



*Keep Growing*

JAPAN REAL ESTATE INVESTMENT CORPORATION      MARCH 2003 SEMIANNUAL REPORT

*For the period from October 1, 2002 to March 31, 2003*

## Profile

Japan Real Estate Investment Corporation (the "Company") was incorporated on May 11, 2001 as one of the first real estate investment corporations in Japan. The Company invests primarily in office buildings, seeking stable growth and dividends in the medium to long term through high-quality, competitive properties with geographical diversity. We endeavor to take full advantage of the potential inherent in Japanese real estate investment trusts and corporations, or J-REITs, dedicating our resources toward enhancing profitability and ensuring stability. The Company was listed on the Tokyo Stock Exchange ("TSE") on September 10, 2001. (Securities Code: 8952)

Note: Investment corporations, including Japan Real Estate Investment Corporation, are special legal entities incorporated and operated under the Investment Trust Law. Accordingly, the "shares" of such investment corporations, including the shares of the Company, are governed by the Investment Trust Law and represent the equity interests in such investment corporations, which may differ in certain material respects from the "shares" governed by the Commercial Code of Japan and representing the equity interests in Japanese ordinary corporations incorporated and operated under the Commercial Code of Japan. Investors and readers are specifically reminded to pay attention to such differences when reviewing this semiannual report and making any investment decision on or in respect of the "shares" of the Company. "Shareholders" of the Company may be construed accordingly. See "About J-REIT System" (pages 40-42) for more details. Each of the investors and readers should consult their own legal, tax and other advisors regarding all Japanese legal, tax and other consequences of an investment in the shares of the Company, with specific reference to their own legal, tax and other situation and any recent changes in applicable laws, guidelines or their interpretation.

### The Strengths of Japan Real Estate Investment Corporation

- Portfolio of 30 high quality office buildings as of March 31, 2003 (including three properties acquired since September 30, 2002)
- Steady growth — Total asset value doubled in one and a half years, from 20 buildings valued at ¥92.8 billion to 30 buildings valued at ¥183.5 billion (as of March 31, 2003)
- Superior geographic and tenant diversity, with a 94.4% occupancy rate (as of March 31, 2003)
- Solid backing from Mitsubishi Estate Co., Ltd.; The Tokio Marine and Fire Insurance Co., Ltd.; The Dai-ichi Mutual Life Insurance Company; and Mitsui & Co., Ltd.
- Highest issuer credit ratings of any office REIT in the world: A+ from Standard & Poor's and A2 from Moody's Investors Service
- Praise from investors — Awarded "Deal of the Year" 4th prize in Equity Finance by the "Nikkei Bonds and Financial Weekly" during 2002, following 3rd place in 2001.
- Healthy financial strategy that supports strong growth through additional issues of shares and bonds

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## Financial Highlights

For the period from October 1, 2002 to March 31, 2003 and the period from April 1, 2002 to September 30, 2002 and the period from May 11, 2001 to March 31, 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	For the period from October 1, 2002 to March 31, 2003	For the period from April 1, 2002 to September 30, 2002	For the period from May 11, 2001 to March 31, 2002	For the period from October 1, 2002 to March 31, 2003
Operating Revenues	8,500	7,910	6,492	70,722
Operating Profits	3,687	3,386	2,961	30,682
Income before Income taxes	3,259	2,898	2,405	27,114
Net Income	3,258	2,897	2,403	27,106
Net Operating Income (NOI) (Note 2)	5,702	5,211	4,732	47,438
Funds from operations (FFO) (Note 3)	4,568	4,091	3,505	38,003
FFO Multiple (note4)	14.6 times	14.1 times	13.5 times	14.6 times
Cash Distribution	3,258	2,897	2,403	27,106
Number of shares	225,400	225,400	160,400	225,400
Dividend per share (Yen/U.S.dollars)	14,455	12,853	14,983	120

Notes:1. Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20 = US\$1.00, the foreign exchange rate on March 31, 2003, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that rate or any other rate.

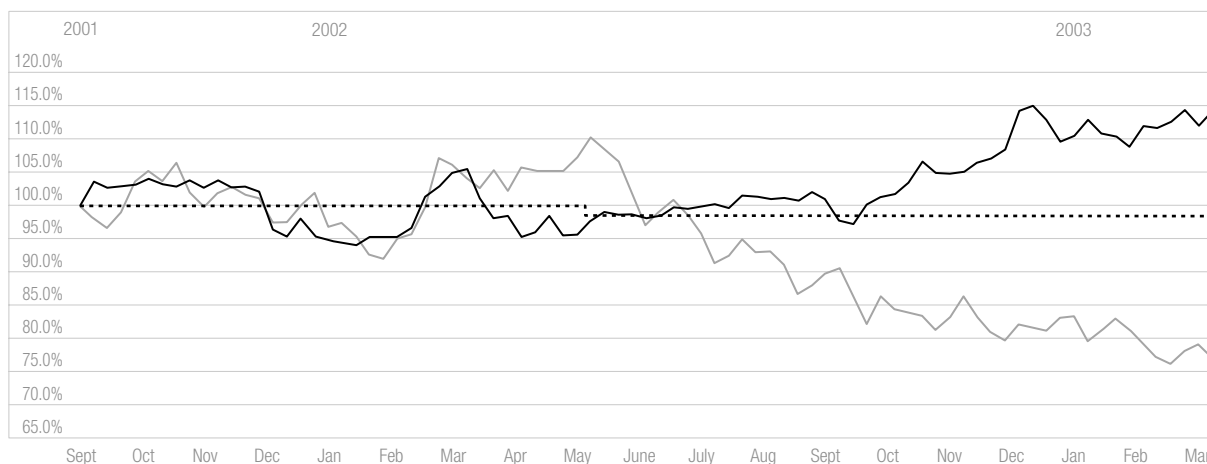
2. NOI = (Property-Related Revenues – Property-Related Expenses) + Depreciation

3. FFO = Net Income – gains (losses) from sales of specified assets + Depreciation

4. FFO Multiple = Share Price at end of the respective term ÷ FFO per share (annualized)

(Annualized portion of the calculation given in note 4 assumes a fiscal period of 203 days for the period ended March 31, 2002, 183 days for the period ended September 30, 2002 and 182 days for the period ended March 31, 2003.)

## Stock price performance



— The Company's stock price on TSE

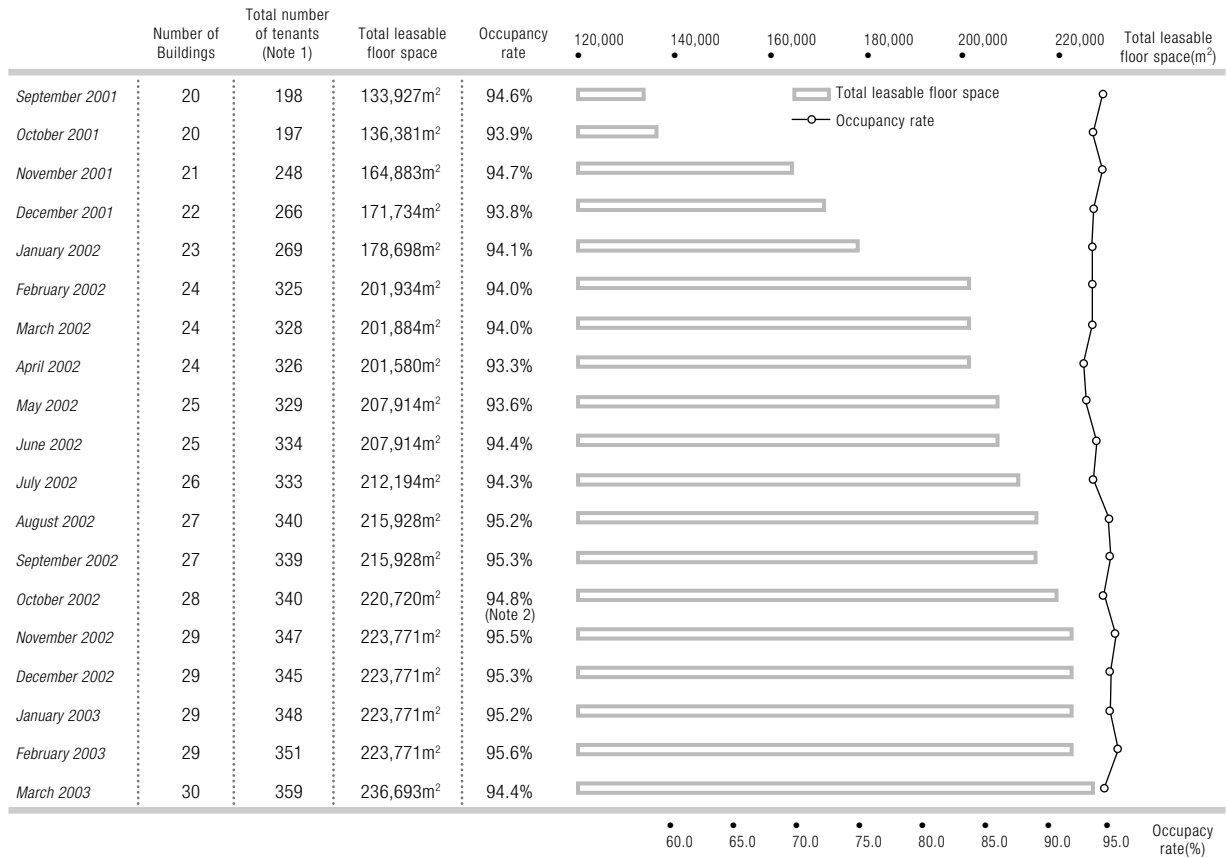
— TOPIX

- - - The Company's PO price

Note: Based on the weekly closing price

# Portfolio Highlights

## TRENDS IN THE STATE OF PORTFOLIO MANAGEMENT

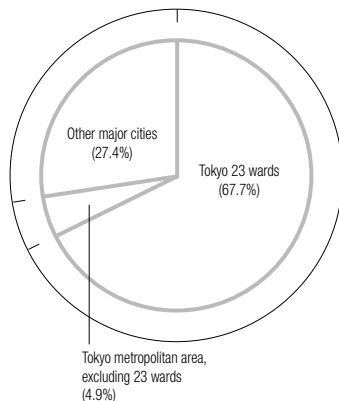


Notes:1. In the event that the same tenant occupies several buildings, the tenant is calculated as one tenant in the total number of tenants.

2. Occupancy rate of "Genki Medical Plaza" is not considered in the calculation of October 2002, because the property was acquired at the end of that month, and its rent contracts started at the beginning of November 2002.

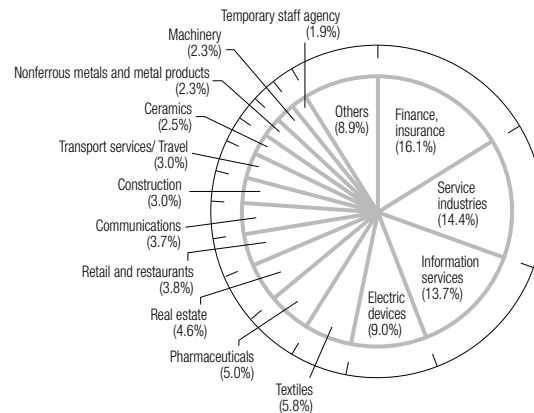
## PORTFOLIO BREAKDOWN

Properties by geographic region  
(Percentage based on acquisition price)



Tenants by industry type

(All 359 tenants, based on leased floor space)



## To Our Shareholders

The third period, from October 1, 2002 to March 31, 2003, was a challenging time for Japan Real Estate Investment Corporation. Prospects for recovery in the Japanese economy remain weak, and the real estate market is confronted with an excess of office space in Tokyo's central business district as well as a trend of mergers and corporate consolidation across the country. However, the Company is pleased to report that it has maintained steady growth as befits the pioneer real estate investment trust in Japan.

Our listing on the Tokyo Stock Exchange in September 2001 broke new ground for the real estate investment trust market in Japan, and the Company has continued to lead the industry by expanding its portfolio and pursuing high-quality investments.

The Company had acquired 24 buildings by the end of the first period (March 31, 2002) and another three by the end of the second period (September 30, 2002). In the third period, the Company increased its assets by acquiring another three buildings, as well as by expanding our stake in one building. During this period the total tenant management program and proactive marketing have accounted for high occupancy rates for the Company's 30 buildings. The Company has not only grown its assets, but also profits have mounted for two consecutive periods.



□ Executive Director of Japan Real Estate Investment Corporation  
Yoneichiro Baba (Left)  
□ CEO & President of Japan Real Estate Asset Management Co., .Ltd  
Ryoichi Kakehashi (Right)



## Management Challenges During the Period

The challenge facing the Company as it entered its third period was to sustain our growth by enhancing the operating performance of our existing portfolio, and by making exceptional acquisitions under prevailing economic conditions.

### Boosting the performance of our current portfolio

In general, companies are reacting to the sluggish economy by closing regional branches and moving offices to urban areas. Compounded with an oversupply of large office buildings in Tokyo's central business district this year (the so-called Year 2003 Problem), this trend of consolidation has further depressed the market for leased office space.

Tenants are now more than ever in a position to be able to pick and choose among a number of buildings to find the one which best meets their heightened expectations in areas such as information technology and rent. The market is therefore becoming polarized between buildings that continually lose tenants and those that succeed at maintaining their occupancy rates.

Our dedication to tenant management and strategic marketing has been able to forestall major contract cancellations and office vacancies. At the end of the period, the Company's occupancy rate stood at 94.4%.

To augment profitability when rental rates cannot be easily raised, the Company is also working to cut the administrative costs (property management fees and utility expenses). For the 24 buildings acquired in the first period, we set a target of a 7.3% reduction in annual administrative costs within three years of acquisition. In fact, we are ahead of schedule by expecting a 5.7% cost reduction by September 30, 2003.

### Continued growth through advantageous acquisitions

Restructuring and downsizing among companies eligible for asset impairment accounting are bringing numerous sale offers to the market. This puts us in a good position for acquiring superior properties. The Company scrutinizes these properties with respect to their location, facility level, and local competition as well as rights and other legal aspects. Based on such reviews, the Company has acquired properties at prices determined to maximize stable revenue and return on investment for our property portfolio.

In this period, the Company acquired the Kokusai Iidabashi Building on October 31, 2002 (renamed the Genki Medical Plaza on April 1, 2003), the da Vinci Harajuku on November 22, 2002, and the Aoyama Crystal Building on March 14, 2003. In addition, on March 3, 2003 we acquired a further 33.9% stake in the Kanazawa Park Building, to bring our total holdings in that building to 89.0%. The total acquisition cost was ¥19.3 billion (\$160.3 million).

