

# Asset Management Report for 13<sup>th</sup> Period

(Semi-Annual Report for 13<sup>th</sup> Period)

From July 1, 2012 to December 31, 2012



**Japan Excellent, Inc.**

# **I. Greetings**

## **To Our Unitholders**

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

In the thirteenth period (July 1, 2012 – December 31, 2012), JEI recorded total revenues of 7,599 million yen and net income of 2,309 million yen. The distribution per unit for the period was 12,242 yen.

During the period, the occupancy rate of the entire portfolio had temporarily dropped to 92.1% due to move-outs of some large tenants from our properties. However, we worked in close coordination with our property management companies to ensure that the vacated spaces were leased as early as possible. Consequently, the occupancy rate of the entire portfolio successfully recovered to 94.0% as of the end of the period.

Moreover, as stabilization of earnings from existing properties came into sight, JEI raised funds by issuing additional investment units in January 2013, its first public offering in two years, to newly acquire four office buildings for 24.1 billion yen in total. The acquisition has expanded the portfolio size to 241.1 billion yen.

## **About Future Asset Management**

In the office leasing market, while the ongoing decrease in rents will continue as a whole, some blue-chip buildings in central Tokyo are anticipated to show signs of rents stopping to drop and even starting to increase along with a decrease in vacancy rates.

With this perspective, JEI will further reinforce coordination with the property management companies and endeavor to secure stable occupancy and enhance profitability of the portfolio over a medium to long term. At the same time, we will pursue opportunities to invest in excellent real estate properties for continued growth of the portfolio, working to achieve our medium- and long-term target of 300 billion yen in asset size.

In terms of finance, we will continue our efforts in conducting stable financial operations by lengthening the remaining period of debts and converting to fixed-rate debts as well as diversifying maturity dates, among other things.

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

We kindly ask for your continued cooperation and support.

Chifumi Toda  
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		9th Period July 1, 2010 to December 31, 2010	10th Period January 1, 2011 to June 30, 2011	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012
Revenues	(Millions of yen)	7,094	7,337	7,085	7,740	7,599
(Rental revenues)	(Millions of yen)	7,094	7,034	7,085	7,587	7,597
Operating expenses	(Millions of yen)	4,040	4,117	4,116	4,400	4,427
(Property operating expenses)	(Millions of yen)	3,494	3,555	3,645	3,901	3,950
Operating income	(Millions of yen)	3,053	3,220	2,969	3,340	3,172
Ordinary income	(Millions of yen)	2,219	2,362	2,237	2,435	2,310
Net income	(Millions of yen)	2,218	2,313	2,236	2,434	2,309
Total assets	(Millions of yen)	199,186	209,142	227,249	228,818	228,020
(Period-on-period change) (Note 1)	(%)	(2.2)	(4.9)	(8.6)	(0.6)	(-0.3)
Net assets	(Millions of yen)	89,272	104,366	104,338	104,537	104,545
(Period-on-period change) (Note 1)	(%)	(-0.1)	(16.9)	(0.0)	(0.1)	(0.0)
Unitholders' capital	(Millions of yen)	87,083	102,052	102,052	102,052	102,052
Outstanding investment units	(units)	154,550	188,650	188,650	188,650	188,650
Net assets per unit	(yen)	577,629	553,227	553,081	554,134	554,175
Net income per unit (Note 2)	(yen)	14,353	12,677	11,853	12,906	12,241
Total distribution	(Millions of yen)	2,218	2,263	2,236	2,301	2,309
Distribution per unit	(yen)	14,353	12,000	11,854	12,200	12,242
(Profit distribution per unit)	(yen)	14,353	12,000	11,854	12,200	12,242
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 3)	(%)	1.1	1.2	1.0	1.1	1.0
(Annualized rate)	(%)	(2.2)	(2.3)	(2.0)	(2.1)	(2.0)
Return on equity (Note 4)	(%)	2.5	2.4	2.1	2.3	2.2
(Annualized rate)	(%)	(4.9)	(4.8)	(4.3)	(4.7)	(4.4)
Capital ratio (Note 5)	(%)	44.8	49.9	45.9	45.7	45.8
(Period-on-period change)	(%)	(-1.1)	(5.1)	(-4.0)	(-0.2)	(0.1)
Payout ratio (Note 6)	(%)	99.9	97.8	100.0	94.5	100.0
Number of investment properties	(properties)	19	19	23	24	24
Number of tenants	(tenants)	108	109	124	136	134
Total leasable space	(m <sup>2</sup> )	228,177	234,547	262,464	266,981	266,915
Occupancy rate	(%)	91.7	92.4	93.8	94.7	94.0

Depreciation	(Millions of yen)	993	1,080	1,156	1,260	1,284
Capital expenditure	(Millions of yen)	328	347	357	393	283
Net operating income (NOI) (Note 7)	(Millions of yen)	4,593	4,559	4,595	4,946	4,932
Funds from operation (FFO) per unit (Note 8)	(yen)	20,780	16,391	17,982	18,780	19,050
FFO multiples (Note 9)	(times)	13.0	12.2	8.4	10.5	12.7
Debt service coverage ratio (DSCR) (Note 10)	(times)	4.3	4.5	4.3	4.2	4.0
Interest-bearing debt	(Millions of yen)	100,400	95,500	112,800	113,800	113,300
Loan-to-value (Note 11)	(%)	50.4	45.7	49.6	49.7	49.7
Number of days in operation	(days)	184	181	184	182	184

(Note 1) Period-on-period change of total assets and net assets are rounded down to one decimal place.

(Note 2) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.

(Note 3) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 4) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100 (The ratio is rounded to one decimal place.)

(Note 5) Capital ratio = Period end net assets / Period end total assets × 100 (The ratio is rounded to one decimal place.)

(Note 6) Payout ratio = Total distribution / Net income × 100 (The ratio is rounded down to one decimal place.)

(Note 7) NOI = Rental revenues – Property operating expenses + Depreciation

(Note 8) FFO per unit = (Net income + Depreciation – Gain on sale real estate + Loss on sale of real estate) / Number of Outstanding investment units (The figure is rounded down to the whole number.)

(Note 9) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to one decimal place.)

(Note 10) DSCR = Net income before interest and taxes / (Interest expenses + Interest expense on investment corporation bonds) (The ratio is rounded one first decimal place.)

(Note 11) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100 (The ratio is rounded to one decimal place.)

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2012, we settled our thirteenth period.

### 1) Business conditions and results

Earlier in the period under review, the Japanese economy had undergone a moderate recovery against the backdrop of the demand for reconstruction from the Great East Japan Earthquake and the pickup from the drop caused by the flooding in Thailand in the early autumn of 2011. Heading for the end of the period, however, the economy became weaker due to such factors as reductions in exports and production caused by the slowdown of overseas economies and resulting adjustments of capital investment.

In the office building leasing market, there had been concerns for a possible rise in vacancy rates in the Tokyo metropolitan area, stemming from the recent mass supply of office buildings. Nevertheless, demand for office spaces became distinct from well-performing companies, including information and communication-related

firms, and the vacancy rates remained flat or even started to show an improving trend. In Osaka and Nagoya areas, in contrast to the market rents having continued to decrease since 2010, the vacancy rates remained stable as the mass supply of office buildings that had lasted softened.

Under these circumstances, JEI had to face a tough situation in which the occupancy rate of Kawasaki Nisshincho Building took a large drop with a major tenant moving out of the property. However, JEI worked more closely with its respective property management companies through the change of the compensation system (adoption of an incentive fee system) for their services to match the leasing market environment, and focused on the lease up of the vacant spaces as early as possible, primarily for low-occupancy properties. As a result, the occupancy rate of the entire portfolio, which had temporarily dropped to 92.1% due to the move-out of the said major tenant, successfully recovered to 94.0% as of the end of the period. This provided JEI with a foothold for increased revenues in the coming period ending June 2013.

In the real estate investment market, transactions of office buildings and other properties were conducted at a solid pace, given IPOs and public offerings of J-REITs and formation of private placement funds continuing one after another. However, for properties regarded as “large” and “excellent,” many of the transactions conducted were made between J-REITs and their sponsors. At JEI, we acquired ownership interests in an anonymous association of an SPC that owns SE Sankyo Building, with an intention of eventually acquiring the underlying property.

The entire asset portfolio owned by JEI as of the end of the period consisted of 24 properties with the investment amount totaling 217 billion yen (on an acquisition price basis) and total leasable space of 266,915.61m<sup>2</sup> (80,741.97 tsubo) operating at an occupancy rate of 94.0% (a period-on-period decrease of 0.7 percentage points).

## 2) Fund raising highlights

We have made efforts consistently since the previous period to raise funds, focusing on conversion of floating-rate debts to fixed-rate debts, diversification of maturity dates and lengthening the remaining period of interest-bearing debts.

For refinancing long-term loans of 14 billion yen which matured on July 31, 2012, JEI borrowed long-term loans in the same amount (breakdown: 3 billion yen in 5-year and 4-month floating interest loan, 4 billion yen in 4-year and 6-month floating interest loan, 3 billion yen in 4-year and 6-month fixed interest loan and 4 billion yen in 3-year and 4-month floating interest loan). As for floating interest loans (11 billion yen in total), we converted all of them from floating-rate debts to fixed-rate debts through interest rate swaps.

As a result, as of the end of the period, JEI had the average remaining ~~debt~~ maturity of interest-bearing debts at 2.87 years, long-term borrowing ratio at 99.6 percent, fixed rate ratio at 76.2 percent, and weighted average interest rate for loans purchased at 1.32 percent. Outstanding interest-bearing debts totaled 113.3 billion yen, comprising 0.5 billion yen in short-term loans, 88.8 billion yen in long-term loans (including 15 billion yen in long-term loans due within one year) and 24 billion yen in investment corporation bonds. (The loan to value ratio to the total assets was 49.7 percent as of the end of the period.)

JEI has registered the issuance of investment corporation bonds for the purpose of dynamic arrangement of long-term funds as follows:

### (Bond Issuance Registration Highlight)

Type	Estimated amount of issuance	Scheduled period for issuance
Investment corporation bond	100 billion yen	From February 9, 2012 to February 8, 2014

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

(Ratings as of December 31, 2012)

	Rating and Investment Information, Inc. (R&I)	Moody's Japan
Issuer rating (outlook)	AA- (Negative)	A3 (Stable)
Individual debt issue rating <sup>(Note)</sup>	AA-	-

(Note) Ratings for unsecured investment corporation bonds (No.1 through No.4).

### 3) Financial results and distribution highlights

As a result of the above investments, JEI posted 7,599 million yen in total revenues, 3,172 million yen in operating income, 2,310 million yen in ordinary income and 2,309 million yen in net income for the period under review.

As for distributions, JEI determined to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 12,242 yen.

### (3) Capital Increase

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

Paid-up Date	Capital transaction	Outstanding investment units (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)

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

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

- (Note 3) New investment units were issued at an issue price of 501,800 yen per unit through an allocation of investment units to a third party in order to partially fund new property acquisitions.
- (Note 4) New investment units were issued at an offer price of 1,019,200 yen per unit (issue price of 984,360 yen per unit) through a public offering in order to partially repay debts procured to acquire properties in the second period.
- (Note 5) New investment units were issued at an issue price of 984,360 yen per unit through an allocation of investment units to a third party in order to partially repay debts procured to acquire properties in the second period.
- (Note 6) New investment units were issued at an offer price of 454,930 yen per unit (issue price of 438,984 yen per unit) through a public offering in order to repay short-term loans procured to acquire properties in the ninth period and to fund acquisition of a new property which was acquired in the tenth period.
- (Note 7) New investment units were issued at an issue price of 438,984 yen per unit through an allocation of investment units to a third party in order to repay short-term loans procured to acquire new properties in the ninth period and to fund acquisition of a new property which was acquired in the tenth period.

