

# Asset Management Report for 25<sup>th</sup> Period

## (Semi-Annual Report for 25<sup>th</sup> Period)

From July 1, 2018 to December 31, 2018



**Japan Excellent, Inc.**

# **I. Greetings**

## **To Our Unitholders**

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

We hereby report the financial results of JEI for the 25th period (from July 1, 2018 to December 31, 2018).

During the 25th period, we acquired co-ownership interest in AKASAKA INTERCITY AIR, a large, cutting-edge building, from the sponsor Nippon Steel Kowa Real Estate as part of an effort in asset replacement. With this, we were able to increase our portfolio's unrealized profit and improve profitability.

In addition, we worked to increase rental revenues through efforts to attract new tenants with an aim for an increase in the rent level and to conclude upward rent revisions, while maintaining extremely high occupancy rates in the range of 99%.

Furthermore, on the financial front, we procured funds through green bonds and green loans as part of ESG- (environment, society, governance) conscious management, in addition to extending the average remaining period of interest-bearing debt while at the same time lowering the average interest rate.

As a result, JEI recorded operating revenue of 10,657 million yen, operating income of 4,284 million yen and net income of 3,596 million yen, and distribution per unit stood at 2,754 yen.

## **About Future Asset Management**

The real estate transaction market is expected to see real estate transaction prices remain high, backed by a strong appetite for investment by market participants and other factors. In the office building transaction market, vacancy rate and rent levels are expected to continue to improve for the time being, supported by strong needs for floor expansion against the background of robust corporate performance.

Under such an environment, JEI will continue with quality growth through investment in prime real estate as well as asset replacement by utilizing the sponsor pipeline with an aim to expand its asset size and improve profitability over the medium to long term while carefully watching financial trends and market trends going forward. Furthermore, JEI will endeavor to enhance profitability of the entire portfolio by maintaining the level of occupancy rate as well as by improving the rent level based on market trends. In terms of finance, JEI will strive to conduct well-balanced financial management by working to reduce financing costs while continuing to follow the basic policy of fixing interest rates of loans, extending borrowing periods and diversifying maturity dates.

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

We kindly ask for your continued understanding and support.

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

## II. Asset Management Report

### 1. Outline of asset management operation

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

Fiscal period		21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017	24th Period January 1, 2018 to June 30, 2018	25th Period July 1, 2018 to December 31, 2018
Operating revenue	(Millions of yen)	10,653	10,642	11,085	10,535	10,657
(Rental revenues)	(Millions of yen)	(10,653)	(10,642)	(10,806)	(10,535)	(10,657)
Operating expenses	(Millions of yen)	6,431	6,488	6,565	6,509	6,373
(Property operating expenses)	(Millions of yen)	(5,849)	(5,890)	(5,931)	(5,754)	(5,780)
Operating income	(Millions of yen)	4,221	4,154	4,519	4,025	4,284
Ordinary income	(Millions of yen)	3,407	3,460	3,701	3,340	3,597
Net income	(Millions of yen)	3,406	3,459	3,700	3,339	3,596
Total assets	(Millions of yen)	296,081	297,177	282,197	285,008	285,400
(Period-on-period change)	(%)	(4.4)	(0.4)	(-5.0)	(1.0)	(0.1)
Net assets	(Millions of yen)	143,640	143,693	143,933	143,786	143,727
(Period-on-period change)	(%)	(4.2)	(0.0)	(0.2)	(-0.1)	(-0.0)
Unitholders' capital	(Millions of yen)	139,972	139,972	139,972	139,972	139,972
Total outstanding investment units	(units)	1,305,700	1,305,700	1,305,700	1,305,700	1,305,700
Net assets per unit	(yen)	110,010	110,050	110,234	110,122	110,076
Net income per unit (Note 1)	(yen)	2,614	2,649	2,833	2,557	2,754
Total distribution	(Millions of yen)	3,406	3,460	3,486	3,655	3,595
Distribution per unit	(yen)	2,609	2,650	2,670	2,800	2,754
(Profit distribution per unit)	(yen)	(2,609)	(2,650)	(2,670)	(2,800)	(2,754)
(Distribution in excess of earnings per unit)	(yen)	(-)	(-)	(-)	(-)	(-)
Return on assets (Note 2)	(%)	1.2	1.2	1.3	1.2	1.3
(Annualized rate)	(%)	(2.3)	(2.4)	(2.5)	(2.4)	(2.5)
Return on equity (Note 3)	(%)	2.4	2.4	2.6	2.3	2.5
(Annualized rate)	(%)	(4.8)	(4.9)	(5.1)	(4.7)	(5.0)
Capital ratio (Note 4)	(%)	48.5	48.4	51.0	50.5	50.4
(Period-on-period change)	(%)	(-0.1)	(-0.2)	(2.7)	(-0.6)	(-0.1)
Payout ratio (Note 5)	(%)	100.0	100.0	94.2	109.5	100.0
Number of investment properties	(properties)	31	31	29	30	31
Number of tenants	(tenants)	237	242	243	202	204
Total leasable space (Note 6, 7)	(m <sup>2</sup> )	362,305	362,292	356,854	341,247	343,830
Occupancy rate	(%)	99.0	99.4	99.1	99.6	99.6
Depreciation	(Millions of yen)	1,956	1,967	1,972	1,926	1,920
Capital expenditure	(Millions of yen)	1,294	1,056	1,092	867	809
Net operating income (NOI) (Note 8)	(Millions of yen)	6,760	6,719	6,847	6,707	6,797
Funds from operation (FFO) per unit (Note 9)	(yen)	4,107	4,156	4,131	4,159	4,225
FFO multiples (Note 10)	(times)	18.2	14.9	16.0	17.0	17.7
Debt service coverage ratio (DSCR) (Note 11)	(times)	9.4	10.7	10.7	11.1	11.7
Interest-bearing debt	(Millions of yen)	137,900	137,900	122,500	126,500	126,600
Loan-to-value (Note 12)	(%)	46.6	46.4	43.4	44.4	44.4
Number of days in operation	(days)	184	181	184	181	184

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- (Note 1) Net income per unit is calculated by dividing the net income by the weighted-average number of units outstanding during the six months period.
- (Note 2) Return on assets = Ordinary income / [(Period beginning total assets) + (Period end total assets) / 2] × 100
- (Note 3) Return on equity = Net income / [(Period beginning net assets) + (Period end net assets) / 2] × 100
- (Note 4) Capital ratio = Period end net assets / Period end total assets × 100
- (Note 5) Payout ratio = (Distribution per unit (not including distribution in excess of earnings per unit) / Net income per unit) × 100  
(Figures are rounded to the first decimal place.)  
The payout ratio for the 21st period is calculated with the following formula as new investment units were issued.  
Payout ratio = Total distributions (not including distribution in excess of earnings) / Net income × 100
- (Note 6) For properties with joint ownership (including quasi co-ownership of trust beneficiary interest), a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.
- (Note 7) Spaces are rounded to the nearest specified unit. The same applies hereinafter.
- (Note 8) NOI = Rental revenues – Property operating expenses + Depreciation
- (Note 9) FFO per unit = (Net income + Depreciation – Gain on sale of real estate + Loss on sale of real estate) / Total number of outstanding investment units (the figure is rounded down to the whole number).
- (Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit
- (Note 11) DSCR = (Net income before interest and taxes + Depreciation) / (Interest expenses + Interest expense on investment corporation bonds)
- (Note 12) Loan-to-value = Period end interest-bearing debt / Period end total assets × 100

## (2) Asset Management Development

Japan Excellent, Inc. (JEI) was founded on February 20, 2006 under the Law Concerning Investment Trusts and Investment Corporations of Japan (hereinafter referred to the “Investment Trust Law”). On March 15, 2006, it completed the corporate registration to the Kanto Finance Bureau (registration number 52, issued by the Head of the Kanto Local Finance Bureau) and listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange (Securities Code: 8987) on June 27, 2006. Since the listing, JEI has continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On December 31, 2018, JEI settled its twenty-fifth period.

### 1) Business conditions and results

The Japanese economy during the 25th period remained solid due to expansion of the world economy led by the U.S. despite the deterioration of consumer sentiment brought by a spate of natural disasters and concerns over economic slowdown stemming from the U.S.-China trade friction. The employment situation was favorable, in particular, with the unemployment rate lowering to the level seen in the first half of 1990 and growth in employee income resulting in strong consumer spending. Furthermore, amid the ongoing labor shortage, capital investment also remained solid backed by mounting needs for labor-saving investment.

Regarding the environment for interest rates in Japan, although interest rates saw a temporary rise after the Bank of Japan’s monetary policy meeting held in July, the long-term interest rate in Japan remains at a low level due to the continuation of the monetary easing policy of the Bank of Japan.

In the real estate transaction market, transaction yields were at low level amid the continuing favorable environment for fund procurement, and real estate transaction prices remain high. Market participation of overseas investors, private funds, private REITs and general companies, etc. also continues. In light of such environment for the transaction market, JEI acquired AKASAKA INTERCITY AIR to replace Akasaka Garden City, which was transferred in the 23rd period, with an aim to improve the portfolio.

In the office building leasing market, tenant needs for floor area increased in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and levels of asking rent are improving. JEI has conducted negotiations with tenants emphasizing rent levels and has further strengthened efforts for upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities for upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result, rent revenue for existing properties increased by 110 million yen and period-end occupancy rate (Note 1) stood at 99.6%.

The total number of properties owned and managed by JEI at the end of the current period was 31 with total acquisition price of 273.5 billion yen and total leasable space of 343,830.44 m<sup>2</sup> (104,008.71 tsubo).

### 2) Fund procurement highlights

JEI will work on stable and sound financial operations with a basic policy of procuring funds for the long term at fixed interest rates.

