

Financial Section

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Selected Financial Data

	Millions of yen				
	For the period from October 1, 2016 to March 31, 2017	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2015 to March 31, 2016	For the period from April 1, 2015 to September 30, 2015	For the period from October 1, 2014 to March 31, 2015
Operating revenues	30,818	30,773	30,589	29,980	28,314
Operating expenses	18,251	18,405	18,237	17,926	17,071
Operating profit	12,567	12,368	12,352	12,054	11,243
Ordinary profit	11,197	10,958	10,816	10,487	9,625
Profit before income taxes	11,197	10,958	10,816	10,487	9,625
Profit	11,186	10,947	10,753	10,476	9,619
Total assets	898,306	883,633	890,626	899,938	852,679
Interest-bearing debt	369,000	356,350	363,400	373,450	361,000
Net assets	469,598	469,359	469,044	468,767	436,671
Unitholders' capital	458,016	458,016	458,016	458,016	426,783
Number of units	1,309,310	1,309,310	1,309,310	1,309,310	1,251,530
Net assets per unit (Yen)	358,661	358,478	358,238	358,026	348,909
Cash distribution	11,186	10,947	10,632	10,475	9,613
Dividend payout ratio	100.0%	99.9%	98.8%	99.9%	99.9%
Dividend per unit (Yen)	8,544	8,361	8,121	8,001	7,681
Net operating income (NOI)	20,372	20,182	19,973	19,670	18,412
Funds from operations (FFO)	17,679	17,447	17,079	16,808	15,629
Return on assets (ROA) (Note 1)	1.3% (2.5% annualized)	1.2% (2.5% annualized)	1.2% (2.4% annualized)	1.2% (2.4% annualized)	1.2% (2.3% annualized)
Return on equity (ROE) (Note 2)	2.4% (4.8% annualized)	2.3% (4.7% annualized)	2.3% (4.6% annualized)	2.2% (4.5% annualized)	2.2% (4.4% annualized)
EOP equity ratio (Note 3)	52.3%	53.1%	52.7%	52.1%	51.2%
EOP interest-bearing debt ratio on total assets (Note 4)	41.1%	40.3%	40.8%	41.5%	42.3%
FFO multiple (Times)	21.8	22.8	25.0	21.5	22.6
Debt service coverage ratio (Times) (Note 5)	14.3	13.5	12.5	12.1	10.8

Notes: 1. ROA = Ordinary profit ÷ Average of Total assets during the period

2. ROE = Profit ÷ Average of Net assets during the period

(Annualized portion of the calculation given in Note 1 and Note 2 assumes a fiscal period of 182 days for the period ended March 31, 2015, 183 days for the period ended September 30, 2015, 183 days for the period ended March 31, 2016, 183 days for the period ended September 30, 2016 and 182 days for the period ended March 31, 2017.)

3. EOP equity ratio = (Net assets at the end of period ÷ Total assets at the end of period) × 100

4. EOP interest-bearing debt ratio on total assets = (Interest-bearing debt at the end of period ÷ Total assets at the end of period) × 100

5. Debt service coverage ratio = Profit before Interest, Taxes, Depreciation and Amortization ÷ Interest expenses

Balance Sheets

As of September 30, 2016 and March 31, 2017

	Thousands of yen	
	As of September 30, 2016	As of March 31, 2017
ASSETS		
Current assets		
Cash and deposits	16,231,988	15,709,586
Cash and deposits in trust	6,314,725	5,605,731
Operating accounts receivable	279,659	248,403
Prepaid expenses	397,720	367,001
Deferred tax assets	943	914
Consumption taxes receivable	—	30,946
Other	38,508	25,716
Total current assets	23,263,545	21,988,301
Non-current assets		
Property, plant and equipment		
Buildings	267,181,629	265,124,117
Accumulated depreciation	(83,477,470)	(87,142,205)
Buildings, net	183,704,158	177,981,912
Structures	3,247,865	3,129,120
Accumulated depreciation	(754,986)	(786,272)
Structures, net	2,492,879	2,342,847
Machinery and equipment	2,992,615	3,074,681
Accumulated depreciation	(1,880,589)	(1,960,979)
Machinery and equipment, net	1,112,026	1,113,701
Tools, furniture and fixtures	396,617	426,995
Accumulated depreciation	(232,002)	(252,624)
Tools, furniture and fixtures, net	164,615	174,371
Land	450,384,924	434,837,910
Construction in progress	2,250	6,087
Buildings in trust	77,750,199	87,708,942
Accumulated depreciation	(18,994,417)	(21,031,700)
Buildings in trust, net	58,755,782	66,677,241
Structures in trust	651,869	836,762
Accumulated depreciation	(168,192)	(206,985)
Structures in trust, net	483,677	629,777
Machinery and equipment in trust	948,336	993,657
Accumulated depreciation	(665,333)	(691,097)
Machinery and equipment in trust, net	283,002	302,560
Tools, furniture and fixtures in trust	48,182	54,191
Accumulated depreciation	(19,071)	(22,677)
Tools, furniture and fixtures in trust, net	29,110	31,513
Land in trust	151,935,120	181,425,424
Construction in progress in trust	2,299	1,020
Total property, plant and equipment	849,349,846	865,524,368
Intangible assets		
Leasehold rights	6,035,634	5,738,365
Leasehold rights in trust	444,160	444,160
Easement	828,095	828,095
Other	14,280	12,750
Total intangible assets	7,322,170	7,023,371
Investments and other assets		
Investment securities	577,168	577,168
Lease and guarantee deposits	1,573,421	1,573,634
Long-term prepaid expenses	600,787	613,924
Other	925,004	979,840
Total investments and other assets	3,676,381	3,744,567
Total non-current assets	860,348,399	876,292,308
Deferred assets		
Investment corporation bond issuance costs	21,160	26,150
Total deferred assets	21,160	26,150
Total Assets	883,633,105	898,306,760

	Thousands of yen	
	As of September 30, 2016	As of March 31, 2017
LIABILITIES		
Current liabilities		
Operating accounts payable	1,748,290	2,853,804
Short-term loans payable	45,700,000	36,000,000
Current portion of long-term loans payable	42,850,000	46,500,000
Accounts payable - other	1,290,343	1,481,266
Accrued expenses	578,332	564,649
Income taxes payable	9,740	10,997
Accrued consumption taxes	528,639	—
Advances received	3,500,462	3,329,302
Other	32,091	8,908
Total current liabilities	96,237,899	90,748,928
Non-current liabilities		
Investment corporation bonds	20,000,000	30,000,000
Long-term loans payable	247,800,000	256,500,000
Deposits received from tenants	49,727,428	50,950,892
Deferred tax liabilities	167,188	167,156
Asset retirement obligations	328,602	331,913
Other	12,659	8,952
Total non-current liabilities	318,035,880	337,958,915
Total Liabilities	414,273,779	428,707,843
NET ASSETS		
Unitholders' equity		
Unitholders' capital	458,016,096	458,016,096
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	363,469	363,400
Total voluntary retained earnings	363,469	363,400
Unappropriated retained earnings	10,979,760	11,219,420
Total surplus	11,343,229	11,582,820
Total unitholders' equity	469,359,325	469,598,916
Total Net Assets	469,359,325	469,598,916
Total Liabilities and Net Assets	883,633,105	898,306,760

Statements of Income and Retained Earnings

For the six months ended September 30, 2016 and March 31, 2017

Thousands of yen

	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Operating revenues		
Rent revenues	30,565,884	30,726,244
Other lease business revenues	208,084	58,753
Gain on exchange of real estate properties	—	33,620
Total operating revenues	30,773,968	30,818,618
Operating expenses		
Expenses related to rent business	17,091,090	16,939,531
Asset management fee	964,815	960,233
Asset custody fee	59,880	60,214
Administrative service fees	154,031	126,883
Directors' compensations	7,800	7,800
Commission fee	64,875	70,356
Other operating expenses	62,639	86,353
Total operating expenses	18,405,132	18,251,373
Operating profit	12,368,836	12,567,245
Non-operating income		
Interest income	480	189
Dividend income	7,401	—
Reversal of distribution payable	2,855	4,210
Income on settlement of management association accounts	19,444	—
Other	0	—
Total non-operating income	30,181	4,399
Non-operating expenses		
Interest expenses	1,243,269	1,175,845
Interest expenses on investment corporation bonds	152,189	153,619
Amortization of investment corporation bond issuance costs	5,539	5,512
Other	39,212	38,927
Total non-operating expenses	1,440,211	1,373,904
Ordinary profit	10,958,806	11,197,739
Profit before income taxes	10,958,806	11,197,739
Income taxes – current	11,323	11,011
Income taxes – deferred	(2)	(3)
Total income taxes	11,321	11,008
Profit	10,947,485	11,186,731
Retained earnings brought forward	32,275	32,688
Unappropriated retained earnings	10,979,760	11,219,420