Due to these investments, the Company's portfolio as of March 31, 2003 consisted of 30 office buildings worth a total of ¥183.5 billion (\$1.5 billion), with total leasable floor space of 236,693 m<sup>2</sup> (2,547,739 ft<sup>2</sup>) accommodating 359 tenants. Our asset value has roughly doubled in the year and a half following our listing in September 2001.



## Capital Procurement

Since quick financing is necessary when acquiring properties, the Company will focus on short-term borrowings in the initial stage. The Company will later achieve the optimum mix of financing methods and resources based on our analyses of trends in the capital markets.

As of March 31, 2003, the Company's total borrowings were ¥41.8 billion (\$347.8 million), of which ¥24.0 billion (\$199.7 million) was in long-term loans, with outstanding issues of corporate bonds totaling ¥25.0 billion (\$208.0 million).

The Company secured the following issuer credit ratings from Standard & Poor's and Moody's Investors Service as of the end of the period under review.

Rating agency	Issuer credit rating
Standard & Poor's	Long-term: A+, Short-term: A1, Outlook: Stable
Moody's Investors Service	Rating: A2, Outlook: Stable

On April 30, 2003, we issued our second and third series of corporate bonds (five-year and seven-year bonds respectively) as part of our capital procurement. Each issue generated ¥10.0 billion (\$83.2 million), which was used to repay short-term loans and convert them to long term, fixed-interest bonds as long-term rates remain at a low level. These corporate bonds have received credit ratings of A+ from Standard & Poor's and A2 from Moody's Investors Service.

## Performance Review

The Company had operating revenues of ¥8.5 billion (\$70.7 million), up 7.5% from the preceding period, and operating profits of ¥3.7 billion (\$30.7 million), up 8.9%, in the fiscal period ended March 31, 2003. Income before income taxes was ¥3.3 billion (\$27.1 million), up 12.5%, and net income was ¥3.3 billion (\$27.1 million), up 12.5%.

The Company plans to allot dividends of approximately 100 percent of income before income taxes at the end of each fiscal period in order to enjoy the tax benefits under the Special Taxation Measures Law, which produced a dividend of ¥14,455 (\$120.26) per share for the third period.



## Outlook for the Next Period

### Property acquisition policies

During the coming period in the real estate market, we expect to see disposal of real estate accelerate, prompted by write-offs of bad debt and impairment accounting. We believe that the coming period will present an opportunity to further increase our assets, and we plan to select superior properties for effective investments to maximize returns for our shareholders. Our basic policies for property acquisition are as stated below.

1) Development of information channels

The Company will broaden its information channels pertaining to potential property acquisition and develop new channels to obtain the latest information on the liquidation of properties.

2) Due diligence of properties for acquisition

The Company will continue to make property acquisition selections on the basis of its due diligence, including complete examination of all economic and physical factors as well as rights and legal matters, and with due concern for building operating conditions. Property selections will concentrate on those able to yield stable profits over the medium to long term.

3) Consideration of geographic distribution

Our guidelines with respect to the geographic diversity of properties follow our principles on acquisition, and dictate that 60 to 70 percent of properties should be in the metropolitan area (Tokyo, Kanagawa Prefecture, Chiba Prefecture, and Saitama Prefecture), with 30 to 40 percent in major regional cities. In the near term the metropolitan area may figure more prominently, following our decision to prioritize metropolitan properties based on our overall assessment of office demand trends and other factors.

### Property management policies

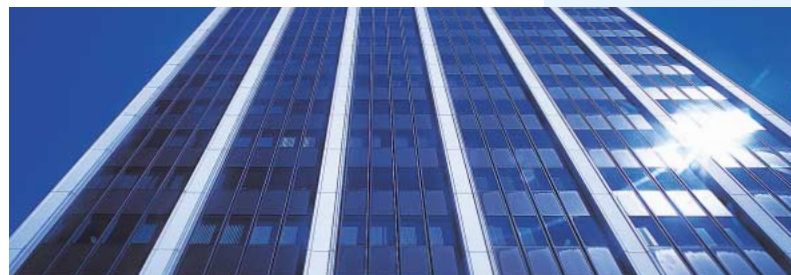
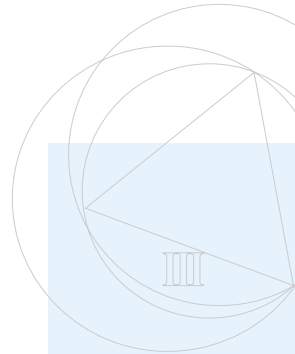
While the coming period will offer opportunities for acquiring properties, we anticipate that market conditions will not support increasing rental revenue from our existing office buildings. The market is soft and some properties may suffer reduced occupancy rates. We are responding to this situation by consistently following the management principles set forth below, which will ensure stable profitability.

1) Ensure tenant satisfaction

The Company has property management contracts with seven management companies. Most of these firms were already involved in administration of their respective buildings before acquisition by the Company, and have established a relationship with the tenants. We believe that further strengthening these relationships will increase tenant satisfaction and help us continue to attract favorable tenants.

2) Fill vacancies promptly

To fill any vacancies in properties, the Company will work closely with the property management companies for its office buildings to select candidates appropriate to the location and characteristics of the buildings, and actively pursue tenancy contracts with these candidates. The Company also will make efforts to spur demand among existing tenants for increases in office space.





3) Secure stable revenue

The Company will gradually shift a certain portion of its leasing contracts to fixed and/or long-term leases to secure stable revenue in the future.

4) Reduce expenses through competition

The Company will promote vigorous competition among its seven property management companies to revamp their costs, maintenance and administrative structures, thereby reducing property management fees and utility expenses by 5 percent within three years from acquisition of the property.

Performance Forecasts

For the fourth period (from April 1, 2003 to September 30, 2003), the Company anticipates operating revenue of ¥8.8 billion (\$73.2 million), income before income taxes of ¥3.3 billion (\$27.5 million), net income of ¥3.3 billion (\$27.5 million), and dividends of ¥14,500 (\$120.63) per share.

For the fifth period (from October 1, 2003 to March 31, 2004), the Company anticipates operating revenue of ¥8.4 billion (\$69.9 million), income before income taxes of ¥3.1 billion (\$25.8 million), net income of ¥3.1 billion (\$25.8 million), and dividends of ¥14,000 (\$116.47) per share.

The above conservative forecast does not include consideration of revenues from expected acquisitions in the future. In addition, the occupancy rate at the end of the fourth period is estimated at 93.5%, and planned cancellations and subsequent vacancies after the end of the fourth period are taken into account.



For Sustained Growth

There is scant prospect of a substantial improvement in economic conditions in the coming period, and it is expected that revitalization in the market for leased office space will lag behind any upswing in economic indicators. However, the Company has the strong portfolio, capable management, and trustworthy professionals to overcome the adverse economic climate.

Furthermore, the Company declared its core philosophy of what we call the 4 S's: Sincerity, Stability, Soundness, and Strength of Will at the time of foundation. We believe these core values are readily reflected in our business results, as the Company has already performed substantially on the expectations of the previous period. By adhering to this proven philosophy and steadily implementing our property acquisition and management policies, we are confident that the Company will continue to grow and present stable dividends. We would like to sincerely thank you, our shareholders, for your continued support.



*Yoneichiro Baba*

Yoneichiro Baba  
Executive Director of Japan Real Estate Investment Corporation

*Ryoichi Kakehashi*

Ryoichi Kakehashi  
CEO & President of Japan Real Estate Asset Management Co., Ltd

# The Portfolio of Japan Real Estate Investment Corporation

As of March 31, 2003

## PROPERTIES ROSTER

Number	Building name	Location	Type of specified asset	Acquisition date	Acquisition Price (¥ millions)
<b>Tokyo 23 Wards</b>					
● I-1	Mitsubishi Soken Building	Otemachi, Chiyoda-ku	Trust	9/25/2001	27,267 (14.9%)
● I-2	Kodenmachi Shin-Nihonbashi Building	Nihonbashi, Chuo-ku	Trust	9/25/2001	3,173 ( 1.7%)
● I-3	Shiba 2chome Daimon Building	Shiba, Minato-ku	Trust	9/10/2001	4,859 ( 2.6%)
● I-4	Cosmo Kanasugibashi Building	Shiba, Minato-ku	Trust	9/25/2001	2,808 ( 1.5%)
● I-5	Takanawadai Building	Higashi Gotanda, Shinagawa-ku	Trust	9/25/2001	2,738 ( 1.5%)
● I-6	JAL Travel Building (Note 1)	Shimo Meguro, Meguro-ku	Trust	9/10/2001	1,362 ( 0.7%)
● I-7	Omori-Eki Higashiguchi Building	Omori Kita, Ota-ku	Trust	9/10/2001	5,123 ( 2.8%)
● I-8	Otsuka Higashi-Ikebukuro Building	Higashi-Ikebukuro, Toshima-ku	Trust	9/25/2001	3,541 ( 1.9%)
● I-9	Ikebukuro 2chome Building	Ikebukuro, Toshima-ku	Trust	9/25/2001	1,728 ( 0.9%)
● I-10	Shibuya Cross Tower	Shibuya, Shibuya-ku	Ownership	11/30/2001	34,600 (18.9%)
● I-11	MD Kanda Building	Kanda, Chiyoda-ku	Ownership	5/31/2002	9,520 ( 5.2%)
● I-12	Burex Kyobashi Building	Kyobashi, Chuo-ku	Ownership	7/22/2002	5,250 ( 2.9%)
● I-13	Kandabashi Park Building	Kandanishiki-cho, Chiyoda-ku	Ownership	8/15/2002	4,810 ( 2.6%)
● I-14	Genki Medical Plaza (Note 2)	Iidabashi, Chiyoda-ku	Ownership	10/31/2002	5,000 ( 2.7%)
● I-15	da Vinci Harajuku	Jingumae, Shibuya-ku	Ownership	11/22/2002	4,885 ( 2.7%)
● I-16	Aoyama Crystal Building	Kitaoyama, Minato-ku	Ownership	3/14/2003	7,680 ( 4.2%)
<b>Tokyo Metropolitan Area Excluding 23 Wards</b>					
● II-1	Saitama Urawa Building (Note 3)	Saitama, Saitama Prefecture	Ownership	9/25/2001	1,232
				10/11/2001	1,342
				<i>total</i>	2,574 ( 1.4%)
● II-2	Kawasaki Isago Building	Kawasaki, Kanagawa Prefecture	Trust	9/25/2001	3,375 ( 1.8%)
● II-3	Ericsson Shin-Yokohama Building	Yokohama, Kanagawa Prefecture	Ownership	1/28/2002	3,000 ( 1.6%)
<b>Other major cities</b>					
● III-1	Sendai Honcho Honma Building	Sendai, Miyagi Prefecture	Trust	9/25/2001	2,924 ( 1.6%)
● III-2	Niigata Ishizuecho Nishi-Bandaibashi Building	Niigata, Niigata Prefecture	Trust	9/25/2001	1,010 ( 0.6%)
● III-3	Kanazawa Minamicho Building	Kanazawa, Ishikawa Prefecture	Trust	9/25/2001	1,331 ( 0.7%)
● III-4	Nagoya Hirokoji Building	Nagoya, Aichi Prefecture	Ownership	9/10/2001	14,533 ( 7.9%)
● III-5	Midosuji Daiwa Building	Osaka, Osaka Prefecture	Trust	9/25/2001	6,934
				2/28/2002	7,380
				<i>total</i>	14,314 ( 7.8%)
● III-6	Fukusuke Sakaisujihonmachi Building	Osaka, Osaka Prefecture	Trust	9/25/2001	2,264 ( 1.2%)
● III-7	Kobe Itomachi Building	Kobe, Hyogo Prefecture	Trust	9/25/2001	1,436 ( 0.8%)
● III-8	Hinode Tenjin Building	Fukuoka, Fukuoka Prefecture	Trust	9/10/2001	3,657 ( 2.0%)
● III-9	Tosei Tenjin Building	Fukuoka, Fukuoka Prefecture	Ownership	9/25/2001	1,550 ( 0.8%)
● III-10	Kyoto Shijo Kawaramachi Building	Kyoto, Kyoto Prefecture	Ownership	12/20/2001	2,650 ( 1.4%)
● III-11	Kanazawa Park Building	Kanazawa, Ishikawa Prefecture	Ownership	2/28/2002	2,880
				3/3/2003	1,700
				<i>total</i>	4,580 ( 2.5%)
				<b>TOTAL</b>	<b>183,542 ( 100%)</b>

## MAJOR TENANTS ROSTER

Rank	Name of tenant	Name of Building	Leased area	Percent of total rentable area
1	Mitsubishi Reserch Institute, Inc. (Note 1)	Mitsubishi Soken Building	14,529m <sup>2</sup> (156,389ft <sup>2</sup> )	6.5%
2	The Dai-ichi Mutual Life Insurance Company	Midosuji Daiwa Building (also includes another 8 buildings)	13,292m <sup>2</sup> (143,074ft <sup>2</sup> )	6.0%
3	Nippon Ericsson K.K.	Ericsson Shin-Yokohama Building	5,794m <sup>2</sup> ( 62,366ft <sup>2</sup> )	2.6%
4	TOTO Ltd.	Nagoya Hirokoji Building, Midosuji Daiwa Building	4,840m <sup>2</sup> ( 52,097ft <sup>2</sup> )	2.2%
5	Center for Health Care & Public Concern (Note 2)	Genki Medical Plaza	4,791m <sup>2</sup> ( 51,570ft <sup>2</sup> )	2.1%

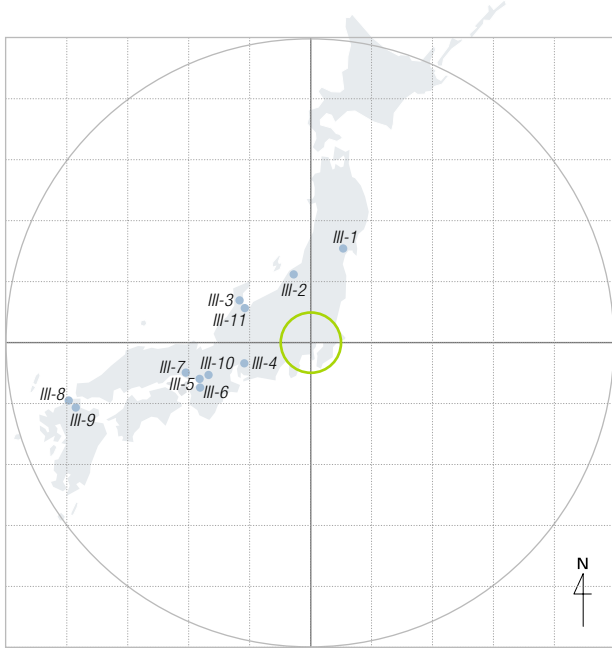
Notes: 1. Lease with this tenant is a fixed-term lease for the period from February 1, 2001 to March 31, 2011. This tenant has agreed not to terminate the contract during the lease period.

