

# Asset Management Report for 22<sup>nd</sup> Period

(Semi-Annual Report for 22<sup>nd</sup> Period)

From January 1, 2017 to June 30, 2017



**Japan Excellent, Inc.**

# **I. Greetings**

## **To Our Unitholders**

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

We hereby report the financial results of JEI for the 22nd period (from January 1, 2017 to June 30, 2017).

During the 22nd period and as with the previous period, we worked to attract new tenants while prioritizing the increase of the rent level and conclude upward rent revisions, promoting an increase of rental revenues.

In terms of finance, we increased financial stability by extending borrowing periods through large and long-term investment corporation bond issuance and refinancing while also reducing financial costs.

As a result, JEI recorded operating revenue of 10,642 million yen and operating income of 4,154 million yen for the period. The net income of 3,459 million yen was a new record high. Distribution per unit increased by 41 yen from the previous period to 2,650 yen.

Besides this, in August 2017 JEI additionally acquired urban high-spec properties Kowa Nishi-Shimbashi Building and Akasaka Garden City to continue high-quality growth in the periods to come.

## **About Future Asset Management**

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

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

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

We kindly ask for your continued understanding and support.

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

## II. Asset Management Report

### 1. Outline of asset management operation

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

| Fiscal period                                 |                   | 18th Period<br>January 1,<br>2015 to June<br>30, 2015 | 19th Period<br>July 1, 2015<br>to<br>December 31,<br>2015 | 20th Period,<br>January 1,<br>2016 to June<br>30, 2016 | 21st Period<br>July 1, 2016<br>to<br>December 31,<br>2016 | 22nd Period<br>January 1, 2017<br>to June<br>30, 2017 |
|---|-------------------|---|---|--|---|---|
| Operating revenue                             | (Millions of yen) | 10,121  | 10,839  | 10,223   | 10,653  | 10,642  |
| (Rental revenues)                             | (Millions of yen) | (10,121)  | (10,669)  | (10,223)   | (10,653)  | (10,642)  |
| Operating expenses                            | (Millions of yen) | 6,102   | 6,537   | 6,240  | 6,431   | 6,488   |
| (Property operating expenses)                 | (Millions of yen) | (5,533)   | (5,916)   | (5,655)  | (5,849)   | (5,890)   |
| Operating income                              | (Millions of yen) | 4,018   | 4,301   | 3,982  | 4,221   | 4,154   |
| Ordinary income                               | (Millions of yen) | 3,098   | 3,385   | 3,113  | 3,407   | 3,460   |
| Net income                                    | (Millions of yen) | 3,097   | 3,384   | 3,112  | 3,406   | 3,459   |
| Total assets                                  | (Millions of yen) | 300,976   | 284,443   | 283,653  | 296,081   | 297,177   |
| (Period-on-period change)                     | (%)               | (8.3)   | (-5.5)  | (-0.3)   | (4.4)   | (0.4)   |
| Net assets                                    | (Millions of yen) | 131,085   | 137,857   | 137,808  | 143,640   | 143,693   |
| (Period-on-period change)                     | (%)               | (0.0)   | (5.2)   | (Δ0.0)   | (4.2)   | (0.0)   |
| Unitholders' capital                          | (Millions of yen) | 127,950   | 134,434   | 134,434  | 139,972   | 139,972   |
| Total outstanding investment units            | (units)           | 1,212,750   | 1,264,450   | 1,264,450  | 1,305,700   | 1,305,700   |
| Net assets per unit                           | (yen)             | 108,089   | 109,025   | 108,987  | 110,010   | 110,050   |
| Net income per unit (Note 1)                  | (yen)             | 2,554   | 2,685   | 2,461  | 2,614   | 2,649   |
| Total distribution                            | (Millions of yen) | 3,097   | 3,161   | 3,113  | 3,406   | 3,460   |
| Distribution per unit                         | (yen)             | 2,554   | 2,500   | 2,462  | 2,609   | 2,650   |
| (Profit distribution per unit)                | (yen)             | 2,554   | 2,500   | 2,462  | 2,609   | (2,650)   |
| (Distribution in excess of earnings per unit) | (yen)             | (-)   | (-)   | (-)  | (-)   | (-)   |
| Return on assets (Note 2)                     | (%)               | 1.1   | 1.2   | 1.1  | 1.2   | 1.2   |
| (Annualized rate)                             | (%)               | (2.2)   | (2.3)   | (2.2)  | (2.3)   | (2.4)   |
| Return on equity (Note 3)                     | (%)               | 2.4   | 2.5   | 2.3  | 2.4   | 2.4   |
| (Annualized rate)                             | (%)               | (4.8)   | (5.0)   | (4.5)  | (4.8)   | (4.9)   |
| Capital ratio (Note 4)                        | (%)               | 43.6  | 48.5  | 48.6   | 48.5  | 48.4  |
| (Period-on-period change)                     | (%)               | (-3.6)  | (4.9)   | (0.1)  | (-0.1)  | (-0.2)  |
| Payout ratio (Note 5)                         | (%)               | 100.0   | 93.4  | 100.0  | 100.0   | 100.0   |
| Number of investment properties               | (properties)      | 31  | 30  | 30   | 31  | 31  |
| Number of tenants                             | (tenants)         | 219   | 224   | 228  | 237   | 242   |
| Total leasable space (Note 6, 7)              | (m <sup>2</sup> ) | 370,671   | 356,918   | 356,884  | 362,305   | 362,292   |
| Occupancy rate                                | (%)               | 97.9  | 98.5  | 99.1   | 99.0  | 99.4  |
| Depreciation                                  | (Millions of yen) | 1,786   | 1,908   | 1,899  | 1,956   | 1,967   |
| Capital expenditure                           | (Millions of yen) | 790   | 635   | 729  | 1,294   | 1,056   |
| Net operating income (NOI) (Note 8)           | (Millions of yen) | 6,374   | 6,662   | 6,467  | 6,760   | 6,719   |
| Funds from operation (FFO) per unit (Note 9)  | (yen)             | 4,027   | 4,051   | 3,964  | 4,107   | 4,156   |
| FFO multiples (Note 10)                       | (times)           | 17.4  | 16.5  | 17.6   | 18.2  | 14.9  |

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|  |                   |         |         |         |         |         |
|--|-------------------|---------|---------|---------|---------|---------|
| Debt service coverage ratio (DSCR) (Note 11) | (times)           | 7.3     | 8.1     | 8.2     | 9.4     | 10.7    |
| Interest-bearing debt                        | (Millions of yen) | 155,400 | 131,900 | 131,900 | 137,900 | 137,900 |
| Loan-to-value (Note 12)                      | (%)               | 51.6    | 46.4    | 46.5    | 46.6    | 46.4    |
| Number of days in operation                  | (days)            | 181     | 184     | 182     | 184     | 181     |

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

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

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

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

(Note 5) Payout ratio for this fiscal period and for the past four periods is calculated with the following formula.

Payout ratio = (Distribution per unit (not including distribution in excess of earnings per unit) / Net income per unit) × 100

(Figures are rounded to the first decimal place.)

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

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

Payout ratio for earlier periods are calculated with the following formula.

Payout ratio = (Total distribution / Net income) × 100 (figures for the 18th period and before are rounded down to the first decimal place while figures for the 19th period and after are rounded to the first decimal place.)

(Note 6) For properties with joint ownership, a figure obtained by multiplying the leasable space of the entire property by the ownership ratio is indicated as JEI's leasable space. The same shall apply hereinafter.

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

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

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

(Note 10) FFO multiples = Period end investment unit price / Annualized FFO per unit (The rate is rounded down to the first decimal place for the 18th period.)

(Note 11) The debt service coverage ratio for this fiscal period and for the past four periods is calculated with the following formula.

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

The debt service coverage ratio for earlier periods are calculated with the following formula.

DSCR = Net income before interest and taxes / (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, we have continued investment management primarily in office buildings with the aim of maintaining sound corporate growth and stable revenues from the medium- to long-term perspectives. On June 30, 2017, we settled our twenty-second period.

### 1) Business conditions and results

The Japanese economy during the 22nd period (ended June 2017) continues to be on a moderate recovery trend against the backdrop of the pickup in consumer spending and improvement of corporate earnings as well as improvement in the employment situation.

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

In the office building leasing market, tenant needs for floor area increase in the same building, relocation for expansion and better location, etc. continue to be apparent, and vacancy rates and asking rent levels are steadily improving. JEI has conducted leasing activities emphasizing rent levels and has promoted upward rent revisions to suit the value of properties for current contracts by ensuring to seize opportunities of upward rent revision. As to new contracts, JEI has conducted leasing activities while setting higher rent levels based on market trends. As a result of these efforts, the portfolio occupancy rate at the end of the current period stood at 99.4% (99.0% at the end of the previous period).

The total number of properties owned and managed by JEI at the end of the current period was 31 with total acquisition price of 286.9 billion yen and total leasable space of 362,291.56 m<sup>2</sup> (109,593.20 tsubo).

### 2) Fund procurement highlights

Given the favorable environment for issuance of investment corporation bonds in the 22nd period, JEI issued 10-year investment corporation bonds totaling 7 billion yen, thereby extending borrowing periods.

Moreover, JEI refinanced the total of 12 billion yen of loans maturing during the 22nd period (average borrowing period: 4.7 years; average interest rate: 1.1%) with loans with an average borrowing period of 2.4 years and an average interest rate of 0.25%.

As a result of the above, as of the end of the 22nd period the average remaining period of interest-bearing debts (Note 1) was 3.7 years (extended by 0.2 years from the end of the previous period) and the period end average interest-bearing debt interest rate (Note 2) was 0.82% (down 0.06% from the end of the previous period), showing an extension of debts and a decrease of interest rates.

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

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

(Ratings as of June 30, 2017)

| Credit rating agency                          | Issuer rating (outlook)                 | Individual debt issuer rating (Note 3) |
|---|---|--|
| Japan Credit Rating Agency, Ltd. (JCR)        | Long-term issuer rating<br>AA- (Stable) | AA-                                    |
| Rating and Investment Information, Inc. (R&I) | Issuer rating<br>A+ (Stable)            | A+                                     |
| Moody's Japan                                 | Issuer rating<br>A3 (Stable)            | —                                      |

### 3) Financial results and distribution highlights

As a result of the above management, JEI posted 10,642 million yen in operating revenue, 4,154 million yen in operating income, 3,460 million yen in ordinary income and 3,459 million yen in net income for the period under review.

Considering distributions in the period under review, JEI determined to distribute the whole unappropriated *Asset Management Report for 22<sup>nd</sup> period (Semi-Annual Report for 22<sup>nd</sup> Period)*

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 2,650 yen.

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

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

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

### 3) Capital Increase

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

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

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

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

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

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

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

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

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

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

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

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

(Note 11) New investment units were issued at an offer price of 118,072 yen per unit (issue price of 114,196 yen per unit) through a

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

(Note 12) New investment units were issued at an issue price of 114,196 yen per unit through an allocation of investment units to a third party in order to partially fund future acquisitions of specified assets 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 in the eighteenth period.

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

(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 the twenty-second 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) | 18th period (June 2015) | 19th period (December 2015) | 20th period (June 2016) | 21st period (December 2016) | 22nd period (June 2017) |
|------------------------------|------------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
|                              | Highest (yen)                | 168,400                 | 141,900                     | 161,000                 | 149,200                     | 147,200                 |
|                              | Lowest (yen)                 | 141,400                 | 122,400                     | 123,200                 | 132,900                     | 125,100                 |

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

**(4) Distributions Paid**

The distribution per unit for the period (the 22nd period) was 2,650 yen per unit, based on JEI's decision to distribute the whole unappropriated retained earnings (except for the portion of less than one yen per unit) to be eligible for the special tax treatment on investment corporations (Article 67-15 of the Special Taxation Measures Law) that allows JEI to deduct the amount of profit distribution from its taxable income.



| Fiscal period   | 18th period                      | 19th period                       | 20th period                      | 21st period                       | 22nd period                      |
|---|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Accounting period   | January 1, 2015 to June 30, 2015 | July 1, 2015 to December 31, 2015 | January 1, 2016 to June 30, 2016 | July 1, 2016 to December 31, 2016 | January 1, 2017 to June 30, 2017 |
| Unappropriated retained earnings at end of period (Thousands of yen)  | 3,098,080                        | 3,385,019                         | 3,113,717                        | 3,406,981                         | 3,460,111                        |
| Retained income (Thousands of yen)  | 717                              | 261,241                           | 641                              | 409                               | 6                                |
| Total cash distribution amount (Thousands of yen)   | 3,097,363                        | 3,161,125                         | 3,113,075                        | 3,406,571                         | 3,460,105                        |
| (Cash distributions per unit) (yen)   | (2,554)                          | (2,500)                           | (2,462)                          | (2,609)                           | (2,650)                          |
| Of which, total profit distributions (Thousands of yen)   | 3,097,363                        | 3,161,125                         | 3,113,075                        | 3,406,571                         | 3,460,105                        |
| (Profit distribution per unit) (yen)  | (2,554)                          | (2,500)                           | (2,462)                          | (2,609)                           | (2,650)                          |
| 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, while transaction yields are drawing closer to the level where room for further lowering is scarce, real estate transaction prices are expected to remain high backed by factors such as the favorable fund procurement environment and vigorous appetite for investment by market participants.