Statements of Changes in Unitholders' Equity

For the six months ended September 30, 2016 and March 31, 2017

For the period from April 1, 2016 to September 30, 2016

	Unitholders' equity						Thousands of yen
	Unitholders' capital	Surplus				Total unitholders' equity	Total net assets
		Voluntary retained earnings		Unappropriated retained earnings	Total surplus		
		Reserve for reduction entry	Total voluntary retained earnings				
Balance at beginning of current period	458,016,096	243,360	243,360	10,785,290	11,028,651	469,044,747	469,044,747
Changes of items during period							
Provision of reserve for reduction entry		120,108	120,108	(120,108)	—	—	—
Dividends of surplus				(10,632,906)	(10,632,906)	(10,632,906)	(10,632,906)
Profit				10,947,485	10,947,485	10,947,485	10,947,485
Total changes of items during period	—	120,108	120,108	194,469	314,578	314,578	314,578
Balance at end of current period	458,016,096	363,469	363,469	10,979,760	11,343,229	469,359,325	469,359,325

For the period from October 1, 2016 to March 31, 2017

	Unitholders' equity						Thousands of yen
	Unitholders' capital	Surplus				Total unitholders' equity	Total net assets
		Voluntary retained earnings		Unappropriated retained earnings	Total surplus		
		Reserve for reduction entry	Total voluntary retained earnings				
Balance at beginning of current period	458,016,096	363,469	363,469	10,979,760	11,343,229	469,359,325	469,359,325
Changes of items during period							
Reversal of reserve for reduction entry		(69)	(69)	69	—	—	—
Dividends of surplus				(10,947,140)	(10,947,140)	(10,947,140)	(10,947,140)
Profit				11,186,731	11,186,731	11,186,731	11,186,731
Total changes of items during period	—	(69)	(69)	239,660	239,590	239,590	239,590
Balance at end of current period	458,016,096	363,400	363,400	11,219,420	11,582,820	469,598,916	469,598,916

Statements of Cash Distributions

For the six months ended September 30, 2016 and March 31, 2017

Item	For the period	For the period
	from April 1, 2016 to September 30, 2016	from October 1, 2016 to March 31, 2017
	Amount (Yen)	Amount (Yen)
I Retained earnings	10,979,760,350	11,219,420,612
II Voluntary retained earnings		
Reversal of reserve for reduction entry	69,530	69,182
III Cash distribution	10,947,140,910	11,186,744,640
(Dividend per investment unit)	(8,361)	(8,544)
IV Retained earnings brought forward	32,688,970	32,745,154

Computation Method for Determining Dividends	<p>The Company will make cash distributions using accounting profits based on the cash distribution policy outlined in Article 32-1(2) of the Company's Articles of Incorporation, in an amount that exceeds 90% of the "amount of distributable profit" as set forth in Article 67-15 of the Special Taxation Measures Act. Based on this policy, the Company has decided that the total amount of dividends, which is set not to exceed the unappropriated retained earnings and also to secure retained earnings brought forward, is 10,947,140,910 yen for the period under review, which is a multiple of 1,309,310 — the number of units outstanding as of September 30, 2016. Furthermore, the Company does not pay out dividends that exceed accounting profits as outlined in Article 32-1(3) of the Company's Articles of Incorporation.</p>	<p>The Company will make cash distributions using accounting profits based on the cash distribution policy outlined in Article 32-1(2) of the Company's Articles of Incorporation, in an amount that exceeds 90% of the "amount of distributable profit" as set forth in Article 67-15 of the Special Taxation Measures Act. Based on this policy, the Company has decided that the total amount of dividends, which is set not to exceed the unappropriated retained earnings and also to secure retained earnings brought forward, is 11,186,744,640 yen for the period under review, which is a multiple of 1,309,310 — the number of units outstanding as of March 31, 2017. Furthermore, the Company does not pay out dividends that exceed accounting profits as outlined in Article 32-1(3) of the Company's Articles of Incorporation.</p>
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Statements of Cash Flows

For the six months ended September 30, 2016 and March 31, 2017

	Thousands of yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Cash flows from operating activities		
Profit before income taxes	10,958,806	11,197,739
Depreciation	6,501,082	6,528,096
Difference resulting from exchange of real estate properties	—	127,789
Amortization of investment corporation bond issuance costs	5,539	5,512
Dividend income	(7,401)	—
Interest income	(480)	(189)
Interest expenses	1,395,458	1,329,464
Decrease (increase) in operating accounts receivable	(78,017)	31,256
Decrease (increase) in consumption taxes refund receivable	—	(30,946)
Decrease (increase) in prepaid expenses	(72,832)	30,718
Increase (decrease) in operating accounts payable	228,507	90,746
Increase (decrease) in accounts payable – other	(55,105)	31,138
Increase (decrease) in accrued consumption taxes	(599,970)	(528,471)
Increase (decrease) in accrued expenses	(136)	136
Increase (decrease) in advances received	412,299	(171,159)
Decrease (increase) in long-term prepaid expenses	105,294	(13,137)
Other, net	(22,326)	(85,145)
Subtotal	18,770,716	18,543,549
Interest and dividend income received	7,867	93
Interest expenses paid	(1,486,087)	(1,343,284)
Income taxes paid	(12,418)	(9,754)
Net cash provided by (used in) operating activities	17,280,078	17,190,603
Cash flows from investing activities		
Payments into time deposits	(3,347,000)	—
Proceeds from withdrawal of time deposits	3,347,000	—
Purchase of property, plant and equipment	(1,803,437)	(10,375,364)
Purchase of property, plant and equipment in trust	(673,099)	(10,975,199)
Purchase of intangible assets	(17,762)	—
Payments for lease and guarantee deposits	—	(213)
Proceeds from collection of lease and guarantee deposits	220	—
Repayments of tenant leasehold and security deposits	(828,495)	(1,110,899)
Proceeds from tenant leasehold and security deposits	1,358,111	2,346,460
Net cash provided by (used in) investing activities	(1,964,462)	(20,115,215)
Cash flows from financing activities		
Proceeds from short-term loans payable	36,000,000	23,000,000
Repayments of short-term loans payable	(13,000,000)	(32,700,000)
Proceeds from long-term loans payable	—	26,700,000
Repayments of long-term loans payable	(30,050,000)	(14,350,000)
Proceeds from issuance of investment corporation bonds	—	10,000,000
Payments of investment corporation bond issuance costs	—	(10,503)
Dividends paid	(10,623,685)	(10,946,280)
Net cash provided by (used in) financing activities	(17,673,685)	1,693,216
Net increase (decrease) in cash and cash equivalents	(2,358,069)	(1,231,395)
Cash and cash equivalents at beginning of period	24,904,784	22,546,714
Cash and cash equivalents at end of period	22,546,714	21,315,318

Notes to Financial Statements

September 30, 2016 and March 31, 2017

1. Organization and Basis of Presentation

Organization

Japan Real Estate Investment Corporation (“the Company”) is a real estate investment corporation formed to own and invest primarily in a portfolio of office properties. The Company is externally managed by a licensed asset management company, Japan Real Estate Asset Management Co., Ltd. (“J-Rea”). J-Rea is currently owned 90% by Mitsubishi Estate Co., Ltd. (“MEC”) and 10% by Mitsui & Co., Ltd.

On May 11, 2001, the Company was incorporated with ¥200 million of original capital contribution by MEC, Tokio Marine & Nichido Fire Insurance Co., Ltd. and The Dai-ichi Life Insurance Company, Limited under the ITA.

On September 10, 2001, the Company commenced operations when the Company was listed on the Tokyo Stock Exchange as one of the first real estate investment corporations in Japan (“J-REITs”). The Company issued 160,000 units at a price of ¥506,625 per unit, generating gross proceeds of ¥81,060 million.

As of March 31, 2017, the Company owned a portfolio of 69 office properties with an aggregate of approximately 835,069 m² of leasable space.

Basis of presenting financial statements

The Company 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 ITA, the Japanese Financial Instruments and Exchange Law 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 audited financial statements of the Company, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of the Company filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan. In addition, the notes to financial statements include information that might not be required under Japanese GAAP but is presented herein as additional information.

As permitted under the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

Investment securities

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

Property and equipment, depreciation and impairment (except for leased assets)

Property and equipment is stated at cost, less accumulated depreciation. The cost of land, buildings and building improvements includes the purchase price of property and acquisition costs. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

Buildings	2–61 years
Structures	2–60 years
Machinery and equipment	2–18 years
Tools, furniture and fixtures	2–29 years

Expenditures for repairing expenses are charged to income as incurred. Significant renewals and betterments are capitalized.