[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 are as follows:

Investment unit market price	Fiscal period (closing date)	9th period (December 2010)	10th period (June 2011)	11th period (December 2011)	12th period (June 2012)	13th period (December 2012)
	Highest (yen)	570,000	543,000	408,000	430,000	511,000
	Lowest (yen)	397,000	363,500	295,500	297,600	371,000

(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

The distribution per unit for the period (the 13th period) was 12,242 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.

Fiscal period	9th period	10th period	11th period	12th period	13th period
Accounting period	July 1, 2010 to December 31, 2010	January 1, 2011 to June 30, 2011	July 1, 2011 to December 31, 2011	January 1, 2012 to June 30, 2012	July 1, 2012 to December 31, 2012
Retained earnings at end of period (Thousands of yen)	2,218,333	2,314,032	2,236,262	2,434,824	2,309,504
Retained income (Thousands of yen)	76	50,232	5	133,294	51
Total cash distribution amount (Thousands of yen)	2,218,256	2,263,800	2,236,257	2,301,530	2,309,453
(Cash distributions per unit) (yen)	(14,353)	(12,000)	(11,854)	(12,200)	(12,242)
Of which, total profit distributions (Thousands of yen)	2,218,256	2,263,800	2,236,257	2,301,530	2,309,453
(Profit distribution per unit) (yen)	(14,353)	(12,000)	(11,854)	(12,200)	(12,242)

Total refund of investment equity	—	—	—	—	—
(Refund of investment per unit)	(—)	(—)	(—)	(—)	(—)

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

### 1) Outlook for investment environment

Going forward, the Japanese economy will remain weak for some time but is forecast to head for a modest recovery, with expectations growing for escape from deflation and correction of the strong yen through the monetary policy, financial policy and growth strategy under the new administration, as well as the anticipated rush demand in the latter half of the fiscal 2013 before the scheduled raise in the consumption tax rate. However, it will take some more time for the economy to show a full-on recovery because of the opaque outlook of the U.S. government finances and the European economy, among other things.

In the office building leasing market in the Tokyo metropolitan area, we assume that the vacancy rates will remain flat or start to improve, while the rent levels will tend to decrease or stay flat. For large-scale, blue-chip properties in central Tokyo, however, we anticipate that the rent levels will also gradually start to increase, as vacant spaces are increasingly leased up for the moment. In Osaka and Nagoya areas, although the market looks activated for the moment, difficulty will continue to stay for some time against the backdrop of the future prospects of the supply and demand situation for office spaces getting looser.

In the real estate investment market, given the fund procurement environment continuing to show an easing trend and investment needs of various sectors including J-REITs expected to remain solid, property transactions are projected to increase. Under such conditions, however, sellers may have little incentive to sell properties by significantly reducing prices. As such, the supply of properties that are highly qualified for investment is likely to be limited. As for JEI, we acquired AKASAKA INTERCITY (Additional Acquisition of Compartmentalized Ownership), Osaka Kogin Building (Land with Leasehold Interest) and Core City Tachikawa in February 2013 using funds procured through the public offering conducted in January 2013, and plan to acquire SE Sankyo Building in March 2013.

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

Amid a delay in recovery in the office building leasing market, JEI anticipates that its revenues from the existing portfolio will turn to a period-on-period increase in the next period ending June 2013, as the rent gaps narrowed early on in a steady manner and an increase in the occupancy rate of low-occupancy properties through leasing up vacant spaces as early as possible came into sight. Going forward, we will endeavor to maintain and improve earnings of the entire portfolio by keeping and raising the rent levels based on the market trends and further improving the occupancy rate. Moreover, in order to maintain the asset value of our portfolio and improve competitive position of our properties over the medium to long term, we will consistently implement additional strategic investment plans.

For external growth, we will continuously plan and implement well-balanced investments, including asset replacements, based on the size, profitability and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies, have our asset management company cultivate and refine property information sources, and seek business opportunities with efforts to proactively gain access to market information.

As for the financial operations, the fund-raising environment is generally favorable for enterprises investing in real estate. Still, we will consistently work on stable and sound financial operation to address uncertainties for the future in and outside Japan, through endeavoring to convert floating-rate debts to fixed-rate debts, diversify maturity dates, lengthen the remaining period of debts, ensure liquidity by renewing commitment lines and maintain appropriate ratio of interest-bearing debts.



## (6) Subsequent Events

### 1) Issuance of new investment units through public offering

The board of directors of JEI approved the following issuance of new investment units through public offering at its meetings held on January 10, 2013 and January 23, 2013. The payment for the offering was completed on January 30, 2013.

As a result, unitholders' capital is 116,460,481,400 yen and the number of investment units issued and outstanding is 221,650 as of January 30, 2013.

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

(1) Number of new investment units issued	33,000 units
(2) Offer price	451,425 yen per unit
(3) Total offer price	14,897,025,000 yen
(4) Paid-in amount (issue price)	436,609 yen per unit
(5) Total paid-in amount (total issue price)	14,408,097,000 yen
(6) Paid-in date	January 30, 2013

### 2) Issuance of new investment units through third-party allocation (third-party allocation upon exercise of a greenshoe option)

The board of directors of JEI approved the following issuance of new investment units through third-party allocation at its meetings held on January 10, 2013 and January 23, 2013. JEI granted Mizuho Securities Co., Ltd. an option to receive allocation of new investment units to be issued through third-party allocation (greenshoe option). The exercise period of the option expires on February 22, 2013

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

(1) Number of new investment units issued	3,300 units
(2) Paid-in amount (issue price)	436,609 yen per unit
(3) Total paid-in amount (total issue price)	1,440,809,700 yen
(4) Allocated party	Mizuho Securities Co., Ltd.
(5) Paid-in date	February 27, 2013

### 3) Asset acquisition (AKASAKA INTERCITY (additional acquisition of compartmentalized ownership))

On January 10, 2013, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 5, 2013.

<Overview of the acquired property>

(1) Acquired property	Trust beneficiary interest in real estate
(2) Property name	AKASAKA INTERCITY (Additional Acquisition of Compartmentalized Ownership)
(3) Location	1-11-44, Akasaka, Minato-ku, Tokyo
(4) Acquisition price (Note)	10,289,000,000 yen
(5) Date of execution of purchase agreement	January 10, 2013
(6) Delivery date	February 5, 2013
(7) Seller	Nippon Steel Kowa Real Estate Co., Ltd.

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of

the real estate tax and city planning tax, and consumption taxes.

#### 4) Asset acquisition (Osaka Kogin Building (Land with Leasehold Interest))

On January 10, 2013, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 5, 2013.

##### <Overview of the acquired property>

(1) Acquired property	Trust beneficiary interest in real estate
(2) Property name	Osaka Kogin Building (Land with Leasehold Interest)
(3) Location	4-1-1 Koraibashi, Chuo-ku, Osaka
(4) Acquisition price (Note)	1,770,000,000 yen
5) Date of execution of purchase agreement	January 10, 2013
(6) Delivery date	February 5, 2013
(7) Seller	Nippon Steel Kowa Real Estate Co., Ltd.

(Note) The acquisition price is calculated as the land purchase price to be specified in the relevant trust beneficiary interest transfer agreement subject to conditions precedent (¥10,100,000,000), less the amount equivalent to the key money pertaining to the leasehold interest in land (¥8,330,000,000), which will be received from the lessee of the land. The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

#### 5) Asset acquisition (Core City Tachikawa)

On January 10, 2013, JEI concluded the following purchase agreement for trust beneficiary interest in real estate. The property was handed over to JEI on February 5, 2013.

##### <Overview of the acquired property>

(1) Acquired property	Trust beneficiary interest in real estate
(2) Property name	Core City Tachikawa
(3) Location	2-37-7 Akebono-cho Tachikawa-shi, Tokyo
(4) Acquisition price (Note)	6,500,000,000 yen
5) Date of execution of purchase agreement	January 10, 2013
(6) Delivery date	February 5, 2013
(7) Seller	Tachikawa Akebono-cho Capital Specific Purpose Company

(Note) The acquisition price represents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

#### 6) Asset acquisition (SE Sankyo Building)

On January 10, 2013, JEI concluded the following purchase agreement for trust beneficiary interest in real estate.

##### <Overview of the acquired property>

(1) Acquired property	Trust beneficiary interest in real estate
(2) Property name	SE Sankyo Building
(3) Location	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido
(4) Acquisition price (Note)	5,500,000,000 yen

(5) Date of execution of purchase agreement	January 10, 2013
(6) Scheduled delivery date	March 1, 2013
(7) Seller	Polaire LLC

(Note) The acquisition price presents the sale price of the trust beneficiary interest excluding costs related to the acquisition, JEI's share of the real estate tax and city planning tax, and consumption taxes.

## 7) Debt financing

As of January 31, 2013, JEI concluded an individual loan agreement under the Revolving Credit Facility Agreement, as described below, in order to fund the acquisition of AKASAKA INTERCITY (Additional Acquisition of Compartmentalized Ownership), Osaka Kogin Building (Land with Leasehold Interest) and Core City Tachikawa and partially fund various expenses related to the acquisitions.

(1) Lender	Mizuho Corporate Bank, Ltd.
(2) Loan amount	4,500,000,000 yen
(3) Interest rate	0.63% (Floating rate)
(4) Drawdown date	February 5, 2013
(5) Interest payment date	March 1, 2013
(6) Principal repayment date	March 1, 2013
(7) Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
(8) Collateral	Unsecured / Non-guaranteed

## 2. Outline of the Investment Corporation

### (1) Investment unit

Fiscal period	9th As of December 31, 2010	10th As of June 30, 2011	11th As of December 31, 2011	12th As of June 30, 2012	13th As of December 31, 2012
Number of units authorized	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units	2,000,000 units
Number of units issued and outstanding	154,550 units	188,650 units	188,650 units	188,650 units	188,650 units
Unitholders' capital	87,083 million yen	102,052 million yen	102,052 million yen	102,052 million yen	102,052 million yen
Number of unitholders	5,495 individuals	7,411 individuals	7,875 individuals	7,447 individuals	6,760 individuals

### (2) Unitholders

Major unitholders as of December 31, 2012 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	47,448	25.15
NIPPON STEEL KOWA REAL ESTATE CO., LTD.	1-15-5 Minami Aoyama, Minato-ku, Tokyo	14,312	7.59
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Toriton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	10,426	5.53
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	10,094	5.35
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	9,388	4.98
NOMURA BANK (LUXEMBOURG) S.A.	BATIMENT A, 33, RUE DE GASPERICH, L-5826, LUXEMBOURG	4,749	2.52
North Pacific Bank, LTD.	3-7 Odori-Nishi, Chuo-ku, Sapporo-shi, Hokkaido	4,590	2.43
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	4,132	2.19
The Chugoku Bank, LTD.	1-15-20 Marunouchi, Kita-ku, Okayama-shi, Okayama	3,405	1.80
STATE STREET BANK AND TRUST COMPANY 505223	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A.	2,493	1.32
Total		111,037	58.86

(Note) Ratio of number of units held to outstanding investment units is rounded to two decimal places.