2. Lease with this tenant is a fixed-term lease for the period from November 1, 2002 to October 31, 2017. This tenant has agreed not to terminate the contract during the lease period.

Percentage of ownership of the building (%)	Completion	Appraisal value at the end of period (¥ millions)	Total leasable floor space	Leased area	Total number of tenants	Revenue from leasing operations (¥millions)
100	1970	28,000	18,006m <sup>2</sup> (193,815ft <sup>2</sup> )	17,347m <sup>2</sup> (186,721ft <sup>2</sup> )	3	972 (11.4%)
100	1991	3,140	3,897m <sup>2</sup> ( 41,947ft <sup>2</sup> )	3,897m <sup>2</sup> ( 41,947ft <sup>2</sup> )	5	161 ( 1.9%)
100	1984	4,890	9,622m <sup>2</sup> (103,570ft <sup>2</sup> )	8,289m <sup>2</sup> ( 89,222ft <sup>2</sup> )	26	314 ( 3.7%)
100	1992	2,760	4,062m <sup>2</sup> ( 43,723ft <sup>2</sup> )	4,062m <sup>2</sup> ( 43,723ft <sup>2</sup> )	7	111 ( 1.3%)
100	1991	2,810	4,091m <sup>2</sup> ( 44,035ft <sup>2</sup> )	4,091m <sup>2</sup> ( 44,035ft <sup>2</sup> )	1	141 ( 1.7%)
100	1991	1,500	3,383m <sup>2</sup> ( 36,414ft <sup>2</sup> )	3,383m <sup>2</sup> ( 36,414ft <sup>2</sup> )	1	103 ( 1.2%)
100	1989	5,220	7,708m <sup>2</sup> ( 82,968ft <sup>2</sup> )	7,598m <sup>2</sup> ( 81,784ft <sup>2</sup> )	19	292 ( 3.4%)
100	1987	3,530	7,114m <sup>2</sup> ( 76,574ft <sup>2</sup> )	6,732m <sup>2</sup> ( 72,463ft <sup>2</sup> )	8	190 ( 2.2%)
100	1990	1,520	2,186m <sup>2</sup> ( 23,530ft <sup>2</sup> )	1,941m <sup>2</sup> ( 20,893ft <sup>2</sup> )	4	76 ( 0.9%)
100	1976	34,400	28,547m <sup>2</sup> (307,277ft <sup>2</sup> )	28,547m <sup>2</sup> (307,277ft <sup>2</sup> )	54	1,619 (19.0%)
100	1998	9,620	6,334m <sup>2</sup> ( 68,179ft <sup>2</sup> )	6,334m <sup>2</sup> ( 68,179ft <sup>2</sup> )	3	375 ( 4.4%)
100	2002	5,040	4,279m <sup>2</sup> ( 46,059ft <sup>2</sup> )	4,279m <sup>2</sup> ( 46,059ft <sup>2</sup> )	1	150 ( 1.8%)
56.76	1993	4,900	3,687m <sup>2</sup> ( 39,686ft <sup>2</sup> )	3,687m <sup>2</sup> ( 39,686ft <sup>2</sup> )	7	198 ( 2.3%)
100	1985	5,450	4,791m <sup>2</sup> ( 51,570ft <sup>2</sup> )	4,791m <sup>2</sup> ( 51,570ft <sup>2</sup> )	1	70 ( 0.8%)
100	1987	4,960	3,051m <sup>2</sup> ( 32,841ft <sup>2</sup> )	3,051m <sup>2</sup> ( 32,841ft <sup>2</sup> )	6	132 ( 1.6%)
100	1982	7,430	4,916m <sup>2</sup> ( 52,915ft <sup>2</sup> )	4,916m <sup>2</sup> ( 52,915ft <sup>2</sup> )	9	23 ( 0.3%)
100	1990	2,570	4,510m <sup>2</sup> ( 48,545ft <sup>2</sup> )	4,111m <sup>2</sup> ( 44,250ft <sup>2</sup> )	12	147 ( 1.7%)
100	1990	3,190	6,831m <sup>2</sup> ( 73,528ft <sup>2</sup> )	6,831m <sup>2</sup> ( 73,528ft <sup>2</sup> )	10	195 ( 2.3%)
100	1992	3,180	6,964m <sup>2</sup> ( 74,960ft <sup>2</sup> )	6,964m <sup>2</sup> ( 74,960ft <sup>2</sup> )	2	186 ( 2.2%)
93.39	1991	2,940	5,829m <sup>2</sup> ( 62,743ft <sup>2</sup> )	5,829m <sup>2</sup> ( 62,743ft <sup>2</sup> )	13	164 ( 1.9%)
100	1984	854	4,383m <sup>2</sup> ( 47,178ft <sup>2</sup> )	3,634m <sup>2</sup> ( 39,116ft <sup>2</sup> )	7	82 ( 1.0%)
100	1987	1,200	3,773m <sup>2</sup> ( 40,612ft <sup>2</sup> )	3,337m <sup>2</sup> ( 35,919ft <sup>2</sup> )	12	94 ( 1.1%)
100	1987	15,000	21,590m <sup>2</sup> (232,393ft <sup>2</sup> )	20,101m <sup>2</sup> (216,365ft <sup>2</sup> )	27	811 ( 9.5%)
100	1991	14,400	20,449m <sup>2</sup> (220,111ft <sup>2</sup> )	18,685m <sup>2</sup> (201,123ft <sup>2</sup> )	18	830 ( 9.8%)
46.17	1992	2,300	5,337m <sup>2</sup> ( 57,447ft <sup>2</sup> )	4,886m <sup>2</sup> ( 52,592ft <sup>2</sup> )	7	161 ( 1.9%)
100	1989	1,180	3,478m <sup>2</sup> ( 37,437ft <sup>2</sup> )	2,961m <sup>2</sup> ( 31,872ft <sup>2</sup> )	10	70 ( 0.8%)
76.18	1987	3,750	5,944m <sup>2</sup> ( 63,981ft <sup>2</sup> )	5,866m <sup>2</sup> ( 63,141ft <sup>2</sup> )	10	215 ( 2.5%)
100	1992	1,420	4,080m <sup>2</sup> ( 43,917ft <sup>2</sup> )	3,128m <sup>2</sup> ( 33,669ft <sup>2</sup> )	16	98 ( 1.2%)
100	1982	2,380	6,800m <sup>2</sup> ( 73,195ft <sup>2</sup> )	4,934m <sup>2</sup> ( 53,109ft <sup>2</sup> )	20	127 ( 1.5%)
89.0	1991	5,170	21,036m <sup>2</sup> (226.492ft <sup>2</sup> )	19,185m <sup>2</sup> (206.505ft <sup>2</sup> )	64	378 ( 4.4%)
-	-	<b>184,704</b>	<b>236,693m<sup>2</sup> (2,547,740ft<sup>2</sup>)</b>	<b>223,410m<sup>2</sup> (2,404,623ft<sup>2</sup>)</b>	<b>359</b>	<b>8,500 (100%)</b>

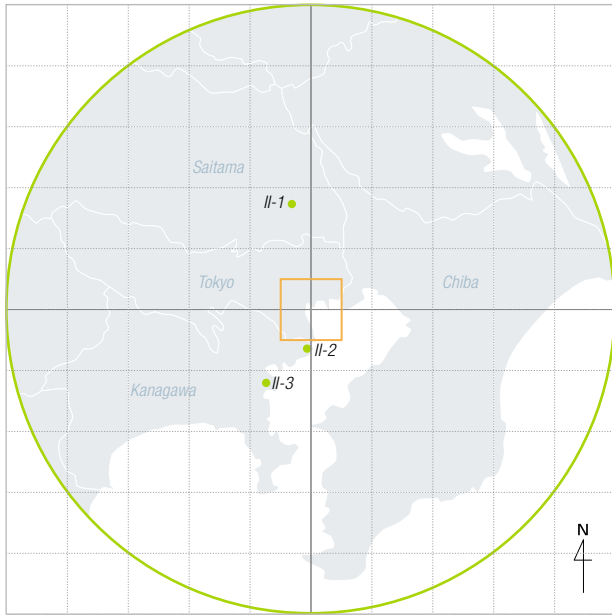
Notes: 1. On July 28, 2003 "JTS Building" was renamed to "JAL Travel Building".  
2. On April 1, 2003 "Kokusai Iidabashi Building" was renamed to "Genki Medical Plaza".  
3. On April 1, 2003 "Urawa Dai-ichi-Seimei Dowa Kasai Building" was renamed to "Saitama Urawa Building".

LOCATIONS OF PORTFOLIO PROPERTIES



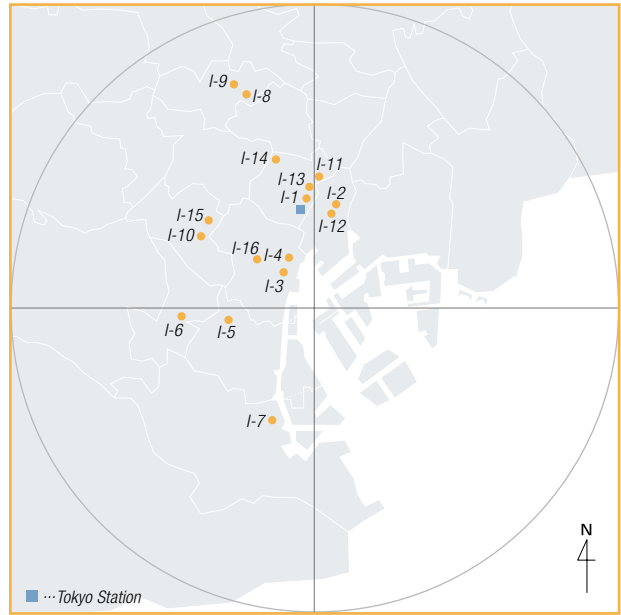
III-1 – III-11: Other major cities

v



II-1 – II-3 : Tokyo Metropolitan Area Excluding 23 Wards

>



I-1 – I-16 : Tokyo 23 Wards

## Overview of Portfolio Properties

### PROPERTY ACQUISITION

As of March 31, 2003



Mitsubishi Soken Building

● I-1

Location: 3-6, Otemachi 2-chome, Chiyoda-ku, Tokyo  
 Site area: 3,441.35m<sup>2</sup> (37,042.35ft<sup>2</sup>)  
 Floor area of building: 26,372.92m<sup>2</sup> (283,875.47ft<sup>2</sup>)  
 Structure: Above ground: 15 floors  
 Below ground: 2 floors  
 Completion: July 1970



Kodenmachi  
Shin-Nihonbashi Building

● I-2

Location: 4-9, Kodenmachi, Nihonbashi, Chuo-ku, Tokyo  
 Site area: 773.28m<sup>2</sup> (8,323.51ft<sup>2</sup>)  
 Floor area of building: 5,822.88m<sup>2</sup> (62,676.90ft<sup>2</sup>)  
 Structure: Above ground: 9 floors  
 Below ground: 1 floor  
 Completion: November 1991



Shiba 2chome Daimon Building

● I-3

Location: 3-3, Shiba 2-chome, Minato-ku, Tokyo  
 Site area: 2,820.90m<sup>2</sup> (30,363.89ft<sup>2</sup>)  
 Floor area of building: 16,235.10m<sup>2</sup> (174,752.99ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Below ground: 2 floors  
 Completion: March 1984



Cosmo Kanasugibashi Building

● I-4

Location: 10-11, Shiba 1-chome, Minato-ku, Tokyo  
 Site area: 758.54m<sup>2</sup> (8,164.85ft<sup>2</sup>)  
 Floor area of building: 5,420.93m<sup>2</sup> (58,350.35ft<sup>2</sup>)  
 Structure: Above ground: 9 floors  
 Below ground: 1 floor  
 Completion: March 1992



Takanawadai Building

● I-5

Location: 1-5, Higashi Gotanda 3-chome, Shinagawa-ku, Tokyo  
 Site area: 1,416.17m<sup>2</sup> (15,243.51ft<sup>2</sup>)  
 Floor area of building: 5,762.70m<sup>2</sup> (62,029.13ft<sup>2</sup>)  
 Structure: Above ground: 13 floors  
 Completion: January 1991



JAL Travel Building

● I-6

Location: 7-10, Shimo Meguro 3-chome, Meguro-ku, Tokyo  
 Site area: 1,401.52m<sup>2</sup> (15,085.82ft<sup>2</sup>)  
 Floor area of building: 5,269.58m<sup>2</sup> (56,721.23ft<sup>2</sup>)  
 Structure: Above ground: 6 floors  
 Below ground: 1 floor  
 Completion: September 1991



**Omori-Eki Higashiguchi Building**

● I-7

Location: 5-1, Omori Kita 1-chome, Ota-ku, Tokyo  
 Site area: 2,199.30m<sup>2</sup> (23,673.05ft<sup>2</sup>)  
 Floor area of building: 14,095.34m<sup>2</sup> (151,720.83ft<sup>2</sup>)  
 Structure: Above ground: 11 floors  
 Below ground: 2 floors  
 Completion: July 1989



**Otsuka Higashi-Ikebukuro Building**

● I-8

Location: 32-22, Higashi-Ikebukuro 2-chome, Toshima-ku, Tokyo  
 Site area: 2,121.39m<sup>2</sup> (22,834.43ft<sup>2</sup>)  
 Floor area of building: 9,531.28m<sup>2</sup> (102,593.74ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Below ground: 1 floor  
 Completion: November 1987



**Ikebukuro 2chome Building**

● I-9

Location: 14-2, Ikebukuro 2-chome, Toshima-ku, Tokyo  
 Site area: 397.26m<sup>2</sup> (4,276.07ft<sup>2</sup>)  
 Floor area of building: 3,157.51m<sup>2</sup> (33,987.12ft<sup>2</sup>)  
 Structure: Above ground: 9 floors  
 Below ground: 1 floor  
 Completion: May 1990



**Shibuya Cross Tower**

● I-10

Location: 15-1, Shibuya 2-chome, Shibuya-ku, Tokyo  
 Site area: 5,153.45m<sup>2</sup> (55,471.22ft<sup>2</sup>)  
 Floor area of building: 61,862.33m<sup>2</sup> (665,879.93ft<sup>2</sup>)  
 Structure: Above ground: 32 floors  
 Below ground: 3 floors  
 Completion: April 1976