The Company reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of its fixed assets may not be recoverable. According to the standard set by the Accounting Standards Board of Japan, companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (i) the fair market value of the asset, net of disposition costs, and (ii) the present value of future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

Intangible assets

Intangible assets primarily consist of leasehold rights and easement, which are stated at cost. Amortization of a term leasehold interest for business use is calculated by the straight-line method based on the period of agreement.

Leased assets

Leased assets under finance lease transactions that do not transfer ownership of the leased assets to the lessees are capitalized and depreciated by the straight-line method over the lease term with no residual value.

Deferred charges

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

New unit issuance costs are charged to income as incurred. The underwriters' economic remunerations for underwriting the offering are not recognized as new unit issuance costs in the financial statements since such costs are not paid by the Company as commission under the so-called "spread-method".

Under the spread-method, the difference between the offer price (the price paid by the unitholder) and the issue price (the price received by the Company) is retained by the underwriters as remuneration.

Revenue recognition

Revenues from leasing of office space are recognized as rent accrues over the lease period.

Taxes on property and equipment

Property and equipment is subject to property taxes and city planning taxes on a calendar year basis. These taxes are generally charged to income during the period. The sellers of the properties are liable for property taxes for the calendar year including the period from the date of purchase by the Company through the end of the year since the taxes are imposed on the owner registered on the record as of January 1 based on the assessment made by the local government. The Company pays the amount equivalent to the property taxes to the sellers applicable to the period since acquisition and includes the amount equivalent to the taxes in the purchase price of each property and capitalizes it as a cost of the property.

Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the statements of income. The consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld are included in Current assets and the excess of amounts withheld over payments are included in Current liabilities.

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 to cash and with insignificant risk of price fluctuation, with original maturity of three months or less.

Hedge accounting

The Company enters into derivative transactions to hedge against interest-rate risk and other forms of risk based on the risk management policies outlined in the Company's Articles of Incorporation. The Company uses interest-rate swap transactions for hedging fluctuations in interest rates on floating-rate loans. The Company has also executed interest-rate and currency swap transactions as a method of hedging against currency exchange and interest-rate fluctuation risks. Deferred hedge accounting is generally used for such interest-rate swaps and interest-rate and currency swap transactions, and the effectiveness of hedging is measured by comparing the total cash flow fluctuation of the hedged item and that of the hedging instrument since the inception of the hedge.

For interest-rate swaps that qualify for hedge accounting and meet certain criteria provided under Japanese GAAP, however, the Company applies special accounting treatment. Under such special 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 separately valued. For interest-rate swaps that meet the specific criteria for such special accounting treatment, ongoing assessments of hedge effectiveness are not required and hence not performed.

In addition, for interest-rate and currency swap transactions that meet certain criteria provided under Japanese GAAP, the Integrated Treatment is applied. Under such Integrated Treatment, the interest-rate and currency swaps that hedge foreign currency-denominated floating rate payments into yen-denominated fixed rate payments are treated as an integral part of the hedged foreign currency borrowing, and the loan is accounted for as a yen-denominated fixed-rate borrowing.

3. Financial Instruments

For the six months ended September 30, 2016 and March 31, 2017

1. Status of financial instruments

(1) Policies for dealing financial instruments

Concerning the financing of property acquisitions, the Company shall use several funding sources including bank loans, the issuance of investment corporation bonds and the issuance of investment units. When executing such financing activities, the Company endeavors to retain the ability to secure stable and low-cost financing by maintaining high credit ratings and thereby limiting the financial covenants that may restrict the financial flexibility of the Company. To achieve these goals, the Company intends to further develop and reinforce the confidence of debt holders and rating agencies in the Company by bolstering the capital base and controlling the loan-to-value ratio ("LTV") at an adequate level.

In order to hedge against future interest-rate fluctuations, the Company may enter into derivative transactions, which shall be executed solely for the purpose of hedging against interest-rate fluctuation and other risks, and not for speculative purposes.

With respect to management of excess funds, as a matter of policy the Company uses time deposits as its main vehicle, while securities and monetary claims are also eligible for such investment.

(2) Characteristics and risk profile of each financial instrument and risk management system

The Company regularly re-evaluates the appropriateness and effectiveness of its risk management system in order to improve on it.

The characteristics and risk profile of financial instruments and the system in place to manage such risks are as follows:

The deposits, which are typically large time deposits used to manage excess funds, are exposed to the credit risk of the deposit-taking financial institutions. The Company manages credit risk by restricting the tenor of the deposit to relatively short periods and setting a minimum credit rating requirement for the deposit-taking financial institutions.

The funding proceeds from borrowings and issues of investment corporation bonds are applied mainly to acquire real estate properties and repay outstanding loans and bonds. While floating-rate short-term and long-term loans are exposed to the risk of interest-rate hikes, such risk is mitigated by the Company's low LTV and relatively high percentage of long-term fixed-rate debts within the total borrowing. The Company may also exercise hedging by means of derivative transactions (interest-rate swap transactions) in order to mitigate the risk of fluctuation concerning the floating-rate long-term loans, thereby effectively stabilizing the overall interest rates on the loans. Foreign currency-denominated loans are also exposed to currency exchange and interest-rate fluctuation risk. However, the Company uses derivative transactions as a method of hedging against these risks (interest-rate and currency swap transactions). For more detailed information on the hedge accounting method, hedging instruments, hedged items, hedge policies and the evaluation method of hedge effectiveness, please refer to the previous Section 2. Summary of Significant Accounting Policies: Hedge accounting.

Loans and investment corporation bonds involve liquidity risk at the time of maturity. To manage such liquidity risk, the Company implements measures such as (i) maintaining and strengthening its ability to access equity markets to secure funds, (ii) maintaining commitment lines with major financial institutions (There is no amount outstanding under the facility as of September 30, 2016 and March 31, 2017) and (iii) preparing monthly financial plans.

(3) Supplementary note regarding fair value of financial instruments

The fair values of financial instruments presented in this report are based on their market value, and in cases where market values are not available, reasonably calculated values are presented. Since calculation of fair value is based on certain assumptions, the fair value could differ depending on the assumptions used. In addition, the contract value of derivative transactions, which is presented in Section 4. Derivative Transactions, is not an exact representation of market risk attributable to derivative transactions.

2. Fair value of financial instruments

Fair value of financial instruments, their values carried on the balance sheets and the differences between them as of September 30, 2016 and March 31, 2017 are as follows.

The financial instruments whose fair values are extremely difficult to estimate are excluded from the following schedule (Note 2):

	Thousands of yen		
	As of September 30, 2016		
	Book value*	Fair value*	Difference*
(1) Cash and deposits	16,231,988	16,231,988	—
(2) Cash and deposits in trust	6,314,725	6,314,725	—
(3) Short-term loans	(45,700,000)	(45,700,000)	—
(4) Current portion of long-term loans	(42,850,000)	(43,090,739)	(240,739)
(5) Investment corporation bonds	(20,000,000)	(21,946,300)	(1,946,300)
(6) Long-term loans	(247,800,000)	(254,805,571)	(7,005,571)
(7) Derivative transactions	—	—	—

* Liabilities are shown in parentheses.

	Thousands of yen		
	As of March 31, 2017		
	Book value*	Fair value*	Difference*
(1) Cash and deposits	15,709,586	15,709,586	—
(2) Cash and deposits in trust	5,605,731	5,605,731	—
(3) Short-term loans	(36,000,000)	(36,000,000)	—
(4) Current portion of long-term loans	(46,500,000)	(46,684,630)	(184,630)
(5) Investment corporation bonds	(30,000,000)	(31,654,880)	(1,654,880)
(6) Long-term loans	(256,500,000)	(261,031,032)	(4,531,032)
(7) Derivative transactions	—	—	—

* Liabilities are shown in parentheses.

Notes: 1. Measurement of fair value of financial instruments and matters concerning derivative transactions

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

Due to short tenor, the book values of these assets are reasonable approximations of the present value of these assets and hence used as their fair value.

(3) Short-term loans

Since these loans' tenor is short and rates are reset at a short interval, the book values of these liabilities are reasonable approximations of their present value and hence used as their fair values.

(4) Current portion of long-term loans and (6) Long-term loans

For loans with floating interest rates, since the interest rates on such loans reflect market rates reasonably well over the short term and their book values are good approximations of their fair values, the book values are presented as their fair values. (However, the fair values of floating-rate long-term loans hedged by an interest-rate and currency swap subject to integrated treatment or by an interest-rate swap subject to special accounting treatment are calculated by discounting the aggregated principal and interest on such loans, after taking into account the effect of said interest-rate and currency swaps or interest-rate swaps, using reasonable estimates of the rates that would be applicable if the Company were to refinance the existing loans for the remaining period to maturity under the prevailing market conditions as of September 30, 2016 and March 31, 2017. Such floating-rate long-term loans are presented in Section 4. Derivative Transactions.) The fair values of the liabilities with fixed interest rates are calculated by discounting the aggregated amounts of the principal and the interest of the loans by the rates that are reasonably estimated to be applicable if the Company were to refinance the existing loans for the remaining period to maturity under the prevailing market conditions as of September 30, 2016 and March 31, 2017.