### (3) Officers

#### 1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2012 (Thousands of yen)
Executive Director	Chifumi Toda	President and Director, Japan Excellent Asset Management Co., Ltd.	—
Supervisory Director	Makoto Sakagami	Makoto Sakagami Certified Public Accounting Office	6,540
Supervisory Director	Tsuyoshi Nagahana	Advisor, Anderson, Mori & Tomotsune	
Supervisory Director	Shunichi Maekawa	Professor, Faculty of Real Estate, Meikai University	
Accounting Auditor	Ernst & Young ShinNihon LLC	—	13,000 (Note 2)

(Note 1) There is no investment unit of JEI held by the Executive Director nor the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there is no conflict of interests between those companies, including those listed above, and JEI.

(Note 2) The total amount of compensation is an estimate and includes fees for English financial statement audit.

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

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

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

Our asset management company, asset custodian and administrative agents as of December 31, 2012 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 Corporate Bank, Ltd.

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area	12th Period (June 30, 2012)		13th Period (December 31, 2012)	
			Total acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)	Total acquisition price (Millions of yen) (Note 1)	Investment ratio in portfolio (%) (Note 2)
Real estate property (Note 3)	Office	Area II <sup>(Note 4)</sup>	4,480	2.0	4,484	2.0
Trust beneficiary interest in real estate (Note 3)		Area I <sup>(Note 4)</sup>	112,923	49.3	112,568	49.4
		Area II <sup>(Note 4)</sup>	7,443	3.2	7,420	3.3
		Area III <sup>(Note 4)</sup>	74,119	32.4	73,616	32.3
		Area IV <sup>(Note 4)</sup>	6,168	2.7	6,096	2.7
Trust beneficiary interest in real estate	Others	Area I <sup>(Note 4)</sup>	7,044	3.1	6,990	3.1
Total			212,178	92.7	211,177	92.6
Ownership interests in an anonymous association (Note 5)			—	—	207	0.1
Deposits in bank and other assets			16,639	7.3	16,634	7.3
Total assets			228,818	100.0	228,020	100.0

(Note 1) 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).

(Note 2) Investment ratio in portfolio is rounded to one decimal place.

(Note 3) Leasehold rights owned in combination with buildings and other structures are included in real estate property and trust beneficiary interest in real estate at the combined amount.

(Note 4) 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.)

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.

(Note 5) This represents the ownership interests in an anonymous association managed by Polaire LLC.

## (2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2012 are as follows:

Name	Book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%) (Note 4)	Major use
Kowa Kawasaki Nishiguchi Building	30,199	38,332.15	36,281.92	94.7	12.1	Office
Akasaka Garden City	22,768	8,769.53	8,769.53	100.0	5.3	Office
Omori Bellport D	21,747	25,828.29	24,836.79	96.2	12.5	Office
AKASAKA INTERCITY	17,454	5,622.98	5,546.06	98.6	4.1	Office
Musashikosugi Tower Place	12,915	25,217.28	25,217.28	100.0	10.6	Office
Daiba Garden City Building	10,794	12,122.85	12,122.85	100.0	4.5	Office
Kowa Kawasaki Higashiguchi Building	10,140	18,612.72	18,612.72	100.0	(Note 5)	Office
Shiba 2-Chome Building	9,164	11,749.30	11,749.30	100.0	4.9	Office
JEI Hamamatsucho Building	8,286	6,411.26	6,411.26	100.0	3.4	Office
No. 35 Kowa Building	8,281	9,377.16	9,377.16	100.0	(Note 5)	Office
Total	151,752	162,043.52	158,924.87	98.1	67.1	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2012 and is rounded to two decimal places. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared real estate by the percentage of the interest owned by JEI.

(Note 2) Leased space refers to space with lease contracts concluded with end tenants as of December 31, 2012 and is rounded to two decimal places. For properties with joint ownership, the value is obtained by multiplying the total leased space of the shared real estate by the percentage of the interest owned by JEI. The leased space of end tenants who terminated their lease arrangement but not yet removed as of the end of period is included in the leased space. This also applies to the calculations of occupancy rate in (Note 3) below and the total number of tenants in (Note 1) in (3) Portfolio Ownership Breakdown.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2012 and rounded to one decimal place.

(Note 4) Ratio of rental revenue to total rental revenues is rounded to one decimal place.

(Note 5) The values of Kowa Kawasaki Higashiguchi Building and No. 35 Kowa Building are not disclosed as consents on disclosure from the tenants have not been obtained.



### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31, 2012 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note 1)	Net book value (Millions of yen)
I -1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	23,130	21,747
I -2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,900	9,164
I -3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,470	8,286
I -4	No. 32 Kowa Building	5-2-32 Minami-Azabu, Minato-ku, Tokyo	Trust beneficiary interest in real estate	6,838	7,386
I -7	Akasaka Garden City	4-15-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	17,700	22,768
I -8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	12,500	17,454
I -9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	4,960	4,884
I -10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	11,740	10,794
I -11	No. 35 Kowa Building	1-14-14 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	9,050	8,281
I -12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,560	6,990
I -13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	1,804	1,799
Area I				113,652	119,559
II -1	NHK Nagoya Housou Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	4,250	4,484
II -2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,220	7,420
Area II				8,470	11,905
III -1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	16,400	12,915
III -2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	8,350	10,140
III -3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,560	5,220
III -5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	3,050	4,081
III -6	No. 44 Kowa Building	1-2-7 Higashiyama, Meguro-ku, Tokyo	Trust beneficiary interest in real estate	1,530	985

			estate		
III-7	JEI Ryogoku Building	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,096	2,365
III-8	Ebina Prime Tower	2-9-50 Chuo, Ebina-shi, Kanagawa	Trust beneficiary interest in real estate	3,690	6,049
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	24,500	30,199
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,626	1,658
Area III				65,802	73,616
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	3,510	3,314
IV-3	Hiroshima Hacchobori Dai-ichi Seimei Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	2,770	2,781
Area IV				6,280	6,096
Total				194,204	211,177

(Note 1) 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., and Japan Valuers Co., Ltd. as of December 31, 2012 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	12th Period January 1, 2012 to June 30, 2012				11th Period July 1, 2012 to December 31, 2012			
		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 (%) (Note 2)	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 (%) (Note 2)
I -1	Omori Bellport D	1	95.8	989	13.0	1	96.2	947	12.5
I -2	Shiba 2-Chome Building	2	100.0	371	4.9	2	100.0	371	4.9
I -3	JEI Hamamatsucho Building	1	100.0	254	3.4	1	100.0	254	3.4
I -4	No. 32 Kowa Building	1	98.2	274	3.6	1	92.4	271	3.6
I -6	No. 28 Kowa Building (Note 4)	-	-	39	0.5	-	-	-	-
I -7	Akasaka Garden City	1	91.1	359	4.7	1	100.0	401	5.3
I -8	AKASAKA INTERCITY	13	100.0	318	4.2	12	98.6	314	4.1
I -9	Kowa Shirokanedai Building	1	80.4	191	2.5	1	94.7	179	2.4
I -10	Daiba Garden City Building	1	100.0	338	4.5	1	100.0	338	4.5
I -11	No. 35 Kowa Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
I -12	HAMARIKYU INTERCITY	7	98.6	260	3.4	6	98.2	275	3.6
I -13	Shintomicho Building	9	100.0	37	0.5	9	100.0	72	1.0
Area I		38	96.9	-	-	36	98.0	-	-
II -1	NHK Nagoya Housou Center Building	30	96.0	292	3.9	30	96.8	305	4.0
II -2	JEI Nishi-Honmachi Building	1	90.0	208	2.7	1	95.7	205	2.7
Area II		31	92.7	-	-	31	96.2	-	-
III -1	Musashikosugi Tower Place	36	100.0	794	10.5	36	100.0	806	10.6
III -2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 3)	(Note 3)	1	100.0	(Note 3)	(Note 3)
III -3	JEI Hongo Building	1	100.0	174	2.3	1	100.0	(Note 3)	(Note 3)
III -5	Kawasaki Nisshincho Building	1	96.1	217	2.9	1	66.6	88	1.2
III -6	No. 44 Kowa Building	1	100.0	90	1.2	1	100.0	91	1.2
III -7	JEI Ryogoku Building	1	100.0	108	1.4	1	84.0	102	1.3
III -8	Ebina Prime Tower	17	75.9	324	4.3	17	75.8	338	4.4
III -9	Kowa Kawasaki Nishiguchi Building	1	94.7	913	12.0	1	94.7	916	12.1
III -10	Pacific Square Sengoku	6	100.0	80	1.1	6	85.1	82	1.1
Area III		65	93.4	-	-	65	90.6	-	-
IV -2	JEI Kyobashi Building	1	96.2	185	2.4	1	96.2	182	2.4
IV -3	Hiroshima Hacchobori Dai-ichi Seimei Building	1	90.5	33	0.4	1	89.7	149	2.0
Area IV		2	93.5	-	-	2	93.2	-	-
Total		136	94.7	7,587	100.0	134	94.0	7,597	100.0

Asset Management Report for 13<sup>th</sup> period (Semi-Annual Report for 13<sup>th</sup> Period)

- (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.
- (Note 2) Ratio of rental revenue to total rental revenues is rounded to one decimal place.
- (Note 3) The values of Kowa Kawasaki Higashiguchi Building and No. 35 Kowa Building are not disclosed as consents on disclosure from the tenants have not been obtained.
- (Note 4) No. 28 Kowa Building was sold on February 29, 2012.

#### (4) Securities Portfolio

The following shows the securities owned by JEI in its portfolio as of December 31, 2012

Securities name	Type of asset	Volume	Book value		Assessed value (Note 1)		Gain (Loss) on valuation (Thousands of yen)	Remarks
			Unit value	Amount (Thousands of yen)	Unit value	Amount (Thousands of yen)		
Ownership interests in an anonymous association managed by Polaire LLC (Note 2)	Ownership Interests in an anonymous association	—	—	207,614	—	207,614	—	—
Total		—	—	207,614	—	207,614	—	—

(Note 1) The assessed value indicates their book value.

(Note 2) The investment portfolio is a trust beneficiary interest in SE Sankyo Building as trust asset.

#### (5) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) <sup>(Note 1)</sup>		Fair value (Thousands of yen) <sup>(Note 2)</sup>
			Over one year	
Over-the-counter transaction	Interest rate swap contracts Fixed interest rate payable Floating interest rate receivable	39,300,000	39,300,000	—

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

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

#### 4. Capital Expenditures for Owned Properties

##### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of December 31, 2012. The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Scheduled term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended December 31, 2012	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Saiwai-ku, Kawasaki-shi	Renewal of canteens for office workers	From January 2013 To May 2013	309	—	—
JEI Hamamatsucho Building	Minato-ku, Tokyo	Renewal of air-conditioning systems (3rd term)	From October 2012 To January 2013	82	—	—
NHK Nagoya Housou Center Building	Higashiku, Nagoya-shi	Renewal of air-conditioning systems (5th term)	From June 2012 To January, 2013	80	—	—
Omori Bellport D	Shinagawa-ku, Tokyo	Renewal of disaster prevention systems	From November 2012 To March 2013	36	—	—
No. 32 Kowa Building	Minato-ku, Tokyo	Partial renewal of floors	From April 2013 To May 2013	35	—	—

##### (2) Capital Expenditures for the Six months Ended December 31, 2012

The following table shows constructions conducted by JEI during the period for properties it owned as of December 31, 2012 and expensed as capital expenditures. Capital expenditures for the period ended December 2012 were 283 million yen and, when combined with repairs and maintenance costs of 86 million yen classified as expenses, the amount of constructions completed totaled 370 million yen.