During the 25th period, upon acquisition of AKASAKA INTERCITY AIR, which received the highest rating in DBJ Green Building Certification, JEI procured acquisition funds through the first issuance of green bonds (4 billion yen/10 years) by an office-focused J-REIT and the first green loans (2 billion yen/2 years) taken out by a J-REIT, which comply with the international guideline Green Loan Principles.

Moreover, JEI refinanced 3.75 billion yen in loans that matured in November with a lower interest rate (0.75% lowered to 0.706% (Note 2)) while extending the borrowing period from 4.6 years to 7.0 years. In addition, JEI allocated 4 billion yen procured in the previous period and 1 billion yen of cash on hand to redemption of the investment corporation bonds (5 billion yen out of 7 billion yen) that matured while refinancing the remaining 2 billion yen with short-term loans to secure expeditious funding.

As a result of the above, as of the end of the 25th period, the average remaining period of interest-bearing debt (Note 3) was 4.9 years (extended by 0.1 years from the end of the previous period) and the period-end average interest-bearing debt interest rate (Note 4) was 0.79% (down 0.01% from the end of the previous period) and the loan-to-value ratio of total assets (total assets-based LTV) was 44.4% (unchanged from the end of the previous period).

In addition, JEI continues to have commitment lines of 14.0 billion yen with a credit limit to reduce refinancing risk and enhance stability for fund procurement, etc.

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

(Ratings as of December 31, 2018)

Credit rating agency	Issuer rating (outlook)	Individual debt issue rating (Note 5)
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating AA- (Stable)	AA-
Moody's Japan	Issuer rating A3 (Stable)	—

### 3) Sustainability initiatives

JEI has worked to reduce the environmental burden and to cooperate/collaborate with stakeholders to achieve a sustainable society through corporate social responsibility, while recognizing the importance of consideration for the environment, society and governance (ESG) in the real estate investment management business.

For instance, setting a target to reduce energy consumption intensity by an average of 1% per year over the medium to long term, JEI has worked to reduce environmental burden at properties it owns through efforts such as adoption of LED lighting and upgrading of air-conditioning equipment for better energy-saving performance. Furthermore, JEI has continuously promoted acquisition of DBJ Green Building certification and the number of certified properties stands at 9, or 55.9% of the entire portfolio (as of December 31, 2018; based on leasable space excluding land with leasehold interest).

Such initiatives for sustainability by JEI earned high recognition including a fourth consecutive “Green Star” rating (Note 7) in the Global Real Estate Sustainability Benchmark (GRESB) (Note 6) Real Estate Assessment conducted in 2018, as well as the highest rating of “5 Star” in “GRESB Rating” (Note 8), a rating of overall score according to global ranking, for the third consecutive year.

### 4) Financial results and distribution highlights

As a result of the above management, JEI posted 10,657 million yen in operating revenue, 4,284 million yen in operating income, 3,597 million yen in ordinary income and 3,596 million yen in net income for the period under review.

Concerning distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,754 yen.

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

(Note 2) The interest rate fixed by the interest rate swap agreement is stated.

(Note 3) Average remaining period of interest-bearing debt is calculated by applying a weighted average of the remaining period until the repayment date or redemption date of borrowings and investment corporation bonds at the end of the period to the balance of each interest-bearing debt, for all interest-bearing debt.

(Note 4) Period-end average interest-bearing debt interest rate is calculated by applying a weighted average of interest at the end of the current period to the balance of each interest-bearing debt, for all interest-bearing debt.

(Note 5) The rating is for 6th series unsecured investment corporation bonds, 7th series unsecured investment corporation bonds, 8th series unsecured investment corporation bonds, 9th series unsecured investment corporation bonds, 10th series unsecured investment corporation bonds, 11th series unsecured investment corporation bonds, 12th series unsecured investment corporation bonds, 13th series unsecured investment corporation bonds and 14th series unsecured investment corporation bonds.

(Note 6) GRESB is a benchmark established by European pension fund groups to measure real estate companies and management institutions' consideration to sustainability and is used in cases such as when major European and Asian institutional investors select investment targets.

(Note 7) “Green Star” is given when a high evaluation with a score exceeding 50% is made in the two evaluation axes (“Management Policy” and “Implementation & Measurement”).

(Note 8) “5 Star” is given to the top 20% of participants.

### (3) Capital Increase

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

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

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

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

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

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

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

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

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

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

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

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

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

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- (Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or repayment of loans and redemption of investment corporation bonds.
- (Note 13) New investment units were issued at an offer price of 129,675 yen per unit (issue price of 125,419 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.
- (Note 14) New investment units were issued at an issue price of 125,419 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 15) New investment units were issued at an offer price of 138,742 yen per unit (issue price of 134,259 yen per unit) through a public offering in order to partially repay debts procured to acquire properties.
- (Note 16) New investment units were issued at an issue price of 134,259 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets or partially fund repayment of loans.
- (Note 17) At JEI, there exist no investment units held by JEI (investment units without voting rights provided in Article 308-2 of the Corporate Law which will be applied mutatis mutandis pursuant to Article 94 of the Investment Trust Law) or cross-held investment units (investment units without voting rights provided in Article 160 of the Investment Trust Enforcement Ordinance) as of the end of 25th period.

[Market price of the investment securities]

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

Investment unit market price	Fiscal period (closing date)	21st period (December 2016)	22nd period (June 2017)	23rd period (December 2017)	24th period (June 2018)	25th period (December 2018)
	Highest (yen)	149,200	147,200	137,200	147,400	156,200
	Lowest (yen)	132,900	125,100	121,100	131,400	141,000

(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

Concerning distributions in the period under review, JEI determined to distribute the entirety of unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for special provisions of the tax system on investment corporations (Section 67-15 of the Special Taxation Measures Law), that allows JEI to deduct the amount of profit distribution from its taxable income. Accordingly, distribution per unit for the period was 2,754 yen.

Fiscal period	21st period	22nd period	23rd period	24th period	25th period
Accounting period	July 1, 2016 to December 31, 2016	January 1, 2017 to June 30, 2017	July 1, 2017 to December 31, 2017	January 1, 2018 to June 30, 2018	July 1, 2018 to December 30, 2018
Unappropriated retained earnings at end of period (Thousands of yen)	3,406,981	3,460,111	3,700,279	3,339,461	3,596,244
Retained income (Thousands of yen)	409	6	214,060	—	—
Total cash distribution amount (Thousands of yen)	3,406,571	3,460,105	3,486,219	3,655,960	3,595,897
(Cash distributions per unit) (yen)	(2,609)	(2,650)	(2,670)	(2,800)	(2,754)
Of which, total profit distributions (Thousands of yen)	3,406,571	3,460,105	3,486,219	3,655,960	3,595,897
(Profit distribution per unit) (yen)	(2,609)	(2,650)	(2,670)	(2,800)	(2,754)
Of which, total refund of investment equity	—	—	—	—	—
(Refund of investment equity per unit)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from reserve for temporary difference adjustments	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from reserve for temporary difference adjustments)	(—)	(—)	(—)	(—)	(—)
Of total refund of investment equity, total distribution amount from distribution reducing unitholders' capital for tax purpose	—	—	—	—	—
(Of refund of investment equity per unit, distribution amount per unit from distribution reducing unitholders' capital for tax purpose)	(—)	(—)	(—)	(—)	(—)

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

### 1) Outlook for investment environment

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

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

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

#### A. External growth

JEI will continue striving for acquisition of competitive properties, including through the replacement of assets, by means of well-balanced investments based on size and target area, to increase asset size and improve portfolio quality over the medium to long term. JEI will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company newly cultivate and refine property information sources in an effort to promptly gain access to market information on disposition of properties and thereby keep seizing the right business opportunities.

#### B. Internal growth

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

#### C. Financial strategy

JEI will consistently work on stable and sound financial operations with a basic policy of procuring funds for the long term at fixed interest rates. In addition, JEI will consider issuance of green bonds from the perspective of maintaining and strengthening its financial base through diversification of fund procurement means while carefully monitoring the environment of the financial market.

JEI will set the upper limit of total assets-based LTV at 60% and manage it at around 35% to 50%. Furthermore, JEI will conduct financial operations that emphasize stability by reducing refinancing risks through diversification of maturity dates of interest-bearing debt.

#### D. Sustainability initiatives

JEI will work to reduce the environmental burden and to cooperate/collaborate with stakeholders to achieve a sustainable society through corporate social responsibility.

## **(6) Subsequent Events**

None

## 2. Outline of the Investment Corporation

### (1) Investment units

Fiscal period	21st As of December 31, 2016	22nd As of June 30, 2017	23rd As of December 31, 2017	24th As of June 30, 2018	25th As of December 31, 2018
Total number of units authorized	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units	10,000,000 units
Total number of units issued and outstanding	1,305,700 units	1,305,700 units	1,305,700 units	1,305,700 units	1,305,700 units
Unitholders' capital	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen	139,972 million yen
Number of unitholders	7,850 individuals	8,086 individuals	7,680 individuals	7,189 individuals	6,741 individuals

### (2) Unitholders

Major unitholders as of December 31, 2018 are as follows:

Name	Address	Number of units held (Units)	Ratio of number of units held to outstanding investment units (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	313,137	23.98
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	204,276	15.64
Nippon Steel Kowa Real Estate Co., Ltd.	1-8-1 Akasaka, Minato-ku, Tokyo	71,560	5.48
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo	64,487	4.94
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	51,394	3.94
The Dai-ichi Life Insurance Company, Limited	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	20,660	1.58
STATE STREET BANK WEST CLIENT - TREATY 505234	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.	18,928	1.45
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US	17,062	1.31
SSBTC CLIENT OMNIBUS ACCOUNT	ONE LINCOLN STREET, BOSTON MA USA 02111	14,303	1.10
JP MORGAN CHASE BANK 385771	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM	13,918	1.07
Total		789,725	60.48

### (3) Officers

#### 1) Directors and accounting auditor

Post	Name	Major additional post	Compensation or fee for the six months ended December 31, 2018 (Thousands of yen)
Executive Director	Hidehiko Ogawa	President, Japan Excellent Asset Management Co., Ltd.	–
Supervisory Director	Tsuyoshi Nagahama	Advisor, Anderson, Mori & Tomotsune	6,540
Supervisory Director	Shunichi Maekawa	Professor, Sugiyama Jogakuen University, School of Modern Management	
Supervisory Director	Eiji Takagi	Eiji Takagi Certified Public Accounting Office	
Accounting Auditor	Ernst & Young ShinNihon LLC	–	14,200 (Note 2)

(Note 1) There are no investment units of JEI held by either the Executive Director or the Supervisory Directors. Although Supervisory Directors may have additional posts in companies other than those listed above, there are no conflicts of interest between those companies, including those listed above, and JEI.