**MD Kanda Building**

● I-11

Location: 9-1, Mitoshiro-cho, Kanda, Chiyoda-ku, Tokyo  
 Site area: 1,085.83m<sup>2</sup> (11,687.77ft<sup>2</sup>)  
 Floor area of building: 8185.11m<sup>2</sup> (88,103.71ft<sup>2</sup>)  
 Structure: Above ground: 10 floors  
 Completion: February 1998



**Burex Kyobashi Building**

● I-12

Location: 7-14, Kyobashi 2-chome, Chuo-ku, Tokyo  
 Site area: 756.03m<sup>2</sup> (8,137.83ft<sup>2</sup>)  
 Floor area of building: 5,470.54m<sup>2</sup> (58,884.35ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Below ground: 1 floor  
 Completion: February 2002



**Kandabashi Park Building**

● I-13

Location: 19-1, Kandanshiki-cho 1-chome, Chiyoda-ku, Tokyo  
 Site area: 1,218.56m<sup>2</sup> (13,116.46ft<sup>2</sup>)  
 Floor area of building: 9,370.25m<sup>2</sup> (100,860.43ft<sup>2</sup>)  
 Structure: Above ground: 10 floors  
 Below ground: 1 floor  
 Completion: July 1993



**Genki Medical Plaza**

● I-14

Location: 6-5, Iidabashi 3chome, Chiyoda-ku, Tokyo  
 Site area: 1,052.80m<sup>2</sup> (11,332.23ft<sup>2</sup>)  
 Floor area of building: 6,722.02m<sup>2</sup> (72,355.15ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Below ground: 1 floor  
 Completion: September 1985



**da Vinci Harajuku**

● I-15

Location: 25-15, Jingumae 3chome, Shibuya-ku, Tokyo  
 Site area: 839.66m<sup>2</sup> (9,038.02ft<sup>2</sup>)  
 Floor area of building: 4,359.20m<sup>2</sup> (46,921.99ft<sup>2</sup>)  
 Structure: Above ground: 7 floors  
 Below ground: 2 floors  
 Completion: December 1987



**Aoyama Crystal Building**

● I-16

Location: 5-12, Kita-Aoyama 3chome, Minato-ku, Tokyo  
 Site area: 989.30m<sup>2</sup> (10,648.73ft<sup>2</sup>)  
 Floor area of building: 8,094.36m<sup>2</sup> (87,126.88ft<sup>2</sup>)  
 Structure: Above ground: 10 floors  
 Below ground: 4 floors  
 Completion: December 1982



**Saitama Urawa Building**

● II-1

Location: 2-3, Takasago 2-chome, Urawa-ku, Saitama,  
 Saitama Prefecture  
 Site area: 1,533.06m<sup>2</sup> (16,501.70ft<sup>2</sup>)  
 Floor area of building: 6,258.59m<sup>2</sup> (67,366.84ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Completion: March 1990



**Kawasaki Isago Building**

● II-2

Location: 2-4, Isago 1-chome, Kawasaki-ku, Kawasaki,  
 Kanagawa Prefecture  
 Site area: 1,594.50m<sup>2</sup> (17,163.04ft<sup>2</sup>)  
 Floor area of building: 9,623.83m<sup>2</sup> (103,589.94ft<sup>2</sup>)  
 Structure: Above ground: 12 floors  
 Below ground: 1 floor  
 Completion: December 1990





**Ericsson Shin-Yokohama Building**

● *II-3*

Location: 2-1, Shin-Yokohama 1-chome, Kohoku-ku, Yokohama, Kanagawa Prefecture

Site area: 1,528.00m<sup>2</sup> (16,447.24ft<sup>2</sup>)

Floor area of building: 10,403.41m<sup>2</sup> (111,981.26ft<sup>2</sup>)

Structure: Above ground: 10 floors  
Below ground: 2 floors

Completion: April 1992



**Sendai Honcho Honma Building**

● *III-1*

Location: 1-29, Honcho 2-chome, Aoba-ku, Sendai, Miyagi Prefecture

Site area: 1,437.47m<sup>2</sup> (15,472.78ft<sup>2</sup>)

Floor area of building: 8,247.50m<sup>2</sup> (88,775.27ft<sup>2</sup>)

Structure: Above ground: 11 floors

Completion: November 1991



**Niigata Ishizuecho Nishi-Bandaibashi Building**

● *III-2*

Location: 1945-1, Ishizuecho Dori-ichinocho, Niigata, Niigata Prefecture

Site area: 957.90m<sup>2</sup> (10,310.74ft<sup>2</sup>)

Floor area of building: 6,410.33m<sup>2</sup> (69,000.15ft<sup>2</sup>)

Structure: Above ground: 8 floors  
Below ground: 1 floor

Completion: November 1984



**Kanazawa Minamicho Building**

● *III-3*

Location: 3-10, Oyamamachi, Kanazawa, Ishikawa Prefecture

Site area: 887.17m<sup>2</sup> (9,549.41ft<sup>2</sup>)

Floor area of building: 5,163.19m<sup>2</sup> (55,576.06ft<sup>2</sup>)

Structure: Above ground: 9 floors

Completion: March 1987



**Nagoya Hirokoji Building**

● *III-4*

Location: 3-1, Sakae 2-chome, Naka-ku, Nagoya, Aichi Prefecture

Site area: 4,095.81m<sup>2</sup> (44,086.89ft<sup>2</sup>)

Floor area of building: 33,377.73m<sup>2</sup> (359,274.55ft<sup>2</sup>)

Structure: Above ground: 18 floors  
Below ground: 2 floors

Completion: May 1987



**Midosuji Daiwa Building**

● *III-5*

Location: 6-8, Kyutaromachi 3-chome, Chuo-ku, Osaka, Osaka Prefecture

Site area: 3,044.65m<sup>2</sup> (32,772.31ft<sup>2</sup>)

Floor area of building: 31,213.27m<sup>2</sup> (335,976.52ft<sup>2</sup>)

Structure: Above ground: 15 floors  
Below ground: 2 floors

Completion: September 1991





**Fukusuke Sakaisujihonmachi Building**

● III-6

Location: 8-14, Minamihonmachi 1-chome, Chuo-ku, Osaka, Osaka Prefecture  
 Site area: 2,036.22m<sup>2</sup> (21,917.67ft<sup>2</sup>)  
 Floor area of building: 17,145.59m<sup>2</sup> (184,553.42ft<sup>2</sup>)  
 Structure: Above ground: 13 floors  
 Below ground: 2 floors  
 Completion: October 1992



**Kobe Itomachi Building**

● III-7

Location: 121, Itomachi, Chuo-ku, Kobe, Hyogo Prefecture  
 Site area: 808.55m<sup>2</sup> (8,703.15ft<sup>2</sup>)  
 Floor area of building: 4,894.09m<sup>2</sup> (52,679.50ft<sup>2</sup>)  
 Structure: Above ground: 10 floors  
 Completion: September 1989



**Hinode Tenjin Building**

● III-8

Location: 12-20, Tenjin 1-chome, Chuo-ku, Fukuoka, Fukuoka Prefecture  
 Site area: 1,452.15m<sup>2</sup> (15,630.80ft<sup>2</sup>)  
 Floor area of building: 12,527.07m<sup>2</sup> (134,840.13ft<sup>2</sup>)  
 Structure: Above ground: 10 floors  
 Below ground: 2 floors  
 Completion: August 1987



**Tosei Tenjin Building**

● III-9

Location: 9-25, Tenjin 3-chome, Chuo-ku, Fukuoka, Fukuoka Prefecture  
 Site area: 1,221.31m<sup>2</sup> (13,146.06ft<sup>2</sup>)  
 Floor area of building: 5,588.57m<sup>2</sup> (60,154.81ft<sup>2</sup>)  
 Structure: Above ground: 8 floors  
 Completion: March 1992



**Kyoto Shijo Kawaramachi Building**

● III-10

Location: 338, Tominaga-cho, Kawaramachidori Matsubara-agaru 2-chome, Shimogyo-ku, Kyoto, Kyoto Prefecture  
 Site area: 1,471.57m<sup>2</sup> (15,839.83ft<sup>2</sup>)  
 Floor area of building: 9,701.04m<sup>2</sup> (104,421.02ft<sup>2</sup>)  
 Structure: Above ground: 9 floors  
 Below ground: 1 floor  
 Completion: November 1982



**Kanazawa Park Building**

● III-11

Location: 1-1, Hirooka 3-chome, Kanazawa, Ishikawa Prefecture  
 Site area: 6,642.71m<sup>2</sup> (71,501.47ft<sup>2</sup>)  
 Floor area of building: 43,481.20m<sup>2</sup> (468,027.29ft<sup>2</sup>)  
 Structure: Above ground: 12 floors  
 Below ground: 2 floors  
 Completion: October 1991

Note: Details on area, structure etc. listed above as recorded in the registry.

# ***The Company's Investment Policies***

## **(1) INVESTMENT POLICIES**

### **(i) Basic investment policies**

The basic investment policies of the Company shall be as follows:

#### **① Basic Policies (Article 23 of the Articles of Incorporation)**

The Company shall invest primarily in specified assets (the "portfolio real estate assets"), consisting of certain real estate assets and real estate related securities (as defined below) with the goals of achieving stable growth in value over a medium- to long-term period. The terms "real estate assets" and "real estate related securities" shall mean the items listed below.

##### I. Real estate assets:

1. Real estate
2. Leaseholds of real estate
3. Surface rights
4. Trust beneficiary rights in trust of real estate, leaseholds of land, and surface rights. These assets referred to herein include beneficiary certificates of comprehensive trusts over real estate and moneys incidental thereto, but do not include marketable securities as defined in Article 3, Item 1 of the Cabinet Order of Law on Investment Trusts and Investment Corporations (Cabinet Order No. 480 of 2000, as amended, the "Cabinet Order")
5. Trust beneficiary rights in monetary trusts that are invested in real estate, leaseholds of real estate, and surface rights (except for marketable securities)
6. Equity interests in anonymous partnership relating to a contract that (i) either party makes a contribution to the other party for purposes of management of the assets described in any of the items listed in 1 through 5 above, (ii) the other party manages the contribution as investments principally in any of such assets, and (iii) its profits are distributed (hereinafter referred to as "anonymous partnership equity interest")

##### II. Marketable securities, value of which derives principally from real estate assets (the "real estate related securities") are as follows:

1. Preferred Securities (as defined in Article 2, Paragraph 8 of Asset Liquidation Law, Law No. 105 of 1998, as amended, the "Asset Liquidation Law") issued by a special purpose company under such Law whose objective is to invest more than half of its assets in real estate assets
2. Beneficiary certificates (as defined in Article 2, Paragraph 12 of the Investment Trust Law) issued by an investment trust whose objective is to invest more than half of its assets in real estate assets
3. Certificates for shares (as defined in Article 2, Paragraph 22 of the Investment Trust Law) issued by an investment corporation under such Law whose objective is to invest more than half of its assets in real estate assets
4. Beneficiary certificates of a special purpose trust (as defined in Article 2, Paragraph 12 under the Asset Liquidation Law) , whose objective is to invest more than half of its assets in real estate assets (except for the trust beneficiary rights referred to in 4. and 5. of I. above)

#### **② Investment attitude (Article 24 of the Articles of Incorporation)**

The following is the basic policy of investment attitude of the Company, especially its policy concerning the acquisition and holding of the Portfolio Real Estate as set forth in the Articles of Incorporation.

- A. In accordance with the Ministerial Ordinance of Ministry of Finance, the Company shall make an investment so that at least 75% of its total assets is invested in real estate, leaseholds of real estate, surface rights, trust beneficiary rights (that entrust solely in real estate, leaseholds of land and surface rights), and anonymous partnership equity interests (that invest solely in real estate, leaseholds of real estate and surface rights). Anonymous partnership equity interests are equity invested under a contract such that one of the parties makes an deposit for the purpose of management of assets by the second party, and the second party invests and manages the deposited funds in the said assets, distributing the profits generated by that management.
- B. It is the Company's asset investment policy to make an investment, so that the ratio (the "specified real estate ratio") of the aggregate value of the specified real estate to the aggregate value of the specified assets is at least 75%. The specified real estate shall mean,

among the specified assets, the real estate, leaseholds of real estate, surface rights or the trust beneficiary rights of real estate, leaseholds of land and surface rights.

- C. It is the Company's asset investment policy that the ratio of the aggregate value of the real estate to that of the specified assets acquired during any fiscal period (commencing on April 1, 2002) must be at least one half of the specified real estate ratio. The policy set under this point shall be applied as long as the said requirements related to exceptions to standard taxation under the real estate acquisition tax exist.
- D. The Company shall principally invest in office buildings which are located in Tokyo and other major metropolitan areas of Japan, including those as such designated by the relevant Cabinet Order.
- E. The Company shall make investment decisions only after it conducts thorough and sufficient due diligence investigations of the relevant real estate assets and becomes fully aware of the investment value in light of the investment climate.
- F. The Company shall invest principally in real estate and trust beneficiary rights in trust of real estate, but may invest in other real estate assets (meaning any asset listed in "I. Real estate assets" above, but excluding the real estate and the trust beneficiary rights in trust of the real estate) and real estate related securities in addition to those described above in light of investment climate at that time and/or the size of the assets.

③ Leasing of corporate assets (Article 27 of the Articles of Incorporation)

The Company may enter into leasing contracts with third parties with regard to real estate assets being specified assets, for the purpose of generating earnings, and may cause the trustees to enter into leasing contracts with third parties with regard to the underlying real estate of the trust beneficiary rights.

④ Loans and corporate bonds (Article 30 of the Articles of Incorporation)

- A. In order to manage the portfolio of the Company in an efficient and stable manner, the Company may make borrowings or issue corporate bonds with a view to utilizing the proceeds thereof toward acquisitions of specified assets, capital improvements of the real estate for lease and the underlying real estate of the trust beneficiary rights and working capital.
- B. The Company shall not make total borrowings, including loans and issuance of corporate bonds, in excess of an aggregate of ¥1 trillion.
- C. The Company may borrow only from qualified institutional investors (the "qualified institutional investors") referred to in Article 2, Paragraph 3, Item 1 of the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended).

**(ii) Guidelines for investment and management of portfolio real estate assets based on basic investment policies**

The asset management company, J-Rea, has internally established the asset management guidelines (the "Asset Management Guidelines"), as the internal guidelines with regard to investment and management by the Company of its portfolio real estate assets, based on the basic investment policies outlined in section (i), ① through ④ above and in accordance with the asset management agreement (the "Asset Management Agreement") concluded between the Company and the asset management company dated May 18, 2001, as amended on August 3, 2001 and April 1, 2003. Accordingly, the asset management company manages the portfolio real estate assets in compliance with such Asset Management Guidelines, with the aim of managing the assets of the Company in an appropriate manner.