(5) Investment corporation bonds

Their fair values are based on reference prices published by a financial data provider where available. When reference prices are not available, their fair values are calculated by discounting the aggregate of the principal and interest by nominal rates assumed applicable if the loans were refinanced for the duration of the current maturity.

(7) Derivative transactions

Please refer to Section 4. Derivative Transactions.

2. Financial instruments whose fair values cannot be reliably measured

	Thousands of yen	
	As of September 30, 2016	As of March 31, 2017
(1) Non-listed stock *1	577,168	577,168
(2) Deposits received from tenants *2	49,727,428	50,950,892

*1 With regard to non-listed stock, which does not have a quoted market price in an active market and whose cash flows are not reasonably estimated, fair value cannot be reliably measured and it is therefore presented at book value.

*2 With regard to deposits received from tenants, which do not have a quoted market price in an active market and reasonably estimated tenor, their cash flows cannot be reliably measured and they are therefore presented at their book value.

3. Redemption schedule for monetary claims after the closing date

	Thousands of yen					
	As of September 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	16,231,988	—	—	—	—	—
Cash and deposits in trust	6,314,725	—	—	—	—	—
Total	22,546,714	—	—	—	—	—

	Thousands of yen					
	As of March 31, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	15,709,586	—	—	—	—	—
Cash and deposits in trust	5,605,731	—	—	—	—	—
Total	21,315,318	—	—	—	—	—

4. Repayment schedule for investment corporation bonds, long-term loans and other interest-bearing debt after the closing date

	Thousands of yen					
	As of September 30, 2016					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans	45,700,000	—	—	—	—	—
Investment corporation bonds	—	10,000,000	—	—	—	10,000,000
Long-term loans	42,850,000	36,000,000	25,000,000	44,500,000	37,000,000	105,300,000
Total	88,550,000	46,000,000	25,000,000	44,500,000	37,000,000	115,300,000

	Thousands of yen					
	As of March 31, 2017					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term loans	36,000,000	—	—	—	—	—
Investment corporation bonds	—	10,000,000	—	—	—	20,000,000
Long-term loans	46,500,000	27,500,000	49,000,000	39,000,000	40,200,000	100,800,000
Total	82,500,000	37,500,000	49,000,000	39,000,000	40,200,000	120,800,000

4. Derivative Transactions

(1) Derivatives not designated as hedging instruments

For the period from April 1, 2016 to September 30, 2016

“Not applicable”

For the period from October 1, 2016 to March 31, 2017

“Not applicable”

(2) Derivatives designated as hedging instruments

For the period from April 1, 2016 to September 30, 2016

The contract amount or the equivalent principal amount set out in the contract as of the closing date for each derivative designated as a hedging instrument is as follows.

Thousands of yen

Derivative accounting method	Type of derivative transaction	Hedged item	Contract value		Fair value	Measurement of fair value
				Over one year		
Hedge accounting	Receive floating, pay fixed interest-rate swap transactions	Long-term loans	64,300,000	64,300,000	*	—
Integrated Treatment (Special Treatment and Allocation Treatment) for interest-rate and currency swap transactions	Receive floating USD, pay fixed JPY, interest-rate and currency swap transactions (with initial and final exchange)	Long-term loans	10,000,000	10,000,000	*	—

For the period from October 1, 2016 to March 31, 2017

The contract amount or the equivalent principal amount set out in the contract as of the closing date for each derivative designated as a hedging instrument is as follows.

Thousands of yen

Derivative accounting method	Type of derivative transaction	Hedged item	Contract value		Fair value	Measurement of fair value
				Over one year		
Hedge accounting	Receive floating, pay fixed interest-rate swap transactions	Long-term loans	64,300,000	64,300,000	*	—
Integrated Treatment (Special Treatment and Allocation Treatment) for interest-rate and currency swap transactions	Receive floating USD, pay fixed JPY, interest-rate and currency swap transactions (with initial and final exchange)	Long-term loans	10,000,000	10,000,000	*	—

* Because the derivative transactions eligible for the Special Treatment of interest-rate swaps and Integrated Treatment (Special Treatment for interest-rate swaps and Allocation Treatment for currency swaps) are accounted for as integral parts of the hedged loans, the fair value of those derivative transactions is included in that of the underlying long-term loans as of September 30, 2016 and March 31, 2017. Please refer to the measurement of fair value of financial instruments in Note 1 of "2. Fair value of financial instruments" under Section 3. Financial Instruments as well as subheadings (4) and (6) of Note 1 concerning derivative transactions.

5. Property and Equipment

Property and equipment as of September 30, 2016 and March 31, 2017 consisted of the following:

	Thousands of yen			
	As of September 30, 2016		As of March 31, 2017	
	Acquisition costs	Book value	Acquisition costs	Book value
Land	450,384,924	450,384,924	434,837,910	434,837,910
Buildings and structures	270,429,495		268,253,237	
Accumulated depreciation	(84,232,457)	186,197,038	(87,928,478)	180,324,759
Machinery and equipment	2,992,615		3,074,681	
Accumulated depreciation	(1,880,589)	1,112,026	(1,960,979)	1,113,701
Tools, furniture and fixtures	396,617		426,995	
Accumulated depreciation	(232,002)	164,615	(252,624)	174,371
Construction in progress	2,250	2,250	6,087	6,087
Land in trust	151,935,120	151,935,120	181,425,424	181,425,424
Buildings and structures in trust	78,402,068		88,545,705	
Accumulated depreciation	(19,162,609)	59,239,459	(21,238,686)	67,307,019
Machinery and equipment in trust	948,336		993,657	
Accumulated depreciation	(665,333)	283,002	(691,097)	302,560
Tools, furniture and fixtures in trust	48,182		54,191	
Accumulated depreciation	(19,071)	29,110	(22,677)	31,513
Construction in progress in trust	2,299	2,299	1,020	1,020
Total	849,349,846	849,349,846	865,524,368	865,524,368

The reduction amount of tangible assets with government grants under the Corporation Tax Law of Japan was ¥50 million as of September 30, 2016 and ¥50 million as of March 31, 2017.

6. Loans

The condition of loans by financial institutions as of March 31, 2017 is as follows.

	Segment	Drawdown Date	Balance at Beginning of Current Period (¥ thousand)	Balance at End of Current Period (¥ thousand)	Average Interest Rate *1 (%)	Repayment Date	Repayment Method	Use of Proceeds	Notes
	Lender								
Short-term loans	Mizuho Bank, Ltd.	June 23, 2016	5,000,000	—	0.07048	December 26, 2016	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	June 23, 2016	5,000,000	—	0.07048	December 26, 2016			
	Sumitomo Mitsui Trust Bank, Limited	June 23, 2016	5,000,000	—	0.07048	December 26, 2016			
	Mitsubishi UFJ Trust and Banking Corporation	June 23, 2016	5,000,000	—	0.07048	December 26, 2016			
	The 77 Bank, Ltd.	January 7, 2016	1,000,000	—	0.07011	January 10, 2017			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 2, 2016	1,500,000	—	0.07002	March 2, 2017			
	Mizuho Bank, Ltd.	March 25, 2016	5,500,000	—	0.07024	March 27, 2017			
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	1,700,000	—	0.07	March 31, 2017			
	Mizuho Bank, Ltd.	April 1, 2016	5,500,000	5,500,000	0.07002	April 3, 2017			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	April 1, 2016	3,500,000	3,500,000	0.07002	April 3, 2017			
	Mitsubishi UFJ Trust and Banking Corporation	April 4, 2016	3,000,000	—	0.07018	April 4, 2017 *3			
	Shinsei Bank, Limited	September 1, 2016	2,000,000	2,000,000	0.07002	September 1, 2017			
	Shinkin Central Bank	September 1, 2016	1,000,000	1,000,000	0.07002	September 1, 2017			
	Resona Bank, Limited	September 1, 2016	1,000,000	1,000,000	0.07002	September 1, 2017			
	Mitsubishi UFJ Trust and Banking Corporation	December 26, 2016	—	5,000,000	0.07	December 26, 2017			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	December 26, 2016	—	5,000,000	0.07	December 26, 2017			
	Sumitomo Mitsui Trust Bank, Limited	December 26, 2016	—	1,300,000	0.07	December 26, 2017			
	The 77 Bank, Ltd.	January 10, 2017	—	1,000,000	0.07	January 10, 2018			
	Resona Bank, Limited	March 1, 2017	—	2,000,000	0.07	March 1, 2018			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 2, 2017	—	1,500,000	0.07	March 2, 2018			
Mizuho Bank, Ltd.	March 27, 2017	—	5,500,000	0.07	March 27, 2018				
Sumitomo Mitsui Trust Bank, Limited	March 31, 2017	—	1,700,000	0.07	March 30, 2018				
	Subtotal		45,700,000	36,000,000					
Long-term loans	Shinkin Central Bank	November 15, 2011	1,000,000	—	0.7525	November 15, 2016	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	Mizuho Bank, Ltd.	December 21, 2010	5,000,000	—	1.30625	December 21, 2016			
	Resona Bank, Limited	March 1, 2011	2,000,000	—	1.255	March 1, 2017			
	Development Bank of Japan Inc.	March 24, 2010	1,350,000	—	1.665	March 24, 2017			
	The Dai-ichi Life Insurance Company, Limited	March 30, 2009	5,000,000	—	1.54375	March 30, 2017			
	Mitsubishi UFJ Trust and Banking Corporation	April 4, 2011	5,000,000	5,000,000	1.205	April 4, 2017 *4			
	Mitsubishi UFJ Trust and Banking Corporation	June 1, 2011	12,000,000	12,000,000	1.12625	June 1, 2017 *4			
	The Iyo Bank, Ltd.	June 15, 2012	2,500,000	2,500,000	0.66	June 15, 2017 *4			
	Shinsei Bank, Limited	June 15, 2012	2,500,000	2,500,000	0.66	June 15, 2017 *4			
	The Bank of Fukuoka, Ltd.	June 15, 2012	2,500,000	2,500,000	0.66	June 15, 2017 *4			