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

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

For external growth, JEI will continue striving to acquire, including replacing assets, competitive properties with well-balanced investments based on size, concentration and target area to increase asset size and realize stable profitability in our portfolio over the medium to long term. To this end, we will continue enhancing further interaction and collaboration with sponsor companies and have the asset management company cultivate and refine property information sources in an effort to promptly gain access to market information on disposition of properties and thereby keep seizing the right business opportunities. Furthermore, on August 1, 2017 we additionally acquired ownership interest, etc. of Kowa Nishi-Shimbashi Building from Nippon Steel Kowa Real Estate Co., Ltd., a sponsor.

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

Regarding financial operations, while fund procurement for long-term and with fixed interest rates will remain as our basic policies, JEI will consistently work on stable and sound financial operations. While watching the trends of the financial environment as well as considering the interest rate level according to periods and the status of debt redemption balance of each period, JEI will implement agile decisions.

## (6) Subsequent Events

None

### (Reference Material)

#### 1. Acquisition of an Asset (Kowa Nishi-Shimbashi Building (Additional Acquisition of Ownership Interest, etc.))

JEI concluded the real estate transaction agreement as of July 26, 2017 and received the property as of August 1, 2017 as described below.

#### (Overview of acquired asset)

|                                 |  |
|---------------------------------|--|
| Acquired asset                  | Real estate  |
| Name of asset                   | Kowa Nishi-Shimbashi Building (additional acquisition of ownership interest) |
| Location                        | 2-1-1 Nishi Shimbashi, Minato-ku, Tokyo                                      |
| Acquisition price (Note)        | 7,500,000,000 yen  |
| Date of conclusion of agreement | July 26, 2017  |
| Acquisition date                | August 1, 2017   |
| Seller                          | Nippon Steel Kowa Real Estate Co., Ltd.                                      |

(Note) The acquisition price does not include consumption tax, local consumption tax or fees required for the acquisition.

#### 2. Borrowing of Funds

JEI concluded an individual commitment line agreement as of July 26, 2017 in order to allot the funds to part of the funds for the acquisition of the asset as indicated in 1. above and the related expenses, etc. as described below.

(Overview of borrowing)

|                            |  |
|----------------------------|--|
| Lender                     | Mizuho Bank, Ltd.  |
| Loan amount                | 7,700,000,000 yen  |
| Interest rate              | Base interest rate (Japanese Bankers Association (JBA) one-month Yen-TIBOR) +0.20% |
| Drawdown date              | August 1, 2017   |
| Principal repayment date   | September 29, 2017   |
| Principal repayment method | To be repaid in full on the principal repayment date (early repayment permitted)   |
| Collateral                 | Unsecured / Non-guaranteed   |

3. Acquisition of an Asset (Akasaka Garden City (Additional Acquisition of Co-ownership Interest))

JEI concluded the real estate transaction agreement with multiple sellers as of August 7, 2017 and received the property as of August 10, 2017 as described below.

(Overview of acquired asset)

|                                 |   |
|---------------------------------|---|
| Acquired asset (Note 1)         | Real estate   |
| Name of asset                   | Akasaka Garden City (additional acquisition of co-ownership interest) |
| Location                        | 4-15-1 Akasaka, Minato-ku, Tokyo                                      |
| Acquisition price (Note 2)      | 869,591,115 yen   |
| Date of conclusion of agreement | August 7, 2017  |
| Acquisition date                | August 10, 2017   |
| Seller                          | Not disclosed as consent from sellers has not been obtained.          |

(Note 1) JEI already held trust beneficiary interest in part of Akasaka Garden City as a major trust asset, for which Mizuho Trust & Banking Co., Ltd. has been acting as the trustee. JEI placed the above asset in trust, adding it to the said trust asset, immediately after the additional acquisition. As of the date of this document, JEI owns trust beneficiary interest in one trust including the ownership interest additionally acquired.

(Note 2) The acquisition price does not include consumption tax, local consumption tax or fees required for the acquisition.

4. Borrowing of Funds

JEI concluded an individual commitment line agreement as of August 7, 2017 in order to allot the funds to part of the funds for the acquisition of the asset as indicated in 3. above and the related expenses, etc. as described below.

(Overview of borrowing)

|                            |  |
|----------------------------|--|
| Lender                     | Mizuho Bank, Ltd.  |
| Loan amount                | 900,000,000 yen  |
| Interest rate              | Base interest rate (Japanese Bankers Association (JBA) three-month Yen-TIBOR) +0.20% |
| Drawdown date              | August 10, 2017  |
| Principal repayment date   | July 31, 2018  |
| Principal repayment method | To be repaid in full on the principal repayment date (early repayment permitted)     |
| Collateral                 | Unsecured / Non-guaranteed   |

## 2. Outline of the Investment Corporation

### (1) Investment units

| Fiscal period                                | 18th<br>As of June 30,<br>2015 | 19th<br>As of December<br>31, 2015 | 20th<br>As of June 30,<br>2016 | 21st<br>As of December<br>31, 2016 | 22nd<br>As of June 30,<br>2017 |
|--|--------------------------------|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| Total number of units authorized             | 10,000,000 units               | 10,000,000 units                   | 10,000,000 units               | 10,000,000 units                   | 10,000,000 units               |
| Total number of units issued and outstanding | 1,212,750 units                | 1,264,450 units                    | 1,264,450 units                | 1,305,700 units                    | 1,305,700 units                |
| Unitholders' capital                         | 127,950 million yen            | 134,434 million yen                | 134,434 million yen            | 139,972 million yen                | 139,972 million yen            |
| Number of unitholders                        | 7,848 individuals              | 8,465 individuals                  | 7,686 individuals              | 7,850 individuals                  | 8,086 individuals              |

### (2) Unitholders

Major unitholders as of June 30, 2017 are as follows:

| Name  | Address   | Number of units held (Units) | Ratio of number of units held to outstanding investment units (%) |
|---|---|------------------------------|---|
| Japan Trustee Services Bank, Ltd. (Trust Account)                         | 1-8-11 Harumi, Chuo-ku, Tokyo   | 338,434                      | 25.92   |
| Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account) | Harumi Island Triton Square Office Tower Z, 1-8-12 Harumi, Chuo-ku, Tokyo | 115,474                      | 8.84  |
| The Master Trust Bank of Japan, Ltd. (Trust Account)                      | 2-11-3 Hamamatsu-cho, Minato-ku, Tokyo                                    | 99,880                       | 7.65  |
| NIPPON STEEL KOWA REAL ESTATE CO., LTD.                                   | 1-15-5 Minami Aoyama, Minato-ku, Tokyo                                    | 71,560                       | 5.48  |
| The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)         | 2-2-2 Otemachi, Chiyoda-ku, Tokyo   | 54,364                       | 4.16  |
| STATESTREET BANK AND TRUST COMPANY 505012                                 | ONE LINCOLN STREET, BOSTON MA USA 02111                                   | 29,202                       | 2.24  |
| The Dai-ichi Life Insurance Company, Limited                              | 1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo                                      | 20,660                       | 1.58  |
| STATESTREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233              | 1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A.                       | 19,386                       | 1.48  |
| DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO                        | 6300 BEE CAVE ROAD, BUILDING ONE AUSTIN TX 78746 US                       | 16,279                       | 1.25  |
| STATESTREET BANK AND TRUST COMPANY 505223                                 | P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A.                            | 15,602                       | 1.19  |
| Total   |   | 780,841                      | 59.80   |

### (3) Officers

#### 1) Directors and accounting auditor

| Post                 | Name                        | Major additional post  | Compensation or fee for the six months ended June 30, 2017 (Thousands of yen) |
|----------------------|-----------------------------|--|---|
| Executive Director   | Hidehiko Ogawa              | President, Japan Excellent Asset Management Co., Ltd.                | –   |
| Supervisory Director | Tsuyoshi Nagahama           | Advisor, Anderson, Mori & Tomotsune                                  | 6,540   |
| Supervisory Director | Shunichi Maekawa            | Professor, Sugiyama Jogakuen University, School of Modern Management |   |
| Supervisory Director | Eiji Takagi                 | Eiji Takagi Certified Public Accounting Office                       |   |
| Accounting Auditor   | Ernst & Young ShinNihon LLC | –  | 14,500<br>(Note 2)  |

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

(Note 2) The total amount of compensation or fee shown above is an estimated amount and includes the amount paid as compensation for auditing during the 22nd 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 11th Series Unsecured Investment Corporation Bonds in April 2017.

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

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

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

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

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

Our asset management company, asset custodian and administrative agents as of June 30, 2017 are as follows:

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

### 3. Investment Portfolio of the Investment Corporation

#### (1) Investment Portfolio by Area

| Classification                                  | Use   | Area<br>(Note 1) | 21st Period<br>(December 31, 2016)                             |   | 22nd Period<br>(June 30, 2017)                                 |   |
|---|---|------------------|--|---|--|---|
|   |   |                  | Total<br>acquisition<br>price (Millions<br>of yen)<br>(Note 2) | Investment<br>ratio in<br>portfolio (%) | Total<br>acquisition<br>price (Millions<br>of yen)<br>(Note 2) | Investment<br>ratio in<br>portfolio (%) |
| Real estate<br>property                         | Office<br>building  | Area I           | 3,808  | 1.3                                     | 3,796  | 1.3                                     |
|   |   | Area II          | 5,645  | 1.9                                     | 5,650  | 1.9                                     |
| Trust beneficiary<br>interest in real<br>estate |   | Area I           | 116,091  | 39.2                                    | 116,027  | 39.0                                    |
|   |   | Area II          | 9,107  | 3.1                                     | 9,111  | 3.1                                     |
|   |   | Area III         | 102,242  | 34.5                                    | 101,644  | 34.2                                    |
|   |   | Area IV          | 18,896   | 6.4                                     | 18,883   | 6.4                                     |
| Trust beneficiary<br>interest in real<br>estate | Others<br>(commercial<br>facilities,<br>residence,<br>etc.) | Area I           | 18,166   | 6.1                                     | 18,025   | 6.1                                     |
| Total   |   |                  | 273,958  | 92.5                                    | 273,139  | 91.9                                    |
| Deposits in bank and other assets               |   |                  | 22,122   | 7.5                                     | 24,037   | 8.1                                     |
| Total assets                                    |   |                  | 296,081  | 100.0                                   | 297,177  | 100.0                                   |

(Note 1) Areas are classified as follows:

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

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

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

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

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

The same applies hereinafter.

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

## (2) Major Property

The principal properties (top ten properties in net book value) owned by JEI as of June 30, 2017 are as follows:

| Name                                   | Book value<br>(Millions of<br>yen) | Leasable space<br>(m <sup>2</sup> ) (Note 1) | Leased space<br>(m <sup>2</sup> ) (Note 2) | Occupancy<br>rate (%)<br>(Note 3) | Ratio of rental<br>revenue to total<br>rental revenues<br>(%) | Major use  |
|--|------------------------------------|--|--|-----------------------------------|---|--|
| Kowa Kawasaki<br>Nishiguchi Building   | 28,773                             | 38,375.65                                    | 38,375.65                                  | 100.0                             | 8.8   | Office<br>building   |
| AKASAKA INTERCITY                      | 27,194                             | 11,021.03                                    | 11,021.03                                  | 100.0                             | 5.4   | Office<br>building   |
| Nisseki Yokohama<br>Building           | 24,141                             | 40,440.73                                    | 40,314.38                                  | 99.7                              | 10.7  | Office<br>building   |
| Akasaka Garden City                    | 22,265                             | 8,769.53                                     | 8,769.53                                   | 100.0                             | 3.7   | Office<br>building   |
| Omori Bellport D                       | 21,119                             | 25,801.66                                    | 25,801.66                                  | 100.0                             | 8.8   | Office<br>building   |
| HAMARIKYU<br>INTERCITY                 | 18,025                             | 19,718.11                                    | 19,500.96                                  | 98.9                              | 6.8   | Other<br>(commercial<br>facilities,<br>residence,<br>etc.) |
| Musashikosugi Tower<br>Place           | 12,750                             | 25,043.93                                    | 25,043.93                                  | 100.0                             | 7.3   | Office<br>building   |
| Mansard Daikanyama                     | 11,437                             | 5,420.80                                     | 5,278.26                                   | 97.4                              | 2.7   | Office<br>building   |
| Daiba Garden City<br>Building          | 10,066                             | 12,122.85                                    | 12,122.85                                  | 100.0                             | 3.1   | Office<br>building   |
| Kowa Kawasaki<br>Higashiguchi Building | 9,553                              | 18,612.72                                    | 18,612.72                                  | 100.0                             | (Note 4)  | Office<br>building   |
| Total                                  | 185,326                            | 205,327.01                                   | 204,840.97                                 | 99.8                              | —   | —  |

(Note 1) Leasable space refers to space available for lease of which ownership is attributable to JEI as of June 30, 2017. For properties with joint ownership, the value is obtained by multiplying the total leasable space of the shared property by the percentage of the interest owned by JEI, regarding the figure as JEI's leasable space.

(Note 2) Leased space refers to space with lease contracts or master lease agreements that guarantee a certain amount of fixed rent payment concluded with end tenants as of June 30, 2017. For properties with joint ownership, the value is obtained by multiplying the total leased space of the property by the percentage of the interest owned by JEI, regarding the figure as JEI's leased space. For properties which are used for profit by the master lease company, leased space refers to the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased space of end tenants who terminated their lease arrangement but have not yet moved out as of the end of period is included in the leased space. This also applies to any figure which is calculated based on "leased space" in this document.

(Note 3) Occupancy rate is a percentage of total leased space to total leasable space as of June 30, 2017.