The Asset Management Guidelines have been formed, based on the current Japanese economic environment, real estate market conditions, financial environment, statistics of economy, property conditions and performance of the Company, all at the time of listing on the Tokyo Stock Exchange, or TSE, the medium- and long-term outlook for the real estate market, and experience and know-how accumulated by the asset management company and other various complex factors then available to the investment management company. As such, the asset management company intends to review the Asset Management Guidelines periodically to determine whether or not they appropriately fit with the external and internal environmental factors. If the asset management company determines that it is in the best interests of the Company and its investors to revise the Asset Management Guidelines to manage the portfolio, the Asset Management Guidelines may be revised periodically in line with the Articles of Incorporation and the asset management agreement.

The asset management company will pursue the achievement of internal growth as well as external growth in order to enhance its earnings and stability. Internal growth means that the Company will maximize the profitability of its own existing real estate and other assets. External

growth means that the Company will acquire new portfolio real estate assets within such an appropriate price range as may be considered the best interests of the Company. The asset management company shall conduct the management by taking into account the stability of the cash flow and the expected return from a comprehensive perspective. The asset management company will, in managing the assets, consider various factors, including portfolio composition in terms of geographical diversification, use, size and age as well as the capitalization rate (meaning the return obtained by dividing the cash flow, excluding capital expenditures but after deduction of cost of repairs, by the property acquisition costs). The Company is continuously engaged in market research activities, for the purpose of the external growth, to seek an opportunity to acquire new portfolio real estate assets. Once the Company makes an acquisition decision, the Company shall promptly make a public announcement thereof.

① Guidelines for acquisition of portfolio real estate assets

To achieve the external growth, the guidelines concerning the acquisition of portfolio real estate assets are as follows:

A. Geographic portfolio composition

1. The basic geographical diversification is to make investment of approximately 60-70% of the funds in real estate located in the greater Tokyo metropolitan area and the approximately remaining 30-40% of the funds in cities in other parts of Japan.
2. It is, however, possible that the funds are invested in different investment allocation percentages as outlined above, if a relatively high rate of return is expected from such investment even though supply and demand are balanced and steady.
3. During the course of expansion of the asset base of the Company, the portfolio composition may tentatively deviate from the investment allocation percentages as outlined above.

B. Property type portfolio composition

In principle, the asset management company will recommend the Company to invest in portfolio real estate assets used for office buildings. While these assets may mainly be used for office buildings, they may also partially be used for commercial use or, depending on the relevant local municipal regulations, may be used for residential use. Accordingly, the Company may acquire the office buildings with certain portion thereof used for commercial facilities or residential areas.

C. Building size and age in portfolio composition

1. In principle, the asset management company will recommend the Company to invest in land and buildings thereon that have total floor space or size of 3,000 square meters or more per building.
2. In principle, the asset management company will recommend the Company to invest in buildings with the latest earthquake resistance capabilities in compliance with the earthquake resistance standards or buildings with the equivalent capabilities as stated above.
3. In addition to the criteria referred to in 1. and 2. above, the asset management company will recommend the Company to make an investment decision by taking into account such factors as location, building structures (including earthquake resistance standards), facilities (including ceiling height, floor wiring, space per floor, electrical supply, and so forth), and the complexity of ownership and other rights.

D. Due diligence conducted at the time of acquisition

1. Acquisition of the real property

To thoroughly and accurately assess the quality of properties, the asset management company will conduct a comprehensive due diligence of the property from an economic, physical, and legal standpoint.

The asset management company will make use of analytical assessment based on real estate appraisal reports, engineering reports, and seismic reports and real estate market reports issued by independent third party professionals who possess analytical capability and relevant experience.

The asset management company will also make an on-site inspection of the property and hold interviews with persons in charge of property management of the building.

2. The following table shows the due diligence items based on the above.

Type of Research	Details of Research	Source Materials
Economic Analysis	<ul style="list-style-type: none"> <li>-- Supply and demand conditions for office buildings in the location under consideration including a future outlook; analysis of market rental rates</li> <li>-- Frontage condition, access to major roads and public transportation</li> <li>-- Level of discount rate and capitalization rate</li> <li>-- Analysis of the current operating costs of the building and room for reduction</li> <li>-- Reflection of inspection of the physical conditions of building, legal due diligence, economic analysis of the current building operation</li> <li>-- Evaluation of dispositions</li> </ul>	real estate appraisal reports, market reports, on-site inspection
Physical Inspection	<ul style="list-style-type: none"> <li>-- Searching the boundary with neighboring properties and status of the over boundary</li> <li>-- The level of maintenance for the building and facilities and its state of deterioration</li> <li>-- Medium- and long-term estimated repairs and capital expenditure</li> <li>-- Building and facility specifications (room layout, ceiling height, heat, ventilation and air-conditioning (HVAC) systems, electrical supply, etc.)</li> <li>-- Earthquake resistance capability of the building</li> <li>-- Investigation for existence of toxic substances within the building or within the property site</li> <li>-- Whether or not there has been any actual damage to the building as a result of natural disasters, such as typhoons, earthquakes, etc.</li> </ul>	documents from the seller, engineering reports, seismic report, on-site inspection
Legal Research	<ul style="list-style-type: none"> <li>-- Research into ownership and other rights and mortgages</li> <li>-- Research into lease contracts</li> <li>-- Certification of the property boundary line, agreement regarding the boundary</li> <li>-- Research into the level of compliance with legal requirements for construction and management of the building</li> <li>-- Research into management rules, agreements among the owners, and leasehold agreements in cases where the building and land are not owned by a single owner</li> <li>-- Research into existence and substance of any agreements with the owners in the neighborhood regarding the countermeasures against defective television radiation acceptance, etc.</li> </ul>	documents from the seller, engineering reports, on-site inspection

Research on the State of Property Management	<ul style="list-style-type: none"> <li>-- Investigation into the operations of the property management company and compliance with building management manual</li> <li>-- Research into whether or not there have been any suggestions and/or complaints made by tenants against the building management</li> <li>-- Tenant composition</li> <li>-- Research into the existence of any rules or stipulations governing building management in cases where the property is not owned by a single owner</li> </ul>	documents from the seller, on-site inspection
--	--	---

E. Targeted Capitalization Rate

1. The asset management company will set a certain target for its capitalization rate and make acquisition of portfolio real estate assets by taking into account the capitalization rate set for the total portfolio.
2. The capitalization rate referred to above may be adjusted from time to time in accordance with changes in the Company's financing policy and/or changes in interest rates.

\*The capitalization rate addressed in this section is based on the return calculated by dividing the cash flow (excluding capital expenditure and after deduction of the cost of repairs) by the property acquisition costs.

② Guidelines for management of portfolio real estate assets

To achieve internal growth, the policy for maintenance and management of portfolio real estate assets is as follows:

A. Policy for maintenance and management

For purposes of internal growth, the asset management company will ensure to make ongoing and scheduled capital expenditures and management for the existing facilities and equipment of real estate owned by the Company with proper repairs and maintenance to enhance tenant satisfaction, the competitiveness of the property, and revenues (by increasing rental rates over time and the occupancy rate), and at the same time minimize the relevant expenses (by reducing outsourced maintenance costs and reduction of water, gas and electricity costs, and so forth). The asset management company will make effective use of the multiple property management companies in order to achieve these goals.

B. Insurance policy

In principle, the Company will carry comprehensive casualty and liability insurance covering all of the properties owned by the Company to protect either from damages to or reduction in revenue from the properties arising from natural causes or accidents or any possible financial losses arising from liability claims of third parties. In connection with procuring earthquake insurance, the Company will make a determination based on the amount of the probable maximum loss, or PML, on its properties.

\*1. The Company will carry comprehensive casualty insurance to compensate for financial losses due to damages and accidents except for earthquakes, floods, tidal waves and wars. This type of insurance can also include a special provision that compensates for corporate profits.

\*2. Liability insurance covers the Company from possible financial losses arising from legal claims with regard to physical harm or financial damage to third parties that results from possession, use, occupancy or management of the building.

③ Guidelines for disposal of portfolio real estate assets

In principle, the Company seeks to hold investment over a reasonably long-time and has no particular intention to engage in short-term buying and selling of the properties. In determining the sale of a property, the Company makes a comprehensive analysis and determination by taking into consideration such factors as the outlook for future profitability of that property, the amount that the property has changed in value and the outlook for future additional change in value, the economic outlook and stability for the region in which the portfolio real estate assets are located, the deterioration of the real estate and other assets and the estimate of future expenses associated with its maintenance, and how well the particular property fits with the Company's total portfolio of properties.

### **(iii) Financing guidelines**

The Company has stipulated the following financial guidelines in its Asset Management Guidelines.

- ① In order to manage the assets of the Company in an efficient and stable manner, the Company may make borrowings or issue corporate bonds for purposes of making acquisitions of specified assets, capital improvements for the existing portfolio real estate assets and working capital.
- ② The Company shall not make total borrowings, including loans and issuance of corporate bonds, in excess of an aggregate of ¥1 trillion.
- ③ The Company shall borrow only from qualified institutional investors.
- ④ In principle, the Company shall not borrow funds (including corporate bonds) in excess of 65% of the total value of its total assets (the "debt ratio"), and will seek to maintain an even lower debt ratio.
- ⑤ The Company shall seek to borrow funds at the most favorable possible terms in consideration of the economic climate at the time of borrowing, with a view to reducing the future effects of refinancing and achieving the lowest possible financing costs. The Company will compare terms presented from several qualified institutional investors, such as ratio of fixed interest loan, borrowing periods, requirement of collateral for borrowing and so forth, to achieve the best possible terms. However, the financing costs may fluctuate due to changes in unforeseeable economic conditions in instances where penalties, which may arise from prepayment of borrowings, will be determined by the interest rate environment at that time.
- ⑥ The Company may establish lines of credit facility in advance, including a maximum line of credit facilities and a commitment line or future loan agreements to finance timely in need of capital whenever it becomes necessary to acquire additional specified assets.
- ⑦ The Company may use its properties as collateral for borrowing funds.

Borrowing and repayment of funds in the near term will be based on the following points.

- ① As a flexible response is required when borrowing funds for the additional acquisition of specific assets, short-term borrowing will be the main means for procuring the necessary funds.
- ② Short-term borrowing procured for the additional acquisition of specified assets shall be converted to long-term fixed-interest borrowing or corporate bonds as appropriate, with reference to the finance environment, to achieve low and stable fund procurement costs.

## **(2) INVESTMENT ASSETS**

**(i) Assets in which the Company may invest are as follows:**

- ① Real estate assets and real estate related securities
- ② Other specified assets
  1. The Company may invest in the following marketable securities:
    - a. Government bonds
    - b. Municipal government bonds
    - c. Bonds issued by special legal entities under special law
    - d. Corporate bonds (except for convertible bonds, bonds with warrants and bonds with stock acquisition rights)
    - e. Specified corporate bonds issued by special purpose companies, as set forth in Article 2, Paragraph 1, Item 3-2 of the Securities and Exchange Law
    - f. Commercial paper, as set forth in Article 2, Paragraph 1, Item 8 of the Securities and Exchange Law
    - g. Securities or certificates which fall within any of the types described in a. through f. above and which are issued by foreign governments or foreign legal entities
    - h. Beneficiary certificates except for those described in section (i), ①, ll., 2. of (1) of the investment policy above

- i. Certificates for shares of investment corporations except for those described in section (i), ①, II., 3. of (1) of the investment policy above
- j. Corporate bonds issued by investment corporations, as set forth in Article 2, Paragraph 25 of the Investment Trust Law
- k. Shares issued by foreign investment corporations, as set forth in Article 220, Paragraph 1 of the Investment Trust Law
- l. Trust beneficiary certificates of foreign loan receivables, as set forth in Article 2, Paragraph 1, Item 10 of the Securities and Exchange Law
- m. Securities or certificates representing options, as set forth in Article 2, Paragraph 1, Item 10-2 of the Securities and Exchange Law
- n. Depository receipts denominated in Japanese yen of the same nature as for those in a. through d. above, as described in Article 2, Paragraph 1, Item 10-3 of the Securities and Exchange Law
- o. Negotiable certificates of deposit issued by foreign entities denominated in Japanese yen
- p. Trust beneficiary certificates of loan receivables, as set forth in Article 2, Paragraph 2, Item 1 of the Securities and Exchange Law
- q. Rights against a foreign entity which are of the same nature as the rights in item p. above

2. The Company may invest in monetary claims, with the exception of those described in Article 3, Items 1, 12 and 14 of the Cabinet Order.

3. The Company may invest in financial derivatives, as described in Article 3, Item 14 of the Cabinet Order.

**(ii) Investment criteria and future investment plan in terms of property type, geographical location, and business sector and so forth**

Please refer to (i) Basic Investment Policies and (ii) Guidelines for investment and management of portfolio real estate assets based on basic investment policies under (1) Investment Policies above.

***(3) DISTRIBUTION POLICY***

The Company will make cash distributions subsequent to each fiscal period in accordance with the following guidelines.

- (i) In connection with the total cash amount to be distributed to shareholders, accounting profits will be calculated in accordance with the generally accepted accounting principles in Japan (Japanese GAAP).
- (ii) In making cash distributions to the extent of accounting profits, the Company will distribute profits as cash distributions in excess of 90% of the taxable income as defined in Article 67- 15 of the Special Taxation Measures Law of Japan.
- (iii) At the appropriate discretion of the board of directors, the Company may, in accordance with Article 136, Paragraph 1 of the Investment Trust Law, make distributions in excess of accounting profits based on the Cash Distribution Statement approved pursuant to Article 131, Paragraph 1 of the Investment Trust Law.
- (iv) The Company is allowed to make distributions in excess of accounting profits to the extent of the amount equivalent to the aggregate of the amount of depreciation for the current period and the amount of accounting profits. However, in cases where cash distributions for the relevant period do not exceed 90% of the "distributable amount" stipulated by Article 39-32-3 of the Cabinet Order of Enforcement of the Special Taxation Measures Law of Japan, the Company may make distributions in excess of accounting profits to the extent of 91% of such distributable amount.
- (v) Distributions need to be made in cash in proportion to the number of shares registered on the final records of shareholders (including the records of beneficial shareholders) as of the close of each fiscal period.
- (vi) In the event that the Company issues additional shares during a business period, the value of the dividends in connection with those shares may be calculated on a daily pro-rated basis, as determined by the board of directors.



(vii) Besides the above provisions, the Company shall comply with the rules on investment trusts and investment corporations (established on March 16, 2001, as amended) stipulated by the Investment Trusts Association of Japan.

(viii) If investors need to calculate a gain or loss upon distribution in excess of accounting profits, the Company will not make distributions in excess of accounting profits to the shareholders. However, the Company will be able to make distributions in excess of accounting profits in the following three cases pursuant to clauses (i) through (vii) above.