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 25th period (11,000 thousand yen), the fee for the English financial statements audit and the preparation of a comfort letter upon the issuance of the 14th Series Unsecured Investment Corporation Bonds in August 2018.

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

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

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

JEI's asset management company, asset custodian and administrative agents as of December 31, 2018 are as follows:

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

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

Classification	Use	Area (Note 1)	24th Period (As of June 30, 2018)		25th Period (As of December 31, 2018)	
			Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)	Total acquisition price (Millions of yen) (Note 2)	Investment ratio in portfolio (%)
Real estate property	Office building	Area I	11,045	3.9	11,045	3.9
		Area II	5,626	2.0	5,555	1.9
Area I		93,210	32.7	99,445	34.8	
Area II		9,004	3.2	8,953	3.1	
Area III		95,051	33.4	94,600	33.1	
Area IV		21,425	7.5	21,390	7.5	
Trust beneficiary interest in real estate	Others (commercial facilities, residence, etc.)	Area I	17,817	6.3	17,698	6.2
Total			253,180	88.8	258,689	90.6
Deposits in bank and other assets			31,827	11.2	26,710	9.4
Total assets			285,008	100.0	285,400	100.0

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

## (2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of December 31, 2018 are as follows.

Name	Book value (Millions of yen)	Leasable space (m <sup>2</sup> ) (Note 1)	Leased space (m <sup>2</sup> ) (Note 2)	Occupancy rate (%) (Note 3)	Ratio of rental revenue to total rental revenues (%)	Major use
Kowa Kawasaki Nishiguchi Building	29,015	38,375.65	38,259.90	99.7	8.9	Office building
AKASAKA INTERCITY	26,985	11,021.03	11,021.03	100.0	5.6	Office building
Nisseki Yokohama Building	23,524	40,440.72	40,440.72	100.0	10.9	Office building
Omori Bellport D	20,940	25,801.66	25,801.66	100.0	8.7	Office building
HAMARIKYU INTERCITY	17,698	19,718.11	19,423.04	98.5	7.0	Other (commercial facilities, residence, etc.)
Musashikosugi Tower Place	12,657	25,043.93	25,043.93	100.0	7.7	Office building
Mansard Daikanyama	11,336	5,420.80	5,420.80	100.0	3.0	Office building
Kowa Nishi-Shimbashi Building	11,045	8,949.04	8,949.04	100.0	(Note 4)	Office building
Daiba Garden City Building	9,811	12,122.85	12,122.85	100.0	3.1	Office building
Kowa Kawasaki Higashiguchi Building	9,387	18,612.72	18,612.72	100.0	(Note 4)	Office building
Total	172,403	205,506.51	205,095.69	99.8	—	—

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of December 31, 2018. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of December 31, 2018. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the co-ownership interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of December 31, 2018.

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

### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of December 31, 2018 are as follows:

Property No.	Property name	Location (Residential address)	Form of ownership	Appraisal value at end of period (Millions of yen) (Note)	Net book value (Millions of yen)
I-1	Omori Bellport D	6-26-3 Minami-Oi, Shinagawa-ku, Tokyo	Trust beneficiary interest in real estate	26,500	20,940
I-2	Shiba 2-Chome Building	2-6-1 Shiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	13,000	9,123
I-3	JEI Hamamatsucho Building	2-2-12 Hamamatsu-cho, Minato-ku, Tokyo	Trust beneficiary interest in real estate	8,070	8,163
I-8	AKASAKA INTERCITY	1-11-44 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	28,400	26,985
I-9	Kowa Shirokanedai Building	3-19-1 Shirokanedai, Minato-ku, Tokyo	Trust beneficiary interest in real estate	5,190	4,726
I-10	Daiba Garden City Building	2-3-5 Daiba, Minato-ku, Tokyo	Trust beneficiary interest in real estate	10,500	9,811
I-12	HAMARIKYU INTERCITY	1-9-1 and 15 Kaigan, Minato-ku, Tokyo	Trust beneficiary interest in real estate	24,300	17,698
I-13	Shintomicho Building	3-10-9 Irifune, Chuo-ku, Tokyo	Trust beneficiary interest in real estate	2,080	1,761
I-14	Kowa Nishi-Shimbashi Building	2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo	Real estate	12,800	11,045
I-15	Mansard Daikanyama	10-1 Sarugakuchō, Shibuya-ku, Tokyo	Trust beneficiary interest in real estate	13,300	11,336
I-16	AKASAKA INTERCITY AIR	1-8-1 Akasaka, Minato-ku, Tokyo	Trust beneficiary interest in real estate	7,410	6,595
Area I				151,550	128,190
II-1	NHK Nagoya Housou-Center Building	1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi	Real estate	5,980	5,555
II-2	JEI Nishi-Honmachi Building	1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,730	7,088
II-3	Osaka Kogin Building (Land with Leasehold Interest)	4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	2,330	1,865
Area II				14,040	14,508
III-1	Musashikosugi Tower Place	1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	21,100	12,657
III-2	Kowa Kawasaki Higashiguchi Building	1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	9,710	9,387
III-3	JEI Hongo Building	2-38-16 Hongo, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	4,640	5,026
III-5	Kawasaki Nisshincho Building	7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	4,580	4,282
III-7	JEI RYOGOKU BUILDING	3-25-5 Ryogoku, Sumida-ku, Tokyo	Trust beneficiary interest in real estate	2,410	2,237
III-9	Kowa Kawasaki Nishiguchi Building	66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa	Trust beneficiary interest in real estate	26,000	29,015
III-10	Pacific Square Sengoku	2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo	Trust beneficiary interest in real estate	1,290	1,628
III-11	Core City Tachikawa	2-37-7 Akebono-cho, Tachikawa-shi, Tokyo	Trust beneficiary interest in real estate	8,780	6,184
III-12	Nisseki Yokohama Building	1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	28,500	23,524
III-13	Yokohama Bentendori Dai-ichi Seimei Building	4-59 Bentendori, Naka-ku, Yokohama-shi, Kanagawa	Trust beneficiary interest in real estate	665	655
Area III				107,675	94,600
IV-2	JEI Kyobashi Building	2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	4,260	2,878
IV-3	JEI Hiroshima Hacchobori Building	14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,560	2,588
IV-4	SE Sapporo Building	1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido	Trust beneficiary interest in real estate	8,250	5,147
IV-5	Aoba-dori Plaza	3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi	Trust beneficiary interest in real estate	4,100	2,196
IV-6	Daiwa Minami-morimachi Building	2-6, 2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka	Trust beneficiary interest in real estate	5,170	4,230
IV-7	JEI Naha Building	2-8-1 Kumoji, Naha-shi, Okinawa	Trust beneficiary interest in real estate	1,780	1,513
IV-8	Hiroshima Dai-ichi Seimei OS Building	1-2-21 Matoba-cho Minami-ku, Hiroshima-shi, Hiroshima	Trust beneficiary interest in real estate	3,070	2,834
Area IV				30,190	21,390
Total				303,455	258,689

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of December 31, 2018 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Asset Management Report for 25<sup>th</sup> period (Semi-Annual Report for 25<sup>th</sup> Period)