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

### (3) Portfolio Ownership Breakdown

Real estate properties and their forms of ownership as of June 30, 2017 are as follows:

| Property No. | Property name                                       | Location (Residential address)                          | Form of ownership                         | Appraisal value at end of period (Millions of yen) (Note) | Net book value (Millions of yen) |
|--------------|---|---|---|---|----------------------------------|
| I-1          | Omori Bellport D                                    | 6-26-3 Minami-Oi, Shinagawa-ku, Tokyo                   | Trust beneficiary interest in real estate | 25,700  | 21,119                           |
| I-2          | Shiba 2-Chome Building                              | 2-6-1 Shiba, Minato-ku, Tokyo                           | Trust beneficiary interest in real estate | 11,900  | 9,142                            |
| I-3          | JEI Hamamatsucho Building                           | 2-2-12 Hamamatsu-cho, Minato-ku, Tokyo                  | Trust beneficiary interest in real estate | 7,350   | 8,250                            |
| I-7          | Akasaka Garden City                                 | 4-15-1 Akasaka, Minato-ku, Tokyo                        | Trust beneficiary interest in real estate | 17,700  | 22,265                           |
| I-8          | AKASAKA INTERCITY                                   | 1-11-44 Akasaka, Minato-ku, Tokyo                       | Trust beneficiary interest in real estate | 26,700  | 27,194                           |
| I-9          | Kowa Shirokanedai Building                          | 3-19-1 Shirokanedai, Minato-ku, Tokyo                   | Trust beneficiary interest in real estate | 5,090   | 4,787                            |
| I-10         | Daiba Garden City Building                          | 2-3-5 Daiba, Minato-ku, Tokyo                           | Trust beneficiary interest in real estate | 12,000  | 10,066                           |
| I-12         | HAMARIKYU INTERCITY                                 | 1-9-1 and 15 Kaigan, Minato-ku, Tokyo                   | Trust beneficiary interest in real estate | 22,400  | 18,025                           |
| I-13         | Shintomicho Building                                | 3-10-9 Irifuno, Chuo-ku, Tokyo                          | Trust beneficiary interest in real estate | 2,040   | 1,763                            |
| I-14         | Kowa Nishi-Shimbashi Building                       | 2-1-1 Nishi-Shimbashi, Minato-ku, Tokyo                 | Real estate                               | 4,040   | 3,796                            |
| I-15         | Mansard Daikanyama                                  | 10-1 Sarugakucho, Shibuya-ku, Tokyo                     | Trust beneficiary interest in real estate | 12,100  | 11,437                           |
| Area I       |   |   |   | 147,020   | 137,849                          |
| II-1         | NHK Nagoya Housou-Center Building                   | 1-13-3 Higashi-Sakura, Higashi-ku, Nagoya-shi, Aichi    | Real estate                               | 5,710   | 5,650                            |
| II-2         | JEI Nishi-Honmachi Building                         | 1-3-15 Awaza, Nishi-ku, Osaka-shi, Osaka                | Trust beneficiary interest in real estate | 4,690   | 7,245                            |
| II-3         | Osaka Kogin Building (Land with Leasehold Interest) | 4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka             | Trust beneficiary interest in real estate | 2,140   | 1,865                            |
| Area II      |   |   |   | 12,540  | 14,761                           |
| III-1        | Musashikosugi Tower Place                           | 1-403 Kosugi-machi, Nakahara-ku, Kawasaki-shi, Kanagawa | Trust beneficiary interest in real estate | 20,300  | 12,750                           |
| III-2        | Kowa Kawasaki Higashiguchi Building                 | 1-53 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa   | Trust beneficiary interest in real estate | 9,450   | 9,553                            |
| III-3        | JEI Hongo Building                                  | 2-38-16 Hongo, Bunkyo-ku, Tokyo                         | Trust beneficiary interest in real estate | 4,690   | 5,115                            |
| III-5        | Kawasaki Nisshincho Building                        | 7-1 Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa    | Trust beneficiary interest in real estate | 4,150   | 4,377                            |
| III-6        | No. 44 Kowa Building                                | 1-2-7 Higashiyama, Meguro-ku, Tokyo                     | Trust beneficiary interest in real estate | 1,750   | 1,007                            |
| III-7        | JEI RYOGOKU BUILDING                                | 3-25-5 Ryogoku, Sumida-ku, Tokyo                        | Trust beneficiary interest in real estate | 2,230   | 2,257                            |
| III-8        | Ebina Prime Tower                                   | 2-9-50 Chuo, Ebina-shi, Kanagawa                        | Trust beneficiary interest in real estate | 4,290   | 5,792                            |
| III-9        | Kowa Kawasaki Nishiguchi Building                   | 66-2 Horikawa-cho, Saiwai-ku, Kawasaki-shi, Kanagawa    | Trust beneficiary interest in real estate | 25,400  | 28,773                           |
| III-10       | Pacific Square Sengoku                              | 2-29-24 Hon-Komagome, Bunkyo-ku, Tokyo                  | Trust beneficiary interest in real estate | 1,310   | 1,655                            |
| III-11       | Core City Tachikawa                                 | 2-37-7 Akebono-cho, Tachikawa-shi, Tokyo                | Trust beneficiary interest in real estate | 8,270   | 6,220                            |
| III-12       | Nisseki Yokohama Building                           | 1-1-8 Sakuragi-cho, Naka-ku, Yokohama-shi, Kanagawa     | Trust beneficiary interest in real estate | 26,700  | 24,141                           |
| Area III     |   |   |   | 108,540   | 101,644                          |
| IV-2         | JEI Kyobashi Building                               | 2-2-48 Kata-machi, Tsushima-ku, Osaka-shi, Osaka        | Trust beneficiary interest in real estate | 4,150   | 2,975                            |
| IV-3         | JEI Hiroshima Hacchobori Building                   | 14-4 Hacchobori, Naka-ku, Hiroshima-shi, Hiroshima      | Trust beneficiary interest in real estate | 3,280   | 2,627                            |
| IV-4         | SE Sapporo Building                                 | 1-1-2 Kitananajonishi, Kita-ku, Sapporo-shi, Hokkaido   | Trust beneficiary interest in real estate | 6,970   | 5,358                            |
| IV-5         | Aoba-dori Plaza                                     | 3-2-1 Chuo, Aoba-ku, Sendai-shi, Miyagi                 | Trust beneficiary interest in real estate | 3,570   | 2,188                            |
| IV-6         | Daiwa Minami-morimachi Building                     | 2-6-2-chome Kita Tenjinbashi, Kita-ku, Osaka-shi, Osaka | Trust beneficiary interest in real estate | 5,140   | 4,284                            |
| IV-7         | JEI Naha Building                                   | 2-8-1 Kumoji, Naha-shi, Okinawa                         | Trust beneficiary interest in real estate | 1,580   | 1,448                            |
| Area IV      |   |   |   | 24,690  | 18,883                           |
| Total        |   |   |   | 292,790   | 273,139                          |

(Note) Appraisal value at end of period indicates the appraisal value described in the real estate appraisal report prepared by real estate appraisers belonging to Japan Real Estate Institute, Chuo Real Estate Appraisal Co., Ltd., Japan Valuers Co., Ltd. and Daiwa Real Estate Appraisal Co., Ltd. as of June 30, 2017 pursuant to the articles of incorporation of JEI and the regulations stipulated by the Investment Trusts Association, Japan. For properties with joint ownership in the current portfolio, the value is obtained by multiplying the total value of the shared real estate by the percentage of the interest owned by JEI or the trustee.

Asset Management Report for 22<sup>nd</sup> period (Semi-Annual Report for 22<sup>nd</sup> Period)



| Property No. | Property name                                       | 21st Period<br>July 1, 2016 to December 31, 2016       |                                       |  |  | 22nd Period<br>January 1, 2017 to June 30, 2017        |                                       |  |  |
|--------------|---|--|---------------------------------------|--|--|--|---------------------------------------|--|--|
|              |   | Total number of tenants (At end of period)<br>(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)<br>(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                                 | 938  | 8.8  | 1  | 100.0                                 | 940  | 8.8  |
| I -2         | Shiba 2-Chome Building                              | 2  | 100.0                                 | 373  | 3.5  | 2  | 100.0                                 | 371  | 3.5  |
| I -3         | JEI Hamamatsucho Building                           | 1  | 100.0                                 | 210  | 2.0  | 1  | 100.0                                 | 209  | 2.0  |
| I -7         | Akasaka Garden City                                 | 1  | 100.0                                 | 395  | 3.7  | 1  | 100.0                                 | 390  | 3.7  |
| I -8         | AKASAKA INTERCITY                                   | 14   | 100.0                                 | 581  | 5.5  | 14   | 100.0                                 | 578  | 5.4  |
| I -9         | Kowa Shirokanedai Building                          | 1  | 100.0                                 | 165  | 1.6  | 1  | 100.0                                 | 170  | 1.6  |
| I -10        | Daiba Garden City Building                          | 1  | 100.0                                 | 334  | 3.1  | 1  | 100.0                                 | 334  | 3.1  |
| I -12        | HAMARIKYU INTERCITY                                 | 1  | 98.3                                  | 713  | 6.7  | 1  | 98.9                                  | 719  | 6.8  |
| I -13        | Shintomicho Building                                | 11   | 100.0                                 | 69   | 0.7  | 11   | 100.0                                 | 71   | 0.7  |
| I -14        | Kowa Nishi-Shimbashi Building                       | 6  | 100.0                                 | (Note 2)                                   | (Note 2)   | 5  | 100.0                                 | (Note 2)                                   | (Note 2)   |
| I -15        | Mansard Daikanyama                                  | 7  | 97.4                                  | 299  | 2.8  | 7  | 97.4                                  | 291  | 2.7  |
| Area I       |   | 46   | 99.6                                  | -  | -  | 45   | 99.7                                  | -  | -  |
| II -1        | NHK Nagoya Housou-Center Building                   | 31   | 95.3                                  | 372  | 3.5  | 31   | 94.2                                  | 366  | 3.4  |
| II -2        | JEI Nishi-Honmachi Building                         | 1  | 100.0                                 | 196  | 1.8  | 1  | 100.0                                 | 193  | 1.8  |
| II -3        | Osaka Kogin Building (Land with Leasehold Interest) | 1  | 100.0                                 | 83   | 0.8  | 1  | 100.0                                 | 83   | 0.8  |
| Area II      |   | 33   | 97.9                                  | -  | -  | 33   | 97.3                                  | -  | -  |
| III -1       | Musashikosugi Tower Place                           | 37   | 100.0                                 | 797  | 7.5  | 40   | 100.0                                 | 778  | 7.3  |
| 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                                 | 191  | 1.8  | 1  | 100.0                                 | 190  | 1.8  |
| III -6       | No. 44 Kowa Building                                | 1  | 100.0                                 | 88   | 0.8  | 1  | 100.0                                 | 90   | 0.8  |
| III -7       | JEI Ryogoku Building                                | 1  | 100.0                                 | 104  | 1.0  | 1  | 95.8                                  | 104  | 1.0  |
| III -8       | Ebina Prime Tower                                   | 37   | 98.8                                  | 413  | 3.9  | 39   | 99.6                                  | 429  | 4.0  |
| III -9       | Kowa Kawasaki Nishiguchi Building                   | 1  | 99.1                                  | 923  | 8.7  | 1  | 100.0                                 | 938  | 8.8  |
| III -10      | Pacific Square Sengoku                              | 9  | 95.5                                  | 49   | 0.5  | 10   | 100.0                                 | 54   | 0.5  |
| III -11      | Core City Tachikawa                                 | 1  | 98.5                                  | 309  | 2.9  | 1  | 98.5                                  | 308  | 2.9  |
| III -12      | Nisseki Yokohama Building                           | 1  | 98.3                                  | 1,134                                      | 10.7   | 1  | 99.7                                  | 1,138                                      | 10.7   |
| Area III     |   | 91   | 99.1                                  | -  | -  | 97   | 99.7                                  | -  | -  |
| IV -2        | JEI Kyobashi Building                               | 1  | 91.8                                  | 166  | 1.6  | 1  | 100.0                                 | 168  | 1.6  |
| IV -3        | JEI Hiroshima Hacchobori Building                   | 1  | 98.2                                  | 149  | 1.4  | 1  | 98.0                                  | 141  | 1.3  |
| IV -4        | SE Sapporo Building                                 | 1  | 99.2                                  | 369  | 3.5  | 1  | 98.6                                  | 361  | 3.4  |
| IV -5        | Aoba-dori Plaza                                     | 53   | 99.4                                  | 188  | 1.8  | 53   | 98.5                                  | 189  | 1.8  |
| IV -6        | Daiwa Minami-morimachi Building                     | 10   | 100.0                                 | 198  | 1.9  | 10   | 100.0                                 | 195  | 1.8  |
| IV -7        | JEI Naha Building                                   | 1  | 95.8                                  | 74   | 0.7  | 1  | 91.7                                  | 74   | 0.7  |
| Area IV      |   | 67   | 97.6                                  | -  | -  | 67   | 98.5                                  | -  | -  |
| Total        |   | 237  | 99.0                                  | 10,653                                     | 100.0  | 242  | 99.4                                  | 10,642                                     | 100.0  |

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

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

(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<br>(Thousands of yen)<br>(Note 2) |
|------------------------------|---|---|---------------|--|
|                              |   |   | Over one year |  |
| Over-the-counter transaction | Interest rate swap transactions<br>Floating interest rate receivable<br>Fixed interest rate payable | 51,140,000                                  | 35,140,000    | —  |