1. Due to changes of the tax codes or other reasons, it becomes no longer necessary for an individual investor to calculate a gain or loss upon distribution in excess of accounting profits for the period.
2. Due to changes of the tax codes or other reasons, the board of directors determines that it is appropriate to make distributions in excess of accounting profits since it would become a common practice for an investor to file an individual tax return to report a gain or loss upon payouts.
3. The board of directors determines that it is necessary to make distributions in excess of accounting profits to meet the distribution requirements.

#### ***(4) INVESTMENT RESTRICTIONS***

In accordance with the Articles of Incorporation, the investment restrictions of the Company are as follows:

- ① The Company shall not seek to invest aggressively in the marketable securities and monetary claims described in (2) Investment Assets above, but rather make investment to secure stability and liquidity (Article 26 of the Articles of Incorporation).
- ② The Company shall limit its trading activity in financial derivatives to the extent of hedging the interest rate volatility risks, with regard to its debts and other risks (Article 26 of the Articles of Incorporation).
- ③ In order to manage the portfolio of the Company in an efficient and stable manner, the Company may make borrowings or issue corporate bonds (not in excess of ¥1 trillion) with a view to utilizing the proceeds thereof toward acquisitions of specified assets, capital improvements of the real estate for lease and the underlying real estate of trust beneficiary rights and working capital (Article 30 of the Articles of Incorporation).
- ④ The Company shall borrow only from qualified institutional investors (Article 30 of the Articles of Incorporation).

# Financial Section

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## FINANCIAL OVERVIEW OF JAPAN REAL ESTATE INVESTMENT CORPORATION

### 1. Selected Financial Data

	Millions of yen			Thousands of U.S. dollars (Note 1)
	For the period from October 1, 2002 to March 31, 2003	For the period from April 1, 2002 to September 30, 2002	For the period from May 11, 2001 to March 31, 2002	For the period from October 1, 2002 to March 31, 2003
Operating Revenues	8,500	7,910	6,492	70,722
Operating Expenses	4,812	4,523	3,530	40,040
Operating Profits	3,687	3,386	2,961	30,682
Income before Income taxes	3,259	2,898	2,405	27,114
Net Income	3,258	2,897	2,403	27,106
Total Assets	200,022	185,397	161,809	1,664,079
Interest-Bearing Liabilities	66,800	54,000	64,000	555,740
Total Shareholders' Equity	115,410	115,049	83,663	960,155
Shareholders' Capital	112,152	112,152	81,260	933,048
Number of Shares	225,400	225,400	160,400	225,400
Total Shareholders' Equity per Share (Yen/U.S.dollars)	512,026	510,424	521,591	4,260
Cash Distribution	3,258	2,897	2,403	27,106
Dividend Payout Ratio	99.9%	99.9%	99.9%	99.9%
Dividend Per Share (Yen/U.S.dollars)	14,455	12,853	14,983	120
Net Operating Income (NOI)	5,702	5,211	4,732	47,438
Funds From Operations (FFO)	4,568	4,091	3,505	38,003
Return on Assets (ROA) (Note 2)	1.7% (3.4% annualized)	1.6% (3.2% annualized)	2.0% (3.6% annualized)	1.7% (3.4% annualized)
Return on Equity (ROE) (Note 3)	2.8% (5.7% annualized)	2.7% (5.4% annualized)	2.9% (5.2% annualized)	2.8% (5.7% annualized)
EOP Equity Ratio (Note 4)	57.7%	62.1%	51.7%	57.7%
EOP Interest-Bearing Debt Ratio on Total Assets (Note 5)	33.4%	29.1%	39.6%	33.4%
FFO Multiple	14.6 times	14.1 times	13.5 times	14.6 times
Debt Service Coverage Ratio (Note 6)	14.5 times	13.9 times	15.5 times	14.5 times

Note 1: Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=US\$1.00, the foreign exchange rate on March 31, 2003, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that rate or any other rate.

Note 2: ROA = Income before Income Taxes ÷ Average of Total Assets during the period

Note 3: ROE = Net Income ÷ Average of Net Worth during the period

(Annualized portions of the calculations given in notes 2 and 3 above assume a fiscal period of 203 days for the period ended March 31, 2002, 183 days for the period ended September 30, 2002 and 182 days for the period ended March 31, 2003.)

Note 4: EOP Equity Ratio = (Net Worth at end of period ÷ Total Assets at end of period) x 100

Note 5: EOP Interest-Bearing Debt Ratio on Total Assets = (Interest-Bearing Debt at end of period ÷ Total Assets at end of period) x 100

Note 6: Debt Service Coverage Ratio = Net Income before Interest, Taxes, Depreciation and Amortization ÷ Interest Expenses

## 2. Cash Distribution

The cash distribution for the period from October 1, 2002 to March 31, 2003 consisted of almost all taxable income for the period, qualifying the Company for special tax treatment as stipulated in Article 67-15 of the Special Taxation Measures Law of Japan. The dividend per share was ¥14,455 (\$120.26). With 225,400 shares outstanding, the cash distribution totaled ¥3,258,157 thousand (\$27,106,131). Retained earnings carried forward totaled ¥98,645 (\$821).

(From October 1, 2002 to March 31, 2003)	(¥ thousands)	(U.S. dollars)
Net Income	3,258,255	27,106,947
Retained earnings of beginning of period	105	879
Distribution (Dividend per share : ¥14,455)	3,258,157	27,106,131
Retained earnings carried forward	98	820

## 3. Paid-In Capital

The Company was established with funding from Mitsubishi Estate Co., Ltd. (160 shares), The Tokio Marine and Fire Insurance Co., Ltd. (120 shares) and The Dai-ichi Mutual Life Insurance Company (120 shares), each share representing ¥500,000 (\$4,160). Additional shares were issued in an initial public offering at ¥525,000 (\$4,368) each (acceptance price of ¥506,625 (\$4,215)). An additional 65,000 shares were issued on May 8, 2002, at ¥490,980 (\$4,085) per share (acceptance price of ¥475,268 (\$3,954)).

The company issued no shares in the period, and the total paid-in capital was unchanged.

Payment date	Remarks	Common shares outstanding		Paid-in capital			
		Increase	Balance	Increase		Balance	
				(¥ millions)	(U.S. \$ thousands)	(¥ millions)	(U.S. \$ thousands)
May 11, 2001	Private placement	400	400	200	1,663	200	1,663
September 10, 2001	Additional share issue (Initial Public Offering)	160,000	160,400	81,060	674,376	81,260	676,039
May 8, 2002	Additional share issue	65,000	225,400	30,892	257,004	112,152	933,044

The Company was listed on the Tokyo Stock Exchange on September 10, 2001. Market quotations from that time are as follows:

Month	High	Low
September 2001 (September 10, 2001 to September 28, 2001)	¥550,000	¥491,000
October 2001	¥551,000	¥534,000
November 2001	¥549,000	¥536,000
December 2001	¥542,000	¥485,000
January 2002	¥510,000	¥480,000
February 2002	¥531,000	¥499,000
March 2002	¥560,000	¥527,000
April 2002	¥524,000	¥495,000
May 2002	¥527,000	¥497,000
June 2002	¥525,000	¥512,000
July 2002	¥528,000	¥518,000
August 2002	¥534,000	¥520,000
September 2002	¥540,000	¥505,000
October 2002	¥543,000	¥508,000
November 2002	¥563,000	¥531,000
December 2002	¥609,000	¥552,000
January 2003	¥609,000	¥560,000
February 2003	¥595,000	¥569,000
March 2003	¥603,000	¥573,000
April 2003	¥618,000	¥591,000

#### 4. Overview of Borrowings

The following is a list of the Company's borrowings showing amounts and lending institutions as of March 31, 2003.

Category	Lender	Balance		Average interest rate	Due	Use of funds	Remarks	
		(¥ millions)	(U.S. \$ thousands)					
Short-term debt	The Bank of Tokyo-Mitsubishi, Ltd.	1,250	10,399	0.897%	June 23, 2003	Purchase of real estate	Secured/ Unguaranteed/ Senior/ Floating rate	
	Mizuho Corporate Bank, Ltd.	1,250	10,399					
	The Sumitomo Trust & Banking Co., Ltd.	1,250	10,399					
	The Mitsubishi Trust & Banking Corporation	1,250	10,399					
	The Bank of Tokyo-Mitsubishi, Ltd.	1,200	9,983	0.888%	June 23, 2003	Purchase of real estate	Secured/ Unguaranteed/ Senior/ Floating rate	
	Mizuho Corporate Bank, Ltd.	1,200	9,983					
	The Sumitomo Trust & Banking Co., Ltd.	1,200	9,983					
	The Mitsubishi Trust & Banking Corporation	1,200	9,983					
	The Chugoku Bank, Ltd.	2,000	16,638	0.543%	October 31, 2003	Purchase of real estate	Unsecured/ Unguaranteed/ Senior/ Floating rate	
	The Bank of Tokyo-Mitsubishi, Ltd.	1,500	12,479	0.889%	June 23, 2003	Purchase of real estate	Secured/ Unguaranteed/ Senior/ Floating rate	
	Mizuho Corporate Bank, Ltd.	1,500	12,479					
	The Sumitomo Trust & Banking Co., Ltd.	1,500	12,479					
	The Mitsubishi Trust & Banking Corporation	1,500	12,479					
		Subtotal	17,800	148,087				
	Long-term debt	The Bank of Tokyo-Mitsubishi, Ltd.	6,000	49,916	1.120%	Anticipated date for principal repayment: June 23, 2006 Final date for principal repayment: June 23, 2008	Purchase of real estate trust beneficiary rights	Secured/ Unguaranteed/ Senior/ Fixed rate
		Mizuho Corporate Bank, Ltd.	6,000	49,916				
The Sumitomo Trust & Banking Co., Ltd.		5,200	43,261					
The Mitsubishi Trust & Banking Corporation		5,200	43,261					
Sompo Japan Insurance Inc.		1,600	13,311					
	Subtotal	24,000	199,665					
Total		41,800	347,753					

#### 5. Bonds Issued by the Company

Our past corporate bond issues are as follows, as of March 31, 2003.

Total principal amounts of bonds	¥25 billion (U.S. \$ 207 million)
Issue price	¥100 (U.S. \$ 0.83) (par value)
Interest Rate	1.32% annually
Closing Date	June 21, 2002
Guaranty	Unsecured/unguaranteed
Redemption method/date	Principal redeemed in full on June 21, 2007 Cancellation upon repurchase may be made at any time

The following list shows details of the issue of corporate bonds that was approved at the Board of Directors' meeting held on April 16, 2003. These were fully paid up by April 30, 2003.

Second issue of corporate bonds

Total principal amounts of bonds	¥10 billion (U.S. \$ 83 million)
Issue price	¥100 (U.S. \$ 0.83) (par value)
Interest Rate	0.69% annually
Closing Date	April 30, 2003
Guaranty	Unsecured/unguaranteed
Redemption method/date	Principal redeemed in full on April 30, 2008 Cancellation upon repurchase may be made at any time

Third issue of corporate bonds

Total principal amounts of bonds	¥10 billion (U.S. \$ 83 million)
Issue price	¥100 (U.S. \$ 0.83) (par value)
Interest Rate	0.98% annually
Closing Date	April 30, 2003
Guaranty	Unsecured/unguaranteed
Redemption method/date	Principal redeemed in full on April 30, 2010 Cancellation upon repurchase may be made at any time

Note: The Company repaid short-term borrowings of ¥15.8 billion yen (U.S. \$131 million) on June 23, 2003 with the net proceeds from the bond issue and its own capital.

## 6. Capital Expenditures for Existing Properties

### a. PLANNED CAPITAL EXPENDITURES

The following table represents the main capital expenditures planned for renovations of existing properties, as of March 31, 2003. The total expected construction amount includes portions that will be accounted for as ordinary expenses.

Property(Location)	Objective	Estimated duration	Expected construction amounts (Millions of yen)			
			Total		Planned payment for the period under review	Previously paid total
			(Millions of yen)	(Thousands of U.S. dollars)		
Shibuya Cross Tower (Shibuya-ku, Tokyo)	Functional maintenance (drainage-related equipment works for toilets on standard floors, and in common corridors)	From April 2003 to March 2004	392	3,261	—	—
Shiba 2-chome Daimon Building (Minato-ku, Tokyo)	Upgrading (works to replace the heating equipment for building air conditioning)	From April 2003 to May 2003	98	815	—	—
Niigata Ishizuecho Nishi-Bandaibashi Building (Niigata-shi, Niigata)	Upgrading (refurbishment of toilets on all floors)	From October 2003 to February 2004	46	382	—	—
Kyoto Shijo Kawaramachi Building (Kyoto-shi, Kyoto)	Upgrading (renewal of common areas)	From July 2003 to December 2003	90	748	—	—
	Upgrading (work on air conditioning equipment in individual rooms)	From April 2003 to May 2003	30	249		
	Functional maintenance (replacement of water supply and drainage pipes to the toilets and oil supply room)	From July 2003 to December 2003	30	249		

### b. CAPITAL EXPENDITURES DURING THE PERIOD ENDED MARCH 31, 2003

The following table represents the main capital expenditures for acquired properties during the period under review. Capital expenditures amounted to ¥609 million (U.S.\$5,066 thousand), with repair and maintenance adding ¥323 million (U.S.\$2,687 thousand) throughout the term for a total of ¥933 million (U.S.\$7,762 thousand).

The main capital expenditures in the period under review were for "Lending-related works" on Genki Medical Plaza and other works, as listed below. Other works on properties include regular replacement works and upgrading of toilets and other common facilities.