	Segment	Drawdown Date	Balance at Beginning of Current Period (¥ thousand)	Balance at End of Current Period (¥ thousand)	Average Interest Rate *1 (%)	Repayment Date	Repayment Method	Use of Proceeds	Notes
	Lender								
Long-term loans	The Hachijuni Bank, Ltd.	June 15, 2012	1,000,000	1,000,000	0.66	June 15, 2017 *4	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	The Bank of Fukuoka, Ltd.	August 31, 2011	2,000,000	2,000,000	0.9025	August 31, 2017 *4			
	The Bank of Fukuoka, Ltd.	August 31, 2012	1,000,000	1,000,000	0.57125	August 31, 2017 *4			
	The Hachijuni Bank, Ltd.	December 20, 2012	1,000,000	1,000,000	0.45625	December 20, 2017 *4			
	The Joyo Bank, Ltd.	January 7, 2013	1,000,000	1,000,000	0.49125	January 9, 2018 *4			
	The Ashikaga Bank, Ltd.	January 7, 2013	1,000,000	1,000,000	0.49125	January 9, 2018 *4			
	Sumitomo Mitsui Trust Bank, Limited	January 17, 2011	3,000,000	3,000,000	1.43375	January 17, 2018 *4			
	Nippon Life Insurance Company	March 1, 2011	2,000,000	2,000,000	1.465	March 1, 2018 *4			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	March 24, 2011	2,000,000	2,000,000	1.3975	March 26, 2018 *4			
	Resona Bank, Limited	March 25, 2013	3,000,000	3,000,000	0.45	March 26, 2018 *4			
	The Chugoku Bank, Limited	March 25, 2013	2,000,000	2,000,000	0.45	March 26, 2018 *4			
	The Hachijuni Bank, Ltd.	March 25, 2013	1,000,000	1,000,000	0.45	March 26, 2018 *4			
	Taiyo Life Insurance Company	March 30, 2011	2,000,000	2,000,000	1.39625	March 30, 2018 *4			
	Shinkin Central Bank	April 24, 2013	5,000,000	5,000,000	0.52775	April 24, 2018			
	Mitsubishi UFJ Trust and Banking Corporation	June 1, 2011	10,000,000	10,000,000	1.31125	June 1, 2018			
	Shinsei Bank, Limited	August 31, 2011	3,000,000	3,000,000	1.0475	August 31, 2018			
	Sumitomo Mitsui Trust Bank, Limited	November 15, 2011	3,000,000	3,000,000	0.98375	November 15, 2018			
	Sumitomo Mitsui Banking Corporation	November 15, 2011	3,000,000	3,000,000	0.98375	November 15, 2018			
	Mizuho Bank, Ltd.	September 1, 2015	2,500,000	2,500,000	0.17	March 1, 2019			
	The Gunma Bank, Ltd.	March 24, 2014	1,000,000	1,000,000	0.4105	March 25, 2019			
	Sumitomo Mitsui Trust Bank, Limited	May 29, 2015	5,000,000	5,000,000	0.2075	May 29, 2019			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	September 1, 2015	5,000,000	5,000,000	0.2	September 2, 2019			
	Sumitomo Mitsui Trust Bank, Limited	September 26, 2011	5,500,000	5,500,000	1.16	September 26, 2019			
	The Hiroshima Bank, Ltd.	October 1, 2014	3,000,000	3,000,000	0.31575	October 1, 2019			
	Mizuho Bank, Ltd.	November 1, 2011	6,000,000	6,000,000	1.2075	November 1, 2019			
	Mizuho Bank, Ltd.	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019			
	Mitsubishi UFJ Trust and Banking Corporation	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019			
	The Gunma Bank, Ltd.	November 17, 2014	1,000,000	1,000,000	0.316	November 18, 2019			
	The Yamanashi Chuo Bank, Ltd.	December 15, 2014	2,000,000	2,000,000	0.266	December 16, 2019			
Shinkin Central Bank	January 7, 2013	2,000,000	2,000,000	0.71375	January 7, 2020				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	January 15, 2013	5,500,000	5,500,000	0.71	January 15, 2020				
Shinkin Central Bank	January 15, 2013	5,000,000	5,000,000	0.71	January 15, 2020				

Segment	Lender	Drawdown Date	Balance at Beginning of Current Period (¥ thousand)	Balance at End of Current Period (¥ thousand)	Average Interest Rate *1 (%)	Repayment Date	Repayment Method	Use of Proceeds	Notes
Long-term loans	Mitsubishi UFJ Trust and Banking Corporation	June 15, 2012	4,000,000	4,000,000	0.9525	June 15, 2020	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	Sumitomo Mitsui Trust Bank, Limited	June 15, 2012	4,000,000	4,000,000	0.9525	June 15, 2020			
	Sumitomo Mitsui Trust Bank, Limited	June 15, 2015	3,000,000	3,000,000	0.3425	June 15, 2020			
	The Yamaguchi Bank, Ltd.	October 29, 2012	2,000,000	2,000,000	0.8	October 29, 2020			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	December 21, 2012	5,000,000	5,000,000	0.80125	December 21, 2020			
	Mitsubishi UFJ Trust and Banking Corporation	December 21, 2012	5,000,000	5,000,000	0.80125	December 21, 2020			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	January 15, 2013	5,500,000	5,500,000	0.83625	January 15, 2021			
	Mitsubishi UFJ Trust and Banking Corporation	January 31, 2014	4,000,000	4,000,000	0.64225	January 29, 2021			
	The Bank of Fukuoka, Ltd.	January 31, 2014	2,500,000	2,500,000	0.63849	January 29, 2021			
	Sumitomo Mitsui Trust Bank, Limited	January 31, 2014	2,000,000	2,000,000	0.62575	January 29, 2021			
	The Iyo Bank, Ltd.	March 24, 2014	2,000,000	2,000,000	0.6035	March 24, 2021			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	April 24, 2013	5,000,000	5,000,000	0.775	April 26, 2021			
	Mizuho Bank, Ltd.	June 15, 2012	4,000,000	4,000,000	1.07375	June 15, 2021			
	Sumitomo Mitsui Trust Bank, Limited	December 26, 2016	—	3,700,000	0.1913	June 28, 2021			
	The Iyo Bank, Ltd.	October 1, 2014	1,000,000	1,000,000	0.46525	October 1, 2021			
	The Chugoku Bank, Limited	October 1, 2014	1,000,000	1,000,000	0.4725	October 1, 2021			
	The Daishi Bank, Ltd.	November 14, 2014	1,800,000	1,800,000	0.463	November 15, 2021			
	Sony Bank Incorporated		1,400,000	1,400,000					
	The Toho Bank, Ltd.		1,400,000	1,400,000					
	The Hokuetsu Bank, Ltd.		1,400,000	1,400,000					
	The Shinkumi Federation Bank		1,000,000	1,000,000					
	The Akita Bank, Ltd.		900,000	900,000					
	The Gunma Bank, Ltd.		900,000	900,000					
	The 77 Bank, Ltd.		900,000	900,000					
	The Tochigi Bank, Ltd.		900,000	900,000					
	The Fukui Bank, Ltd.		900,000	900,000					
	The Bank of Iwate, Ltd.		500,000	500,000					
	The Higo Bank, Ltd.		500,000	500,000					
	The Yamagata Bank, Ltd.		500,000	500,000					
	The Nishi-Nippon City Bank, Ltd.	June 17, 2014	2,000,000	2,000,000	0.621	December 17, 2021			
	Sumitomo Mitsui Banking Corporation	January 7, 2013	2,000,000	2,000,000	0.98	January 7, 2022			
	Mizuho Bank, Ltd.	January 15, 2013	5,000,000	5,000,000	0.96625	January 17, 2022			
	The Norinchukin Bank	January 31, 2014	3,500,000	3,500,000	0.757	January 31, 2022			
Mizuho Bank, Ltd.	April 24, 2013	3,000,000	3,000,000	0.87375	April 25, 2022				
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	June 15, 2012	4,000,000	4,000,000	1.1975	June 15, 2022				
Mitsubishi UFJ Trust and Banking Corporation	June 15, 2012	2,500,000	2,500,000	1.2725	June 15, 2022				
Shinsei Bank, Limited	June 15, 2012	2,500,000	2,500,000	1.2725	June 15, 2022				
The Norinchukin Bank	June 17, 2014	3,000,000	3,000,000	0.6785	June 17, 2022				