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

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

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

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

#### 4. Capital Expenditures for Owned Properties

##### (1) Scheduled Capital Expenditures

The following table shows major items of scheduled capital expenditures for repairs and maintenance planned for the properties owned by JEI as of the end of the 22nd period (ended June 30, 2017). The values below include portions to be expensed for accounting purposes.

| Property name                     | Location           | Purpose  | Schedule term                       | Estimated construction costs<br>(Millions of yen) |  |                          |
|-----------------------------------|--------------------|--|-------------------------------------|---|--|--------------------------|
|                                   |                    |  |                                     | Total   | Payment for the six months ended June 30, 2017 | Total of advance payment |
| Kowa Kawasaki Nishiguchi Building | Kawasaki, Kanagawa | Renewal of common space  | From March 2017<br>To December 2017 | 378   | —  | —                        |
| Ebina Prime Tower                 | Ebina, Kanagawa    | Update of automatic fire alarm system                                | From April 2017<br>To December 2017 | 103   | —  | —                        |
| Shiba 2-Chome Building            | Minato, Tokyo      | Renovation of common spaces of entire office building                | From April 2017<br>To July 2017     | 94  | 37   | 37                       |
| Kowa Kawasaki Nishiguchi Building | Kawasaki, Kanagawa | Repair of refractory coating alongside update of passenger elevators | From July 2017<br>To December 2017  | 90  | —  | —                        |
| Omori Bellport D                  | Shinagawa, Tokyo   | Update of automatic air conditioning control equipment (1/5th term)  | From July 2017<br>To December 2017  | 56  | —  | —                        |
| HAMARIKYU INTERCITY               | Minato, Tokyo      | Repair of common space lighting                                      | From July 2017<br>To December 2017  | 36  | —  | —                        |

##### (2) Capital Expenditures for the Six Months Ended June 30, 2017

The following table shows constructions conducted by JEI during the period ended June 2017 and expensed as capital expenditures. Capital expenditures for the period ended June 2017 were 1,056 million yen and, when combined with repairs and maintenance costs of 271 million yen classified as expenses in the period under review, the amount of constructions completed totaled 1,328 million yen.

| Property name                     | Location               | Purpose   | Scheduled term                        | Amounts Paid<br>(Millions of yen) |
|-----------------------------------|------------------------|---|---------------------------------------|-----------------------------------|
| Shiba 2-Chome Building            | Minato, Tokyo          | Renewal of wall-through type air conditioner              | From April 2017<br>To June 2017       | 244                               |
| SE Sapporo Building               | Sapporo-shi, Hokkaido  | Renewal of common space                                   | From February 2017<br>To June 2017    | 159                               |
| Musashikosugi Tower Place         | Kawasaki-shi, Kanagawa | Renewal of wall-through type air conditioner (5/5th term) | From January 2017<br>To March 2017    | 85                                |
| NHK Nagoya Housou-Center Building | Nagoya-shi, Aichi      | Renewal of air conditioners in lower floors               | From July 2016<br>To March 2017       | 61                                |
| Nisseki Yokohama Building         | Yokohama-shi, Kanagawa | Replacement of integrating electricity meter              | From October 2016<br>To February 2017 | 38                                |

|                             |                  |  |                                 |       |
|-----------------------------|------------------|--|---------------------------------|-------|
| JEI Nishi-honmachi Building | Osaka-shi, Osaka | Renewal of heat source chiller   | From April 2017<br>To June 2017 | 36    |
| Omori Bellport D            | Shinagawa, Tokyo | Replacement of external wall ceiling and repair of roof waterproofing (6/7th term) | From March 2017<br>To June 2017 | 30    |
| Other constructions         |                  |  | –                               | 399   |
| Total                       |                  |  |                                 | 1,056 |

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

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

(Unit: Millions of yen)

| Item                                  | 18th Period<br>January 1, 2015<br>to June 30, 2015 | 19th Period<br>July 1, 2015 to<br>December 31,<br>2015 | 20th Period<br>January 1, 2016<br>to June 30, 2016 | 21st Period<br>July 1, 2016 to<br>December 31,<br>2016 | 22nd Period<br>January 1, 2017<br>to June 30, 2017 |
|---------------------------------------|--|--|--|--|--|
| Reserved funds at beginning of period | 316  | 317  | 310  | 436  | 450  |
| Increase                              | 119  | 65   | 619  | 675  | 468  |
| Decrease                              | 118  | 72   | 492  | 662  | 371  |
| Reserved funds at the end of period   | 317  | 310  | 436  | 450  | 546  |

## 5. Expenses and Liabilities

### (1) Expenses Associated with Asset Management

(Unit: Thousands of yen)

| Account                         | 21st Period<br>July 1, 2016<br>to December 31, 2016 | 22nd Period<br>January 1, 2017<br>to June 30, 2017 |
|---------------------------------|---|--|
| (a) Asset management fees       | 442,497   | 442,866  |
| (b) Custodian fees              | 21,155  | 22,025   |
| (c) Administrative service fees | 40,025  | 41,489   |
| (d) Compensation for directors  | 6,540   | 6,540  |
| (e) Accounting auditor fees     | 11,000  | 11,000   |
| (f) Other                       | 61,502  | 73,724   |
| Total                           | 582,721   | 597,646  |

## (2) Borrowings

Borrowings by each financing source as of the end of the 22nd period (ended June 30, 2017) are as follows:

| Classification                      | Lender  | Drawdown date     | Balance at beginning of period | Balance at end of period | Average interest rate (%) (Note 1) | Maturity date               | Repayment method | Use  | Remarks                    |                   |
|-------------------------------------|---|-------------------|--------------------------------|--------------------------|------------------------------------|-----------------------------|------------------|--|----------------------------|-------------------|
|                                     |   |                   | (Thousands of yen)             | (Thousands of yen)       |                                    |                             |                  |  |                            |                   |
| Short-term loans                    | Mizuho Bank, Ltd.                               | November 2, 2016  | 1,000,000                      | —                        | 0.23000                            | September 29, 2017 (Note 2) | Lump-sum         | Redemption of investment corporation bonds | Unsecured and unguaranteed |                   |
| Sub Total                           |   |                   | 1,000,000                      | —                        |                                    |                             |                  |  |                            |                   |
| Long-term loans due within one year | Mizuho Bank, Ltd.                               | January 31, 2012  | 2,000,000                      | —                        | 1.24750 (Note 3)                   | January 31, 2017            | Lump-sum         | Repayment of existing borrowing            | Unsecured and unguaranteed |                   |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 1,500,000                      | —                        |                                    |                             |                  |  |                            |                   |
|                                     | Sumitomo Mitsui Banking Corporation             |                   | 1,500,000                      | —                        |                                    |                             |                  |  |                            |                   |
|                                     | Mizuho Bank, Ltd.                               | July 31, 2012     | 1,500,000                      | —                        | 1.03000 (Note 3)                   |                             |                  |  |                            |                   |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 1,300,000                      | —                        |                                    |                             |                  |  |                            |                   |
|                                     | Sumitomo Mitsui Banking Corporation             |                   | 1,200,000                      | —                        |                                    |                             |                  |  |                            |                   |
|                                     | Sompo Japan Nipponkoa Insurance Inc.            |                   | 2,000,000                      | —                        |                                    |                             |                  |  |                            |                   |
|                                     | Tokio Marine & Nichido Fire Insurance Co., Ltd. | 1,000,000         | —                              | 1.09734 (Note 3)         |                                    |                             |                  |  |                            |                   |
|                                     | Development Bank of Japan Inc.                  | November 30, 2010 | 6,000,000                      | 6,000,000                | 1.73875 (Note 3)                   |                             |                  |  |                            | November 30, 2017 |
|                                     | Mizuho Bank, Ltd.                               | July 31, 2012     | 1,000,000                      | 1,000,000                | 1.08375 (Note 3)                   |                             |                  |  |                            |                   |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 1,000,000                      | 1,000,000                |                                    |                             |                  |  |                            |                   |
|                                     | Sumitomo Mitsui Banking Corporation             |                   | 1,000,000                      | 1,000,000                |                                    |                             |                  |  |                            |                   |
|                                     | Mizuho Bank, Ltd.                               | June 28, 2013     | 1,000,000                      | 1,000,000                | 1.04550 (Note 3)                   |                             |                  |  |                            |                   |
|                                     | Aozora Bank, Ltd.                               |                   | 500,000                        | 500,000                  |                                    |                             |                  |  |                            |                   |
|                                     | Resona Bank, Ltd.                               |                   | 500,000                        | 500,000                  |                                    |                             |                  |  |                            |                   |
|                                     | Sompo Japan Nipponkoa Insurance Inc.            |                   | 500,000                        | 500,000                  |                                    |                             |                  |  |                            |                   |
|                                     | Tokio Marine & Nichido Fire Insurance Co., Ltd. | 500,000           | 500,000                        | 1.19212 (Note 3)         |                                    |                             |                  |  |                            |                   |
|                                     | The Dai-ichi Life Insurance Company Limited     | June 29, 2011     | —                              | 3,000,000                | 1.65125 (Note 3)                   | June 29, 2018               |                  |  |                            |                   |
|                                     | Mizuho Bank, Ltd.                               | June 28, 2013     | —                              | 5,000,000                | 0.81225 (Note 3)                   | June 30, 2018               |                  |  |                            |                   |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | —                              | 2,000,000                |                                    |                             |                  |  |                            |                   |
| Sumitomo Mitsui Banking Corporation | —   |                   | 1,100,000                      |                          |                                    |                             |                  |  |                            |                   |
| Shinkin Central Bank                | —   |                   | 1,000,000                      |                          |                                    |                             |                  |  |                            |                   |
| The Norinchukin Bank                | —   |                   | 1,000,000                      |                          |                                    |                             |                  |  |                            |                   |
| The Bank of Fukuoka                 | —   |                   | 700,000                        |                          |                                    |                             |                  |  |                            |                   |
| Resona Bank, Ltd.                   | —   |                   | 200,000                        |                          |                                    |                             |                  |  |                            |                   |
| Sub Total                           |   |                   | 24,000,000                     | 26,000,000               |                                    |                             |                  |  |                            |                   |

|                                     | Classification                              | Drawdown date     | Balance at beginning of period (Thousands of yen) | Balance at end of period (Thousands of yen) | Average interest rate (%) (Note 1) | Maturity date         | Repayment method | Use                             | Remarks                    |
|-------------------------------------|---|-------------------|---|---|------------------------------------|-----------------------|------------------|---------------------------------|----------------------------|
|                                     | Lender                                      |                   |   |   |                                    |                       |                  |                                 |                            |
| Long-term loans                     | Mizuho Bank, Ltd.                           | November 29, 2016 | 1,500,000   | —   | 0.23000                            | May 29, 2017 (Note 2) | Lump-sum         | Repayment of existing borrowing | Unsecured and unguaranteed |
|                                     | Mitsubishi UFJ Trust and Banking            |                   | 2,500,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | Sumitomo Mitsui Banking Corporation         |                   | 2,000,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | The Dai-ichi Life Insurance Company Limited | June 29, 2011     | 3,000,000   | —   | 1.65125 (Note 3)                   | June 29, 2018         |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                           | June 28, 2013     | 5,000,000   | —   | 0.81225 (Note3)                    | June 30, 2018         |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking            |                   | 2,000,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | Sumitomo Mitsui Banking Corporation         |                   | 1,100,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | Shinkin Central Bank                        |                   | 1,000,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | The Norinchukin Bank                        |                   | 1,000,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | The Bank of Fukuoka                         |                   | 700,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | Resona Bank, Ltd.                           |                   | 200,000   | —   |                                    |                       |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                           |                   | January 31, 2017                                  | —   |                                    |                       |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking            | —                 |   | 2,800,000                                   |                                    |                       |                  |                                 |                            |
|                                     | Sumitomo Mitsui Banking Corporation         | —                 |   | 2,700,000                                   |                                    |                       |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                           | March 11, 2014    | 850,000   | 850,000                                     | 0.74500 (Note 3)                   | November 1, 2018      |                  |                                 |                            |
|                                     | The Norinchukin Bank                        |                   | 1,450,000   | 1,450,000                                   |                                    |                       |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking            |                   | 850,000   | 850,000                                     |                                    |                       |                  |                                 |                            |
|                                     | Mizuho Trust & Banking Co., Ltd.            |                   | 600,000   | 600,000                                     |                                    |                       |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                           |                   | 850,000   | 850,000                                     | 0.77500 (Note 3)                   | March 8, 2019         |                  |                                 |                            |
|                                     | The Norinchukin Bank                        |                   | 1,450,000   | 1,450,000                                   |                                    |                       |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking            |                   | 850,000   | 850,000                                     |                                    |                       |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                           |                   | 600,000   | 600,000                                     |                                    |                       |                  |                                 |                            |
| Nippon Life Insurance Company       | December 12, 2016                           | 1,000,000         | 1,000,000   | 0.25000 (Note 3)                            | December 12, 2019                  |                       |                  |                                 |                            |
| Mizuho Bank, Ltd.                   | June 29, 2016                               | 4,400,000         | 4,400,000   | 0.28000                                     | December 30, 2019                  |                       |                  |                                 |                            |
| Mitsubishi UFJ Trust and Banking    |   | 4,600,000         | 4,600,000   |   |                                    |                       |                  |                                 |                            |
| Sumitomo Mitsui Banking Corporation |   | 4,000,000         | 4,000,000   |   |                                    |                       |                  |                                 |                            |