Name	Location	Purpose	Scheduled term	Amounts paid (Millions of yen)
Kawasaki Nisshincho Building	Kawasaki-ku, Kawasaki-shi	Utility renovation	From September 2012 To December 2012	52
NHK Nagoya Housou Center Building	Higashi-ku, Nagoya-shi	Renewal of fire prevention monitoring systems	From July 2011 To July 2012	48
Other constructions			—	183
Total				283

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

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

(Unit: Millions of yen)

Item	9th Period July 1, 2010 to December 31, 2010	10th Period January 1, 2011 to June 30, 2011	11th Period July 1, 2011 to December 31, 2011	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012
Reserved funds at beginning of period	254	259	251	299	267
Increase	5	5	48	14	14
Decrease	—	13	—	47	—
Reserved funds at the end of period	259	251	299	267	281

## 5. Expenses and Liabilities

### (1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	12th Period January 1, 2012 to June 30, 2012	13th Period July 1, 2012 to December 31, 2012
(a) Asset management fees	356,378	358,309
(b) Custodian fees	17,207	17,317
(c) Administrative service fees	34,199	33,712
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	73,297	50,021
Total	498,623	476,900

## (2) Borrowings

Borrowings by each financing source as of the end of the 13th period (ended December 31, 2012) are as follows:

Classification	Lender	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Mizuho Trust & Banking Co., Ltd.	May 7, 2012	500,000	—	—	October 31, 2012	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
	Mizuho Trust & Banking Co., Ltd.		500,000	500,000	0.68000	February 28, 2013			
Sub Total			1,000,000	500,000	0.68000	—	—	—	—
Long-term loans due within one year	Mitsubishi UFJ Trust and Banking Corporation	July 31, 2007	2,300,000	—	—	July 31, 2012	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Sumitomo Mitsui Banking Corporation		2,200,000	—					
	The Norinchukin Bank		2,000,000	—					
	Resona Bank, Ltd.		500,000	—					
	Mizuho Corporate Bank, Ltd.	July 31, 2007	2,500,000	—	—				
	Mizuho Trust & Banking Co., Ltd.		1,500,000	—					
	Sompo Japan Insurance Inc.		2,000,000	—					
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	—					
	Mizuho Corporate Bank, Ltd.	October 24, 2008	6,000,000	6,000,000	1.02833	June 28, 2013			
	Mitsubishi UFJ Trust and Banking Corporation		1,000,000	1,000,000					
	The Norinchukin Bank	June 29, 2010	—	3,100,000	1.05917	December 27, 2013			
	Mizuho Corporate Bank, Ltd.		—	1,800,000					
	Mitsubishi UFJ Trust and Banking Corporation		—	1,800,000					
Mizuho Trust & Banking Co., Ltd.	—		1,300,000						
Sub Total			21,000,000	15,000,000	1.04478	—	—	—	—



	Classification	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender								
Long-term loans (Note 3)	The Norinchukin Bank	June 29, 2010	3,100,000	—	—	December 27, 2013	Lump-sum	Repayment of existing borrowings	
	Mizuho Corporate Bank, Ltd.		1,800,000	—					
	Mitsubishi UFJ Trust and Banking Corporation		1,800,000	—					
	Mizuho Trust & Banking Co., Ltd.		1,300,000	—					
	The Dai-ichi Life Insurance Company Limited	July 31, 2007	2,000,000	2,000,000	2.25875 (Note 2)	July 31, 2014		Acquisition of real estate	
	Development Bank of Japan Inc.		2,000,000	2,000,000	2.28417 (Note 2)				
	Mitsubishi UFJ Trust and Banking Corporation	June 29, 2013	4,000,000	4,000,000	0.95917	December 29, 2014		Repayment of existing borrowings	
	Mizuho Corporate Bank, Ltd.		3,900,000	3,900,000					
	Mizuho Trust & Banking Co., Ltd.		2,400,000	2,400,000					
	Resona Bank, Ltd.		1,200,000	1,200,000					
	The Dai-ichi Life Insurance Company Limited	October 24, 2008	3,000,000	3,000,000	2.27344 (Note 2)	June 30, 2015		Repayment of existing borrowings	
	Development Bank of Japan Inc.		2,000,000	2,000,000					
	Mizuho Trust & Banking Co., Ltd.	November 29, 2011	1,620,000	1,620,000	1.13750 (Note 2)	November 30, 2015		Acquisition of real estate	
	Aozora Bank, Ltd.		1,620,000	1,620,000					
	Aozora Bank, Ltd.		650,000	650,000					
	Mizuho Corporate Bank, Ltd.		370,000	370,000					
	Sumitomo Mitsui Banking Corporation		280,000	280,000					
	Mizuho Corporate Bank, Ltd.	January 31, 2012	500,000	500,000	1.14125 (Note 2)	November 30, 2015		Repayment of existing borrowing	
	Mitsubishi UFJ Trust and Banking Corporation		500,000	500,000					
	Resona Bank, Ltd.		500,000	500,000					
	Aozora Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka		300,000	300,000					
	The Norinchukin Bank	July 31, 2012	—	2,000,000	0.97125 (Note 2)	November 30, 2015		Repayment of existing borrowing	
	Mizuho Trust & Banking Co., Ltd.		—	1,500,000					
	Resona Bank, Ltd.		—	500,000					
	Mitsubishi UFJ Trust and Banking Corporation	June 29, 2011	4,600,000	4,600,000	1.36375 (Note 2)	June 29, 2016		Repayment of existing borrowing	
	Mizuho Corporate Bank, Ltd.		4,400,000	4,400,000					
Sumitomo Mitsui Banking Corporation	4,000,000		4,000,000						
Sumitomo Mitsui Trust Bank, Limited	November 29, 2011	1,620,000	1,620,000	1.24375 (Note 2)	November 29, 2016	Repayment of existing borrowing			
Sumitomo Mitsui Banking Corporation		1,080,000	1,080,000						
Mitsubishi UFJ Trust and Banking Corporation		540,000	540,000						
Mizuho Corporate Bank, Ltd.		520,000	520,000						
Mizuho Corporate Bank, Ltd.	January 31,	2,000,000	2,000,000	1.24750	January 31,				

Mitsubishi UFJ Trust and Banking Corporation	2012	1,500,000	1,500,000	(Note 2)	2017			
Sumitomo Mitsui Banking Corporation		1,500,000	1,500,000					
Mizuho Corporate Bank, Ltd.	July 31, 2012	—	1,500,000	1.03000 (Note 2)	January 31, 2017			
Mitsubishi UFJ Trust and Banking Corporation		—	1,300,000					
Sumitomo Mitsui Banking Corporation		—	1,200,000					
Sompo Japan Insurance Inc.		—	2,000,000	1.09734				
Tokio Marine & Nichido Fire Insurance Co., Ltd.		—	1,000,000	(Note 2)				
Development Bank of Japan Inc.		November 30, 2010	6,000,000	6,000,000		1.73875 (Note 2)		
Mizuho Corporate Bank, Ltd.	July 31, 2012	—	1,000,000	1.08375 (Note 2)	November 30, 2017			
Mitsubishi UFJ Trust and Banking Corporation		—	1,000,000					
Sumitomo Mitsui Banking Corporation		—	1,000,000					
The Dai-ichi Life Insurance Company Limited	June 29, 2011	3,000,000	3,000,000	1.65125 (Note 2)	June 29, 2018			
Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020			
Sub Total		67,800,000	73,800,000	1.36460	—	—	—	—
Total		89,800,000	89,300,000	1.30705	—	—	—	—

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance at the end of period by multiplying the interest rate of each loan agreement as of period-end, rounding to five decimal places. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted-average rate adjusting the effect of the interest rate swaps.

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

(Note 3) The following table shows annual total amount of long-term loans (excluding those due within one year) for each year after the balance sheet date.

(Unit: Thousands of yen)

Classification	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term loans	15,500,000	15,540,000	16,760,000	21,000,000	5,000,000

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2012 are as follows:

Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (Note 1) (%)	Maturity date	Repayment method	Use	Remarks
1st series unsecured investment corporation bonds	March 11, 2010	12,000,000	12,000,000	1.52000	March 11, 2014	Lump-sum	(Note 2)	(Note 4)
2nd series unsecured investment corporation bonds	June 28, 2010	5,000,000	5,000,000	1.29000	June 26, 2015	Lump-sum	(Note 2)	(Note 4)
3rd series unsecured investment corporation bonds	November 4, 2011	5,000,000	5,000,000	1.01000	November 4, 2016	Lump-sum	(Note 3)	(Note 4)
4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	2,000,000	1.40000	November 2, 2018	Lump-sum	(Note 3)	(Note 4)

Asset Management Report for 13<sup>th</sup> period (Semi-Annual Report for 13<sup>th</sup> Period)

Total		24,000,000	24,000,000	1.35583				
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(Note 1) The interest rate indicated in the total column is calculated using a weighted-average of the balance at the end of period by multiplying the loan interest rate of each investment corporation bond, rounding to five decimal places.

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

(Note 3) The funds were used for acquiring new properties.

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

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

JEI has no outstanding short-term investment corporation bonds as of December 31, 2012.

## 6. Condition of Investment Transactions

### (1) Transactions of Property and Asset-Backed Securities, Etc.

(Unit: Millions of yen)

Type of assets	Name of property	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note 1)	Transfer date	Transfer amount (Note 1)	Net book value	Gain (loss) on transfer
Ownership interests in an anonymous association	Ownership interests in an anonymous association managed by Polaire LLC	September 26, 2012	200	—	—	—	—
		—	200	—	—	—	—

(Note 1) The acquisition price does not include the various expenses required in the acquisition of the ownership interest in an anonymous association.

### (2) Transactions of Other Assets

Other than those described above, major assets transacted are mainly bank deposits and bank deposits in trust.

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

1) Real estate, etc.

There were no applicable items during the period.

2) Ownership interests in an anonymous association

(Unit: Millions of yen)

Acquisition or transfer	Name of property	Transaction date	Acquisition price	Researched specified assets value
Acquisition	Ownership interests in an anonymous association managed by Polaire LLC	September 26, 2012	200	200

3) Others

Of the transactions of JEI that are subject to research for specified assets value and other particulars under Section 201 of the Investment Trust Law, those other than what are described in 1) Real estate, etc. and 2) Ownership interests in an anonymous association are researched and reported by Ernst & Young ShinNihon LLC.

Three interest rate swap contracts were subject to the research during the period from July 1, 2012 to December 31, 2012 and we have received the related research report from Ernst & Young ShinNihon LLC. In the research, Ernst & Young ShinNihon LLC is requested to report on the name of counterparty, currency, contractual interest rate, transaction term and other matters pertaining to the subject interest rate swap contracts.

### (4) Transactions with Interested Parties or Major Shareholders

1) Transactions

There were no applicable items during the period.