	Segment	Drawdown Date	Balance at Beginning of Current Period (¥ thousand)	Balance at End of Current Period (¥ thousand)	Average Interest Rate *1 (%)	Repayment Date	Repayment Method	Use of Proceeds	Notes
	Lender								
Long-term loans	The Gunma Bank, Ltd.	August 10, 2015	1,000,000	1,000,000	0.3925	August 10, 2022	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	The Shinkumi Federation Bank		1,000,000	1,000,000					
	The Daishi Bank, Ltd.		1,000,000	1,000,000					
	The Chugoku Bank, Limited		1,000,000	1,000,000					
	The Toho Bank, Ltd.		1,000,000	1,000,000					
	The Fukui Bank, Ltd.		1,000,000	1,000,000					
	The Tochigi Bank, Ltd.		500,000	500,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	September 1, 2015	2,000,000	2,000,000	0.47125	September 1, 2022			
	Development Bank of Japan Inc.	January 7, 2013	3,000,000	3,000,000	1.115	January 6, 2023			
	The Daishi Bank, Ltd.	January 7, 2016	1,500,000	1,500,000	0.2802	January 10, 2023			
	The Hachijuni Bank, Ltd.	January 15, 2016	1,000,000	1,000,000	0.265	January 16, 2023			
	The Iyo Bank, Ltd.	January 15, 2016	1,000,000	1,000,000	0.265	January 16, 2023			
	Development Bank of Japan Inc.	January 31, 2014	5,000,000	5,000,000	0.9325	January 31, 2023			
	The Yamaguchi Bank, Ltd.	March 25, 2013	1,000,000	1,000,000	0.945	March 24, 2023			
	The Bank of Fukuoka, Ltd.	March 24, 2015	2,000,000	2,000,000	0.5125	March 24, 2023			
	The Norinchukin Bank	March 25, 2015	3,500,000	3,500,000	0.46825	March 27, 2023			
	The Chugoku Bank, Limited	June 15, 2015	3,000,000	3,000,000	0.61175	June 15, 2023			
	Mitsubishi UFJ Trust and Banking Corporation	December 19, 2014	10,000,000	10,000,000	0.42375 *5	December 19, 2023			
	Mitsubishi UFJ Trust and Banking Corporation	September 1, 2015	3,500,000	3,500,000	0.63	September 2, 2024			
	Sumitomo Mitsui Trust Bank, Limited	September 2, 2015	3,800,000	3,800,000	0.536	September 2, 2024			
	Taiyo Life Insurance Company	October 1, 2014	2,000,000	2,000,000	0.7825	October 1, 2024			
	Mizuho Bank, Ltd.	October 1, 2015	2,500,000	2,500,000	0.5575	October 1, 2024			
	Mizuho Trust & Banking Co., Ltd.	March 2, 2015	3,000,000	3,000,000	0.5585	March 3, 2025			
	Development Bank of Japan Inc.	March 30, 2017	—	5,000,000	0.315	March 31, 2025			
	Taiyo Life Insurance Company	May 29, 2015	1,500,000	1,500,000	0.7375	May 29, 2025			
	Development Bank of Japan Inc.	September 1, 2015	7,000,000	7,000,000	0.7175	September 1, 2025			
	Mizuho Bank, Ltd.	December 26, 2016	—	5,000,000	0.3625	December 26, 2025			
	Shinkin Central Bank	March 30, 2017	—	5,000,000	0.36	March 30, 2026			
	Mitsubishi UFJ Trust and Banking Corporation	October 31, 2016	—	3,000,000	0.24	October 30, 2026			
	Mizuho Bank, Ltd.	December 21, 2016	—	5,000,000	0.415	December 21, 2026			
	Subtotal		290,650,000	303,000,000					
	Total		336,350,000	339,000,000					

*1 The average for floating interest rates is recorded as the weighted average during the period. The average is rounded off to the fifth decimal place. The weighted average for interest rates of loans for which floating interest rates were swapped to fixed rates in order to hedge the risk of interest rate fluctuations is calculated taking the effect of this swap into consideration.

*2 The purposes of executing these loans are to purchase real properties or beneficiary right of real estate in trust, to repay existing loans, and to fund the redemption of investment corporation bonds.

*3 The Company made a full repayment (¥3,000 million) before maturity on October 31, 2016.

*4 At the end of the period under review, these loans are accounted for under current liabilities on the balance sheets as the current portion of long-term loans payable.

*5 In order to hedge the risk of exchange rate and interest rate fluctuations related to foreign currency-denominated loans, the Company conducted an interest-rate and currency swap transaction, which substantially secured exchange and interest rates. Accordingly, the weighted average for interest rates during the period is calculated taking the effect of this interest-rate and currency swap into consideration.

7. Investment Corporation Bonds including Current Portion of Investment Corporation Bonds

Outstanding investment corporation bonds as of March 31, 2017 are as follows.

Securities	Date of Issue	Balance at Beginning of Current Period (¥ thousand)	Balance at End of Current Period (¥ thousand)	Interest Rate (%)	Repayment Period	Repayment Method	Use of Proceeds	Notes
4th unsecured investment corporation bond	September 29, 2005	10,000,000	10,000,000	2.56	September 29, 2025	Bullet	*1	*2
9th unsecured investment corporation bond	August 30, 2013	10,000,000	10,000,000	0.497	August 30, 2018	Bullet	*1	*2
10th unsecured investment corporation bond	March 30, 2017	—	10,000,000	0.3975	March 30, 2027	Bullet	*1	*2 *3
Total		20,000,000	30,000,000					

*1 The investment corporation bonds are primarily used to fund the acquisition of real properties or beneficiary right of real estate in trust, and to repay existing loans.

*2 Financial covenants, such as a negative pledge, are not included in these bonds.

*3 Bond issuance was limited to qualified institutional investors by a private placement.

8. Net Assets

The Company is required to maintain net assets of at least ¥50 million, as required pursuant to the ITA.

9. Income Taxes

The Company is subject to Japanese corporate income taxes on all of its taxable income. However, under the Special Taxation Measures Act, an investment corporation is allowed to deduct dividends of accounting profits, or dividend distributions, paid to unitholders from its taxable income if certain tax requirements are satisfied. Such tax requirements include dividend distributions in excess of 90% of its earnings available for dividends for the fiscal period as stipulated by Article 67-15 of the Special Taxation Measures Act. The significant components of deferred tax assets and liabilities as of September 30, 2016 and March 31, 2017 were as follows:

	Thousands of yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Deferred tax assets:		
Accrued enterprise tax	943	914
Amortization of a term leasehold interest	56,530	61,519
Asset retirement obligations	103,542	104,585
	161,016	167,019
Valuation allowance	(67,652)	(73,683)
Total deferred tax assets	93,364	93,336
Deferred tax liabilities:		
Asset retirement obligations	92,421	92,421
Reserve for advanced depreciation of non-current assets	167,188	167,156
Total deferred tax liabilities	259,610	259,578
Net deferred tax liabilities	166,245	166,242

The reconciliation of tax rate difference between the adjusted statutory tax rate and the effective tax rate for the six months ended September 30, 2016 and March 31, 2017 was as follows:

	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Statutory tax rate	34.81%	34.81%
Deductible dividend distribution	(34.77%)	(34.78%)
Change in valuation allowance	0.06%	0.06%
Others	0.01%	0.01%
Effective tax rate	0.10%	0.10%

10. Related Party Transactions

For the six months ended September 30, 2016 and March 31, 2017

Transactions with related parties defined under the Financial Instruments and Exchange Act are listed below.