Property(Location)	Objective	Construction amounts	
		(Millions of yen)	(Thousands of U.S. dollars)
Genki Medical Plaza (Chiyoda-ku, Tokyo)	Lending-related works	77	640
Niigata Ishizuecho Nishi-Bandaibashi Building (Niigata-shi, Niigata)	Upgrading (various works involved in group control).	26	216
Other properties		506	4,209
Total		609	5,066

### c. CASH RESERVES AT END OF PERIOD (RESERVES FOR CAPITAL IMPROVEMENTS)

In order to prepare for renovation of facilities useful for maintaining the value of properties for the future, the Company accumulates cash reserves each period for capital improvements that will be conducted based on the medium- to long-term renovation strategy formulated for each of the properties. Cash reserves over the period under review were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	For the period from October 1, 2002 to March 31, 2003	For the period from April 1, 2002 to September 30, 2002	For the period from October 1, 2002 to March 31, 2003
Reserve balance at the beginning of the period	1,104	719	9,185
Amount accumulated	145	838	1,206
Withdrawal from reserves	933	453	7,762
Amount carried forward	316	1,104	2,629

**BALANCE SHEETS**

As of March 31, 2003 and September 30, 2002

	Thousands of yen		U.S. dollars
	<i>As of March 31, 2003</i>	<i>As of September 30, 2002</i>	<i>As of March 31, 2003</i>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and bank deposits	15,459,422	19,990,003	128,614,160
Rental receivables	88,501	83,741	736,281
Consumption tax refundable	59,328	69,322	493,576
Other current assets	48,825	22,272	406,200
<b>Total current assets</b>	<b>15,656,076</b>	<b>20,165,338</b>	<b>130,250,217</b>
<b>Property and Equipment, at Cost :</b>			
Land	128,013,200	113,727,332	1,065,001,660
Buildings and structures	58,008,534	52,171,555	482,600,120
Machinery and equipment	1,153,238	1,036,947	9,594,326
Tools, furniture and fixtures	8,042	2,942	66,910
	<b>187,183,014</b>	<b>166,938,776</b>	<b>1,557,263,016</b>
Less accumulated depreciation	(3,604,570)	(2,294,189)	(29,988,104)
<b>Net property and equipment</b>	<b>183,578,444</b>	<b>164,644,587</b>	<b>1,527,274,912</b>
<b>Investments and Other Assets:</b>			
Deposits	14,100	14,100	117,304
Long-term prepaid expenses	47,639	57,656	396,332
Leasehold rights	725,600	444,160	6,036,608
Deferred corporate bond issuance costs	-	70,786	-
Other	454	454	3,774
<b>Total Assets</b>	<b>200,022,313</b>	<b>185,397,081</b>	<b>1,664,079,147</b>

The accompanying notes form an integral part of these financial statements

	Thousands of yen		U.S. dollars
	<i>As of March 31, 2003</i>	<i>As of September 30, 2002</i>	<i>As of March 31, 2003</i>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Trade accounts payable	482,612	128,327	4,015,076
Other payables	646,408	551,315	5,377,773
Short-term loans	17,800,000	5,000,000	148,086,523
Accrued expenses	188,747	169,243	1,570,105
Accrued income taxes	975	914	8,107
Rent received in advance	1,335,442	1,219,158	11,110,167
Other current liabilities	22,141	23,443	184,368
<b>Total current liabilities</b>	<b>20,476,325</b>	<b>7,092,400</b>	<b>170,352,119</b>
<b>Long-Term Liabilities:</b>			
Corporate bond	25,000,000	25,000,000	207,986,689
Long-term loans	24,000,000	24,000,000	199,667,221
Deposits from tenants	15,135,313	14,255,089	125,917,747
<b>Total long-term liabilities</b>	<b>64,135,313</b>	<b>63,255,089</b>	<b>533,571,657</b>
<b>Total Liabilities</b>	<b>84,611,638</b>	<b>70,347,489</b>	<b>703,923,776</b>
<b>SHAREHOLDERS' EQUITY</b>			
Shareholders' capital	112,152,420	112,152,420	933,048,419
Retained earnings	3,258,255	2,897,172	27,106,952
<b>Total shareholders' equity</b>	<b>115,410,675</b>	<b>115,049,592</b>	<b>960,155,371</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>200,022,313</b>	<b>185,397,081</b>	<b>1,664,079,147</b>

The accompanying notes form an integral part of these financial statements

**STATEMENTS OF INCOME AND RETAINED EARNINGS**

For the six months ended March 31, 2003 and September 30, 2002

	Thousands of yen		U.S. dollars
	<i>For the Period from October 1, 2002 to March 31, 2003</i>	<i>For the Period from April 1, 2002 to September 30, 2002</i>	<i>For the Period from October 1, 2002 to March 31, 2003</i>
<b>Operating Revenues and Expenses</b>			
<b>Operating Revenues:</b>			
Rental revenues	8,449,279	7,889,166	70,293,501
Non-rental revenues	51,473	21,117	428,232
	8,500,752	7,910,283	70,721,733
<b>Operating Expenses:</b>			
Property-related expenses	4,109,157	3,893,229	34,185,995
Asset management fees	432,809	382,270	3,600,744
Administrative service fees	158,097	133,920	1,315,287
Other operating expenses	112,702	113,996	937,618
	4,812,765	4,523,415	40,039,644
Operating profits	3,687,987	3,386,868	30,682,089
<b>Non-Operating Revenues and Expenses</b>			
<b>Non-Operating Revenues:</b>			
Interest received	85	510	707
Other non-operating revenues	478	2,315	3,976
<b>Non-Operating Expenses:</b>			
Interest expense	175,038	224,827	1,456,227
Interest expense on corporate bonds	164,096	91,315	1,365,190
Amortization of corporate bond issuance costs	70,786	70,786	588,899
New share issuance costs	-	70,760	-
Other non-operating expenses	19,488	33,861	162,127
<b>Income before Income Taxes</b>	3,259,142	2,898,144	27,114,329
<b>Income Taxes :</b>			
Current	991	1,017	8,248
Deferred	1	16	11
<b>Net Income</b>	3,258,150	2,897,111	27,106,070
<b>Retained Earnings at beginning of period</b>	105	61	882
<b>Retained Earnings at end of period</b>	3,258,255	2,897,172	27,106,952

The accompanying notes form an integral part of these financial statements



**STATEMENTS OF CASH FLOWS (Unaudited)**

For the six months ended March 31, 2003 and September 30, 2002

	Thousands of yen		U.S. dollars
	<i>For the Period from October 1, 2002 to March 31, 2003</i>	<i>For the Period from April 1, 2002 to September 30, 2002</i>	<i>For the Period from October 1, 2002 to March 31, 2003</i>
<b>Cash Flows from Operating Activities</b>			
Income before income taxes	3,259,142	2,898,144	27,114,329
Depreciation and amortization	1,310,644	1,194,194	10,903,860
Loss on retirement of property and equipment	388	155	3,232
Amortization of corporate bond issuance costs	70,786	70,786	588,900
New share issuance costs	-	70,760	-
Non-cash portion of interest income	(85)	(510)	(707)
Non-cash portion of interest expense	339,134	316,143	2,821,418
Rental receivables and other receivables	(4,760)	(24,462)	(39,600)
Consumption tax refundable	9,995	645,171	83,153
Prepaid expenses	(26,995)	24,522	(224,585)
Other current assets	441	17,546	3,665
Trade accounts payable	354,285	(131,290)	2,947,462
Other payables	95,093	260,090	791,127
Rent received in advance	116,284	220,910	967,419
Other current liabilities	(1,302)	17	(10,833)
Long-term prepaid expenses	10,017	(3,972)	83,336
Subtotal	5,533,067	5,558,204	46,032,176
Interest received	85	510	707
Interest paid	(319,651)	(301,456)	(2,659,325)
Income taxes paid	(931)	(1,434)	(7,749)
Net cash provided by operating activities	5,212,570	5,255,824	43,365,809
<b>Cash Flows from Investing Activities</b>			
Purchases of property and equipment	(20,244,890)	(20,703,536)	(168,426,703)
Purchases of intangible assets	(281,439)	-	(2,341,428)
Proceeds from lease deposits received	1,569,063	2,354,100	13,053,772
Repayment of lease deposits	(688,839)	(517,111)	(5,730,777)
Net cash used in investing activities	(19,646,105)	(18,866,547)	(163,445,136)
<b>Cash Flows from Financing Activities</b>			
Proceeds from short-term borrowings	12,800,000	5,000,000	106,489,185
Repayment of short-term borrowings	-	(40,000,000)	-
Proceeds from corporate bond	-	25,000,000	-
Payments of corporate bond issuance costs	-	(141,572)	-
Proceeds from issuance of shares	-	30,892,420	-
Payments of share issuance costs	-	(70,760)	-
Dividends to shareholders	(2,897,046)	(2,403,273)	(24,101,877)
Net cash provided by financing activities	9,902,954	18,276,815	82,387,308
<b>Net Increase in Cash and Cash Equivalents</b>	<b>(4,530,581)</b>	<b>4,666,092</b>	<b>(37,692,019)</b>
<b>Cash and Cash Equivalents at beginning of Period</b>	<b>19,990,003</b>	<b>15,323,911</b>	<b>166,306,179</b>
<b>Cash and Cash Equivalents at end of Period</b>	<b>15,459,422</b>	<b>19,990,003</b>	<b>128,614,160</b>

The accompanying notes form an integral part of these financial statements

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the six months ended March 31, 2003 and September 30, 2002

	Shares	Shareholders' equity	
		Thousands of yen	U.S. dollars
<b>Balance as of March 31, 2002</b>	160,400	83,663,334	
5/8/02 Second public offering	65,000	30,892,420	
Cash dividends paid	—	(2,403,273)	
Net income	—	2,897,111	
<b>Balance as of September 30, 2002</b>	225,400	115,049,592	957,151,349
Cash dividends paid	—	(2,897,067)	(24,102,048)
Net income	—	3,258,150	27,106,070
<b>Balance as of March 31, 2003</b>	<b>225,400</b>	<b>115,410,675</b>	<b>960,155,371</b>

The accompanying notes form an integral part of these financial statements

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2003 and September 30, 2002

**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 36% by Mitsubishi Estate Co., Ltd., 27% by The Tokio Marine and Fire Insurance Co., Ltd., 27% by The Dai-ichi Mutual Life Insurance Company and 10% by Mitsui & Co., Ltd.

On May 11, 2001, the Company was incorporated with ¥200 million of original capital contribution by Mitsubishi Estate Co., Ltd., The Tokio Marine and Fire Insurance Co., Ltd. and The Dai-ichi Mutual Life Insurance Company under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law.

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 (so-called "J-REITs"). The Company issued 160,000 shares at a price of ¥525,000, generating gross proceeds of ¥84,000 million. The proceeds from the offering of the shares, net of underwriters' discount, were ¥81,060 million.

During the six-month period ended September 30, 2002, the Company issued additional shares and corporate bond. On May 8, 2002, the Company completed a second offering of 65,000 shares at a price of ¥490,980, generating gross proceeds of ¥31,914 million. The proceeds from the offering of the shares, net of underwriters' discount, were ¥30,892 million. On June 21, 2002, the Company issued ¥25,000 million of unsecured corporate bond due June 2007 with an interest rate of 1.32% to the qualified investors.

At March 31, 2003, the Company owned a portfolio of 30 office properties (27 office properties at September 30, 2002) containing an aggregate of approximately 237,000 square meters of net rentable area.

**Basis of presenting financial statements**

The Company maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted and applied in Japan ("Japanese GAAP"), including provisions set forth in the Investment Trust Law, the Japanese Commercial Code, the Securities and Exchange Law of Japan and the related regulations, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=US\$1.00, the foreign exchange rate on March 31, 2003, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that rate or any other rate.

## 2. Summary of Significant Accounting Policies

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### Property and equipment

Property and equipment is stated at cost, less accumulated depreciation. The costs of land, buildings and building improvements include the purchase price of property, legal fees 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 .....	10-42 years
Machinery and equipment .....	3-10 years
Tools, furniture and fixtures .....	3-6 years

Expenditures for repairs and maintenance are charged to operations as incurred. Significant renewals and betterments are capitalized.

### Deferred charges

Deferred charges include bond issuance costs and share issuance costs. Bond issuance costs are amortized using the straight-line method over one year. Share issuance costs were charged to operations when incurred. The underwriters' commissions of the public offering were not reflected to the financial statements since such costs are not payable by the Company under the so-called "spread method". Under the spread method, the difference between the offer price (the price paid by the shareholder) and the purchase price (the price received by the Company) was directly distributed to the underwriters. The amounts of the difference incurred at the second offering on May 8, 2002 was ¥1,021 million.

### Revenue recognition

Revenues from leasing of office space are recognized as rent accrued 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 expense during the period. The sellers of the properties were 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 in the record as of January 1 based on the assessment made by the local government. The Company paid the amount equivalent to the property taxes to the sellers applicable to the period since acquisition and included the amount equivalent to the taxes in the purchase price of each property and capitalized as 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 the current assets and the excess of amounts withheld over payments are included in the current liabilities.

### Cash and cash equivalents

The statements of cash flows is provided for information purposes only since it is not required to be prepared by the Investment Trust Law, the Japanese Commercial Code, the Securities and Exchange Law of Japan and the related regulations. Cash and cash equivalents consists of cash on hand, deposits placed with bank 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.

### 3. Property and Equipment

Property and equipment at March 31, 2003 and September 30, 2002 consisted of the following:

	Thousands of yen				U.S. dollars	
	As of March 31, 2003		As of September 30, 2002		As of March 31, 2003	
	Acquisition Costs	Book Value	Acquisition Costs	Book Value	Acquisition Costs	Book Value
Land	70,119,385	70,119,385	55,833,517	55,833,517	583,355,945	583,355,945
Buildings and structures	33,239,959		27,584,214		276,538,765	
Accumulated depreciation	1,750,083	31,489,876	1,062,197	26,522,017	14,559,755	261,979,010
Machinery and equipment	481,635		365,344		4,006,949	
Accumulated depreciation	79,670	401,965	35,231	330,113	662,811	3,344,138
Tools, furniture and fixtures	2,942		2,942		24,474	
Accumulated depreciation	393	2,549	129	2,813	3,268	21,206
Land in trust	57,893,815	57,893,815	57,893,815	57,893,815	481,645,715	481,645,715
Buildings and structures in trust	24,768,575		24,587,341		206,061,355	
Accumulated depreciation	1,656,072	23,112,503	1,116,412	23,470,929	13,777,637	192,283,718
Machinery and equipment in trust	671,603		671,603		5,587,377	
Accumulated depreciation	118,241	553,362	80,220	591,383	983,705	4,603,672
Tools, furniture and fixtures in trust	5,100		–		42,436	
Accumulated depreciation	111	4,989	–	–	928	41,508
<b>Total</b>		<b>183,578,444</b>		<b>164,644,587</b>		<b>1,527,274,912</b>

### 4. Short-Term Loans

Short-term loans at March 31, 2003 and September 30, 2002 consisted of the following:

	Thousands of yen		U.S. dollars
	As of March 31, 2003	As of September 30, 2002	As of March 31, 2003
Secured loans from banks, trust banks with variable interest, due on June 23, 2003.	15,800,000	5,000,000	131,447,588
0.5425% unsecured loan from a bank, due on October 31, 2003	2,000,000	–	16,638,935
	<b>17,800,000</b>	<b>5,000,000</b>	<b>148,086,523</b>

The weighted average interest rates applicable to the bank loans at March 31, 2003 and September 30, 2002 were 0.85210% and 0.89417%, respectively per annum.