|                                     | Classification                                  | Drawdown date     | Balance at beginning of period<br>(Thousands of yen) | Balance at end of period<br>(Thousands of yen) | Average interest rate (%) (Note 1) | Maturity date     | Repayment method | Use                             | Remarks                    |
|-------------------------------------|---|-------------------|--|--|------------------------------------|-------------------|------------------|---------------------------------|----------------------------|
|                                     | Lender  |                   |  |  |                                    |                   |                  |                                 |                            |
| Long-term loans                     | Development Bank of Japan Inc.                  | January 31, 2012  | 2,000,000  | 2,000,000                                      | 1.60000 (Note 3)                   | January 31, 2020  | Lump-sum         | Repayment of existing borrowing | Unsecured and unguaranteed |
|                                     | Mizuho Bank, Ltd.                               | June 28, 2013     | 500,000  | 500,000  | 1.36400 (Note 3)                   |                   |                  |                                 |                            |
|                                     | Sumitomo Mitsui Banking Corporation             |                   | 1,000,000  | 1,000,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Trust & Banking Co., Ltd.                |                   | 600,000  | 600,000  |                                    |                   |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 500,000  | 500,000  |                                    |                   |                  |                                 |                            |
|                                     | The Dai-ichi Life Insurance Company Limited     |                   | 1,000,000  | 1,000,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                               | December 27, 2013 | 675,000  | 675,000  | 1.00000 (Note 3)                   |                   |                  |                                 |                            |
|                                     | The Norinchukin Bank                            |                   | 1,162,500  | 1,162,500                                      |                                    |                   |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 675,000  | 675,000  |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Trust & Banking Co., Ltd.                |                   | 487,500  | 487,500  |                                    |                   |                  |                                 |                            |
|                                     | Development Bank of Japan Inc.                  | June 28, 2013     | 2,000,000  | 2,000,000                                      | 1.60750 (Note 3)                   | June 30, 2021     |                  |                                 |                            |
|                                     | The Dai-ichi Life Insurance Company Limited     | July 31, 2014     | 2,000,000  | 2,000,000                                      | 0.98834 (Note 3)                   |                   |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                               | November 29, 2016 | 520,000  | 520,000  | 0.40727                            | November 29, 2021 |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 540,000  | 540,000  |                                    |                   |                  |                                 |                            |
|                                     | Sumitomo Mitsui Banking Corporation             |                   | 1,080,000  | 1,080,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Sumitomo Mitsui Trust Bank Limited              |                   | 1,620,000  | 1,620,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                               | December 29, 2014 | 1,950,000  | 1,950,000                                      | 0.81875 (Note 3)                   | December 30, 2021 |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 2,000,000  | 2,000,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Trust & Banking Co., Ltd.                |                   | 1,200,000  | 1,200,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Resona Bank, Ltd.                               |                   | 600,000  | 600,000  |                                    |                   |                  |                                 |                            |
|                                     | Sompo Japan Nipponkoa Insurance Inc             | January 31, 2017  | —  | 2,000,000                                      | 0.35000 (Note 3)                   | January 31, 2022  |                  |                                 |                            |
|                                     | Tokio Marine & Nichido Fire Insurance Co., Ltd. |                   | —  | 1,000,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Development Bank of Japan Inc.                  | July 31, 2014     | 2,000,000  | 2,000,000                                      | 1.15417 (Note 3)                   | June 30, 2022     |                  |                                 |                            |
|                                     | Mizuho Bank, Ltd.                               | December 29, 2014 | 1,950,000  | 1,950,000                                      | 0.93625 (Note 3)                   | December 30, 2022 |                  |                                 |                            |
|                                     | Mitsubishi UFJ Trust and Banking                |                   | 2,000,000  | 2,000,000                                      |                                    |                   |                  |                                 |                            |
|                                     | Mizuho Trust & Banking Co., Ltd.                |                   | 1,200,000  | 1,200,000                                      |                                    |                   |                  |                                 |                            |
| Resona Bank, Ltd.                   | 600,000   |                   | 600,000  |  |                                    |                   |                  |                                 |                            |
| Development Bank of Japan Inc.      | June 30, 2015                                   | 2,000,000         | 2,000,000  | 1.20250 (Note 3)                               | June 30, 2023                      |                   |                  |                                 |                            |
| Mizuho Bank, Ltd.                   | November 30, 2015                               | 420,000           | 420,000  | 0.84375 (Note 3)                               | November 30, 2023                  |                   |                  |                                 |                            |
| Mitsubishi UFJ Trust and Banking    |   | 250,000           | 250,000  |  |                                    |                   |                  |                                 |                            |
| Sumitomo Mitsui Banking Corporation |   | 140,000           | 140,000  |  |                                    |                   |                  |                                 |                            |
| Mizuho Trust & Banking Co., Ltd.    |   | 1,560,000         | 1,560,000  |  |                                    |                   |                  |                                 |                            |
| The Norinchukin Bank                |   | 1,500,000         | 1,500,000  |  |                                    |                   |                  |                                 |                            |
| Resona Bank, Ltd.                   |   | 500,000           | 500,000  |  |                                    |                   |                  |                                 |                            |
| Aozora Bank, Ltd.                   |   | 750,000           | 750,000  |  |                                    |                   |                  |                                 |                            |
| The Bank of Fukuoka                 |   | 150,000           | 150,000  |  |                                    |                   |                  |                                 |                            |
| Mizuho Bank, Ltd.                   |   | 870,000           | 870,000  |  |                                    |                   |                  |                                 |                            |
| Mitsubishi UFJ Trust and Banking    | 590,000   | 590,000           | 0.96275 (Note 3)                                     | November 30, 2024                              |                                    |                   |                  |                                 |                            |
| Sumitomo Mitsui Banking             | 350,000   | 350,000           |  |  |                                    |                   |                  |                                 |                            |

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|                                  |                      |             |             |  |  |  |  |  |
|----------------------------------|----------------------|-------------|-------------|--|--|--|--|--|
| Corporation                      |                      |             |             |  |  |  |  |  |
| Mizuho Trust & Banking Co., Ltd. | November<br>30, 2015 | 1,560,000   | 1,560,000   |  |  |  |  |  |
| Resona Bank, Ltd.                |                      | 1,000,000   | 1,000,000   |  |  |  |  |  |
| Aozora Bank, Ltd.                |                      | 750,000     | 750,000     |  |  |  |  |  |
| The Bank of Fukuoka              |                      | 150,000     | 150,000     |  |  |  |  |  |
| Sub Total                        |                      | 83,900,000  | 75,900,000  |  |  |  |  |  |
| Total                            |                      | 108,900,000 | 101,900,000 |  |  |  |  |  |

(Note 1) The average interest rates are calculated using a weighted-average of the loan balance during the period. Borrowings hedged by interest rate swaps to avoid interest rate fluctuation risk are calculated using a weighted average rate adjusting the effect of the interest rate swaps.

(Note 2) Conducted early repayment in full on April 28, 2017.

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

### (3) Investment Corporation Bonds

The outstanding investment corporation bonds issued by JEI as of June 30, 2017 are as follows:

| Issue  | Issuance date     | Balance at beginning of period<br>(Thousands of yen) | Balance at end of period<br>(Thousands of yen) | Interest rate (%) | Maturity date     | Repayment method | Use      | Remarks  |  |
|--|-------------------|--|--|-------------------|-------------------|------------------|----------|----------|--|
| 4th series unsecured investment corporation bonds  | November 4, 2011  | 2,000,000  | 2,000,000                                      | 1.40000           | November 2, 2018  | Lump-sum         | (Note 1) | (Note 5) |  |
| 5th series unsecured investment corporation bonds  | November 25, 2013 | 5,000,000  | 5,000,000                                      | 0.46000           |                   |                  |          |          |  |
| 6th series unsecured investment corporation bonds  | March 10, 2014    | 5,000,000  | 5,000,000                                      | 0.46000           | March 11, 2019    |                  | (Note 2) |          |  |
| 7th series unsecured investment corporation bonds  |                   | 8,000,000  | 8,000,000                                      | 1.13000           | March 11, 2024    |                  | (Note 3) |          |  |
| 8th series unsecured investment corporation bonds  | September 9, 2015 | 5,000,000  | 5,000,000                                      | 1.03000           | September 9, 2025 |                  | (Note 3) |          |  |
| 9th series unsecured investment corporation bonds  | October 27, 2016  | 2,000,000  | 2,000,000                                      | 0.45000           | October 27, 2026  |                  | (Note 2) |          |  |
| 10th series unsecured investment corporation bonds | December 20, 2016 | 2,000,000  | 2,000,000                                      | 0.39000           | December 20, 2023 |                  | (Note 4) |          |  |
| 11th series unsecured investment corporation bonds | April 25, 2017    | —  | 7,000,000                                      | 0.65000           | April 23, 2027    |                  | (Note 2) |          |  |
| Total  |                   | 29,000,000   | 36,000,000                                     |                   |                   |                  |          |          |  |

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

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

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

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

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

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

None

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

None

## 6. Condition of Investment Transactions

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

None

### (2) Transactions of Other Assets

None

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

1) Real estate, etc.

None

2) Others

None

### (4) Transactions with Interested Parties

1) Transactions

None

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 | 1,477,096             | NIPPON STEEL KOWA REAL ESTATE CO., LTD.           | 167,526         | 11.3% |
|                                    |                       | Kowa Real Estate Facilities, Co., Ltd.            | 266,710         | 18.1% |
|                                    |                       | Nippon Steel Community Service Co., Ltd.          | 81              | 0.0%  |
| Total                              | 1,477,096             | —   | 434,318         | 29.4% |

(Note 1) Figures indicate fees paid to interested parties of asset management companies with whom JEI had transactions during the six months ended June 30, 2017.

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

|   |                      |
|---|----------------------|
| NIPPON STEEL KOWA REAL ESTATE CO., LTD. | 4,954 thousand yen   |
| KOWA REAL ESTATE FACILITIES CO., LTD.   | 196,017 thousand yen |

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

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

## 7. Accounting

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

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

### (2) Change in Depreciation Calculation Method

No changes were made during the period.

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

No changes were made during the period

## 8. Others

### (1) Notice

#### 1) General unitholders' meeting

There were no applicable items during the period.

#### 2) Board of directors meeting

Major issues related to the execution and modification of major contracts approved by the board of directors of JEI during the six months ended June 30, 2017 is summarized below.

| Approval date     | Approved agenda  | Description   |
|-------------------|--|---|
| February 16, 2017 | Entrustment of general administrative duties concerning investment corporation bonds | The board of directors made a comprehensive resolution on investment corporation bonds to be issued in the period from February 20, 2017 to February 8, 2018. The board of directors approved the respective candidate general administrator for "administrative duties concerning offering of investment corporation bonds" and "administrative duties concerning acceptance of claims for exercise of rights and other inquiries from creditors of the investment corporation, and other administrative duties concerning investment corporation bonds during the period," and assigned decisions on all other necessary matters to the Executive Director. |

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

There were no applicable items during the period.

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

There were no applicable items during the period.

### (4) Other

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

## 9. Risk Factors

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

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

- any adverse conditions in the Japanese economy could adversely affect JEI;
- JEI may not be able to acquire properties to execute its growth and investment strategy in a manner that is accretive to earnings;
- illiquidity in the real estate market may limit JEI's ability to grow or adjust its portfolio;
- the past experience of the Asset Management Company in the Japanese real estate market is not an indicator or guarantee of the future results;
- JEI's reliance on the Core Sponsors, the Asset Management Company and third party service providers could have a material adverse effect on its business;
- there are potential conflicts of interest between JEI and the Core Sponsors as well as the Asset Management Company;
- JEI's revenues largely comprise leasing revenues from the portfolio properties, which may be negatively affected by factors including vacancies, decreases in rent, and late or missed payments by tenants;
- JEI invests primarily in office properties, the market for which may be affected by macro-economic trends and other forces which JEI cannot control;
- JEI faces significant competition in seeking tenants and it may be difficult to find replacement tenants;
- increases in prevailing market interest rates may increase JEI's interest expense and may result in a decline in the market price of JEI's units;
- JEI may suffer large losses if any of its properties incurs damage from a natural or man-made disaster such as an earthquake, fire, flood, tsunami or typhoon;
- due to the concentration of JEI's portfolio in the Tokyo metropolitan area, JEI's business is highly susceptible to circumstances and developments that may adversely impact that area;
- any inability to obtain financing for future acquisitions could adversely affect the growth of JEI's portfolio;
- JEI's failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify JEI from certain taxation benefits and significantly reduce the cash distributions to the unitholders; and
- the ownership rights in some of JEI's properties may be declared invalid or limited.

In addition, JEI is subject to the following risks:

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

- risks related to the possibility that tax authorities may disagree with the Asset Management Company's interpretations of the Japanese tax laws and regulations;
- risks related to being unable to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs;
- risks related to changes in Japanese tax laws; and
- the risk of dilution as a result of further issuances of units.

## **Financial Statements**

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

*For the six-month periods ended  
June 30, 2017 and December 31, 2016  
with Independent Auditor's Report*



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## Independent Auditor's Report

The Board of Directors  
Japan Excellent, Inc.