- (1) Parent Company and Major Corporation Unitholders
 - For the period from April 1, 2016 to September 30, 2016
“Not applicable”
 - For the period from October 1, 2016 to March 31, 2017**
“Not applicable”
- (2) Subsidiaries
 - For the period from April 1, 2016 to September 30, 2016
“Not applicable”
 - For the period from October 1, 2016 to March 31, 2017**
“Not applicable”
- (3) Sister Companies
 - For the period from April 1, 2016 to September 30, 2016
“Not applicable”
 - For the period from October 1, 2016 to March 31, 2017**
“Not applicable”
- (4) Directors and Major Individual Unitholders
 - For the period from April 1, 2016 to September 30, 2016
“Not applicable”
 - For the period from October 1, 2016 to March 31, 2017**
“Not applicable”

Transactions with related parties defined under the ITA are listed below.

In addition to controlling unitholders, major unitholders, subsidiary corporations, subsidiary companies of controlling unitholders, and officers and their close relatives, the definition of a “related party” under the ITA also includes the asset management company and its interested parties (parent and subsidiary corporations, specified individual shareholders, and major shareholders of the asset management company defined as interested parties under Article 201 of the ITA and Article 123 of the enforcement order of the ITA), as well as the asset custody company.

For the period from April 1, 2016 to September 30, 2016 (Unaudited)

Type of Relationship	Name of Transaction Partner	Type of Business	Percentage of Units Held	Transaction Details	Transaction Amount (¥ thousand)	Accounting Item	Balance at End of Period (¥ thousand)
Interested party	Mitsubishi Estate Co., Ltd.	Real estate	1.307%	Rent revenue	11,615,200	—	—
				Security deposit increase	182,135	Deposits received from tenants	18,804,253
				Security deposit return	50,254		
Interested party	Mitsubishi Jisho Property Management Co., Ltd.	Real estate management	—	Property management expenses	2,101,261	—	—
Asset custody company	Sumitomo Mitsui Trust Bank, Limited	Bank	—	Long-term loans repayment	6,000,000	Long-term loans payable	29,300,000

Notes: 1. Consumption tax is not included in the above amounts.

2. Transaction terms were decided based on market conditions at the time the transaction was made.

For the period from October 1, 2016 to March 31, 2017 (Unaudited)

Type of Relationship	Name of Transaction Partner	Type of Business	Percentage of Units Held	Transaction Details	Transaction Amount (¥ thousand)	Accounting Item	Balance at End of Period (¥ thousand)
Interested party	Mitsubishi Estate Co., Ltd.	Real estate	1.307%	Rent revenue	11,388,759	—	—
				Security deposit increase	564,417	Deposits received from tenants	17,914,548
				Security deposit return	416,622		
Interested party	Mitsubishi Jisho Property Management Co., Ltd.	Real estate management	—	Property management expenses	2,087,848	—	—
Asset custody company	Sumitomo Mitsui Trust Bank, Limited	Bank	—	Long-term loans borrowing	3,700,000	Long-term loans payable	33,000,000

Notes: 1. Consumption tax is not included in the above amounts.

2. Transaction terms were decided based on market conditions at the time the transaction was made.

11. Segment Information

For the six months ended September 30, 2016 and March 31, 2017

Since the Company has been engaged in real estate leasing business using a single segment, segment information has been omitted.

Information on 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 on products and services has been omitted.

Information on geographic area

(1) Revenue

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

(2) Property and equipment

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

Information on major clients

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

12. Asset Retirement Obligations

For the six months ended September 30, 2016 and March 31, 2017

Asset retirement obligations reported on balance sheets

The Company acquired Osaki Front Tower on February 1, 2011 under the term leasehold for business use agreement which, at the expiry of the leasehold, obligates the Company to restore the leased land to its original state. At the inception of a lease with such an obligation, the Company recognized an asset retirement obligation and a corresponding capital asset in an amount equal to the present value of the estimated demolition cost required for the removal of the properties located on the leased land. The present value is calculated using 2.015% as the discount rate over 42 years, which is the term of the leasehold.

Change in the amount of the asset retirement obligations as of September 30, 2016 and March 31, 2017 consisted of the following:

	Thousands of yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Balance at the beginning of the period	325,325	328,602
Increase in tangible fixed assets	—	—
Adjustment required over the period	3,277	3,310
Balance at the end of the period	328,602	331,913

Asset retirement obligations other than those reported on balance sheets

Under the Road Act of Japan, the Company is obligated to remove the cable lines and the accompanying equipment originally installed for preventing analog TV interference under the public roads close to Shibuya Cross Tower and to restore the public roads to their original states because analog TV broadcasting was discontinued.

Since the removal involves public roads currently in service and some of the locations of the underground structures are potentially affected by the ongoing redevelopment projects near Shibuya Station, it is difficult to initiate such removal unilaterally without involving other interested parties. Therefore, a reasonable estimate of the present value of asset retirement obligations cannot be made because the method, the cost and the timing of the removal remains uncertain.

In consideration of such uncertainty, the asset retirement obligation is not reported in the financial statements, and is instead noted herein.

13. Investment and Rental Property

For the six months ended September 30, 2016 and March 31, 2017

The Company owns primarily a portfolio of office properties in Tokyo and other prefectures in order to gain rental revenue from them.

The book values on balance sheets as of September 30, 2016 and March 31, 2017 and the fair values as of September 30, 2016 and March 31, 2017 are as follows:

Thousands of yen			
Book value		Fair value	
As of March 31, 2016	Change during period*1	As of September 30, 2016	As of September 30, 2016
861,360,496	(4,702,758)	856,657,737	1,011,368,000

Thousands of yen			
Book value		Fair value	
As of September 30, 2016	Change during period*2	As of March 31, 2017	As of March 31, 2017
856,657,737	15,877,252	872,534,990	1,042,319,000

Notes: 1. Book value on balance sheets means the acquisition cost less accumulated depreciation.

2. Significant changes

*1 As for increases/decreases for the period, the major reason for the increase was the additional acquisition of the Nishiki Park Building (¥180,157 thousand), while the decrease was accounted for by depreciation.

*2 As for increases/decreases for the period, the major reason for the increase was the acquisition of the Kanazawa Kamitsutsumicho Building (¥2,834,879 thousand) and the Tamachi Front Building (¥6,269,916 thousand), as well as the additional acquisition of the Shinjuku Eastside Square (¥4,719,469 thousand) and the Shiodome Building (¥10,505,287 thousand). The decrease was accounted for by the transfer of the Genki Medical Plaza (¥4,776,921 thousand) and by depreciation.

3. Fair values as of September 30, 2016 and March 31, 2017 are defined as the appraised values provided by an external qualified professional appraiser.

Profits and losses related to investment and rental property are listed in Section 15. Breakdown of Property-Related Revenues and Expenses.

14. Per Unit Information

The following table summarizes information about net assets per unit and profit per unit at September 30, 2016 and March 31, 2017 and for the periods then ended, respectively:

	Yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Net assets at period end per unit	358,478	358,661
Profit per unit	8,361	8,543

Notes: 1. Profit per unit is computed by dividing profit by the weighted average number of units outstanding during each period. Diluted profit per unit has not been presented since no warrants or convertible bonds were outstanding during the period.

2. The basis for the computation of profit per unit is as follows.

	Thousands of yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Profit	10,947,485	11,186,731
Amount not attributable to normal unitholders	—	—
Profit applicable to normal investment units	10,947,485	11,186,731
Average number of units	1,309,310 units	1,309,310 units

15. Breakdown of Property-Related Revenues and Expenses

For the six months ended September 30, 2016 and March 31, 2017

	Thousands of yen	
	For the period from April 1, 2016 to September 30, 2016	For the period from October 1, 2016 to March 31, 2017
Property-Related Revenues	30,773,968	30,784,997
Rent revenues	30,565,884	30,726,244
Rental revenues	23,994,977	24,352,065
Common service charges	3,598,719	3,545,126
Parking revenues	786,817	802,247
Other rental revenues	2,185,369	2,026,805
Other lease business revenues	208,084	58,753
Cancellation charges	10,883	11,438
Other miscellaneous revenues	197,200	47,315
Property-Related Expenses	17,091,090	16,939,531
Property management expenses	3,519,734	3,737,491
Utilities expenses	2,708,649	2,383,645
Property and other taxes	2,936,241	2,925,627
Casualty insurance	57,814	58,945
Repairing expenses	1,181,022	1,113,418
Depreciation	6,500,062	6,526,566
Other rental expenses	187,565	193,836
Property-Related Profits	13,682,878	13,845,466

16. Breakdown of Gain on Exchange of Real Estate Properties

For the period from April 1, 2016 to September 30, 2016

“Not applicable”

For the period from October 1, 2016 to March 31, 2017

		Thousands of yen
Genki Medical Plaza		
	Revenue from transfer of real estate property	6,890,000
	Cost of real estate property transferred	4,776,921
	Other transfer expenses incurred	71,302
	Reduction amount of fixed assets	2,008,155
	Gain on exchange of real estate property	33,620

