	—	—
Cash and deposits in trust	16,104,436	—	—	—	—	—
Total	<u>23,591,162</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(Note C)

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

As of June 30, 2018						
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	<i>(Thousands of yen)</i>					
Short-term loans	900,000	—	—	—	—	—
Investment corporation bonds due within one year	12,000,000	—	—	—	—	—
Long-term debt due within one year	7,500,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	2,000,000	26,000,000
Long-term debt	—	9,600,000	4,000,000	14,510,000	11,750,000	38,240,000
Total	<u>20,400,000</u>	<u>9,600,000</u>	<u>4,000,000</u>	<u>14,510,000</u>	<u>13,750,000</u>	<u>64,240,000</u>

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
	<i>(Thousands of yen)</i>					
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	<u>25,650,000</u>	<u>9,750,000</u>	<u>8,600,000</u>	<u>13,510,000</u>	<u>11,750,000</u>	<u>53,240,000</u>

6. Investment and Rental Property

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For the periods from January 1, 2018 to June 30, 2018 and from July 1, 2017 to December 31, 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 June 30, 2018 and December 31, 2017 for such real estate for lease.

Carrying value			Fair value
As of January 1, 2018	Change during period (*1)	As of June 30, 2018	As of June 30, 2018
<i>(Thousands of yen)</i>			
256,272,229	(3,091,612)	253,180,617	290,609,000

Carrying value			Fair value
As of July 1, 2017	Change during period (*2)	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

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

B) Details of change during period:

(*1) The decrease of ¥3,091,612 thousand during the period is mainly due to an increase of ¥2,850,787 thousand related to the acquisition of Hiroshima Dai-ichi Seimei OS Building, an increase of ¥661,190 thousand related to the acquisition of Yokohama Bentendori Dai-ichi Seimei Building, and a decrease of ¥5,670,803 thousand related to the transfer of Ebina Prime Tower, a decrease of ¥1,926,086 thousand for depreciation costs.

(*2) 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.

C) Fair value

Fair value as of June 30, 2018 and December 31, 2017 is appraisal value provided by third-party real estate appraisers.

7. Property and Equipment

Property and equipment at June 30, 2018 and December 31, 2017 consisted of the following:

	As of June 30, 2018			As of December 31, 2017		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,053,880	(1,453,757)	5,600,122	6,949,821	(1,351,554)	5,598,267
Machinery and equipment	6,253	(2,817)	3,435	6,253	(2,536)	3,716
Furniture and fixtures	48,213	(8,098)	40,114	12,270	(5,685)	6,584
Land	9,292,709	—	9,292,709	9,272,487	—	9,272,487
Construction in progress	14,169	—	14,169	12,606	—	12,606
Buildings and building improvements for trust accounts	113,626,364	(26,649,265)	86,977,099	116,764,611	(26,568,337)	90,196,274
Machinery and equipment for trust accounts	826,418	(418,788)	407,629	815,194	(398,497)	416,697
Furniture and fixtures for trust accounts	227,219	(128,675)	98,544	225,151	(121,358)	103,792
Land for trust accounts	141,532,889	—	141,532,889	141,454,273	—	141,454,273
Construction in progress for trust accounts	105,704	—	105,704	99,194	—	99,194
Total	272,733,823	(28,661,403)	244,072,419	275,611,864	(28,447,970)	247,163,894

8. Short-Term Loans and Long-Term Debt

Short-term loans and long-term debt as of June 30, 2018 and December 31, 2017 consisted of the following:

	As of June 30, 2018		As of December 31, 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	0.26469%	900,000	0.25952%
Subtotal	900,000		900,000	
Long-term debt due within one year:				
Unsecured loans from an insurance company due on June 29, 2018	—	1.65125% (*2)	3,000,000	1.65125% (*2)
Unsecured loans from banks due on June 30, 2018	—	0.81225% (*2)	11,000,000	0.81225% (*2)
Unsecured loans from banks due on November 1, 2018	3,750,000	0.74500% (*2)	3,750,000	0.74500% (*2)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% (*2)	—	—
Subtotal	7,500,000		17,750,000	

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

Long-term debt:

Unsecured loans from banks due on March 8, 2019	—	0.77500% (*2)	3,750,000	0.77500% (*2)
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% (*2)	1,000,000	0.25000% (*2)
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% (*2)	2,000,000	1.60000% (*2)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*2)	2,600,000	1.36400% (*2)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*2)	1,000,000	1.31261% (*2)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*2)	3,000,000	1.00000% (*2)
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*2)	2,000,000	1.60750% (*2)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*2)	2,000,000	0.98834% (*2)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.41132%	3,760,000	0.40896%
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% (*2)	5,750,000	0.81875% (*2)
Unsecured loans from insurance companies due on January 31, 2022	3,000,000	0.35000% (*2)	3,000,000	0.35000% (*2)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% (*2)	2,000,000	1.15417% (*2)
Unsecured loans from insurance companies due on November 30, 2022	1,000,000	0.35000% (*2)	1,000,000	0.35000% (*2)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% (*2)	5,750,000	0.93625% (*2)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*2)	2,000,000	1.20250% (*2)
Unsecured loans from an insurance company due on June 30, 2023	3,000,000	0.46000% (*2)	—	—
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*2)	5,270,000	0.84375% (*2)
Unsecured loans from banks due on November 30, 2023	5,500,000	0.64801% (*2)	5,500,000	0.64801% (*2)
Unsecured loans from a bank due on May 31, 2024	3,500,000	0.68431% (*2)	3,500,000	0.68431% (*2)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*2)	5,270,000	0.96275% (*2)
Unsecured loans from banks due on June 30, 2025	8,000,000	0.67400% (*2)	—	—
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*2)	6,400,000	0.83441% (*2)
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*2)	1,300,000	0.83071% (*2)
Unsecured loans from banks due on December 30, 2026	<u>3,000,000</u>	0.79100% (*2)	<u>—</u>	—
Subtotal	<u>78,100,000</u>		<u>67,850,000</u>	
Total	<u>86,500,000</u>		<u>86,500,000</u>	