2) Amounts of fees paid and other expenses

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties and major shareholders		B/A
		Paid to	Amount paid (B)	
Property management costs and fees (Note 2)	1,011,380	Nippon Steel Kowa Real Estate Co., Ltd.	369,342	36.5%
		Sekisui House, Ltd.	46,619	4.6%
Total	1,011,380	—	415,961	41.1%

(Note 1) Figures indicate fees paid to interested parties and major shareholders of asset management companies with whom JEI had transactions during the six months ended December 2012.

(Note 2) Property management costs and fees include construction management fees that were not expensed but capitalized in property management fees and expenses.

(Note 3) The amounts do not include consumption tax and other taxes.

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

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

## 7. Accounting

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

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

### (2) Change in Depreciation Calculation Method

No changes were made during the period.

### (3) Change in Asset Valuation Method

No changes were made during the period.

## 8. Others

### (1) Investment Trust Beneficiary Certificates Incorporated by JEI

There were no applicable items during the period.

### (2) Scheduled Meetings

#### 1) Unitholders' meeting

There were no applicable items during the period.

#### 2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended December 31, 2012 is summarized below.

Approval date	Approved agenda	Description
December 12, 2012	Entering into revised agreement for ongoing asset management agreement	Provisions on compensations paid for operations commissioned to the Asset Management Company were partially revised.

### (3) Other

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

**Financial Statements**

**Japan Excellent, Inc.**

*For the six-month periods ended  
December 31, 2012 and June 30, 2012  
with Independent Auditor's Report*

## Independent Auditor's Report

The Board of Directors  
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at December 31, 2012, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at December 31, 2012, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

We draw attention to Note 21 to the financial statements, which describes the issuance of new units, acquisition of new properties and new borrowings subsequent to December 31, 2012 by the Company. Our opinion is not qualified in respect of these matters.

### *Convenience Translation*

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

*Ernst & Young Shin Nihon LLC*

March 21, 2013  
Tokyo, Japan



# Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2012 and June 30, 2012

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents including trust accounts <i>(Notes 4 and 6)</i>	¥ 15,325,266	¥ 15,383,755	\$ 177,006,995
Rental receivables	650,872	539,343	7,517,583
Other current assets	161,309	156,814	1,863,124
<b>Total current assets</b>	<b>16,137,447</b>	<b>16,079,912</b>	<b>186,387,702</b>
<b>Property and equipment <i>(Note 8)</i>:</b>			
Buildings and building improvements	3,812,634	3,755,620	44,035,963
Machinery and equipment	265	265	3,062
Furniture and fixtures	2,285	2,285	26,388
Construction in progress	9,736	12,233	112,454
Buildings and building improvements for trust accounts	82,741,761	82,573,706	955,668,295
Machinery and equipment for trust accounts	431,629	428,169	4,985,317
Furniture and fixtures for trust accounts	81,727	79,349	943,950
Land for trust accounts	128,008,244	128,008,244	1,478,496,695
Construction in progress for trust accounts	63,315	8,416	731,289
Less: accumulated depreciation	(12,538,834)	(11,254,423)	(144,823,675)
<b>Net property and equipment</b>	<b>202,612,762</b>	<b>203,613,864</b>	<b>2,340,179,738</b>
<b>Investments and other assets:</b>			
Leasehold rights	1,185,045	1,185,045	13,687,282
Leasehold rights for trust accounts	7,380,017	7,380,017	85,239,279
Investment securities <i>(Note 5)</i>	207,614	-	2,397,946
Security deposits	15,181	15,182	175,348
Long-term prepaid expenses	331,457	385,828	3,828,334
Investment corporation bond issuance costs	66,004	79,695	762,344
Other assets	84,509	79,148	976,077
<b>Total investments and other assets</b>	<b>9,269,827</b>	<b>9,124,915</b>	<b>107,066,610</b>
<b>Total assets</b>	<b>¥ 228,020,036</b>	<b>¥ 228,818,691</b>	<b>\$ 2,633,634,050</b>

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

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars) (Note 2)</i>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable – trade	¥ 510,686	¥ 587,879	\$ 5,898,427
Short-term loans <i>(Notes 6 and 9)</i>	500,000	1,000,000	5,775,006
Long-term debt due within one year <i>(Notes 6 and 9)</i>	15,000,000	21,000,000	173,250,173
Accounts payable – other	329,263	381,713	3,802,999
Unpaid consumption taxes	136,379	155,102	1,575,179
Other current liabilities	328,003	328,977	3,788,436
<b>Total current liabilities</b>	<b>16,804,331</b>	<b>23,453,671</b>	<b>194,090,220</b>
Long-term liabilities:			
Investment corporation bonds <i>(Notes 6 and 10)</i>	24,000,000	24,000,000	277,200,277
Long-term debt <i>(Notes 6 and 9)</i>	73,800,000	67,800,000	852,390,853
Security deposits from tenants <i>(Note 6)</i>	426,974	425,044	4,931,556
Security deposits from tenants for trust accounts <i>(Note 6)</i>	8,443,474	8,602,586	97,522,218
<b>Total long-term liabilities</b>	<b>106,670,448</b>	<b>100,827,630</b>	<b>1,232,044,904</b>
<b>Total liabilities</b>	<b>123,474,779</b>	<b>124,281,301</b>	<b>1,426,135,124</b>
<b>Net assets (Note 11):</b>			
Unitholders' equity:			
Unitholders' capital	102,052,384	102,052,384	1,178,706,218
Units authorized: 2,000,000 units			
Units issued and outstanding: 188,650 units as of December 31, 2012 and June 30, 2012			
Surplus			
Voluntary reserve			
Reserve for advanced depreciation of non-current assets	183,368	50,181	2,117,900
Retained earnings	2,309,505	2,434,825	26,674,808
<b>Total surplus</b>	<b>2,492,873</b>	<b>2,485,006</b>	<b>28,792,708</b>
<b>Total unitholders' equity</b>	<b>104,545,257</b>	<b>104,537,390</b>	<b>1,207,498,926</b>
<b>Total net assets</b>	<b>104,545,257</b>	<b>104,537,390</b>	<b>1,207,498,926</b>
<b>Total liabilities and net assets</b>	<b>¥ 228,020,036</b>	<b>¥ 228,818,691</b>	<b>\$ 2,633,634,050</b>

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

# Japan Excellent, Inc.

## Statements of Income and Retained Earnings

For the periods from July 1, 2012 to December 31, 2012  
and from January 1, 2012 to June 30, 2012

	<b>For the period from July 1, 2012 to December 31, 2012</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2012 to December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Revenues:</b>			
Rental revenues <i>(Note 14)</i>	¥6,944,963	¥7,046,224	\$80,214,399
Other <i>(Note 14)</i>	652,843	541,770	7,540,340
Gain on sale of real estate <i>(Note 15)</i>	–	152,695	–
Dividend income from investment in anonymous association	1,524	–	17,609
<b>Total revenues</b>	<b>7,599,330</b>	<b>7,740,689</b>	<b>87,772,348</b>
<b>Operating expenses:</b>			
Property operating expenses <i>(Note 14)</i>	3,950,122	3,901,998	45,623,947
Asset management fees	358,310	356,379	4,138,479
Custodian fees	17,317	17,207	200,015
Administrative service fees	33,712	34,200	389,377
Compensation for directors	6,540	6,540	75,537
Other	61,021	84,298	704,795
<b>Total operating expenses</b>	<b>4,427,022</b>	<b>4,400,622</b>	<b>51,132,150</b>
<b>Operating income</b>	<b>3,172,308</b>	<b>3,340,067</b>	<b>36,640,198</b>
<b>Other income:</b>			
Interest income	1,551	1,578	17,912
Other	5,677	8,207	65,564
<b>Other expenses:</b>			
Interest expense	595,132	599,796	6,873,783
Loan arrangement fees	96,054	138,538	1,109,430
Interest expense on investment corporation bonds	163,993	161,785	1,894,116
Amortization of investment corporation bond issuance costs	13,692	13,692	158,140
Other	181	180	2,086
<b>Ordinary income</b>	<b>2,310,484</b>	<b>2,435,861</b>	<b>26,686,119</b>
<b>Extraordinary income:</b>			
Reversal of provision for loss on disaster	–	56	–
<b>Income before income taxes</b>	<b>2,310,484</b>	<b>2,435,917</b>	<b>26,686,119</b>
<b>Income taxes <i>(Note 13)</i>:</b>			
Current	1,088	1,097	12,569
Deferred	(1)	(0)	(14)
<b>Net income</b>	<b>2,309,397</b>	<b>2,434,820</b>	<b>26,673,564</b>
Retained earnings at beginning of period	108	5	1,244
<b>Retained earnings at end of period</b>	<b>¥2,309,505</b>	<b>¥2,434,825</b>	<b>\$26,674,808</b>

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

# Japan Excellent, Inc.

## Statements of Changes in Net Assets

For the periods from July 1, 2012 to December 31, 2012  
and from January 1, 2012 to June 30, 2012

	For the period from January 1, 2012 to June 30, 2012						
	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus		
Voluntary reserve							
<i>(Thousands of yen)</i>							
<b>Balance as of December 31, 2011</b>	188,650	¥102,052,384	¥50,181	¥ 2,236,262	¥ 2,286,443	¥104,338,827	¥104,338,827
Changes during the fiscal period:							
Distributions from retained earnings	-	-	-	(2,236,257)	(2,236,257)	(2,236,257)	(2,236,257)
Net income	-	-	-	2,434,820	2,434,820	2,434,820	2,434,820
Total changes during the fiscal period	-	-	-	198,563	198,563	198,563	198,563
<b>Balance as of June 30, 2012</b>	<u>188,650</u>	<u>¥102,052,384</u>	<u>¥50,181</u>	<u>¥ 2,434,825</u>	<u>¥ 2,485,006</u>	<u>¥104,537,390</u>	<u>¥104,537,390</u>

	For the period from July 1, 2012 to December 31, 2012						
	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus		
Voluntary reserve							
<i>(Thousands of yen)</i>							
<b>Balance as of June 30, 2012</b>	188,650	¥102,052,384	¥ 50,181	¥ 2,434,825	¥ 2,485,006	¥104,537,390	¥104,537,390
Changes during the fiscal period:							
Provision for reserve for reduction	-	-	133,187	(133,187)	-	-	-
Distributions from retained earnings	-	-	-	(2,301,530)	(2,301,530)	(2,301,530)	(2,301,530)
Net income	-	-	-	2,309,397	2,309,397	2,309,397	2,309,397
Total changes during the fiscal period	-	-	133,187	(125,320)	7,867	7,867	7,867
<b>Balance as of December 31, 2012</b>	<u>188,650</u>	<u>¥102,052,384</u>	<u>¥183,368</u>	<u>¥ 2,309,505</u>	<u>¥ 2,492,873</u>	<u>¥104,545,257</u>	<u>¥104,545,257</u>

	For the period from July 1, 2012 to December 31, 2012						
	Net assets						
	Unitholders' equity						
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity	Total net assets
			Reserve for advanced depreciation of non-current assets	Retained earnings	Total surplus		
Voluntary reserve							
<i>(U.S. dollars) (Note 2)</i>							
<b>Balance as of June 30, 2012</b>	188,650	\$1,178,706,218	\$ 579,590	\$ 28,122,252	\$ 28,701,842	\$1,207,408,060	\$1,207,408,060
Changes during the fiscal period:							
Provision for reserve for reduction	-	-	1,538,310	(1,538,310)	-	-	-
Distributions from retained earnings	-	-	-	(26,582,698)	(26,582,698)	(26,582,698)	(26,582,698)
Net income	-	-	-	26,673,564	26,673,564	26,673,564	26,673,564
Total changes during the fiscal period	-	-	1,538,310	(1,447,444)	90,866	90,866	90,866
<b>Balance as of December 31, 2012</b>	<u>188,650</u>	<u>\$1,178,706,218</u>	<u>\$2,117,900</u>	<u>\$ 26,674,808</u>	<u>\$ 28,792,708</u>	<u>\$1,207,498,926</u>	<u>\$1,207,498,926</u>