17. Changes in Unitholders' Equity

For the six months ended September 30, 2016 and March 31, 2017

Total number of investment units issuable and number of units outstanding	As of September 30, 2016	As of March 31, 2017
Total number of investment units issuable	4,000,000 units	4,000,000 units
Number of units outstanding	1,309,310 units	1,309,310 units

18. Supplemental Cash Flow Information

Cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents at September 30, 2016 and March 31, 2017:

	Thousands of yen	
	As of September 30, 2016	As of March 31, 2017
Cash and deposits	16,231,988	15,709,586
Cash and deposits in trust	6,314,725	5,605,731
Time deposits with maturities of more than three months	—	—
Cash and cash equivalents	22,546,714	21,315,318

19. Leases

1. Leased assets under finance lease transactions that do not transfer ownership of the leased assets to the lessees are capitalized and depreciated by the straight-line method over the lease term with no residual value. Such capitalized leased assets primarily consist of tools, furniture and fixtures.
2. The Company, as a lessor, owns office buildings under leases and earns rent income. As of September 30, 2016 and March 31, 2017, the future lease revenues under the non-cancelable operating leases are as follows:

	Thousands of yen	
	As of September 30, 2016	As of March 31, 2017
Due within one year	19,258,762	19,584,216
Due after one year	29,319,650	31,149,426
Total	48,578,413	50,733,642

20. Subsequent Events

For the six months ended March 31, 2017

“Not applicable”



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Independent Auditor's Report

The Board of Directors
Japan Real Estate Investment Corporation

We have audited the accompanying financial statements of Japan Real Estate Investment Corporation, which comprise the balance sheet as at March 31, 2017, and the statements of income and retained earnings, changes in unitholders' equity, cash distributions, 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 Real Estate Investment Corporation as at March 31, 2017, and its financial performance and cash flows for the six month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young Shinnihon LLC

June 23, 2017
Tokyo, Japan

Other Information

1. Risk Factors

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

- any adverse conditions in the Japanese economy could adversely affect JRE;
- JRE may not be able to acquire properties to execute the growth and investment strategy in a manner that is accretive to earnings;
- illiquidity in the real estate market may limit the ability to grow or adjust the portfolio;
- the past experience of the asset manager (the “AIFM”) in the Japanese real estate market is not an indicator or guarantee of future results;
- JRE’s reliance on JRE’s sponsor companies, the AIFM and other third party service providers could have a material adverse effect on business;
- there are potential conflicts of interest between JRE and its sponsor companies as well as the AIFM;
- JRE’s revenues largely comprise leasing revenues from the portfolio properties, which may be negatively affected by vacancies, decreases in rent, and late or missed payments by tenants;
- JRE faces significant competition in seeking tenants and it may be difficult to find replacement tenants;
- increases in interest rates may increase the interest expense and may result in a decline in the market price of the units;
- JRE may suffer large losses if any of the properties incurs damage from a natural or man-made disaster;
- most of the properties in the portfolio are concentrated in Tokyo and the Tokyo metropolitan area;
- any inability to obtain financing for future acquisitions could adversely affect the growth of the portfolio;
- JRE’s failure to satisfy a complex series of requirements pursuant to Japanese tax regulations would disqualify JRE from certain taxation benefits and significantly reduce the cash distributions to the unitholders; and
- ownership rights in some of JRE’s properties may be declared invalid or limited.

In addition, JRE is subject to the following risks:

- risks related to increasing operating costs;
- risks related to JRE’s dependence on the efforts of the AIFM’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 JRE properties;
- risks related to holding the property in the form of stratified ownership (*kubun shoyū*) interests or co-ownership interests (*kyōyū-mochibun*);
- risks related to holding the property through trust beneficiary interests;
- 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 impairment losses relating to the properties;
- risks related to tenant leasehold deposits and/or security deposits;
- risks related to tenant’s default as a result of financial difficulty or insolvency;
- risks related to the insolvency of master lessee;
- risks related to the insolvency of a property seller following the purchase of a property by AIF;
- 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 the properties, or the failure to properly remediate such substances;
- risks related to strict environmental liabilities for the properties;
- risks related to the amendment of applicable administrative laws and local ordinances;
- risks related to infringing third party’s intellectual property right;
- risks related to holding interests in properties through preferred shares of special purpose companies (*tokutei mokuteki kaisha*);
- risks related to holding Japanese anonymous association (*tokumei kumiai*) interests;
- risks related to investments in trust beneficiary interests;
- risks related to the tight supervision by regulatory authorities and compliance with applicable rules and regulations;

- risks related to tax authority disagreement with the AIFM’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
- risk of dilution as a result of further issuances of units.

2. Information Required under Article 22(2)(d) of the EU Alternative Investment Fund Managers Directive (AIFMD)

(1) Material Changes in Information Listed in Article 23 of AIFMD during the Financial Period covered by the Report (six-month fiscal period ended March 31, 2017)

As the general administrator for operation of administrative instruments and accounting, transfer agency and special accounts administrator were changed in June and October 2016, we revised the disclosure of their respective fees under the heading “Description of all fees, charges and expenses and a maximum amount which is directly / indirectly borne by the investors” (Article 23(1) (i)).

Therefore, in the section under the heading “The identity of the AIFM, AIF’s depository, auditor and any other service providers, and a description of their duties and the investors’ rights thereto” under Article 23 (1)(d), we added the identity of the new transfer agent and special accounts administrator (Mitsubishi UFJ Trust and Banking Corporation) and a note stating that the general administrator for operation of administrative instruments and accounting would be replaced by Mitsubishi UFJ Trust and Banking Corporation, effective October 1, 2016. Please note that such replacement has been made effective as scheduled.

3. Remuneration Policy for the Asset Manager’s Directors, Corporate Auditors and Employees

Beginning April 1, 2016 and ending March 31, 2017

1. Remuneration for Asset Manager Directors

The total amount of remuneration, bonuses, and other property benefits received by Asset Management Directors from the Asset Management Company as compensation for their duties, as well as the individual amounts each Asset Management Director receives, are decided by a resolution of a general meeting of unitholders. The policy for Asset Manager Director remuneration and bonuses is as follows.

- (1) The remuneration table is determined by the Director’s position.
- (2) Remuneration will be paid to full-time Directors, and will not be paid to part-time Directors.
- (3) Bonuses will not be paid to Directors, regardless of full-time or part-time position.

2. Remuneration for Asset Manager Corporate Auditors

The total amount of remuneration, bonuses, and other property benefits received by Corporate Auditors from the Asset Management Company as compensation for their duties, as well as the individual amounts each Corporate Auditor receives, are decided by a resolution of a general meeting of unitholders. The policy for Corporate Auditor remuneration and bonuses is as follows.

- (1) Remuneration will not be paid to part-time Corporate Auditors.
- (2) Bonuses will not be paid to Corporate Auditors, regardless of full-time or part-time position.

	Directors		Corporate Auditors		Total	
	Number of person(s) remunerated	Remuneration	Number of person(s) remunerated	Remuneration	Number of person(s) remunerated	Remuneration
Remuneration based on resolutions of the General Meeting of Unitholders of Asset Manager	1	¥19.5 million	0	¥0 million	1	¥19.5 million

3. Remuneration for Asset Manager Employees

- (1) Remuneration for employees of the Asset Management Company (payment period, payment method, pay raises, promotions, etc.) are stipulated by pay regulations and personnel evaluation regulations, and decided by objective evaluation of the process as well as achievements which take into account the overall corporate performance.
- (2) Monthly pay consists of base pay, work allowance, executive allowance, and overtime pay. Pay raises are based on the result of performance evaluations that take into account management results from the previous fiscal year, and are carried out in April every year. Promotions are dealt with in the same way.
- (3) As for bonuses, the base number of multiples of monthly pay as bonuses is determined in advance by qualifications of the employee. Increases (or decreases) in the amount paid are based on the result of performance evaluations, which take into account corporate performance in the previous fiscal year.

	All employees			
	Number of employees	Remuneration		
		Total	Fixed	Variable
Remuneration based on compensation rules	35	¥340 million	¥217 million	¥123 million

4. Conflict of Interest

There are potential conflicts of interest between the Company and the Asset Management Company with respect to remuneration for the Directors, Corporate Auditors and employees of the Asset Management Company. The Company believes that the above remuneration policy mitigates such potential conflicts. In addition, the Asset Management Company has adopted an internal set of rules that apply to all related party transactions, such as transactions between the Company and the Asset Management Company. These rules require strict compliance by the Asset Management Company with laws and regulations regarding related-party transactions. They also contain specific procedures to be followed in the event of a transaction that involves a related party, in order to implement arm's length terms.