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

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

The scheduled repayment amounts of long-term debt as of June 30, 2018 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	7,500,000	9,600,000	4,000,000	14,510,000	11,750,000	38,240,000

JEI has commitment lines of \14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2018, these commitment lines have

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never been utilized.

9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2018 and December 31, 2017 are summarized as follows:

	<u>As of June 30, 2018</u>		<u>As of December 31, 2017</u>	
	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%
Unsecured bond #12 due on April 20, 2023	2,000,000	0.24000%	—	—
Unsecured bond #13 due on April 20, 2033	2,000,000	0.95000%	—	—
Total	<u>40,000,000</u>		<u>36,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of June 30, 2018 are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Investment corporation bonds	12,000,000	—	—	—	2,000,000	26,000,000

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 June 30, 2018 and December 31, 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 January 1, 2018 to June 30, 2018 and July 1, 2017 to December 31, 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.

11. Per Unit Information (continued)

Accordingly, net assets per unit were ¥110,122 as of June 30, 2018 and ¥110,234 as of December 31, 2017. Net income per unit was ¥2,557 for the period from January 1, 2018 to June 30, 2018 and ¥2,833 for the period from July 1, 2017 to December 31, 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 June 30, 2018 and December 31, 2017 are summarized as follows:

	<u>As of June 30,</u> <u>2018</u>	<u>As of December 31,</u> <u>2017</u>
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	14	18
Total deferred tax assets	<u>14</u>	<u>18</u>
Net deferred tax assets	<u><u>14</u></u>	<u><u>18</u></u>

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2018 to June 30, 2018 and from July 1, 2017 to December 31, 2017 is as follows:

	<u>For the period from</u> <u>January 1, 2018</u> <u>to June 30, 2018</u>	<u>For the period</u> <u>from July 1, 2017</u> <u>to December 31, 2017</u>
Statutory tax rate	31.74%	31.74%
Reconciliation:		
Deductible distributions paid	(34.74)	(29.90)
Provision of reserve for reduction entry	—	(1.84)
Reversal of reserve for reduction entry	3.01	—
Other	0.02	0.02
Effective tax rate	<u><u>0.03%</u></u>	<u><u>0.03%</u></u>

13. Breakdown of Revenues and Expenses

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 2017
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,123,091	8,167,243
Common area revenues	1,303,409	1,414,547
Other rental revenues	265,516	269,837
Subtotal	<u>9,692,018</u>	<u>9,851,628</u>
Other		
Utilities revenues	746,159	857,938
Other revenues	97,198	96,459
Subtotal	<u>843,357</u>	<u>954,398</u>
Total rental revenues	<u>10,535,375</u>	<u>10,806,026</u>
Property operating expenses:		
Property management costs and fees	1,476,177	1,441,309
Utilities expenses	996,702	1,122,414
Property and other taxes	932,376	939,173
Insurance	25,092	26,035
Repairs and maintenance	160,310	202,706
Depreciation	1,926,086	1,972,924
Other	237,300	226,572
Total property operating expenses	<u>5,754,046</u>	<u>5,931,137</u>
Profit	<u>4,781,329</u>	<u>4,874,889</u>

14. Breakdown of Gain on sales of Real estate Properties

Gain on sales of real estate properties for the periods from January 1, 2018 to June 30, 2018 and from July 1, 2017 to December 31, 2017 is as follows:

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 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	—	608,544

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 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	—	887,586

	For the period from January 1, 2018 to June 30, 2018	For the period from July 1, 2017 to December 31, 2017
	<i>(Thousands of yen)</i>	
Ebina Prime Tower		
Proceeds from sale of real estate	5,600,000	—
Cost of sales of real estate	5,670,803	—
Other related sale expenses	94,540	—
Loss on sale of real estate	165,344	—

15. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2018 and December 31, 2017, future lease revenues under non-cancelable operating leases are summarized as follows:

	As of June 30, 2018	As of December 31, 2017
	<i>(Thousands of yen)</i>	
Due within one year	470,416	462,366
Due after one year	816,684	849,834
Total	1,287,100	1,312,201

16. Derivative Transactions

Derivative Transactions as of June 30, 2018

(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, 2018 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	38,640,000	*	/

* 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 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."

17. Related Party Transactions

For the period from January 1, 2018 to June 30, 2018

(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	431,747	Accounts payable	352,288

17. Related Party Transactions (continued)

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
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	457,509	Accounts payable	375,287

18. Segment Information

For the periods from January 1, 2018 to June 30, 2018 and from July 1, 2017 to December 31, 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 reversal of reserve for reduction entry, income available for distributions of dividends amounted to ¥3,655,960,000, which is the maximum integral multiple of the 1,305,700 units issued. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 16, 2018, the Board of Directors approved a resolution to make a cash distribution of ¥2,800 per unit aggregating to ¥3,655,960,000 to unitholders of record as of June 30, 2018.

20. Significant Subsequent Event

Not applicable.