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

# Japan Excellent, Inc.

## Statements of Cash Flows

For the periods from July 1, 2012 to December 31, 2012  
and from January 1, 2012 to June 30, 2012

	For the period from July 1, 2012 to December 31, 2012	For the period from January 1, 2012 to June 30, 2012	For the period from July 1, 2012 to December 31, 2012
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i> <i>(Note 2)</i>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 2,310,484	¥ 2,435,917	\$ 26,686,119
Depreciation and amortization	1,284,468	1,260,724	14,835,621
Amortization of investment corporation bond issuance costs	13,692	13,692	158,140
Decrease in provision for loss on disaster	–	(56)	–
Interest income	(1,551)	(1,578)	(17,912)
Interest expense	759,125	761,582	8,767,899
Increase in rental receivables	(111,530)	(85,468)	(1,288,168)
Decrease in consumption taxes refundable	–	227,659	–
Decrease (increase) in prepaid expenses	33,510	(37,877)	387,040
(Decrease) increase in accounts payable – trade	(76,177)	72,874	(879,842)
(Decrease) increase in accounts payable – other	(49,164)	92,835	(567,849)
(Decrease) increase in unpaid consumption taxes	(18,723)	155,102	(216,249)
(Decrease) increase in advances received	(3,978)	6,137	(45,950)
Decrease (increase) in long-term prepaid expenses	54,371	(30,588)	627,988
Decrease in property and equipment for trust accounts due to sale	–	2,798,378	–
Other, net	(53,588)	(12,016)	(618,945)
Subtotal	4,140,939	7,657,317	47,827,892
Interest received	1,551	1,578	17,912
Interest paid	(751,221)	(710,751)	(8,676,609)
Income taxes paid	(1,397)	(1,009)	(16,132)
Net cash provided by operating activities	3,389,872	6,947,135	39,153,063
<b>Cash flows from investing activities</b>			
Purchases of investment securities	(211,309)	–	(2,440,627)
Proceeds from redemption of investment securities	3,695	–	42,680
Purchases of property and equipment	(46,314)	(263,348)	(534,928)
Purchases of property and equipment for trust accounts	(241,650)	(4,850,934)	(2,791,066)
Proceeds from security deposits from tenants	4,751	22,853	54,869
Payments for security deposits to tenants	(2,822)	(13,435)	(32,579)
Proceeds from security deposits from tenants for trust accounts	327,984	503,743	3,788,215
Payments for security deposits to tenants for trust accounts	(487,096)	(437,118)	(5,625,969)
Net cash used in investing activities	(652,761)	(5,038,239)	(7,539,405)
<b>Cash flows from financing activities</b>			
Proceeds from short-term loans	–	1,000,000	–
Repayment for short-term loans	(500,000)	(9,000,000)	(5,775,006)
Proceeds from long-term debt	14,000,000	9,000,000	161,700,162
Repayment for long-term debt	(14,000,000)	–	(161,700,162)
Distributions to unitholders	(2,295,600)	(2,233,927)	(26,514,208)
Net cash used in financing activities	(2,795,600)	(1,233,927)	(32,289,214)
Net (decrease) increase in cash and cash equivalents	(58,489)	674,969	(675,556)
Cash and cash equivalents at beginning of period	15,383,755	14,708,786	177,682,551
Cash and cash equivalents at end of period	¥ 15,325,266	¥15,383,755	\$ 177,006,995

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

# Japan Excellent, Inc.

## Notes to Financial Statements

For the periods from July 1, 2012 to December 31, 2012  
and from January 1, 2012 to June 30, 2012

### 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 is owned 45% by NIPPON STEEL KOWA REAL ESTATE CO., LTD., 20% by The Dai-ichi Life Insurance Company, Limited, 15% by Sekisui House, Ltd. and 20% by other corporations.

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2012, JEI held 24 properties with 266,915 square meters of total leasable space and had leases with 134 tenants excluding residential tenants.

### 2. Basis of Presentation

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

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥86.58 = U.S.\$1.00, the foreign exchange rate prevailing on December 31, 2012, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

**3. Summary of Significant Accounting Policies**

***Cash and cash equivalents***

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

***Investment securities***

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. For ownership interests in an anonymous association, JEI adopts the method of factoring in the net amount of anonymous association income (loss) in proportion to its ownership interests.

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

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

Buildings	2 – 60 years
Building improvements	2 – 59 years
Machinery and equipment	7 – 16 years
Furniture and fixtures	3 – 10 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.

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

#### *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 14).

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. No property-related taxes were capitalized for the period from July 1, 2012 to December 31, 2012. The capitalized amount for the period from January 1, 2012 to June 30, 2012 was ¥37,298 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 to fluctuation in interest rates. JEI has entered into certain interest-rate swap contracts to hedge variable rates for its long-term debt obligations.

The corresponding interest-rate swap meets the criteria for the special hedge accounting treatment under Japanese GAAP, and it is therefore not recorded at fair value.

The amounts paid or received via the swap transaction are recognized as interest adjustments. An assessment of hedge effectiveness is omitted accordingly.

#### *Properties in trust accounts*

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

### 4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at December 31, 2012 and June 30, 2012 consisted of the following:

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Cash and cash deposits	¥ 3,596,805	¥ 3,490,795	\$ 41,543,138
Cash in trust and deposits in trust	11,728,461	11,892,960	135,463,857
Cash and cash equivalents including trust accounts	<u>¥15,325,266</u>	<u>¥15,383,755</u>	<u>\$177,006,995</u>



## **5. Investment Securities**

Investment securities represent the ownership interests in an anonymous association issued by Polaire LLC, which are backed by cash flows from real estate properties managed by Polaire LLC.

These securities do not have a readily available market price. Additionally due to a lack of clearly identifiable cash flow information from the underlying properties, there is inherent difficulty in estimating fair value, accordingly they are excluded from fair value disclosures.

## **6. Financial Instruments**

**For the periods from July 1, 2012 to December 31, 2012 and from January 1, 2012 to June 30, 2012**

### *Overview*

#### (1) Policy for Financial Instruments

JEI borrows from banks, issues investment corporation bonds and issues investment units to procure funds required to grow its assets under management and to repay liabilities, based on the financial policy set forth by JEAM and the Company's Annual Funds Procurement Plan. When procuring funds by means of interest-bearing debt, matters such as seeking longer durations and maturities, securing fixed interest rates 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 deposits. Derivative transactions are used solely for the purpose of hedging against the risk of fluctuations in interest rates of borrowings and the like.

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

##### (a) Market Risks (Interest Rate Fluctuation Risks)

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings. Some of such debt are floating rate instruments and thus are exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant monitoring activities, JEI hedges against the risk of interest rate fluctuations using derivative transactions (interest-rate swaps), which swap a floating interest rate for a fixed interest rate. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions having a high credit rating. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies. Investment securities represent equity investments in a special purpose company as ownership interests in an anonymous association, and are exposed to credit risk of the issuer and interest rate fluctuation risk. JEI works to reduce such risks by regularly evaluating the results of operations and the financial condition of the issuer, etc.

## 6. Financial Instruments (continued)

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced by diversifying maturity dates and funding sources, executing commitment line agreements (As described in Note 9, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2012), and liquidity risk is managed through the constant management of liquidity on hand.

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

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

#### *Fair value of financial instruments*

The following are carrying values and fair values as of December 31, 2012 and June 30, 2012 of financial instruments and the differences between them. When fair value is difficult to ascertain, it is excluded from the following table (Note 2).

	As of December 31, 2012			As of June 30, 2012			As of December 31, 2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
	<i>(Thousands of yen)</i>						<i>(U.S. dollars)</i>		
(1) Cash and cash deposits	¥ 3,596,805	¥ 3,596,805	¥ -	¥ 3,490,795	¥ 3,490,795	¥ -	\$ 41,543,138	\$ 41,543,138	\$ -
(2) Cash in trust and deposits in trust	11,728,461	11,728,461	-	11,892,960	11,892,960	-	135,463,857	135,463,857	-
Total assets	¥ 15,325,266	¥ 15,325,266	¥ -	¥ 15,383,755	¥ 15,383,755	¥ -	\$ 177,006,995	\$ 177,006,995	\$ -
(3) Short-term loans	¥ 500,000	¥ 500,000	¥ -	¥ 1,000,000	¥ 1,000,000	¥ -	\$ 5,775,006	\$ 5,775,006	\$ -
(4) Long-term debt due within one year	15,000,000	15,000,000	-	21,000,000	21,006,518	6,518	173,250,173	173,250,173	-
(5) Investment corporation bonds	24,000,000	24,221,900	221,900	24,000,000	24,209,900	209,900	277,200,277	279,763,225	2,562,948
(6) Long-term debt	73,800,000	75,023,335	1,223,335	67,800,000	68,602,364	802,364	852,390,853	866,520,388	14,129,535
Total liabilities	¥ 113,300,000	¥ 114,745,235	¥ 1,445,235	¥ 113,800,000	¥ 114,818,782	¥ 1,018,782	\$ 1,308,616,309	\$ 1,325,308,792	\$ 16,692,483
(7) Derivative transactions *	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -

\* The value of assets and liabilities arising from derivatives is shown at net value, with the amount in parentheses representing net liability position.

(Note 1)

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

##### Assets

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

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

## 6. Financial Instruments (continued)

### Liabilities

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

Where floating rates apply, fair value is based on book value. The fair value of such liabilities is considered to be close to book value because 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 discounting the combined value of principal and interest of the applicable long-term debt by a reasonable rate assuming the same amount were to be borrowed anew.

- (5) Investment corporation bonds

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

- (7) Derivative transactions

Please refer to Note 17, "Derivative Transactions."

(Note 2)

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

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
(1) Investment securities <sup>(*1)</sup>	¥ 207,614	–	\$ 2,397,946
(2) Security deposits from tenants <sup>(*2)</sup>	¥ 426,974	¥ 425,044	\$ 4,931,556
(3) Security deposits from tenants for trust accounts <sup>(*2)</sup>	¥8,443,474	¥8,602,586	\$97,522,218

(\*1) Investment securities (ownership interests in an anonymous association) have no available market price and reasonable estimates of cash flows from underlying properties cannot be made, so the fair value is deemed difficult to determine. Accordingly, they are excluded from the disclosure of fair value.

(\*2) Security deposits from tenants and security deposits from tenants for trust accounts in leased properties are not subject to fair value disclosure because such deposits have no market price. Moreover, it is difficult to calculate the actual period of time on deposit, namely, from the time the tenant moves in until the time the tenant vacates, and it is extremely difficult to rationally estimate cash flow.