We have audited the accompanying financial statements of Japan Excellent, Inc., which comprise the balance sheet as at June 30, 2017, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Excellent, Inc. as at June 30, 2017, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

September 20, 2017  
Tokyo, Japan



# Japan Excellent, Inc.

## Balance Sheets

As of June 30, 2017 and December 31, 2016

|  | As of<br>June 30, 2017    | As of<br>December 31, 2016 |
|--|---------------------------|----------------------------|
|  | <i>(Thousands of yen)</i> |                            |
| <b>Assets</b>  |                           |                            |
| Current assets:  |                           |                            |
| Cash and cash equivalents including trust accounts<br><i>(Notes 4 and 5)</i> | 22,182,030                | 20,096,382                 |
| Rental receivables   | 486,122                   | 559,458                    |
| Consumption taxes refundable   | —                         | 58,187                     |
| Prepaid expenses and other current assets                                    | 196,472                   | 183,753                    |
| Total current assets   | <u>22,864,624</u>         | <u>20,897,782</u>          |
| Property and equipment <i>(Note 7)</i> :                                     |                           |                            |
| Buildings and building improvements  | 5,922,283                 | 5,849,052                  |
| Machinery and equipment  | 6,253                     | 6,253                      |
| Furniture and fixtures   | 12,270                    | 12,270                     |
| Land   | 3,032,788                 | 3,032,788                  |
| Construction in progress   | 12,606                    | 3,812                      |
| Buildings and building improvements for trust accounts                       | 121,130,825               | 120,173,335                |
| Machinery and equipment for trust accounts                                   | 797,332                   | 772,751                    |
| Furniture and fixtures for trust accounts                                    | 194,343                   | 193,087                    |
| Land for trust accounts  | 160,660,425               | 160,660,425                |
| Construction in progress for trust accounts                                  | 139,031                   | 55,969                     |
| Less: accumulated depreciation   | <u>(27,877,107)</u>       | <u>(25,909,714)</u>        |
| Net property and equipment   | <u>264,031,052</u>        | <u>264,850,033</u>         |
| Intangible assets:   |                           |                            |
| Leasehold rights   | 1,721,607                 | 1,721,607                  |
| Brand and trademark  | 113                       | 138                        |
| Leasehold rights for trust accounts  | 7,382,016                 | 7,382,016                  |
| Other intangible assets for trust accounts                                   | 4,848                     | 4,562                      |
| Total intangible assets  | <u>9,108,586</u>          | <u>9,108,325</u>           |
| Investments and other assets:  |                           |                            |
| Security deposits  | 15,181                    | 15,181                     |
| Long-term prepaid expenses   | 628,970                   | 705,216                    |
| Other assets   | 379,051                   | 382,193                    |
| Total investments and other assets   | <u>1,023,203</u>          | <u>1,102,591</u>           |
| Deferred assets:   |                           |                            |
| Investment corporation bond issuance costs                                   | 149,786                   | 122,341                    |
| Total deferred assets  | <u>149,786</u>            | <u>122,341</u>             |
| Total assets   | <u><u>297,177,254</u></u> | <u><u>296,081,074</u></u>  |

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

|   | <b>As of</b><br><b>June 30, 2017</b> | <b>As of</b><br><b>December 31, 2016</b> |
|---|--------------------------------------|--|
|   | <i>(Thousands of yen)</i>            |  |
| <b>Liabilities</b>  |                                      |  |
| Current liabilities:  |                                      |  |
| Accounts payable – trade  | 1,465,612                            | 1,204,829                                |
| Short-term loans <i>(Notes 5 and 8)</i>                           | –                                    | 1,000,000                                |
| Long-term debt due within one year<br><i>(Notes 5 and 8)</i>      | 26,000,000                           | 24,000,000                               |
| Accounts payable – other  | 438,800                              | 434,187                                  |
| Accrued expenses  | 133,136                              | 182,273                                  |
| Accrued corporation taxes   | 678                                  | 764                                      |
| Accrued consumption taxes   | 289,887                              | –  |
| Advances received   | 83,886                               | 76,142                                   |
| Other current liabilities   | –                                    | 105                                      |
| Total current liabilities   | <u>28,412,001</u>                    | <u>26,898,303</u>                        |
| Long-term liabilities:  |                                      |  |
| Investment corporation bonds <i>(Notes 5 and 9)</i>               | 36,000,000                           | 29,000,000                               |
| Long-term debt <i>(Notes 5 and 8)</i>                             | 75,900,000                           | 83,900,000                               |
| Security deposits from tenants <i>(Note 5)</i>                    | 723,098                              | 733,092                                  |
| Security deposits from tenants for trust accounts <i>(Note 5)</i> | 12,448,681                           | 11,909,335                               |
| Total long-term liabilities                                       | <u>125,071,779</u>                   | <u>125,542,427</u>                       |
| Total liabilities   | <u>153,483,781</u>                   | <u>152,440,731</u>                       |
| <b>Net assets</b> <i>(Note 10)</i>                                |                                      |  |
| Unitholders' equity:  |                                      |  |
| Unitholders' capital  | 139,972,885                          | 139,972,885                              |
| Surplus   |                                      |  |
| Voluntary reserve   |                                      |  |
| Reserve for advanced depreciation of non-current assets           | 260,476                              | 260,476                                  |
| Retained earnings   | 3,460,111                            | 3,406,981                                |
| Total surplus   | <u>3,720,588</u>                     | <u>3,667,457</u>                         |
| Total unitholders' equity   | <u>143,693,473</u>                   | <u>143,640,343</u>                       |
| Total net assets  | <u>143,693,473</u>                   | <u>143,640,343</u>                       |
| Total liabilities and net assets                                  | <u>297,177,254</u>                   | <u>296,081,074</u>                       |

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

# Japan Excellent, Inc.

## Statements of Income and Retained Earnings

For the periods from January 1, 2017 to June 30, 2017  
and from July 1, 2016 to December 31, 2016

|  | <b>For the period<br/>from January 1, 2017<br/>to June 30, 2017</b> | <b>For the period<br/>from July 1, 2016<br/>to December 31, 2016</b> |
|--|---|--|
|  | <i>(Thousands of yen)</i>   |  |
| Revenues <i>(Note 13)</i> :                                |   |  |
| Rental business revenues                                   | 9,760,176   | 9,702,024  |
| Other  | 882,490   | 951,062  |
| Total revenues   | 10,642,667  | 10,653,086   |
| Operating expenses <i>(Note 13)</i> :                      |   |  |
| Property operating expenses                                | 5,890,983   | 5,849,144  |
| Asset management fees                                      | 442,866   | 442,497  |
| Custodian fees   | 22,025  | 21,155   |
| Administrative service fees                                | 41,489  | 40,025   |
| Compensation for directors                                 | 6,540   | 6,540  |
| Other  | 84,724  | 72,502   |
| Total operating expenses                                   | 6,488,630   | 6,431,865  |
| Operating income   | 4,154,037   | 4,221,220  |
| Other income:  |   |  |
| Interest income  | 98  | 158  |
| Other  | 1,034   | 713  |
| Other expenses:  |   |  |
| Interest expense   | 437,910   | 506,703  |
| Loan arrangement fees                                      | 114,622   | 142,818  |
| New investment unit issuance costs                         | —   | 13,965   |
| Interest expense on investment corporation bonds           | 123,538   | 128,180  |
| Amortization of investment corporation bond issuance costs | 13,554  | 13,592   |
| Other  | 5,143   | 9,699  |
| Ordinary income  | 3,460,399   | 3,407,130  |
| Income before income taxes                                 | 3,460,399   | 3,407,130  |
| Income taxes <i>(Note 12)</i> :                            |   |  |
| Current  | 693   | 788  |
| Deferred   | 4   | 1  |
| Net income   | 3,459,701   | 3,406,339  |
| Retained earnings at beginning of period                   | 409   | 641  |
| Retained earnings at end of period                         | 3,460,111   | 3,406,981  |

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

# Japan Excellent, Inc.

## Statements of Changes in Net Assets

For the periods from January 1, 2017 to June 30, 2017  
and from July 1, 2016 to December 31, 2016

| <b>For the period from January 1, 2017 to June 30, 2017</b>  |                         |   |                      |             |               |                                 |                     |
|--|-------------------------|---|----------------------|-------------|---------------|---------------------------------|---------------------|
| Net assets   |                         |   |                      |             |               |                                 |                     |
| Unitholders' equity  |                         |   |                      |             |               |                                 |                     |
| Surplus  |                         |   |                      |             |               |                                 |                     |
| Number of<br>units in issue                                  | Unitholders'<br>capital | Voluntary<br>reserve  |                      |             | Total surplus | Total<br>unitholders'<br>equity | Total net<br>assets |
|  |                         | Reserve for<br>advanced<br>depreciation of<br>non-current<br>assets | Retained<br>earnings |             |               |                                 |                     |
| <i>(Thousands of yen)</i>                                    |                         |   |                      |             |               |                                 |                     |
| Balance as of<br>December 31, 2016                           | 1,305,700               | 139,972,885   | 260,476              | 3,406,981   | 3,667,457     | 143,640,343                     | 143,640,343         |
| Changes during<br>the fiscal period:                         |                         |   |                      |             |               |                                 |                     |
| Issuance of<br>new units                                     | —                       | —   | —                    | —           | —             | —                               | —                   |
| Distributions from<br>retained earnings                      | —                       | —   | —                    | (3,406,571) | (3,406,571)   | (3,406,571)                     | (3,406,571)         |
| Net income   | —                       | —   | —                    | 3,459,701   | 3,459,701     | 3,459,701                       | 3,459,701           |
| Total changes<br>during the fiscal<br>period                 | —                       | —   | —                    | 53,130      | 53,130        | 53,130                          | 53,130              |
| Balance as of<br>June 30, 2017                               | 1,305,700               | 139,972,885   | 260,476              | 3,460,111   | 3,720,588     | 143,693,473                     | 143,693,473         |
| <b>For the period from July 1, 2016 to December 31, 2016</b> |                         |   |                      |             |               |                                 |                     |
| Net assets   |                         |   |                      |             |               |                                 |                     |
| Unitholders' equity  |                         |   |                      |             |               |                                 |                     |
| Surplus  |                         |   |                      |             |               |                                 |                     |
| Number of<br>units in issue                                  | Unitholders'<br>capital | Voluntary<br>reserve  |                      |             | Total surplus | Total<br>unitholders'<br>equity | Total net<br>assets |
|  |                         | Reserve for<br>advanced<br>depreciation of<br>non-current<br>assets | Retained<br>earnings |             |               |                                 |                     |
| <i>(Thousands of yen)</i>                                    |                         |   |                      |             |               |                                 |                     |
| Balance as of<br>June 30, 2016                               | 1,264,450               | 134,434,701   | 260,476              | 3,113,717   | 3,374,193     | 137,808,895                     | 137,808,895         |
| Changes during<br>the fiscal period:                         |                         |   |                      |             |               |                                 |                     |
| Issuance of<br>new units                                     | 41,250                  | 5,538,183   | —                    | —           | —             | 5,538,183                       | 5,538,183           |
| Distributions from<br>retained earnings                      | —                       | —   | —                    | (3,113,075) | (3,113,075)   | (3,113,075)                     | (3,113,075)         |
| Net income   | —                       | —   | —                    | 3,406,339   | 3,406,339     | 3,406,339                       | 3,406,339           |
| Total changes<br>during the fiscal<br>period                 | 41,250                  | 5,538,183   | —                    | 293,264     | 293,264       | 5,831,447                       | 5,831,447           |
| Balance as of<br>December 31, 2016                           | 1,305,700               | 139,972,885   | 260,476              | 3,406,981   | 3,667,457     | 143,640,343                     | 143,640,343         |

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

# Japan Excellent, Inc.

## Statements of Cash Flows

For the periods from January 1, 2017 to June 30, 2017  
and from July 1, 2016 to December 31, 2016

|  | For the period<br>from January 1, 2017<br>to June 30, 2017 | For the period<br>from July 1, 2016<br>to December 31, 2016 |
|--|--|---|
|  | <i>(Thousands of yen)</i>                                  |   |
| <b>Cash flows from operating activities</b>                    |  |   |
| Income before income taxes                                     | 3,460,399  | 3,407,130   |
| Depreciation and amortization                                  | 1,967,549  | 1,956,920   |
| Amortization of investment corporation bond issuance costs     | 13,554   | 13,592  |
| New unit issuance costs  | —  | 13,965  |
| Interest income  | (98)   | (158)   |
| Interest expense   | 561,449  | 634,884   |
| Decrease (increase) in rental receivables                      | 73,336   | 93,587  |
| Decrease (increase) in consumption taxes refundable            | 58,187   | (58,187)  |
| Decrease (increase) in prepaid expense                         | (7,422)  | (53,299)  |
| Increase (decrease) in accounts payable – trade                | 124,373  | 75,659  |
| Increase (decrease) in accounts payable – other                | 5,780  | 17,248  |
| Increase (decrease) in unpaid consumption taxes                | 289,887  | (98,318)  |
| Increase (decrease) in advances received                       | 7,744  | (6,394)   |
| Decrease (increase) in long-term prepaid expenses              | 76,246   | 34,713  |
| Other, net   | (2,806)  | (39,653)  |
| Subtotal   | 6,628,182  | 5,991,692   |
| Interest received  | 98   | 158   |
| Interest paid  | (610,586)  | (639,938)   |
| Income taxes paid  | (779)  | (546)   |
| Net cash provided by operating activities                      | 6,016,915  | 5,351,365   |
| <b>Cash flows from investing activities</b>                    |  |   |
| Purchases of property and equipment                            | (102,514)  | (8,933)   |
| Purchases of property and equipment for trust accounts         | (909,906)  | (12,513,882)  |
| Proceeds from security deposits from tenants                   | 13,393   | 6,369   |
| Payments for security deposits to tenants                      | (23,387)   | (13,607)  |
| Proceeds from security deposits in trust accounts from tenants | 628,846  | 680,893   |
| Payments for security deposits in trust accounts to tenants    | (89,501)   | (143,788)   |
| Net cash used in investing activities                          | (483,068)  | (11,992,949)  |
| <b>Cash flows from financing activities</b>                    |  |   |
| Proceeds from short-term loans                                 | —  | 14,500,000  |
| Repayment for short-term loans                                 | (1,000,000)  | (14,500,000)  |
| Proceeds from long-term debt                                   | 12,000,000   | 10,760,000  |
| Repayment for long-term debt                                   | (18,000,000)   | (3,760,000)   |
| Proceeds from issuance of investment corporation bonds         | 6,959,000  | 3,969,500   |
| Payments for redemption of investment corporation bonds        | —  | (5,000,000)   |
| Proceeds from issuance of investment units                     | —  | 5,506,766   |
| Distributions to unitholders                                   | (3,407,199)  | (3,112,259)   |
| Net cash provided by (used in) financing activities            | (3,448,199)  | 8,364,006   |
| Net increase (decrease) in cash and cash equivalents           | 2,085,647  | 1,722,422   |
| Cash and cash equivalents at beginning of period               | 20,096,382   | 18,373,960  |
| Cash and cash equivalents at end of period <i>(Note 4)</i>     | 22,182,030   | 20,096,382  |

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

# Japan Excellent, Inc.

## Notes to Financial Statements

For the periods from January 1, 2017 to June 30, 2017  
and from July 1, 2016 to December 31, 2016

### **1. Organization**

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

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

JEI was listed on the Tokyo Stock Exchange on June 27, 2006. As of June 30, 2017, JEI held 31 properties with 362,291.56 square meters of total leasable space and had leases with 242 tenants excluding residential tenants.