Property No.	Property name	24th Period January 1, 2018 to June 30, 2018				25th Period July 1, 2018 to December 31, 2018			
		Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)	Total number of tenants (At end of period) (Note 1)	Occupancy rate (At end of period) (%)	Rental revenue (Interim) (Millions of yen)	Ratio of rental revenue to total rental revenues (%)
I-1	Omori Bellport D	1	100.0	937	8.9	1	100.0	931	8.7
I-2	Shiba 2-Chome Building	2	98.4	368	3.5	2	100.0	372	3.5
I-3	JEI Hamamatsucho Building	1	100.0	228	2.2	1	100.0	230	2.2
I-8	AKASAKA INTERCITY	14	100.0	572	5.4	14	100.0	596	5.6
I-9	Kowa Shirokanedai Building	1	95.5	168	1.6	1	100.0	182	1.7
I-10	Daiba Garden City Building	1	100.0	335	3.2	1	100.0	335	3.1
I-12	HAMARIKYU INTERCITY	1	100.0	736	7.0	1	98.5	744	7.0
I-13	Shintomicho Building	11	100.0	71	0.7	11	100.0	72	0.7
I-14	Kowa Nishi-Shimbashi Building	5	100.0	(Note 2)	(Note 2)	5	100.0	(Note 2)	(Note 2)
I-15	Mansard Daikanyama	10	100.0	292	2.8	10	100.0	316	3.0
I-16	AKASAKA INTERCITY AIR	-	-	-	-	1	98.5	(Note 2)	(Note 2)
Area I		47	99.6	-	-	48	99.7	-	-
II-1	NHK Nagoya Housou-Center Building	36	98.9	363	3.5	39	100.0	386	3.6
II-2	JEI Nishi-Honmachi Building	1	96.9	208	2.0	1	93.9	187	1.8
II-3	Osaka Kogin Building (Land with Leasehold Interest)	1	100.0	88	0.8	1	100.0	88	0.8
Area II		38	98.2	-	-	41	97.5	-	-
III-1	Musashikosugi Tower Place	40	100.0	806	7.7	40	100.0	819	7.7
III-2	Kowa Kawasaki Higashiguchi Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-3	JEI Hongo Building	1	100.0	(Note 2)	(Note 2)	1	100.0	(Note 2)	(Note 2)
III-5	Kawasaki Nisshincho Building	1	100.0	208	2.0	1	100.0	216	2.0
III-7	JEI Ryogoku Building	1	100.0	107	1.0	1	100.0	112	1.1
III-9	Kowa Kawasaki Nishiguchi Building	1	100.0	951	9.0	1	99.7	953	8.9
III-10	Pacific Square Sengoku	1	100.0	55	0.5	1	100.0	55	0.5
III-11	Core City Tachikawa	1	100.0	318	3.0	1	100.0	316	3.0
III-12	Nisseki Yokohama Building	1	98.8	1,125	10.7	1	100.0	1,162	10.9
III-13	Yokohama Bentendori Dai-ichi Seimei Building	1	100.0	3	0.0	1	100.0	41	0.4
Area III		49	99.7	-	-	49	99.9	-	-
IV-2	JEI Kyobashi Building	1	100.0	179	1.7	1	95.6	181	1.7
IV-3	JEI Hiroshima Hacchobori Building	1	100.0	147	1.4	1	100.0	154	1.5
IV-4	SE Sapporo Building	1	100.0	384	3.6	1	100.0	396	3.7
IV-5	Aoba-dori Plaza	53	99.4	191	1.8	51	98.6	189	1.8
IV-6	Daiwa Minami-morimachi Building	10	100.0	197	1.9	10	100.0	199	1.9
IV-7	JEI Naha Building	1	100.0	79	0.8	1	100.0	81	0.8
IV-8	Hiroshima Dai-ichi Seimei OS Building	1	100.0	12	0.1	1	100.0	142	1.3
Area IV		68	99.9	-	-	66	99.2	-	-
Total		202	99.6	10,535	100.0	204	99.6	10,657	100.0

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

(Note 2) Rental revenue (interim) and ratio of rental revenue to total rental revenues for Kowa Nishi-Shimbashi Building, Kowa Kawasaki Higashiguchi Building and JEI Hongo Building are not disclosed as consent on disclosure of rents from the end tenants has not been obtained; and those for AKASAKA INTERCITY AIR are not disclosed as consent on disclosure of rents from the co-owners has not been obtained.



(4) Securities Portfolio

None

(5) Renewable power generation facility

None

(6) Right to operate public facility

None

(7) Other Assets

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

Classification	Type	Contract amount (Thousands of yen) (Note 1)		Fair value (Thousands of yen) (Note 2)
			Over one year	
Over-the-counter transaction	Interest rate swap transactions Floating interest rate receivable Fixed interest rate payable	46,140,000	42,390,000	—

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

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

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

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

## 4. Capital Expenditures for Owned Properties

### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 25th period (ended December 31, 2018). The values below include portions to be expensed for accounting purposes.

Property name	Location	Purpose	Schedule term	Estimated construction costs (Millions of yen)		
				Total	Payment for the six months ended December 31, 2018	Total of advance payment
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of air- conditioning systems (Phase 2/4)	From July 2018 To June 2019	514	—	—
NHK Nagoya Housou- Center Building	Nagoya-shi, Aichi	Renovation of bathrooms/kitchens (Phase 2/2)	From March 2018 To March 2019	181	—	—
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 3)	From September 2018 To June 2019	158	—	—
JEI Hamamatsucho Building	Minato-ku, Tokyo	Renovation of restrooms on the 3rd and 8th floors	From November 2018 To February 2019	43	—	—
JEI Kyobashi Building	Osaka-shi, Osaka	Renovation of passenger elevators	From September 2018 To June 2019	40	—	—

### (2) Capital Expenditures for the Six Months Ended December 31, 2018

The following table shows constructions conducted by JEI during the period ended December 31 and expensed as capital expenditures. Capital expenditures for the period ended December 31 were 809 million yen and, when combined with repairs and maintenance costs of 314 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,124 million yen.

Property name	Location	Purpose	Scheduled term	Amounts Paid (Millions of yen)
Musashikosugi Tower Place	Kawasaki-shi, Kanagawa	Renewal of central monitoring equipment (Phase 2/2)	From April 2018 To December 2018	94
JEI Naha Building	Naha-shi, Okinawa	Renovation of exterior wall	From April 2018 To July 2018	81
Kowa Kawasaki Nishiguchi Building	Kawasaki-shi, Kanagawa	Renovation of elevators (Phase 2)	From June 2018 To December 2018	80
Core City Tachikawa	Tachikawa-shi, Tokyo	Renewal of disaster prevention equipment (receivers)	From October 2018 To November 2018	30
Other constructions			—	523
Total				809

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

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

(Unit: Millions of yen)

Item	21st Period July 1, 2016 to December 31, 2016	22nd Period January 1, 2017 to June 30, 2017	23rd Period July 1, 2017 to December 31, 2017	24th Period January 1, 2018 to June 30, 2018	25th Period July 1, 2018 to December 31, 2018
Reserved funds at beginning of period	436	450	546	289	258
Increase	675	468	484	636	469
Decrease	662	371	742	667	437
Reserved funds at the end of period	450	546	289	258	290

## 5. Expenses and Liabilities

### (1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

Account	24th Period January 1, 2018 to June 30, 2018	25th Period July 1, 2018 to December 31, 2018
(a) Asset management fees	431,747	445,785
(b) Custodian fees	21,053	21,250
(c) Administrative service fees	39,666	39,428
(d) Compensation for directors	6,540	6,540
(e) Accounting auditor fees	11,000	11,000
(f) Other	80,383	68,890
Total	590,391	592,896

## (2) Borrowings

Borrowings by each financing source as of the end of the 25th period (ended December 31, 2018) are as follows:

Classification	Lender (Note 3)	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans	Mizuho Bank, Ltd.	August 10, 2017	900,000	—	0.26909	July 31, 2018	Lump-sum	Acquisition of real estate	Unsecured and unguaranteed
		November 2, 2018	—	2,000,000	0.26273	October 8, 2019		Redemption of investment corporation bonds	
Sub Total			900,000	2,000,000					
Long-term loans due within one year	Mizuho Bank, Ltd.	March 11, 2014	850,000	—	0.74500 (Note 2)	November 1, 2018	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	The Norinchukin Bank		1,450,000	—					
	MUFG Bank, Ltd.		850,000	—					
	Mizuho Trust & Banking Co., Ltd.		600,000	—					
	Mizuho Bank, Ltd.	December 12, 2016	850,000	850,000	0.77500 (Note 2)	March 8, 2019			
	The Norinchukin Bank		1,450,000	1,450,000					
	MUFG Bank, Ltd.		850,000	850,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
Sub Total			7,500,000	4,750,000					
Long-term loans	Nippon Life Insurance Company	December 12, 2016	1,000,000	—	0.25000 (Note 2)	December 12, 2019	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	Development Bank of Japan Inc.	January 31, 2012	2,000,000	2,000,000	1.60000 (Note 2)	January 31, 2020			
	Mizuho Bank, Ltd.	June 28, 2013	500,000	500,000	1.36400 (Note 2)				
	Sumitomo Mitsui Banking Corporation		1,000,000	1,000,000					
	Mizuho Trust & Banking Co., Ltd.		600,000	600,000					
	MUFG Bank, Ltd.		500,000	500,000					
	The Dai-ichi Life Insurance Company Limited		1,000,000	1,000,000	1.31261 (Note 2)				
	Mizuho Bank, Ltd.	December 27, 2013	675,000	675,000	1.00000 (Note 2)	September 30, 2020			
	The Norinchukin Bank		1,162,500	1,162,500					
	MUFG Bank, Ltd.		675,000	675,000					
	Mizuho Trust & Banking Co., Ltd.		487,500	487,500					
	Mizuho Bank, Ltd.	September 28, 2018	—	2,000,000	0.26367	September 30, 2020			
	Development Bank of Japan Inc.	June 28, 2013	2,000,000	2,000,000	1.60750 (Note 2)	June 30, 2021			
	The Dai-ichi Life Insurance Company Limited	July 31, 2014	2,000,000	2,000,000	0.98834 (Note 2)				
	Mizuho Bank, Ltd.	November 29, 2016	520,000	520,000	0.41909	November 29, 2021			
	MUFG Bank, Ltd.		540,000	540,000					
Sumitomo Mitsui Banking Corporation	1,080,000		1,080,000						
Sumitomo Mitsui Trust Bank Limited	1,620,000		1,620,000						
Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.81875 (Note 2)	December 30, 2021				
MUFG Bank, Ltd.		2,000,000	2,000,000						
Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
Resona Bank, Ltd.		600,000	600,000						