## 6. Financial Instruments (continued)

(Note 3)

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

	As of December 31, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	¥ 3,596,805	¥ –	¥ –	¥ –	¥ –	¥ –
Cash in trust and deposits in trust	11,728,461	–	–	–	–	–
Total	<u>¥15,325,266</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

	As of December 31, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(U.S. dollars)					
Cash and cash deposits	\$ 41,543,138	\$ –	\$ –	\$ –	\$ –	\$ –
Cash in trust and deposits in trust	135,463,857	–	–	–	–	–
Total	<u>\$177,006,995</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

	As of June 30, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Cash and cash deposits	¥ 3,490,795	¥ –	¥ –	¥ –	¥ –	¥ –
Cash in trust and deposits in trust	11,892,960	–	–	–	–	–
Total	<u>¥15,383,755</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

(Note 4)

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

	As of December 31, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ 500,000	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt due within one year	15,000,000	–	–	–	–	–
Investment corporation bonds	–	12,000,000	5,000,000	5,000,000	–	2,000,000
Long-term debt	–	15,500,000	15,540,000	16,760,000	21,000,000	5,000,000
Total	<u>¥15,500,000</u>	<u>¥27,500,000</u>	<u>¥20,540,000</u>	<u>¥21,760,000</u>	<u>¥21,000,000</u>	<u>¥ 7,000,000</u>

## 6. Financial Instruments (continued)

	As of December 31, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(U.S. dollars)					
Short-term loans	\$ 5,775,006	\$ –	\$ –	\$ –	\$ –	\$ –
Long-term debt due within one year	173,250,173	–	–	–	–	–
Investment corporation bonds	–	138,600,139	57,750,058	57,750,058	–	23,100,023
Long-term debt	–	179,025,179	179,487,179	193,578,193	242,550,243	57,750,058
Total	<u>\$179,025,179</u>	<u>\$317,625,318</u>	<u>\$237,237,237</u>	<u>\$251,328,251</u>	<u>\$242,550,243</u>	<u>\$ 80,850,081</u>

	As of June 30, 2012					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Short-term loans	¥ 1,000,000	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt due within one year	21,000,000	–	–	–	–	–
Investment corporation bonds	–	12,000,000	5,000,000	–	5,000,000	2,000,000
Long-term debt	–	8,000,000	20,500,000	19,540,000	8,760,000	11,000,000
Total	<u>¥22,000,000</u>	<u>¥20,000,000</u>	<u>¥25,500,000</u>	<u>¥19,540,000</u>	<u>¥13,760,000</u>	<u>¥13,000,000</u>

## 7. Investment and Rental Property

For the periods from July 1, 2012 to December 31, 2012 and from January 1, 2012 to June 30, 2012

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of December 31, 2012 and June 30, 2012 for such real estate for lease.

As of June 30, 2012	Carrying value		As of December 31, 2012	Fair value As of December 31, 2012
	Change during period <sup>(*)</sup>			
	(Thousands of yen)			
¥212,178,926	¥(1,001,103)		¥211,177,823	¥194,204,000
As of June 30, 2012	Carrying value		As of December 31, 2012	Fair value As of December 31, 2012
	Change during period <sup>(*)</sup>			
	(U.S. dollars)			
\$2,450,669,045	\$(11,562,746)		\$2,439,106,299	\$2,243,058,443

## 7. Investment and Rental Property (continued)

As of December 31, 2011	Carrying value		As of June 30, 2012	Fair value As of June 30, 2012
	Change during period <sup>(*)2</sup>	(Thousands of yen)		
¥211,203,082	¥975,844		¥212,178,926	¥196,410,000

(Note 1)

Carrying value represents the acquisition cost less accumulated depreciation.

(Note 2)

(\*1) Changes during period comprise a decrease of ¥1,284,411 thousand (\$14,834,962) for depreciation costs.

(\*2) Changes during period comprise increases of ¥1,820,798 thousand related to the acquisition of Shintomicho Building, ¥2,810,335 thousand related to the acquisition of Hiroshima Hacchobori Dai-ichi Seimei Building and decreases of ¥2,798,378 thousand related to the disposition of No. 28 Kowa Building and ¥1,260,668 thousand for depreciation costs.

(Note 3)

Fair value as of December 31, 2012 and June 30, 2012 is appraisal value provided by third-party real estate appraisers.

## 8. Property and Equipment

Property and equipment at December 31, 2012 and June 30, 2012 consisted of the following:

	As of December 31, 2012			As of June 30, 2012			As of December 31, 2012		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	(Thousands of yen)						(U.S. dollars)		
Buildings and building improvements	¥ 3,812,634	¥ (524,881)	¥ 3,287,753	¥ 3,755,620	¥ (474,436)	¥ 3,281,184	\$ 44,035,963	\$ (6,062,381)	\$ 37,973,582
Machinery and equipment	265	(60)	205	265	(48)	217	3,062	(689)	2,373
Furniture and fixtures	2,285	(545)	1,740	2,285	(423)	1,862	26,388	(6,299)	20,089
Construction in progress	9,736	–	9,736	12,233	–	12,233	112,454	–	112,454
Buildings and building improvements for trust accounts	82,741,761	(11,799,079)	70,942,682	82,573,706	(10,585,614)	71,988,092	955,668,295	(136,279,497)	819,388,798
Machinery and equipment for trust accounts	431,629	(175,202)	256,427	428,169	(160,413)	267,756	4,985,317	(2,023,582)	2,961,735
Furniture and fixtures for trust accounts	81,727	(39,067)	42,660	79,349	(33,489)	45,860	943,950	(451,227)	492,723
Land for trust accounts	128,008,244	–	128,008,244	128,008,244	–	128,008,244	1,478,496,695	–	1,478,496,695
Construction in progress for trust accounts	63,315	–	63,315	8,416	–	8,416	731,289	–	731,289
Total	¥ 215,151,596	¥ (12,538,834)	¥ 202,612,762	¥ 214,868,287	¥ (11,254,423)	¥ 203,613,864	\$ 2,485,003,413	\$ (144,823,675)	\$ 2,340,179,738

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

Short-term loans and long-term debt as of December 31, 2012 and June 30, 2012 consisted of the following:

	As of December 31, 2012		As of June 30, 2012		As of December 31, 2012
	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*)1</sup>	Amount (Thousands of yen)	Weighted-average interest rate <sup>(*)1</sup>	Amount (U.S. dollars)
Short-term loans:					
Unsecured loans from a bank due on October 31, 2012	¥ –	–	¥ 500,000	0.68000%	\$ –
Unsecured loans from a bank due on February 28, 2013	500,000	0.68000%	500,000	0.68000%	5,775,006
Subtotal	<u>500,000</u>		<u>1,000,000</u>		<u>5,775,006</u>
Long-term debt due within one year:					
Unsecured loans from banks due on July 31, 2012	–	–	7,000,000	0.68615%	–
Unsecured loans from banks and insurance companies due on July 31, 2012	–	–	7,000,000	1.96907% <sup>(*)2</sup>	–
Unsecured loans from banks due on June 28, 2013	7,000,000	1.02833%	7,000,000	1.03615%	80,850,081
Unsecured loans from banks due on December 27, 2013	8,000,000	1.05917%	–	–	92,400,092
Subtotal	<u>15,000,000</u>		<u>21,000,000</u>		<u>173,250,173</u>
Long-term debt:					
Unsecured loans from banks due on December 27, 2013	–	–	8,000,000	1.08667%	–
Unsecured loans from an insurance company due on July 31, 2014	2,000,000	2.25875% <sup>(*)2</sup>	2,000,000	2.25875% <sup>(*)2</sup>	23,100,023
Unsecured loans from a bank due on July 31, 2014	2,000,000	2.28417% <sup>(*)2</sup>	2,000,000	2.28417% <sup>(*)2</sup>	23,100,023
Unsecured loans from banks due on December 29, 2014	11,500,000	0.95917%	11,500,000	0.98667%	132,825,133
Unsecured loans from an insurance company and a bank due on June 30, 2015	5,000,000	2.27344% <sup>(*)2</sup>	5,000,000	2.27344% <sup>(*)2</sup>	57,750,058
Unsecured loans from banks due on November 30, 2015	4,540,000	1.13750% <sup>(*)2</sup>	4,540,000	1.13750% <sup>(*)2</sup>	52,437,053
Unsecured loans from banks due on November 30, 2015	2,000,000	1.14125% <sup>(*)2</sup>	2,000,000	1.14125% <sup>(*)2</sup>	23,100,023
Unsecured loans from banks due on November 30, 2015	4,000,000	0.97125% <sup>(*)2</sup>	–	–	46,200,046
Unsecured loans from banks due on June 29, 2016	13,000,000	1.36375% <sup>(*)2</sup>	13,000,000	1.36375% <sup>(*)2</sup>	150,150,150
Unsecured loans from banks due on November 29, 2016	3,760,000	1.24375% <sup>(*)2</sup>	3,760,000	1.24375% <sup>(*)2</sup>	43,428,043
Unsecured loans from banks due on January 31, 2017	5,000,000	1.24750% <sup>(*)2</sup>	5,000,000	1.24750% <sup>(*)2</sup>	57,750,058
Unsecured loans from banks due on January 31, 2017	4,000,000	1.03000% <sup>(*)2</sup>	–	–	46,200,046
Unsecured loans from insurance companies due on January 31, 2017	3,000,000	1.09734% <sup>(*)2</sup>	–	–	34,650,035
Unsecured loans from a bank due on November 30, 2017	6,000,000	1.73875% <sup>(*)2</sup>	6,000,000	1.73875% <sup>(*)2</sup>	69,300,069
Unsecured loans from banks due on November 30, 2017	3,000,000	1.08375% <sup>(*)2</sup>	–	–	34,650,035
Unsecured loans from an insurance company due on June 29, 2018	3,000,000	1.65125% <sup>(*)2</sup>	3,000,000	1.65125% <sup>(*)2</sup>	34,650,035
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% <sup>(*)2</sup>	2,000,000	1.60000% <sup>(*)2</sup>	23,100,023
Subtotal	<u>73,800,000</u>		<u>67,800,000</u>		<u>852,390,853</u>
Total	<u>¥ 89,300,000</u>		<u>¥ 89,800,000</u>		<u>\$ 1,031,416,032</u>

(\*1) The weighted-average interest rate is weighted by the balance of each borrowing at the end of the period and rounded to the nearest fifth decimal place. As for the borrowings, which were hedged by interest-rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used to calculate the weighted average of interest.

(\*2) These are fixed-rate debt. (Fixed-rate debt by the interest-rate swaps agreement is included.)

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

The scheduled repayment amounts of long-term debt after the balance sheet date (excluding the long-term debt due within one year) are as follows:

	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>				
Long-term debt	¥15,500,000	¥15,540,000	¥16,760,000	¥21,000,000	¥5,000,000
	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>				
Long-term debt	\$179,025,179	\$179,487,179	\$193,578,193	\$242,550,243	\$57,750,058

JEI has commitment lines of ¥14,000 million (\$161,700 thousand) with three financial institutions to reduce refinancing risk and enhance financial stability. The full amount of such commitment lines was unused at December 31, 2012.