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

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

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

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

**3. Summary of Significant Accounting Policies**

***Cash and cash equivalents***

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

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

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

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

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

***Deferred assets***

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

***Income taxes***

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

***Consumption taxes***

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

***Property-related taxes***

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

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

JEI capitalizes the property-related taxes allocated to the sellers of properties to JEI at the time of acquisition of such properties including trust accounts. The capitalized amount for the period from July 1, 2016 to December 31, 2016 was ¥27,726 thousand. No property-related taxes were capitalized for the period from January 1, 2017 to June 30, 2017.

#### *Revenue recognition*

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

#### *Derivatives and hedge accounting*

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

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

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

#### *Properties in trust accounts*

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

### 4. Cash and Cash Equivalents

Cash and cash equivalents including trust accounts in the accompanying balance sheets and cash and cash equivalents in the accompanying statements of cash flows at June 30, 2017 and December 31, 2016 consisted of the following:

|  | <u>As of</u><br><u>June 30, 2017</u> | <u>As of</u><br><u>December 31, 2016</u> |
|--|--------------------------------------|--|
|  | <i>(Thousands of yen)</i>            |  |
| Cash and cash deposits                             | 5,373,222                            | 3,790,935                                |
| Cash and deposits in trust                         | 16,808,808                           | 16,305,446                               |
| Cash and cash equivalents including trust accounts | <u>22,182,030</u>                    | <u>20,096,382</u>                        |



## 5. Financial Instruments

**For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016**

### *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 81.3% of existing borrowings being covered by a fixed interest rate swap for the entire maturity as of June 30, 2017. To reduce credit risk, derivative transactions (interest-rate swaps) are entered into exclusively with counterparties that are financial institutions with high credit ratings. For hedging accounting methods, hedging instruments, hedged items, hedging policies and methods for evaluation of the effectiveness of hedging activities, see "Derivatives and hedge accounting" under Summary of Significant Accounting Policies.

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

Borrowings and investment corporation bonds are exposed to liquidity risk. This risk is reduced through diversification of maturity dates and funding sources, and arrangement of commitment line agreements (as described in Note 8, "Short-Term Loans and Long-Term Debt," there is no balance outstanding under the facility agreements as of June 30, 2017). Liquidity risk is also mitigated through the constant management of liquidity on hand.

## 5. Financial Instruments (continued)

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

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

#### *Fair value of financial instruments*

The following are carrying values and fair values as of June 30, 2017 and December 31, 2016 of financial instruments and the differences between them. When fair value is extremely difficult to ascertain, it is excluded from the following table (Note B).

|   | As of June 30, 2017       |                     |                  | As of December 31, 2016 |                     |                  |
|---|---------------------------|---------------------|------------------|-------------------------|---------------------|------------------|
|   | Carrying value            | Fair value (Note A) | Difference       | Carrying value          | Fair value (Note A) | Difference       |
|   | <i>(Thousands of yen)</i> |                     |                  |                         |                     |                  |
| (1) Cash and cash deposits                                    | 5,373,222                 | 5,373,222           | —                | 3,790,935               | 3,790,935           | —                |
| (2) Cash and deposits in trust                                | 16,808,808                | 16,808,808          | —                | 16,305,446              | 16,305,446          | —                |
| Total assets  | <u>22,182,030</u>         | <u>22,182,030</u>   | <u>—</u>         | <u>20,096,382</u>       | <u>20,096,382</u>   | <u>—</u>         |
| (3) Short-term loans (Note C)                                 | —                         | —                   | —                | 1,000,000               | 1,000,000           | —                |
| (4) Investment corporation bonds due within one year (Note C) | —                         | —                   | —                | —                       | —                   | —                |
| (5) Long-term debt due within one year (Note C)               | 26,000,000                | 26,171,999          | 171,999          | 24,000,000              | 24,207,439          | 207,439          |
| (6) Investment corporation bonds (Note C)                     | 36,000,000                | 36,436,630          | 436,630          | 29,000,000              | 29,596,890          | 596,890          |
| (7) Long-term debt (Note C)                                   | 75,900,000                | 76,886,676          | 986,676          | 83,900,000              | 85,175,932          | 1,275,932        |
| Total liabilities   | <u>137,900,000</u>        | <u>139,495,305</u>  | <u>1,595,305</u> | <u>137,900,000</u>      | <u>139,980,262</u>  | <u>2,080,262</u> |
| (8) Derivative transactions *                                 | —                         | —                   | —                | —                       | —                   | —                |

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

(Note A)

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

#### Assets

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

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

#### Liabilities

- (3) Short-term loans

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

## 5. Financial Instruments (continued)

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

(7) Long-term debt

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

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

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

(4) Investment corporation bonds due within one year and

(6) Investment corporation bonds

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

(8) Derivative transactions

Please refer to Note 15, "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><br><b>June 30, 2017</b> | <b>As of</b><br><b>December 31, 2016</b> |
|--|--------------------------------------|--|
|  | <i>(Thousands of yen)</i>            |  |
| ① Security deposits from tenants*                    | 723,098                              | 733,092                                  |
| ② Security deposits from tenants for trust accounts* | 12,448,681                           | 11,909,335                               |

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

## 5. Financial Instruments (continued)

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

| <b>As of June 30, 2017</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         | 5,373,222         | —            | —            | —            | —            | —        |
| Cash and deposits in trust     | 16,808,808        | —            | —            | —            | —            | —        |
| Total                          | <u>22,182,030</u> | <u>—</u>     | <u>—</u>     | <u>—</u>     | <u>—</u>     | <u>—</u> |
| <b>As of December 31, 2016</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         | 3,790,935         | —            | —            | —            | —            | —        |
| Cash and deposits in trust     | 16,305,446        | —            | —            | —            | —            | —        |
| Total                          | <u>20,096,382</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 June 30, 2017</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                                 | —                 | —                 | —                 | —                | —                 | —                 |
| Investment corporation bonds due within one year | —                 | —                 | —                 | —                | —                 | —                 |
| Long-term debt due within one year               | 26,000,000        | —                 | —                 | —                | —                 | —                 |
| Investment corporation bonds                     | —                 | 12,000,000        | —                 | —                | —                 | 24,000,000        |
| Long-term debt                                   | —                 | 16,500,000        | 22,600,000        | 4,000,000        | 14,510,000        | 18,290,000        |
| Total  | <u>26,000,000</u> | <u>28,500,000</u> | <u>22,600,000</u> | <u>4,000,000</u> | <u>14,510,000</u> | <u>42,290,000</u> |
| <b>As of December 31, 2016</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                                 | 1,000,000         | —                 | —                 | —                | —                 | —                 |
| Investment corporation bonds due within one year | —                 | —                 | —                 | —                | —                 | —                 |
| Long-term debt due within one year               | 24,000,000        | —                 | —                 | —                | —                 | —                 |
| Investment corporation bonds                     | —                 | 7,000,000         | 5,000,000         | —                | —                 | 17,000,000        |
| Long-term debt                                   | —                 | 23,750,000        | 17,750,000        | 8,600,000        | 13,510,000        | 20,290,000        |
| Total  | <u>25,000,000</u> | <u>30,750,000</u> | <u>22,750,000</u> | <u>8,600,000</u> | <u>13,510,000</u> | <u>37,290,000</u> |

## 6. Investment and Rental Property

**For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016**

JEI owns rental office buildings and other properties in Tokyo and other regions for the purpose of generating rental income. The following is the carrying value and fair value as of June 30, 2017 and December 31, 2016 for such real estate for lease.

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

  

| Carrying value            |                              |                            | Fair value                 |
|---------------------------|------------------------------|----------------------------|----------------------------|
| As of<br>July 1, 2016     | Change during period<br>(*2) | As of<br>December 31, 2016 | As of<br>December 31, 2016 |
| <i>(Thousands of yen)</i> |                              |                            |                            |
| 263,249,595               | 10,708,624                   | 273,958,219                | 286,880,000                |

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

B) Details of change during period:

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

(\*2) The increase of ¥10,708,624 thousand during the period is mainly due to an increase of ¥11,514,768 thousand related to the acquisition of Mansarde Daikanyama Building offset by a decrease of ¥1,956,895 thousand for depreciation costs.

C) Fair value

Fair value as of June 30, 2017 and December 31, 2016 is appraisal value provided by third-party real estate appraisers.

## 7. Property and Equipment

Property and equipment at June 30, 2017 and December 31, 2016 consisted of the following:

|  | As of June 30, 2017       |                          |                    | As of December 31, 2016 |                          |                    |
|--|---------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|
|  | Acquisition cost          | Accumulated depreciation | Net book value     | Acquisition cost        | Accumulated depreciation | Net book value     |
|  | <i>(Thousands of yen)</i> |                          |                    |                         |                          |                    |
| Buildings and building improvements                    | 5,922,283                 | (1,253,386)              | 4,668,896          | 5,849,052               | (1,165,549)              | 4,683,503          |
| Machinery and equipment                                | 6,253                     | (2,255)                  | 3,998              | 6,253                   | (1,973)                  | 4,279              |
| Furniture and fixtures                                 | 12,270                    | (5,035)                  | 7,234              | 12,270                  | (4,384)                  | 7,885              |
| Land   | 3,032,788                 | —                        | 3,032,788          | 3,032,788               | —                        | 3,032,788          |
| Construction in progress                               | 12,606                    | —                        | 12,606             | 3,812                   | —                        | 3,812              |
| Buildings and building improvements for trust accounts | 121,130,825               | (26,126,326)             | 95,004,498         | 120,173,335             | (24,284,695)             | 95,888,639         |
| Machinery and equipment for trust accounts             | 797,332                   | (375,536)                | 421,796            | 772,751                 | (346,901)                | 425,850            |
| Furniture and fixtures for trust accounts              | 194,343                   | (114,567)                | 79,775             | 193,087                 | (106,209)                | 86,878             |
| Land for trust accounts                                | 160,660,425               | —                        | 160,660,425        | 160,660,425             | —                        | 160,660,425        |
| Construction in progress for trust accounts            | 139,031                   | —                        | 139,031            | 55,969                  | —                        | 55,969             |
| Total  | <u>291,908,160</u>        | <u>(27,877,107)</u>      | <u>264,031,052</u> | <u>290,759,747</u>      | <u>(25,909,714)</u>      | <u>264,850,033</u> |

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

Short-term loans and long-term debt as of June 30, 2017 and December 31, 2016 consisted of the following:

|   | As of June 30, 2017       |                                     | As of December 31, 2016   |                                     |
|---|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
|   | Amount                    | Weighted-average interest rate (*1) | Amount                    | Weighted-average interest rate (*1) |
|   | <i>(Thousands of yen)</i> |                                     | <i>(Thousands of yen)</i> |                                     |
| Short-term loans:   |                           |                                     |                           |                                     |
| Unsecured loans from a bank due on September 29, 2017 (*2)        | —                         | —                                   | 1,000,000                 | 0.23000%                            |
| Subtotal  | —                         | —                                   | <u>1,000,000</u>          |                                     |
| Long-term debt due within one year:                               |                           |                                     |                           |                                     |
| Unsecured loans from banks due on January 31, 2017                | —                         | —                                   | 5,000,000                 | 1.24750% (*3)                       |
| Unsecured loans from banks due on January 31, 2017                | —                         | —                                   | 4,000,000                 | 1.03000% (*3)                       |
| Unsecured loans from insurance companies due on January 31, 2017  | —                         | —                                   | 3,000,000                 | 1.09734% (*3)                       |
| Unsecured loans from a bank due on November 30, 2017              | 6,000,000                 | 1.738750% (*3)                      | 6,000,000                 | 1.73875% (*3)                       |
| Unsecured loans from banks due on November 30, 2017               | 3,000,000                 | 1.083750% (*3)                      | 3,000,000                 | 1.08375% (*3)                       |
| Unsecured loans from banks due on November 30, 2017               | 2,000,000                 | 1.045500% (*3)                      | 2,000,000                 | 1.04550% (*3)                       |
| Unsecured loans from insurance companies due on November 30, 2017 | 1,000,000                 | 1.192120% (*3)                      | 1,000,000                 | 1.19212% (*3)                       |
| Unsecured loans from an insurance company due on June 29, 2018    | 3,000,000                 | 1.651250% (*3)                      | —                         | —                                   |
| Unsecured loans from banks due on June 30, 2018                   | <u>11,000,000</u>         | 0.812250% (*3)                      | <u>—</u>                  | —                                   |
| Subtotal  | <u>26,000,000</u>         |                                     | <u>24,000,000</u>         |                                     |