	Classification		Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
	Lender (Note 3)									
Long-term loans	Sompo Japan Nipponkoa Insurance Inc.	January 31, 2017	2,000,000	2,000,000	0.35000 (Note 2)	January 31, 2022	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed	
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		1,000,000	1,000,000						
	Development Bank of Japan Inc.	July 31, 2014	2,000,000	2,000,000	1.15417 (Note 2)	June 30, 2022				
	Sompo Japan Nipponkoa Insurance Inc.	November 30, 2017	500,000	500,000	0.35000 (Note 2)	November 30, 2022				
	Tokio Marine & Nichido Fire Insurance Co., Ltd.		500,000	500,000						
	Mizuho Bank, Ltd.	December 29, 2014	1,950,000	1,950,000	0.93625 (Note 2)	December 30, 2022				
	MUFG Bank, Ltd.		2,000,000	2,000,000						
	Mizuho Trust & Banking Co., Ltd.		1,200,000	1,200,000						
	Resona Bank, Ltd.		600,000	600,000						
	Development Bank of Japan Inc.	June 30, 2015	2,000,000	2,000,000	1.20250 (Note 2)	June 30, 2023				
	The Dai-ichi Life Insurance Company Limited	June 29, 2018	3,000,000	3,000,000	0.46000 (Note 2)					
	Mizuho Bank, Ltd.	November 30, 2015	420,000	420,000	0.84375 (Note 2)	November 30, 2023				
	MUFG Bank, Ltd.		250,000	250,000						
	Sumitomo Mitsui Banking Corporation		140,000	140,000						
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000						
	The Norinchukin Bank		1,500,000	1,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		750,000	750,000						
	The Bank of Fukuoka, Ltd.		150,000	150,000						
	MUFG Bank, Ltd.	November 30, 2017	1,000,000	1,000,000	0.64801 (Note 2)					
	Sumitomo Mitsui Banking Corporation		3,500,000	3,500,000						
	Resona Bank, Ltd.		500,000	500,000						
	Aozora Bank, Ltd.		500,000	500,000						
	Development Bank of Japan Inc.		3,500,000	3,500,000	0.68431 (Note 2)	May 31, 2024				
	Mizuho Bank, Ltd.	November 30, 2015	870,000	870,000	0.96275 (Note 2)	November 30, 2024				
	MUFG Bank, Ltd.		590,000	590,000						
	Sumitomo Mitsui Banking Corporation		350,000	350,000						
	Mizuho Trust & Banking Co., Ltd.		1,560,000	1,560,000						
	Resona Bank, Ltd.		1,000,000	1,000,000						
	Aozora Bank, Ltd.		750,000	750,000						
	The Bank of Fukuoka, Ltd.		150,000	150,000						
	Mizuho Bank, Ltd.	June 29, 2018	3,700,000	3,700,000	0.67400 (Note 2)	June 30, 2025				
MUFG Bank, Ltd.	1,000,000		1,000,000							
Sumitomo Mitsui Banking Corporation	400,000		400,000							
The Norinchukin Bank	1,000,000		1,000,000							
Shinkin Central Bank	1,000,000		1,000,000							
The Bank of Fukuoka, Ltd.	700,000		700,000							
Resona Bank, Ltd.	200,000		200,000							

Classification	Lender (Note 3)	Drawdown date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans	Mizuho Bank, Ltd.	November 1, 2018	—	850,000	0.70600 (Note 2)	November 1, 2025	Lump-sum	Repayment of existing borrowing	Unsecured and unguaranteed
	MUFG Bank, Ltd.		—	850,000					
	Mizuho Trust & Banking Co., Ltd.		—	600,000					
	The Norinchukin Bank		—	1,450,000					
	Mizuho Bank, Ltd.	September 29, 2017	2,200,000	2,200,000	0.83441 (Note 2)	March 31, 2026			
	MUFG Bank, Ltd.		1,750,000	1,750,000					
	Sumitomo Mitsui Banking Corporation		1,100,000	1,100,000					
	The Norinchukin Bank		850,000	850,000					
	Aozora Bank, Ltd.		500,000	500,000					
	Development Bank of Japan Inc.	1,300,000	1,300,000	0.83071 (Note 2)	September 30, 2026				
	Mizuho Bank, Ltd.	June 29, 2018	1,300,000	1,300,000	0.79100 (Note 2)	December 30, 2026			
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Sumitomo Mitsui Banking Corporation		700,000	700,000					
	Sub Total			78,100,000	82,850,000				
Total			86,500,000	89,600,000					

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

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

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of December 31, 2018 are as follows:

Classification	Issue	Issuance date	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Unsecured investment corporation bonds	4th series unsecured investment corporation bonds	November 4, 2011	2,000,000	—	1.40000	November 2, 2018	Lump-sum	(Note 1)	(Note 5)
	5th series unsecured investment corporation bonds	November 25, 2013	5,000,000	—	0.46000				
	6th series unsecured investment corporation bonds	March 10, 2014	5,000,000	5,000,000	0.46000	March 11, 2019		(Note 2)	
	7th series unsecured investment corporation bonds		8,000,000	8,000,000	1.13000	March 11, 2024		(Note 3)	
	8th series unsecured investment corporation bonds	September 9, 2015	5,000,000	5,000,000	1.03000	September 9, 2025		(Note 2)	
	9th series unsecured investment corporation bonds	October 27, 2016	2,000,000	2,000,000	0.45000	October 27, 2026		(Note 4)	
	10th series unsecured investment corporation bonds	December 20, 2016	2,000,000	2,000,000	0.39000	December 20, 2023		(Note 2)	
	11th series unsecured investment corporation bonds	April 25, 2017	7,000,000	7,000,000	0.65000	April 23, 2027		(Note 4)	
	12th series unsecured investment corporation bonds	April 20, 2018	2,000,000	2,000,000	0.24000	April 20, 2023		(Note 4)	
	13th series unsecured investment corporation bonds		2,000,000	2,000,000	0.95000	April 20, 2033			
	Sub Total		40,000,000	33,000,000					
Green bonds	14th series unsecured investment corporation bonds	August 10, 2018	—	4,000,000	0.63000	August 10, 2018	Lump-sum	(Note 2)	(Note 5)
	Sub Total		—	4,000,000					
Total			40,000,000	37,000,000					

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

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

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

(Note 4) The funds are used for redeeming existing investment corporation bonds.

(Note 5) The bonds are with special pari passu conditions among specified investment corporation bonds.

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

None

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

None

## 6. Condition of Investment Transactions

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

(Millions of yen)

Type of assets	Property name	Acquisition		Transfer			
		Acquisition date	Acquisition price (Note)	Transfer date	Transfer price	Net book value	Gain (loss) on transfer
Trust beneficiary interest in real estate	AKASAKA INTERCITY AIR	July 2, 2018	6,590	—	—	—	—
Total		—	6,590	—	—	—	—

(Note) The acquisition price indicates the amount excluding related expenses (brokerage fee, taxes, etc.) required for the acquisition, thus is the purchase amount of real estate stated in the trust beneficiary interest purchase agreement.

### (2) Transactions of Other Assets

None

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

#### 1) Real estate, etc.

Acquisition or Transfer	Name of property	Type of assets	Acquisition date	Acquisition price (millions of yen) (Note 1)	Appraisal Value (millions of yen)	Appraiser	Appraisal Date
Acquisition	AKASAKA INTERCITY AIR	Trust beneficiary interest in real estate	July 2, 2018	6,590	7,180	Japan Real Estate Institute	May 1, 2018

(Note 1) The acquisition price is the purchase price of the property stated in the trust beneficiary interest purchase agreement (excluding the amount equivalent to consumption taxes, etc.).

(Note 2) The appraisal was performed based on Chapter 3 Appraisals Regarding Values of Real Estate Property Subject to Securitization indicated in each section in the Real Estate Appraisal Standards.

#### 2) Others

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

One interest rate swap contract was subject to investigation during the period from July 1, 2018 to December 31, 2018 and we have received the consensus report on procedure operation results from Ernst & Young ShinNihon LLC. Concerning the interest rate swap contract, Ernst & Young ShinNihon LLC was requested to report on the name of counterparty, quantity, contractual figures, transaction term and other matters pertaining to the over-the-counter derivative transaction.

This investigation is not part of the audit of financial statements and will not provide a guarantee of the adequacy of prices and the internal control system.



#### (4) Transactions with Interested Parties

##### 1) Transactions

Classification	Acquisition price or disposal amount	
	Acquisition price	Disposal amount
Total amount	6,590 million yen	- million yen
Breakdown for transactions with interested parties		
Nippon Steel Kowa Real Estate Co., Ltd. (Note 2)	6,590 million yen (100.0%)	- million yen (-%)
Total	6,590 million yen (100.0%)	- million yen (-%)

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

(Note 2) Nippon Steel Kowa Real Estate Co., Ltd. plans to change its Japanese trade name as of April 2019. (The English trade name will remain the same.)

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

(Unit: Thousands of yen)

Classification	Total amount paid (A)	Breakdown of transactions with interested parties		B/A
		Paid to	Amount paid (B)	
Property management costs and fees	1,358,100	Nippon Steel Kowa Real Estate Co., Ltd.	169,663	12.5%
		Kowa Real Estate Facilities, Co., Ltd.	301,831	22.2%
		Akasaka Intercity Management Co., Ltd.	7,184	0.5%
		Nippon Steel Community Service Co., Ltd.	61	0.0%
Total	1,358,100	-	478,741	35.3%

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended December 31, 2018.

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

Nippon Steel Kowa Real Estate Co., Ltd.	8,460 thousand yen
Kowa Real Estate Facilities Co., Ltd.	295,130 thousand yen

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

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

## **7. Accounting**

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

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

### **(2) Change in Depreciation Calculation Method**

No changes were made during the period.

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

No changes were made during the period

## **8. Others**

### **(1) Notice**

#### 1) General unitholders' meeting

There were no applicable items during the period.

#### 2) Board of directors meeting

There were no applicable items during the period.

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

There were no applicable items during the period.

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

There were no applicable items during the period.