## 10. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of December 31, 2012 and June 30, 2012 are summarized as follows:

	<u>As of December 31, 2012</u>		<u>As of June 30, 2012</u>		<u>As of December 31, 2012</u>
	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>	<u>Weighted-average interest rate</u>	<u>Amount</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Unsecured bond due on March 11, 2014	¥12,000,000	1.52000%	¥12,000,000	1.52000%	\$138,600,138
Unsecured bond due on June 26, 2015	5,000,000	1.29000%	5,000,000	1.29000%	57,750,058
Unsecured bond due on November 4, 2016	5,000,000	1.01000%	5,000,000	1.01000%	57,750,058
Unsecured bond due on November 2, 2018	2,000,000	1.40000%	2,000,000	1.40000%	23,100,023
Total	<u>¥24,000,000</u>		<u>¥24,000,000</u>		<u>\$277,200,277</u>

The scheduled redemption amounts of investment corporation bonds after the balance sheet date 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	¥5,000,000	¥5,000,000	–	¥2,000,000
	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(U.S. dollars)</i>					
Investment corporation bonds	–	\$138,600,139	\$57,750,058	\$57,750,058	–	\$23,100,023



## 11. Net Assets

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

## 12. Per Unit Information

Net assets per unit were ¥554,175 (\$6,401) as of December 31, 2012 and ¥554,134 as of June 30, 2012. Net income per unit was ¥12,241 (\$141) for the period from July 1, 2012 to December 31, 2012 and ¥12,906 for the period from January 1, 2012 to June 30, 2012 and was computed based on the weighted-average number of units outstanding during the respective periods.

## 13. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of December 31, 2012 and June 30, 2012 are summarized as follows:

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Deferred tax assets:			
Accrued enterprise taxes	¥24	¥22	\$272
Total deferred tax assets	24	22	272
Net deferred tax assets	¥24	¥22	\$272

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from July 1, 2012 to December 31, 2012 and from January 1, 2012 to June 30, 2012 is as follows:

	<b>For the period from July 1, 2012 to December 31, 2012</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>
Statutory tax rate	36.59%	39.33%
Reconciliation:		
Deductible distributions paid	(36.57)	(37.16)
Other	0.03	(2.13)
Effective tax rate	0.05%	0.04%

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

	<b>For the period from July 1, 2012 to December 31, 2012</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2012 to December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Rental business revenues:			
Rental revenues	¥6,944,963	¥7,046,224	\$80,214,399
Other	652,843	541,770	7,540,340
Total rental business revenues	<u>7,597,806</u>	<u>7,587,994</u>	<u>87,754,739</u>
Property operating expenses:			
Property management costs and fees	1,006,078	1,016,241	11,620,214
Utilities	762,490	668,123	8,806,771
Property and other taxes	613,371	592,943	7,084,439
Insurance	22,198	25,198	256,384
Repairs and maintenance	86,140	186,950	994,917
Depreciation	1,284,411	1,260,668	14,834,962
Other	175,434	151,875	2,026,260
Total property operating expenses	<u>3,950,122</u>	<u>3,901,998</u>	<u>45,623,947</u>
Profit	<u>¥3,647,684</u>	<u>¥3,685,996</u>	<u>\$42,130,792</u>

#### 15. Breakdown of Gain on Sale of Real Estate

Gain on sale of real estate for the periods from July 1, 2012 to December 31, 2012 and from January 1, 2012 to June 30, 2012 is as follows:

	<b>For the period from July 1, 2012 to December 31, 2012</b>	<b>For the period from January 1, 2012 to June 30, 2012</b>	<b>For the period from July 1, 2012 to December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
No. 28 Kowa Building			
Proceeds from sale of real estate	¥ –	¥2,960,000	\$ –
Cost of sale of real estate	–	2,798,378	–
Other related sale expenses	–	8,927	–
Gain on sale of real estate	<u>¥ –</u>	<u>¥ 152,695</u>	<u>\$ –</u>

#### 16. Leases

JEI leases properties on which rental revenues are earned. At December 31, 2012 and June 30, 2012, future lease revenues under non-cancelable operating leases are summarized as follows:

	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>	<b>As of December 31, 2012</b>
	<i>(Thousands of yen)</i>		<i>(U.S. dollars)</i>
Due within one year	¥ 8,462	¥625,206	\$ 97,730
Due after one year	413,670	156,537	4,777,898
Total	<u>¥422,132</u>	<u>¥781,743</u>	<u>\$4,875,628</u>

## 17. Derivative Transactions

### Derivative Transactions as of December 31, 2012

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of December 31, 2012 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value	Contract amount		Fair value	Method of calculating the fair value
				More than one year				More than one year		
						<i>(Thousands of yen)</i>				
						<i>(U.S. dollars)</i>				
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	¥39,300,000	¥39,300,000	*	/	\$453,915,414	\$453,915,454	*	/

\* Since the above interest-rate swap qualifies for hedge accounting and meets certain matching criteria, the swap is not recorded 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 6, "Financial Instruments."

### Derivative Transactions as of June 30, 2012

(1) Hedge accounting not applied

Not applicable.

(2) Hedge accounting applied

The following are the contract values or values corresponding to the principal amount as stipulated by contract as of June 30, 2012 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	¥28,300,000	¥28,300,000	*	/

\* Since the above interest-rate swap qualifies for hedge accounting and meets certain matching criteria, the swap is not recorded 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 6, "Financial Instruments."

## 18. Related Party Transactions

### For the period from July 1, 2012 to December 31, 2012

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

Not applicable.

- (3) Sister companies

Not applicable.

- (4) Directors and major individual unitholders

Name	Description of transaction	Amount		Account	Balance at the end of period	
		(Thousands of yen)	(U.S. dollars)		(Thousands of yen)	(U.S. dollars)
Chifumi Toda	Payment of asset management fees to JEAM	¥358,310	\$4,138,479	Accounts payable	¥226,641	\$2,617,706

### For the period from January 1, 2012 to June 30, 2012

- (1) Parent company and major corporate unitholders

Not applicable.

- (2) Affiliates

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)
Chifumi Toda	Payment of asset management fees to JEAM	¥356,379	Accounts payable	¥226,556

## **19. Segment Information**

**For the periods from July 1, 2012 to December 31, 2012 and from January 1, 2012 to June 30, 2012**

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

### ***Information about products and services***

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

### ***Information about geographic area***

#### **(1) Revenues**

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

#### **(2) Property and equipment**

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

### ***Information about major clients***

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

## **20. Distribution Information**

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of unappropriated retained earnings, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥2,309,453,300 (\$26,674,212), which is the maximum integral multiple of the 188,650 units issued not exceeding unappropriated retained earnings at December 31, 2012. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 14, 2013, the Board of Directors approved a resolution to make a cash distribution of ¥12,242 (\$141) per unit aggregating to ¥2,309,453,300 (\$26,674,212) to unitholders of record as of December 31, 2012.

## 21. Significant Subsequent Events

### (1) Issuance of new units

On January 10, 2013 and January 23, 2013, the Board of Directors approved a resolution to complete a public offering of new units as outlined below. JEI received payments on January 30, 2013 and February 27, 2013 for the said units, which were issued in accordance with the conditions outlined below. As a result of the issuance of new units, JEI had unitholders' capital of ¥117,901 million (\$1,361,761 thousand) with 224,950 units in issue at February 27, 2013.

#### A. Issuance of new units through a public offering

(i) Method of issuance	Public offering
(ii) Number of units issued	33,000 units
(iii) Issue price (offer price)	¥451,425 (\$5,214) per unit
(iv) Total offer price	¥14,897 million (\$172,061 thousand)
(v) Proceeds per unit	¥436,609 (\$5,043)
(vi) Aggregate proceeds	¥14,408 million (\$166,414 thousand)
(vii) Payment date	January 30, 2013

#### B. Issuance of new units through allocation to a third party

(i) Method of issuance	Allocation to a third party
(ii) Number of units issued	3,300 units
(iii) Proceeds per unit	¥436,609 (\$5,043) per unit
(iv) Aggregate proceeds	¥1,441 million (\$16,641 thousand)
(v) Payment date	February 27, 2013
(vi) Allottee	Mizuho Securities Co., Ltd.

### (2) Acquisition of properties

The following properties were acquired:

#### A. AKASAKA INTERCITY

1. Type of asset acquired	Trust property
2. Asset	AKASAKA INTERCITY (Additional acquisition of compartmentalized ownership)
3. Location	1-11-44 Akasaka, Minato-ku, Tokyo
4. Acquisition price	¥10,289 million (\$118,838 thousand) (Note)
5. Contract date	January 10, 2013
6. Delivery date	February 5, 2013
7. Seller	NIPPON STEEL KOWA REAL ESTATE CO., LTD.

(Note) The acquisition price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

## 21. Significant Subsequent Events (continued)

### B. Osaka Kogin Building (Land with leasehold interest)

1. Type of asset acquired	Trust property
2. Asset	Osaka Kogin Building (Land with leasehold interest)
3. Location	4-1-1 Koraihashi, Chuo-ku, Osaka-shi, Osaka
4. Acquisition price	¥1,770 million (\$20,444 thousand) (Note)
5. Contract date	January 10, 2013
6. Delivery date	February 5, 2013
7. Seller	NIPPON STEEL KOWA REAL ESTATE CO., LTD.

(Note) The acquisition price is calculated as the land purchase price to be specified in the relevant trust beneficiary interest transfer agreement subject to conditions (¥10,100 million (\$116,655 thousand), less the amount equivalent to the key money pertaining to the leasehold interest in land (¥8,330 million (\$96,212 thousand), which will be received from the lessee of the land. The acquisition price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

### C. Core City Tachikawa

1. Type of asset acquired	Trust property
2. Asset	Core City Tachikawa
3. Location	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo
4. Acquisition price	¥6,500 million (\$75,075 thousand) (Note)
5. Contract date	January 13, 2011
6. Delivery date	February 5, 2013
7. Seller	Tachikawa Akebono-cho Capital Specific Purpose Company

(Note) The acquisition price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

### D. SE Sankyo Building

1. Type of asset acquired	Trust property
2. Asset	SE Sankyo Building
3. Location	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido
4. Acquisition price	¥5,500 million (\$63,525 thousand) (Note)
5. Contract date	January 10, 2013
6. Delivery date	March 1, 2013
7. Seller	Polaire LLC

(Note) The acquisition price does not include fees related to the acquisition, proportional JEI share of the applicable real estate tax and city planning tax, and consumption tax.

## 21. Significant Subsequent Events (continued)

### (3) Debt financing

A. On January 31, 2013, JEI entered into an individual loan agreement to use as a portion of the payment (including related expenses) for the acquisition of AKASAKA INTERCITY (Additional acquisition of compartmentalized ownership) and Osaka Kogin Building (Land with leasehold interest) and Core City Tachikawa.

1. Lender	Mizuho Corporate Bank, Ltd.
2. Loan amount	¥4,500 million (\$51,975 thousand)
3. Interest rate	0.63% (Floating rate)
4. Scheduled drawdown date	February 5, 2013
5. Interest payment date	March 1, 2013
6. Principal repayment date	March 1, 2013
7. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
8. Collateral	Unsecured/Non-guaranteed

B. On February 26, 2013, JEI entered into an individual loan agreement to use as a portion of the payment (including related expenses) for the acquisition of SE Sankyo Building.

1. Lenders	Mizuho Corporate Bank, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation Mizuho Trust & Banking Co., Ltd.
2. Loan amount	¥8,600 million (\$99,330 thousand)
3. Interest rate	Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) + 0.45%
4. Scheduled drawdown date	March 1, 2013
5. Interest payment date	(i) The initial interest payment date will be March 29, 2013, (ii) subsequent interest payments will be made at the end of every month, and (iii) the final interest payment date will be the same day as the principal repayment date.
6. Principal repayment date	June 28, 2013
7. Principal repayment method	To be repaid in full on the principal repayment date (early repayment permitted)
8. Collateral	Unsecured/Non-guaranteed