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

### Long-term debt:

|   |                    |               |                    |               |
|---|--------------------|---------------|--------------------|---------------|
| Unsecured loans from banks due on May 29, 2018<br>(*2)                | —                  | —             | 6,000,000          | 0.23000%      |
| Unsecured loans from an insurance company due on<br>June 29, 2018     | —                  | —             | 3,000,000          | 1.65125% (*3) |
| Unsecured loans from banks due on June 30, 2018                       | —                  | —             | 11,000,000         | 0.81225% (*3) |
| Unsecured loans from banks due on July 31, 2018                       | 9,000,000          | 0.21000%      | —                  | —             |
| Unsecured loans from banks due on November 1, 2018                    | 3,750,000          | 0.74500% (*3) | 3,750,000          | 0.74500% (*3) |
| Unsecured loans from banks due on March 8, 2019                       | 3,750,000          | 0.77500% (*3) | 3,750,000          | 0.77500% (*3) |
| Unsecured loans from an insurance company due on<br>December 12, 2019 | 1,000,000          | 0.25000% (*3) | 1,000,000          | 0.25000% (*3) |
| Unsecured loans from banks due on December 30, 2019                   | 13,000,000         | 0.28000%      | 13,000,000         | 0.28120%      |
| Unsecured loans from a bank due on January 31, 2020                   | 2,000,000          | 1.60000% (*3) | 2,000,000          | 1.60000% (*3) |
| Unsecured loans from banks due on January 31, 2020                    | 2,600,000          | 1.36400% (*3) | 2,600,000          | 1.36400% (*3) |
| Unsecured loans from an insurance company due on<br>January 31, 2020  | 1,000,000          | 1.31261% (*3) | 1,000,000          | 1.31261% (*3) |
| Unsecured loans from banks due on January 31, 2020                    | 3,000,000          | 1.00000% (*3) | 3,000,000          | 1.00000% (*3) |
| Unsecured loans from a bank due on June 30, 2021                      | 2,000,000          | 1.60750% (*3) | 2,000,000          | 1.60750% (*3) |
| Unsecured loans from an insurance company due on<br>June 30, 2021     | 2,000,000          | 0.98834% (*3) | 2,000,000          | 0.98834% (*3) |
| Unsecured loans from banks due on November 29, 2021                   | 3,760,000          | 0.40727%      | 3,760,000          | 0.40727%      |
| Unsecured loans from banks due on December 30, 2021                   | 5,750,000          | 0.81875% (*3) | 5,750,000          | 0.81875% (*3) |
| Unsecured loans from insurance companies due on<br>January 31, 2022   | 3,000,000          | 0.35000% (*3) | —                  | —             |
| Unsecured loans from a bank due on June 30, 2022                      | 2,000,000          | 1.15417% (*3) | 2,000,000          | 1.15417% (*3) |
| Unsecured loans from banks due on December 30, 2022                   | 5,750,000          | 0.93625% (*3) | 5,750,000          | 0.93625% (*3) |
| Unsecured loans from a bank due on June 30, 2023                      | 2,000,000          | 1.20250% (*3) | 2,000,000          | 1.20250% (*3) |
| Unsecured loans from banks due on November 30, 2023                   | 5,270,000          | 0.84375% (*3) | 5,270,000          | 0.84375% (*3) |
| Unsecured loans from banks due on November 30, 2024                   | <u>5,270,000</u>   | 0.96275% (*3) | <u>5,270,000</u>   | 0.96275% (*3) |
| Subtotal  | <u>75,900,000</u>  |               | <u>83,900,000</u>  |               |
| Total   | <u>101,900,000</u> |               | <u>108,900,000</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) JEI made a partial early repayment of this borrowing on April 28, 2017.

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

The scheduled repayment amounts of long-term debt as of June 30, 2017 are as follows:

|                | 1 year or less            | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Over 5 years |
|----------------|---------------------------|--------------|--------------|--------------|--------------|--------------|
|                | <i>(Thousands of yen)</i> |              |              |              |              |              |
| Long-term debt | 26,000,000                | 16,500,000   | 22,600,000   | 4,000,000    | 14,510,000   | 18,290,000   |

JEI has commitment lines of ¥14,000,000 thousand with three financial institutions to mitigate refinancing risk and enhance financial stability. As of June 30, 2017, these commitment lines have never been utilized.

## 9. Investment Corporation Bonds

Details of total investment corporation bonds outstanding as of June 30, 2017 and December 31, 2016 are summarized as follows:

|  | As of June 30, 2017          |                                   | As of December 31, 2016      |                                   |
|--|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
|  | Amount<br>(Thousands of yen) | Weighted-average<br>interest rate | Amount<br>(Thousands of yen) | Weighted-average<br>interest rate |
| Unsecured bond #4<br>due on November 2, 2018   | 2,000,000                    | 1.40000%                          | 2,000,000                    | 1.40000%                          |
| Unsecured bond #5<br>due on November 2, 2018   | 5,000,000                    | 0.46000%                          | 5,000,000                    | 0.46000%                          |
| Unsecured bond #6<br>due on March 11, 2019     | 5,000,000                    | 0.46000%                          | 5,000,000                    | 0.46000%                          |
| Unsecured bond #7<br>due on March 11, 2024     | 8,000,000                    | 1.13000%                          | 8,000,000                    | 1.13000%                          |
| Unsecured bond #8<br>due on September 9, 2025  | 5,000,000                    | 1.03000%                          | 5,000,000                    | 1.03000%                          |
| Unsecured bond #9<br>due on October 27, 2026   | 2,000,000                    | 0.45000%                          | 2,000,000                    | 0.45000%                          |
| Unsecured bond #10<br>due on December 20, 2023 | 2,000,000                    | 0.39000%                          | 2,000,000                    | 0.39000%                          |
| Unsecured bond #11<br>due on April 23, 2027    | 7,000,000                    | 0.65000%                          | —                            | —                                 |
| Total  | <u>36,000,000</u>            |                                   | <u>29,000,000</u>            |                                   |

The scheduled redemption amounts of investment corporation bonds as of June 30, 2017 are as follows:

|                              | 1 year or less     | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Over 5 years |
|------------------------------|--------------------|--------------|--------------|--------------|--------------|--------------|
|                              | (Thousands of yen) |              |              |              |              |              |
| Investment corporation bonds | —                  | 12,000,000   | —            | —            | —            | 24,000,000   |

## 10. Net Assets

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

## 11. Per Unit Information

Net assets per unit as of June 30, 2017 and December 31, 2016 were calculated based on the number of units outstanding as of each date, (1,305,700 units) and (1,305,700 units), respectively.

Net income per unit for the periods from January 1, 2017 to June 30, 2017 and July 1, 2016 to December 31, 2016 was calculated based on the weighted-average number of units outstanding during the corresponding periods, (1,305,700 units) and (1,302,847 units), respectively.

Accordingly, net assets per unit were ¥110,050 as of June 30, 2017 and ¥110,010 as of December 31, 2016. Net income per unit was ¥2,649 for the period from January 1, 2017 to June 30, 2017 and ¥2,614 for the period from July 1, 2016 to December 31, 2016.



## 12. Income Taxes

JEI is subject to income taxes in Japan.

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

Details of significant components of deferred tax assets and liabilities as of June 30, 2017 and December 31, 2016 are summarized as follows:

|                           | <b>As of June 30,<br/>2017</b> | <b>As of December 31,<br/>2016</b> |
|---------------------------|--------------------------------|------------------------------------|
|                           | <i>(Thousands of yen)</i>      |                                    |
| Deferred tax assets:      |                                |                                    |
| Accrued enterprise taxes  | 4                              | 8                                  |
| Total deferred tax assets | <u>4</u>                       | <u>8</u>                           |
| Net deferred tax assets   | <u><u>4</u></u>                | <u><u>8</u></u>                    |

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016 is as follows:

|                               | <b>For the period<br/>from January 1, 2017<br/>to June 30, 2017</b> | <b>For the period<br/>from July 1, 2016<br/>to December 31, 2016</b> |
|-------------------------------|---|--|
| Statutory tax rate            | 31.74%  | 31.74%   |
| Reconciliation:               |   |  |
| Deductible distributions paid | (31.74)   | (31.73)  |
| Other                         | 0.02  | 0.02   |
| Effective tax rate            | <u><u>0.02%</u></u>   | <u><u>0.02%</u></u>  |

### 13. Breakdown of Revenues and Expenses

|                                    | <b>For the period<br/>from January 1, 2017<br/>to June 30, 2017</b> | <b>For the period<br/>from July 1, 2016<br/>to December 31, 2016</b> |
|------------------------------------|---|--|
|                                    | <i>(Thousands of yen)</i>   |  |
| Revenues:                          |   |  |
| Rental business revenues           |   |  |
| Rental revenues                    | 8,044,157   | 7,969,256  |
| Common area revenues               | 1,447,214   | 1,459,895  |
| Other rental revenues              | 268,805   | 272,872  |
| Subtotal                           | <u>9,760,176</u>  | <u>9,702,024</u>   |
| Other                              |   |  |
| Utilities revenues                 | 758,214   | 838,617  |
| Other revenues                     | 124,276   | 112,444  |
| Subtotal                           | <u>882,490</u>  | <u>951,062</u>   |
| Total rental revenues              | <u>10,642,667</u>   | <u>10,653,086</u>  |
| Property operating expenses:       |   |  |
| Property management costs and fees | 1,477,096   | 1,422,920  |
| Utilities expenses                 | 1,004,220   | 1,064,241  |
| Property and other taxes           | 915,948   | 891,506  |
| Insurance                          | 25,047  | 25,281   |
| Repairs and maintenance            | 271,949   | 267,395  |
| Depreciation                       | 1,967,524   | 1,956,895  |
| Other                              | 229,197   | 220,903  |
| Total property operating expenses  | <u>5,890,983</u>  | <u>5,849,144</u>   |
| Profit                             | <u>4,751,684</u>  | <u>4,803,941</u>   |

### 14. Leases

JEI leases properties on which rental revenues are earned. At June 30, 2017 and December 31, 2016, future lease revenues under non-cancelable operating leases are summarized as follows:

|                     | <b>As of June 30,<br/>2017</b> | <b>As of December 31,<br/>2016</b> |
|---------------------|--------------------------------|------------------------------------|
|                     | <i>(Thousands of yen)</i>      |                                    |
| Due within one year | 600,494                        | 845,244                            |
| Due after one year  | 780,089                        | 899,010                            |
| Total               | <u>1,380,583</u>               | <u>1,744,254</u>                   |

## 15. Derivative Transactions

### Derivative Transactions as of June 30, 2017

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

Not applicable.

(2) Transactions to which hedge accounting is applied:

The following are the contract values or values corresponding to the principal amount as stipulated by contracts as of June 30, 2017 for each hedge accounting method applied.

| Hedge accounting method                  | Type of derivative transaction                       | Hedged item    | Contract amount |                    | Fair value | Method of calculating the fair value |
|--|--|----------------|-----------------|--------------------|------------|--------------------------------------|
|  |  |                |                 | More than one year |            |                                      |
| <i>(Thousands of yen)</i>                |  |                |                 |                    |            |                                      |
| Special treatment of interest-rate swaps | Interest-rate swap<br>Receive floating,<br>pay fixed | Long-term debt | 51,140,000      | 35,140,000         | *          |                                      |

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

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

### Derivative Transactions as of December 31, 2016

(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, 2016 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<br>Receive floating,<br>pay fixed | Long-term debt | 60,140,000      | 46,140,000         | *          |                                      |

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

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

## 16. Related Party Transactions

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

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

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

**For the period from July 1, 2016 to December 31, 2016**

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

| Name           | Description of transaction               | Amount             | Account          | Balance at the end of period |
|----------------|--|--------------------|------------------|------------------------------|
|                |  | (Thousands of yen) |                  | (Thousands of yen)           |
| Hidehiko Ogawa | Payment of asset management fees to JEAM | 442,497            | Accounts payable | 360,428                      |

## 17. Segment Information

**For the periods from January 1, 2017 to June 30, 2017 and from July 1, 2016 to December 31, 2016**

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.

## **17. Segment Information (continued)**

### ***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.

## **18. 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 ¥3,406,105,000, which is the maximum integral multiple of the 1,305,700 units issued, but not exceeding ¥3,460,111,693, which is the amount of retained earnings at June 30, 2017. No cash distribution exceeding the income amount set forth in Section 33.1.4 of the bylaws of JEI shall be made.

On August 17, 2017, the Board of Directors approved a resolution to make a cash distribution of ¥2,650 per unit aggregating to ¥3,460,105,000 to unitholders of record as of June 30, 2017.

## **19. Significant Subsequent Event**

Not applicable.