### **(4) Other**

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

## **Financial Statements**

### **Japan Excellent, Inc.**

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

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at December 31, 2018, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

March 19, 2019  
Tokyo, Japan

# Japan Excellent, Inc.

## Balance Sheets

As of December 31, 2018 and June 30, 2018

	As of December 31, 2018	As of June 30, 2018
	<i>(Thousands of yen)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents including trust accounts <i>(Notes 5 and 6)</i>	24,239,320	29,258,892
Rental receivables	391,990	394,487
Consumption taxes refundable	28,951	82,710
Prepaid expenses and other current assets	197,807	259,532
Total current assets	<u>24,858,070</u>	<u>29,995,623</u>
Property and equipment <i>(Note 8)</i> :		
Buildings and building improvements	7,087,968	7,053,880
Machinery and equipment	6,253	6,253
Furniture and fixtures	49,835	48,213
Land	9,292,709	9,292,709
Construction in progress	14,169	14,169
Buildings and building improvements for trust accounts	115,955,569	113,626,364
Machinery and equipment for trust accounts	906,063	826,418
Furniture and fixtures for trust accounts	263,244	227,219
Land for trust accounts	146,475,849	141,532,889
Construction in progress for trust accounts	112,000	105,704
Less: accumulated depreciation	<u>(30,581,954)</u>	<u>(28,661,403)</u>
Net property and equipment	<u>249,581,709</u>	<u>244,072,419</u>
Intangible assets:		
Leasehold rights	1,721,607	1,721,607
Brand and trademark	37	63
Leasehold rights for trust accounts	7,382,016	7,382,016
Other intangible assets for trust accounts	4,435	4,572
Total intangible assets	<u>9,108,097</u>	<u>9,108,260</u>
Investments and other assets:		
Deferred tax assets	27	14
Security deposits	15,181	15,181
Long-term prepaid expenses	845,703	877,064
Other assets	828,873	786,630
Total investments and other assets	<u>1,689,786</u>	<u>1,678,890</u>
Deferred assets:		
Investment corporation bond issuance costs	162,503	153,193
Total deferred assets	<u>162,503</u>	<u>153,193</u>
Total assets	<u><u>285,400,167</u></u>	<u><u>285,008,387</u></u>

	<b>As of</b> <b>December 31, 2018</b>	<b>As of</b> <b>June 30, 2018</b>
	<i>(Thousands of yen)</i>	
<b>Liabilities</b>		
Current liabilities:		
Accounts payable – trade	1,385,707	1,154,693
Short-term loans <i>(Notes 6 and 9)</i>	2,000,000	900,000
Investment corporation bonds due within one year <i>(Notes 6 and 10)</i>	5,000,000	12,000,000
Long-term debt due within one year <i>(Notes 6 and 9)</i>	4,750,000	7,500,000
Accounts payable – other	433,933	423,558
Accrued expenses	153,947	146,440
Accrued corporation taxes	1,159	880
Advances received	82,728	83,308
Other current liabilities	0	–
Total current liabilities	<u>13,807,474</u>	<u>22,208,883</u>
Long-term liabilities:		
Investment corporation bonds <i>(Notes 6 and 10)</i>	32,000,000	28,000,000
Long-term debt <i>(Notes 6 and 9)</i>	82,850,000	78,100,000
Security deposits from tenants <i>(Note 6)</i>	1,126,906	1,104,337
Security deposits from tenants for trust accounts <i>(Note 6)</i>	11,888,617	11,808,282
Total long-term liabilities	<u>127,865,523</u>	<u>119,012,619</u>
Total liabilities	<u>141,672,998</u>	<u>141,221,503</u>
<b>Net assets <i>(Note 11)</i></b>		
Unitholders' equity:		
Unitholders' capital	139,972,885	139,972,885
Surplus		
Voluntary reserve		
Reserve for advanced depreciation of non-current assets	158,039	474,537
Retained earnings	3,596,244	3,339,461
Total surplus	<u>3,754,283</u>	<u>3,813,999</u>
Total unitholders' equity	<u>143,727,168</u>	<u>143,786,884</u>
Total net assets	<u>143,727,168</u>	<u>143,786,884</u>
Total liabilities and net assets	<u>285,400,167</u>	<u>285,008,387</u>

## Japan Excellent, Inc.

### Statements of Income and Retained Earnings

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

	<b>For the period from July 1, 2018 to December 31, 2018</b>	<b>For the period from January 1, 2018 to June 30, 2018</b>
	<i>(Thousands of yen)</i>	
Revenues (Notes 14 and 15):		
Rental business revenues	9,779,867	9,692,018
Other	877,818	843,357
Total revenues	10,657,685	10,535,375
Operating expenses (Notes 14 and 15):		
Property operating expenses	5,780,672	5,754,046
Loss on sales of real estate properties	—	165,344
Asset management fees	445,785	431,747
Custodian fees	21,250	21,053
Administrative service fees	39,428	39,666
Compensation for directors	6,540	6,540
Other	79,890	91,383
Total operating expenses	6,373,568	6,509,782
Operating income	4,284,116	4,025,593
Other income:		
Interest income	132	121
Other	1,274	773
Other expenses:		
Interest expense	363,145	376,796
Loan arrangement fees	148,049	145,278
Interest expense on investment corporation bonds	153,761	142,530
Amortization of investment corporation bond issuance costs	16,989	15,557
Other	6,167	5,959
Ordinary income	3,597,409	3,340,365
Income before income taxes	3,597,409	3,340,365
Income taxes (Note 13):		
Current	1,179	899
Deferred	(13)	4
Net income	3,596,244	3,339,461
Retained earnings at beginning of period	—	—
Retained earnings at end of period	3,596,244	3,339,461

# Japan Excellent, Inc.

## Statements of Changes in Net Assets

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

### For the period from July 1, 2018 to December 31, 2018

	Net assets								
	Unitholders' equity						Total net assets		
	Number of units in issue	Unitholders' capital	Surplus			Total unitholders' equity			
			Voluntary reserve	Reserve for advanced depreciation of non-current assets	Retained earnings			Total surplus	
<i>(Thousands of yen)</i>									
Balance as of June 30, 2018	1,305,700	139,972,885	474,537	3,339,461	3,813,999	143,786,884	143,786,884		
Changes during the fiscal period:									
Reversal of reserve for reduction entry			(316,498)	316,498	—	—	—		
Distributions from retained earnings	—	—	—	(3,655,960)	(3,655,960)	(3,655,960)	(3,655,960)		
Net income	—	—	—	3,596,244	3,596,244	3,596,244	3,596,244		
Total changes during the fiscal period	—	—	(316,498)	256,782	(59,715)	(59,715)	(59,715)		
Balance as of December 31, 2018	1,305,700	139,972,885	158,039	3,596,244	3,754,283	143,727,168	143,727,168		

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

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

Asset Management Report for 25<sup>th</sup> period (Semi-Annual Report for 25<sup>th</sup> Period)



# Japan Excellent, Inc.

## Statements of Cash Flows

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

	<b>For the period from July 1, 2018 to December 31, 2018</b>	<b>For the period from January 1, 2018 to June 30, 2018</b>
	<i>(Thousands of yen)</i>	
<b>Cash flows from operating activities</b>		
Income before income taxes	3,597,409	3,340,365
Depreciation and amortization	1,920,714	1,926,111
Amortization of investment corporation bond issuance costs	16,989	15,557
Interest income	(132)	(121)
Interest expense	516,906	519,327
Decrease (increase) in rental receivables	2,497	61,780
Decrease (increase) in consumption taxes refundable	53,759	(82,710)
Decrease (increase) in prepaid expense	52,025	(60,839)
Increase (decrease) in accounts payable – trade	170,364	(121,402)
Increase (decrease) in accounts payable – other	11,329	(21,986)
Increase (decrease) in unpaid consumption taxes	—	(677,350)
Increase (decrease) in advances received	(580)	3,982
Decrease (increase) in long-term prepaid expenses	31,361	(80,540)
Decrease in property and equipment for trust accounts due to sale	—	5,670,803
Other, net	(33,176)	(54,304)
Subtotal	6,339,467	10,438,673
Interest received	132	121
Interest paid	(509,400)	(517,654)
Income taxes paid	(901)	(996)
Net cash provided by operating activities	5,829,298	9,920,143
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(5,704)	(164,045)
Purchases of property and equipment for trust accounts	(7,363,421)	(4,693,342)
Proceeds from security deposits from tenants	22,569	41,208
Payments for security deposits to tenants	—	(21,600)
Proceeds from security deposits in trust accounts from tenants	231,706	694,141
Payments for security deposits in trust accounts to tenants	(151,371)	(589,664)
Net cash used in investing activities	(7,266,221)	(4,733,302)
<b>Cash flows from financing activities</b>		
Proceeds from short-term loans	8,000,000	—
Repayment for short-term loans	(6,900,000)	—
Proceeds from long-term debt	5,750,000	14,000,000
Repayment for long-term debt	(3,750,000)	(14,000,000)
Proceeds from issuance of investment corporation bonds	3,973,700	3,966,464
Payments for redemption of investment corporation bonds	(7,000,000)	—
Distributions to unitholders	(3,656,349)	(3,485,575)
Net cash provided by (used in) financing activities	(3,582,649)	480,889
Net increase (decrease) in cash and cash equivalents	(5,019,572)	5,667,730
Cash and cash equivalents at beginning of period	29,258,892	23,591,162
Cash and cash equivalents at end of period (Note 5)	24,239,320	29,258,892

# Japan Excellent, Inc.

## Notes to Financial Statements

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

### **1. Organization**

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of December 31, 2018, JEI held 31 properties with 343,830.44 square meters of total leasable space and had leases with 204 tenants excluding residential tenants.

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

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

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

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

**3. Summary of Significant Accounting Policies**

***Cash and cash equivalents***

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

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

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

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

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

***Deferred assets***

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

***Income taxes***

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

***Consumption taxes***

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

***Property-related taxes***

Principally, property-related taxes including property taxes, urban planning taxes and depreciable property taxes are imposed on a calendar-year basis and are expensed as property and other taxes (refer to Note 14).

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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from January 1, 2018 to June 30, 2018 was ¥18,581 thousand. The capitalized amount for the period from July 1, 2018 to December 31, 2018 was ¥14,068 thousand.

#### ***Revenue recognition***

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

#### ***Derivatives and hedge accounting***

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

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

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

#### ***Properties in trust accounts***

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

### **4. Change in Presentation**

JEI has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28 issued on February 16, 2018) from the period ended December 31, 2018 and deferred tax assets are classified as investments and other assets, while deferred tax liabilities are classified as long-term liabilities.

As a result, to reflect this change in presentation, “Deferred tax assets” of ¥14 thousand on the balance sheet as of June 30, 2018 included in “Current assets” were included and reclassified as “Deferred tax assets” of ¥14 thousand in “Investments and other assets”.

## 5. 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, 2018 and June 30, 2018 consisted of the following:

	<u>As of</u> <u>December 31, 2018</u>	<u>As of</u> <u>June 30, 2018</u>
	<i>(Thousands of yen)</i>	
Cash and cash deposits	8,224,411	13,652,251
Cash and deposits in trust	16,014,909	15,606,641
Cash and cash equivalents including trust accounts	<u>24,239,320</u>	<u>29,258,892</u>

## 6. Financial Instruments

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

### *Overview*

#### (1) Policy for Financial Instruments

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

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

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

Borrowings and investment corporation bonds are primarily used to acquire properties or to refinance existing borrowings or bonds. Some of such debt were floating rate instruments and thus were exposed to the risk of interest rate fluctuations. Based on interest rate forecasts developed through constant financial market monitoring activities, JEI has concentrated on hedging against the risk of interest rate fluctuations principally using interest-rate swaps, through which a floating interest rate is swapped for a fixed interest rate, which finally led to 93.9% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of December 31, 2018. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting"

under Summary of Significant Accounting Policies.

## 6. Financial Instruments (continued)

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 9, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of December 31, 2018). Liquidity risk is also mitigated 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, 2018 and June 30, 2018 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

	As of December 31, 2018			As of June 30, 2018		
	Carrying value	Fair value (Note A)	Difference	Carrying value	Fair value (Note A)	Difference
	<i>(Thousands of yen)</i>					
(1) Cash and cash deposits	8,224,411	8,224,411	—	13,652,251	13,652,251	—
(2) Cash and deposits in trust	16,014,909	16,014,909	—	15,606,641	15,606,641	—
Total assets	<u>24,239,320</u>	<u>24,239,320</u>	<u>—</u>	<u>29,258,892</u>	<u>29,258,892</u>	<u>—</u>
(3) Short-term loans (Note C)	2,000,000	2,000,000	—	900,000	900,000	—
(4) Investment corporation bonds due within one year (Note C)	5,000,000	5,002,800	2,800	12,000,000	12,023,611	23,611
(5) Long-term debt due within one year (Note C)	4,750,000	4,754,243	4,243	7,500,000	7,522,761	22,761
(6) Investment corporation bonds (Note C)	32,000,000	32,484,079	484,079	28,000,000	28,400,170	400,170
(7) Long-term debt (Note C)	82,850,000	84,648,708	1,798,708	78,100,000	79,230,238	1,130,238
Total liabilities	<u>126,600,000</u>	<u>128,889,830</u>	<u>2,289,830</u>	<u>126,500,000</u>	<u>128,076,780</u>	<u>1,576,780</u>
(8) Derivative transactions *	—	—	—	—	—	—

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

(Note A)

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

#### Assets

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

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

*Asset Management Report for 25<sup>th</sup> period (Semi-Annual Report for 25<sup>th</sup> Period)*

instruments.

## 6. Financial Instruments (continued)

### Liabilities

(3) Short-term loans

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

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

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 17, "Derivative Transactions."

(Note B)

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

	<b>As of</b> <b>December 31, 2018</b>	<b>As of</b> <b>June 30, 2018</b>
	<i>(Thousands of yen)</i>	
① Security deposits from tenants*	1,126,906	1,104,337
② Security deposits from tenants for trust accounts*	11,888,617	11,808,282

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

## 6. Financial Instruments (continued)

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

<b>As of December 31, 2018</b>						
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
<i>(Thousands of yen)</i>						
Cash and cash deposits	8,224,411	—	—	—	—	—
Cash and deposits in trust	16,014,909	—	—	—	—	—
Total	<u>24,239,320</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>As of June 30, 2018</b>						
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
<i>(Thousands of yen)</i>						
Cash and cash deposits	13,652,251	—	—	—	—	—
Cash and deposits in trust	15,606,641	—	—	—	—	—
Total	<u>29,258,892</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(Note C)

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

<b>As of December 31, 2018</b>						
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
<i>(Thousands of yen)</i>						
Short-term loans	2,000,000	—	—	—	—	—
Investment corporation bonds due within one year	5,000,000	—	—	—	—	—
Long-term debt due within one year	4,750,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	4,000,000	28,000,000
Long-term debt	—	10,600,000	13,510,000	11,750,000	15,770,000	31,220,000
Total	<u>11,750,000</u>	<u>10,600,000</u>	<u>13,510,000</u>	<u>11,750,000</u>	<u>19,770,000</u>	<u>59,220,000</u>
<b>As of June 30, 2018</b>						
1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	
<i>(Thousands of yen)</i>						
Short-term loans	900,000	—	—	—	—	—
Investment corporation bonds due within one year	12,000,000	—	—	—	—	—
Long-term debt due within one year	7,500,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	2,000,000	26,000,000
Long-term debt	—	9,600,000	4,000,000	14,510,000	11,750,000	38,240,000
Total	<u>20,400,000</u>	<u>9,600,000</u>	<u>4,000,000</u>	<u>14,510,000</u>	<u>13,750,000</u>	<u>64,240,000</u>



## 7. Investment and Rental Property

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

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, 2018 and June 30, 2018 for such real estate for lease.

Carrying value			Fair value
As of July 1, 2018	Change during period (*1)	As of December 31, 2018	As of December 31, 2018
<i>(Thousands of yen)</i>			
253,180,617	5,509,151	258,689,768	303,455,000

Carrying value			Fair value
As of January 1, 2018	Change during period (*2)	As of June 30, 2018	As of June 30, 2018
<i>(Thousands of yen)</i>			
256,272,229	(3,091,612)	253,180,617	290,609,000

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

B) Details of change during period:

(\*1) The increase of ¥5,509,151 thousand during the period is mainly due to an increase of ¥6,613,775 thousand related to the acquisition of AKASAKA INTERCITY AIR, and a decrease of ¥1,920,688 thousand for depreciation costs.

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

C) Fair value

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

## 8. Property and Equipment

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

	As of December 31, 2018			As of June 30, 2018		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	<i>(Thousands of yen)</i>					
Buildings and building improvements	7,087,968	(1,556,856)	5,531,112	7,053,880	(1,453,757)	5,600,122
Machinery and equipment	6,253	(3,099)	3,154	6,253	(2,817)	3,435
Furniture and fixtures	49,835	(11,440)	38,394	48,213	(8,098)	40,114
Land	9,292,709	—	9,292,709	9,292,709	—	9,292,709
Construction in progress	14,169	—	14,169	14,169	—	14,169
Buildings and building improvements for trust accounts	115,955,569	(28,423,768)	87,531,801	113,626,364	(26,649,265)	86,977,099
Machinery and equipment for trust accounts	906,063	(448,093)	457,970	826,418	(418,788)	407,629
Furniture and fixtures for trust accounts	263,244	(138,696)	124,547	227,219	(128,675)	98,544
Land for trust accounts	146,475,849	—	146,475,849	141,532,889	—	141,532,889
Construction in progress for trust accounts	112,000	—	112,000	105,704	—	105,704
Total	<u>280,163,664</u>	<u>(30,581,954)</u>	<u>249,581,709</u>	<u>272,733,823</u>	<u>(28,661,403)</u>	<u>244,072,419</u>

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

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

	As of December 31, 2018		As of June 30, 2018	
	Amount	Weighted-average interest rate (*1)	Amount	Weighted-average interest rate (*1)
Short-term loans:	<i>(Thousands of yen)</i>			
Unsecured loans from a bank due on July 31, 2018	—	0.26909%	900,000	0.26469%
Unsecured loans from a bank due on October 8, 2019	2,000,000	0.26273%	—	—
Subtotal	<u>2,000,000</u>		<u>900,000</u>	
Long-term debt due within one year:				
Unsecured loans from banks due on November 1, 2018	—	0.74500% (*2)	3,750,000	0.74500% (*2)
Unsecured loans from banks due on March 8, 2019	3,750,000	0.77500% (*2)	3,750,000	0.77500% (*2)
Unsecured loans from an insurance company due on December 12, 2019	1,000,000	0.25000% (*2)	—	0.25000% (*2)
Subtotal	<u>4,750,000</u>		<u>7,500,000</u>	

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

### Long-term debt:

Unsecured loans from an insurance company due on December 12, 2019	—	0.25000% (*2)	1,000,000	0.25000% (*2)
Unsecured loans from a bank due on January 31, 2020	2,000,000	1.60000% (*2)	2,000,000	1.60000% (*2)
Unsecured loans from banks due on January 31, 2020	2,600,000	1.36400% (*2)	2,600,000	1.36400% (*2)
Unsecured loans from an insurance company due on January 31, 2020	1,000,000	1.31261% (*2)	1,000,000	1.31261% (*2)
Unsecured loans from banks due on January 31, 2020	3,000,000	1.00000% (*2)	3,000,000	1.00000% (*2)
Unsecured loans from a bank due on September 30, 2020	2,000,000	0.26367%	—	—
Unsecured loans from a bank due on June 30, 2021	2,000,000	1.60750% (*2)	2,000,000	1.60750% (*2)
Unsecured loans from an insurance company due on June 30, 2021	2,000,000	0.98834% (*2)	2,000,000	0.98834% (*2)
Unsecured loans from banks due on November 29, 2021	3,760,000	0.41909%	3,760,000	0.41132%
Unsecured loans from banks due on December 30, 2021	5,750,000	0.81875% (*2)	5,750,000	0.81875% (*2)
Unsecured loans from insurance companies due on January 31, 2022	3,000,000	0.35000% (*2)	3,000,000	0.35000% (*2)
Unsecured loans from a bank due on June 30, 2022	2,000,000	1.15417% (*2)	2,000,000	1.15417% (*2)
Unsecured loans from insurance companies due on November 30, 2022	1,000,000	0.35000% (*2)	1,000,000	0.35000% (*2)
Unsecured loans from banks due on December 30, 2022	5,750,000	0.93625% (*2)	5,750,000	0.93625% (*2)
Unsecured loans from a bank due on June 30, 2023	2,000,000	1.20250% (*2)	2,000,000	1.20250% (*2)
Unsecured loans from an insurance company due on June 30, 2023	3,000,000	0.46000% (*2)	3,000,000	0.46000% (*2)
Unsecured loans from banks due on November 30, 2023	5,270,000	0.84375% (*2)	5,270,000	0.84375% (*2)
Unsecured loans from banks due on November 30, 2023	5,500,000	0.64801% (*2)	5,500,000	0.64801% (*2)
Unsecured loans from a bank due on May 31, 2024	3,500,000	0.68431% (*2)	3,500,000	0.68431% (*2)
Unsecured loans from banks due on November 30, 2024	5,270,000	0.96275% (*2)	5,270,000	0.96275% (*2)
Unsecured loans from banks due on June 30, 2025	8,000,000	0.67400% (*2)	8,000,000	0.67400% (*2)
Unsecured loans from banks due on November 1, 2025	3,750,000	0.70600% (*2)	—	—
Unsecured loans from banks due on March 31, 2026	6,400,000	0.83441% (*2)	6,400,000	0.83441% (*2)
Unsecured loans from a bank due on September 30, 2026	1,300,000	0.83071% (*2)	1,300,000	0.83071% (*2)
Unsecured loans from banks due on December 30, 2026	<u>3,000,000</u>	0.79100% (*2)	<u>3,000,000</u>	0.79100% (*2)
Subtotal	<u>82,850,000</u>		<u>78,100,000</u>	
Total	<u>89,600,000</u>		<u>86,500,000</u>	

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

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

The scheduled repayment amounts of long-term debt as of December 31, 2018 are as follows:

	<u>1 year or less</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
	<i>(Thousands of yen)</i>					
Long-term debt	4,750,000	10,600,000	13,510,000	11,750,000	15,770,000	31,220,000

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to

*Asset Management Report for 25<sup>th</sup> period (Semi-Annual Report for 25<sup>th</sup> Period)*

mitigate refinancing risk and enhance financial stability. As of December 31, 2018, these commitment lines have never been utilized.

## 10. Investment Corporation Bonds

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

	As of December 31, 2018		As of June 30, 2018	
	Amount (Thousands of yen)	Weighted- average interest rate	Amount (Thousands of yen)	Weighted- average interest rate
Unsecured bond #4 due on November 2, 2018	—	—	2,000,000	1.40000%
Unsecured bond #5 due on November 2, 2018	—	—	5,000,000	0.46000%
Unsecured bond #6 due on March 11, 2019	5,000,000	0.46000%	5,000,000	0.46000%
Unsecured bond #7 due on March 11, 2024	8,000,000	1.13000%	8,000,000	1.13000%
Unsecured bond #8 due on September 9, 2025	5,000,000	1.03000%	5,000,000	1.03000%
Unsecured bond #9 due on October 27, 2026	2,000,000	0.45000%	2,000,000	0.45000%
Unsecured bond #10 due on December 20, 2023	2,000,000	0.39000%	2,000,000	0.39000%
Unsecured bond #11 due on April 23, 2027	7,000,000	0.65000%	7,000,000	0.65000%
Unsecured bond #12 due on April 20, 2023	2,000,000	0.24000%	2,000,000	0.24000%
Unsecured bond #13 due on April 20, 2033	2,000,000	0.95000%	2,000,000	0.95000%
Unsecured bond #14 due on August 10, 2028	4,000,000	0.63000%	—	—
Total	<u>37,000,000</u>		<u>40,000,000</u>	

The scheduled redemption amounts of investment corporation bonds as of December 31, 2018 are as follows:

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
	(Thousands of yen)					
Investment corporation bonds	5,000,000	—	—	—	4,000,000	28,000,000

## 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 ¥50,000 thousand.

## 12. Per Unit Information

Net assets per unit as of December 31, 2018 and June 30, 2018 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,305,700 units), respectively.

Net income per unit for the periods from July 1, 2018 to December 31, 2018 and January 1, 2018 to June 30, 2018 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,305,700 units) and (1,305,700 units),

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respectively.

## 12. Per Unit Information (continued)

Accordingly, net assets per unit were ¥110,076 as of December 31, 2018 and ¥110,122 as of June 30, 2018. Net income per unit was ¥2,754 for the period from July 1, 2018 to December 31, 2018 and ¥2,557 for the period from January 1, 2018 to June 30, 2018.

## 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, 2018 and June 30, 2018 are summarized as follows:

	<u>As of December 31,</u> <u>2018</u>	<u>As of June 30,</u> <u>2018</u>
	<i>(Thousands of yen)</i>	
Deferred tax assets:		
Accrued enterprise taxes	27	14
Total deferred tax assets	<u>27</u>	<u>14</u>
Net deferred tax assets	<u><u>27</u></u>	<u><u>14</u></u>

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

	<u>For the period</u> <u>from July 1, 2018</u> <u>to December 31, 2018</u>	<u>For the period from</u> <u>January 1, 2018</u> <u>to June 30, 2018</u>
Statutory tax rate	31.51%	31.74%
Reconciliation:		
Deductible distributions paid	(31.50)	(34.74)
Reversal of reserve for reduction entry	—	3.01
Other	0.02	0.02
Effective tax rate	<u><u>0.03%</u></u>	<u><u>0.03%</u></u>

## 14. Breakdown of Revenues and Expenses

	<b>For the period from July 1, 2018 to December 31, 2018</b>	<b>For the period from January 1, 2018 to June 30, 2018</b>
	<i>(Thousands of yen)</i>	
Revenues:		
Rental business revenues		
Rental revenues	8,224,089	8,123,091
Common area revenues	1,283,197	1,303,409
Other rental revenues	272,580	265,516
Subtotal	<u>9,779,867</u>	<u>9,692,018</u>
Other		
Utilities revenues	792,175	746,159
Other revenues	85,642	97,198
Subtotal	<u>877,818</u>	<u>843,357</u>
Total rental revenues	<u>10,657,685</u>	<u>10,535,375</u>
Property operating expenses:		
Property management costs and fees	1,358,100	1,476,177
Utilities expenses	1,029,767	996,702
Property and other taxes	894,114	932,376
Insurance	24,388	25,092
Repairs and maintenance	314,615	160,310
Depreciation	1,920,688	1,926,086
Other	238,996	237,300
Total property operating expenses	<u>5,780,672</u>	<u>5,754,046</u>
Profit	<u>4,877,012</u>	<u>4,781,329</u>

## 15. Breakdown of Gain on sales of Real estate Properties

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

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

## 16. Leases

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

	As of December 31, 2018	As of June 30, 2018
	<i>(Thousands of yen)</i>	
Due within one year	711,805	470,416
Due after one year	1,788,058	815,863
Total	2,499,864	1,286,280

## 17. Derivative Transactions

### Derivative Transactions as of December 31, 2018

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

Not applicable.

- (2) Transactions to which hedge accounting is applied

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of December 31, 2018 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	46,140,000	42,390,000	*	/

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

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 6, "Financial Instruments."

## 17. Derivative Transactions (continued)

### Derivative Transactions as of June 30, 2018

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

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2018 for each hedge accounting method applied.

Hedge accounting method	Type of derivative transaction	Hedged item	Contract amount		Fair value	Method of calculating the fair value
				More than one year		
<i>(Thousands of yen)</i>						
Special treatment of interest-rate swaps	Interest-rate swap Receive floating, pay fixed	Long-term debt	46,140,000	38,640,000	*	

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

In addition, since the swap and the long-term debt hedged by the swap are accounted for as a unit, the fair value of the swap is disclosed as part of the fair value of the hedged long-term debt in the fair value disclosure in Note 6, "Financial Instruments."

## 18. Related Party Transactions

### For the period from July 1, 2018 to December 31, 2018

(1) Parent Company and Major Corporate Unitholders

Not applicable.

(2) Subsidiaries and Affiliated Companies

Not applicable.

(3) Sister Companies

Not applicable.

(4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		<i>(Thousands of yen)</i>		<i>(Thousands of yen)</i>
Hidehiko Ogawa	Payment of asset management fees to JEAM	445,785	Accounts payable	365,338



## 18. Related Party Transactions (continued)

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

- (1) Parent Company and Major Corporate Unitholders  
Not applicable.
- (2) Subsidiaries and Affiliated Companies  
Not applicable.
- (3) Sister Companies  
Not applicable.
- (4) Directors and Major Individual Unitholders

Name	Description of transaction	Amount	Account	Balance at the end of period
		(Thousands of yen)		(Thousands of yen)
Hidehiko Ogawa	Payment of asset management fees to JEAM	431,747	Accounts payable	352,288

## 19. Segment Information

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

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.

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## **20. Distribution Information**

In accordance with Section 33.1.2 of the bylaws set forth by JEI for distributions of cash dividends, the amount of dividends payable, which is limited by the amount of retained earnings at end of period, shall be in excess of 90% of its distributable income for the fiscal period as set forth in Section 67.15 of the Special Taxation Measures Law. Consequently, JEI set income available for distributions of dividends at ¥3,595,897,800, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,596,244,276, which is the amount of retained earnings at December 31, 2018. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On February 15, 2019, the Board of Directors approved a resolution to make a cash distribution of ¥2,754 per unit aggregating to ¥3,595,897,800 to unitholders of record as of December 31, 2018.

## **21. Significant Subsequent Event**

Not applicable.