## 5. Long-Term Loans

Long-term loans at March 31, 2003 and September 30, 2002 consisted of the following:

	Thousands of yen		U.S. dollars
	As of March 31, 2003	As of September 30, 2002	As of March 31, 2003
Secured loans from banks, trust banks and an insurance company with variable interest, due on June 23, 2006.	24,000,000	24,000,000	199,667,221
	24,000,000	24,000,000	199,667,221

The weighted average interest rate applicable to the loans at March 31, 2003 and September 30, 2002 was 1.120% per annum.

## 6. Secured Assets

At March 31, 2003 and September 30, 2002, the following assets were pledged as collateral for the following loans:

Pledged assets:	Thousands of yen		U.S. dollars
	As of March 31, 2003	As of September 30, 2002	As of March 31, 2003
Bank deposits	8,947,979	8,690,039	74,442,417
Land and leasehold rights	61,333,079	51,111,173	510,258,559
Buildings and structures	21,991,643	19,674,960	182,958,763
Machinery and equipment	477,295	498,550	3,970,844
Tools, furniture and fixtures	4,989	—	41,507
Total	92,754,985	79,974,722	771,672,090

Loans secured by the pledged assets:	Thousands of yen		U.S. dollars
	As of March 31, 2003	As of September 30, 2002	As of March 31, 2003
Short-term loans	15,800,000	5,000,000	131,447,587
Long-term loans	24,000,000	24,000,000	199,667,221
Total	39,800,000	29,000,000	331,114,808

## 7. Shareholders' Equity

The Company is required to maintain net assets of at least ¥50 million (\$ 416 thousand), as required pursuant to the Investment Trust Law.

## 8. Income Taxes

At March 31, 2003, the Company's deferred tax assets consist mainly of the enterprise tax, which is not deductible for tax purposes. The reconciliation of tax rate difference between the adjusted statutory tax rate and the effective tax rate for the six months ended March 31, 2003 and September 30, 2002 were as follows:

	For the period from October 1, 2002 to March 31, 2003	For the period from April 1, 2002 to September 30, 2002
Statutory tax rate .....	39.39%	39.39%
Deductible dividend distribution .....	(39.38%)	(39.37%)
Others .....	0.02%	0.02%
Effective tax rate .....	0.03%	0.04%

The Company is subject to Japanese corporate income taxes on all of its taxable income. However, under the Special Taxation Measures Law of Japan, or the STML, an investment corporation is allowed to deduct dividends of accounting profits, or dividend distributions, paid to investors from its taxable income if certain tax requirements are satisfied. Such tax requirements include dividend distributions in excess of 90% of its taxable income for the fiscal period as stipulated by Article 67-15 of the STML. Based on the distribution policy provided by Article 33-2 of the Articles of Incorporation, the Company made a dividend distribution of approximately 100% of retained earnings in the amount of ¥3,258 million (\$27,106 thousand) and treated it as tax deductible dividend. The Company will not distribute the dividends in excess of accounting profit under Article 33-3 of the Articles of Incorporation.

## 9. Per Share Information

The following table summarizes information about net assets per share and net income per share at March 31, 2003 and September 30, 2002, and for the periods then ended:

	Yen		U.S. dollars
	<i>For the Period from October 1, 2002 to March 31, 2003</i>	<i>For the Period from April 1, 2002 to September 30, 2002</i>	<i>For the Period from October 1, 2002 to March 31, 2003</i>
Net assets at period end per share	512,026	510,424	4,260
Net income per share	14,455	12,853	120

In calculating the net assets per share, the amount of the net assets included the cash distribution declared in the subsequent period.

Net income per share is computed by dividing net income by the weighted average number of shares outstanding during each period. The weighted average number of shares used in the calculation was 225,400 shares for the six months ended March 31, 2003 and September 30, 2002. 225,400 shares for the six months ended September 30, 2002 were calculated as if 65,000 additional shares issued on May 8th, 2002 had been issued on April 1, 2002. Diluted net income per share has not been presented since no warrants and convertible bonds were outstanding during the period.

## 10. Related Party Transactions

The Company entered into the following related party transactions with Mitsubishi Estate Co. Ltd. and certain affiliates of Mitsubishi Estate Co. Ltd., the Tokio Marine and Fire Insurance Co., Ltd., and Mitsui & Co., Ltd.

	Thousands of yen		U.S. dollars
	<i>For the Period from October 1, 2002 to March 31, 2003</i>	<i>For the Period from April 1, 2002 to September 30, 2002</i>	<i>For the Period from October 1, 2002 to March 31, 2003</i>
Purchase of the properties	—	4,810,000	—
Property management fees	591,053	596,476	4,917,249
Commissions for property acquisition	150,000	—	1,247,920
Utilities	66,209	74,367	550,823
Insurance	41,071	4,010	341,686
Other operating expenses	8,562	1,640	71,229
Due diligence costs	—	500	—
Repair and maintenance	113,490	125,201	944,174

## 11. Breakdown of Property-Related Revenues and Expenses

For the six months ended March 31, 2003 and September 30, 2002

	Thousands of yen		U.S. dollars
	<i>For the Period from October 1, 2002 to March 31, 2003</i>	<i>For the Period from April 1, 2002 to September 30, 2002</i>	<i>For the Period from October 1, 2002 to March 31, 2003</i>
<b>Property-Related Revenues</b>	<b>8,500,752</b>	7,910,283	<b>70,721,733</b>
<b>Rental Revenues</b>	<b>8,449,279</b>	7,889,166	<b>70,293,501</b>
Rental revenues	6,047,782	5,520,576	50,314,327
Common area charges	1,480,427	1,442,741	12,316,361
Parking revenues	321,562	306,922	2,675,225
Other rental revenues	599,508	618,927	4,987,588
<b>Non-Rental Revenues</b>	<b>51,473</b>	21,117	<b>428,232</b>
Cancellation charges	18,112	11,030	150,687
Other miscellaneous revenues	33,361	10,087	277,545
<b>Property-Related Expenses</b>	<b>4,109,157</b>	3,893,229	<b>34,185,995</b>
Property management fees	1,076,170	1,121,506	8,953,163
Utilities expenses	711,475	769,500	5,919,096
Property and other taxes	626,500	628,567	5,212,145
Casualty insurance	21,659	20,205	180,190
Repairs and maintenance	323,293	152,207	2,689,621
Depreciation	1,310,644	1,194,194	10,903,860
Other rental expenses	39,416	7,050	327,920
<b>Profits</b>	<b>4,391,595</b>	4,017,054	<b>36,535,738</b>

## 12. Leases

The Company leases office buildings and earns rent income. As of March 31, 2003 and September 30, 2002, the future lease revenue under the non-cancelable operating leases are as follows:

	Thousands of yen		U.S. dollars
	<i>As of March 31, 2003</i>	<i>As of September 30, 2002</i>	<i>As of March 31, 2003</i>
Due within one year	3,567,829	2,856,633	29,682,440
Due after one year	22,733,111	17,557,395	189,127,379
<b>Total</b>	<b>26,300,940</b>	20,414,028	<b>218,809,819</b>

### **13. Subsequent Events**

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#### **Issuance of Corporate Bonds**

On April 30, 2003, the Company issued a ¥10,000 million (\$ 83,195 thousand) 0.69% unsecured corporate bond which is due in 2008 and a ¥10,000 million (\$ 83,195 thousand) 0.98% unsecured corporate bond which is due in 2010.

The Company intends to use the proceeds from the issuance of these corporate bonds for the repayment of short-term loans, etc.

#### **Appropriation of retained earnings**

On May 7, 2003, the Board of Directors resolved to effect the payment of a cash distribution of ¥14,455 per share aggregating ¥3,258 million (\$27,106 thousand) to shareholders at the record date of March 31, 2003.



**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of  
Japan Real Estate Investment Corporation

We have audited the accompanying balance sheets of Japan Real Estate Investment Corporation as of March 31, 2003 and September 30, 2002, the related statements of income and retained earnings, and changes in shareholders' equity for the six months ended March 31, 2003 and September 30, 2002, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, expressed in yen, referred to above present fairly, in all material respects, the financial position of Japan Real Estate Investment Corporation at March 31, 2003 and September 30, 2002, and the results of its operations for the six months ended March 31, 2003 and September 30, 2002 in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the six-month period ended March 31, 2003 are presented solely for convenience. We have also reviewed the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

*Shin Nihon & Co.*  
Shin Nihon & Co.

Tokyo, Japan  
May 19, 2003

See Note 1 to the financial statements, which explains the basis of presenting the financial statements of Japan Real Estate Investment Corporation under Japanese accounting principles and practices.

## **About J-REIT System**

### **J-REIT STRUCTURE AND RELATED ORGANIZATIONS**

The organizational structure of the Company is shown in the diagram on the next page, but we feel it would be helpful to add a further explanation of the role played by each of the related organizations. Understanding this relationship is the key to understanding the overall J-REIT system. (Numbers in the diagram correspond to the numbers below.)

**1) Investment Corporation:** A special type of entity for the specific purpose of owning and operating real estate properties.

The investment corporation is a special type of entity, incorporated and operated under the Investment Trust Law, for the purpose of owning and operating real estate properties using capital raised from investors. It has a board of directors and shareholders' meeting just like an ordinary corporation under the Commercial Code of Japan, but since this structure of the investment corporation is simply a vehicle for owning and operating real estate properties, it is not permitted under its articles of incorporation to engage in any other business activities.

The principal responsibility of the investment corporation is custody and management of its assets, as well as issuance of equity securities. The corporation does not, however, control its assets directly, as all management functions must be outsourced to a licensed asset management company.

**2) Tokyo Stock Exchange & 3) Investors:** Buy and sell the Company's shares, and receive dividends.

Investors provide capital for the investment corporation and receive equity securities, just as they would receive shares of stock issued by an ordinary corporation. Dividends are also paid to shareholders of record at the end of the fiscal period. Investors may also buy and sell the equity securities on the Tokyo Stock Exchange just like shares of an ordinary corporation, and the same trading regulations apply.

**4) Asset Management Company:** Real estate trust fund manager.

The investment corporation may not manage its assets by itself, but must outsource the investment decision and administration work to an asset management company. The asset management company, therefore, performs a vital role for the real estate investment corporation.

The asset management company is normally involved with the investment corporation from the time of its incorporation, and afterwards performs the role of fund manager for the real estate properties on consignment from the investment corporation. The asset management company must have a good grasp of the properties held by the investment corporation, and manage the assets to achieve higher earnings. As necessary, it will sell off some of the assets or acquire new ones.

In this way, the asset management company performs a series of duties in accordance with the Investment Trust Law.

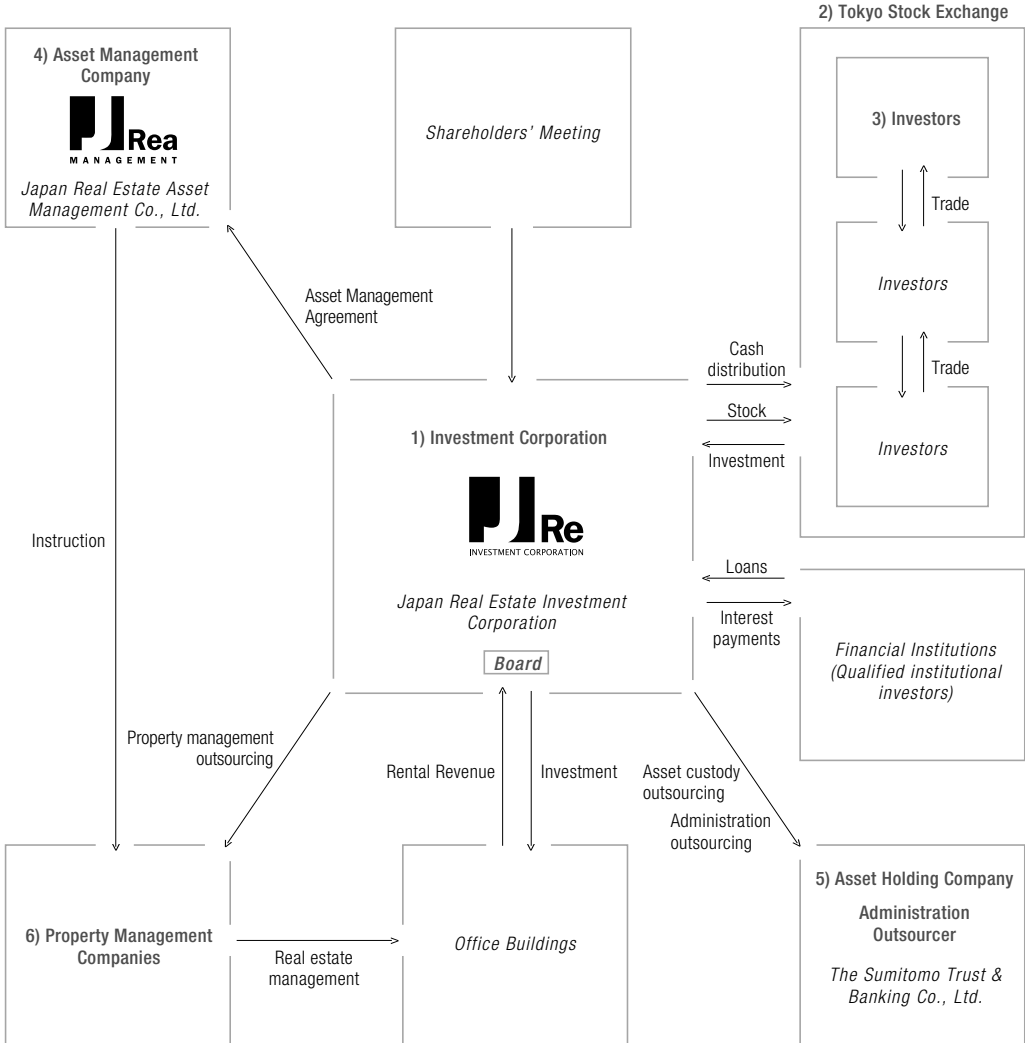
**5) Asset Holding Company/Administration Outsourcer**

The investment corporation consigns the property holding function (physical possession of the property deeds) or trust beneficiary certificates to trust banks or similar organizations. Administrative functions such as the transfer of share certificates are also outsourced to trust banks or securities companies, just like for shares of ordinary corporations.

**6) Property Management Companies**

The primary responsibility of the property management companies is to manage the maintenance and leasing of buildings. Building maintenance involves proper upkeep of the property to ensure long-term profitability for the investment corporation, and leasing services include monthly invoicing for rents and negotiating contract renewals.

ORGANIZATIONAL STRUCTURE OF JAPAN REAL ESTATE INVESTMENT CORPORATION



## ***ROLE OF SHAREHOLDERS IN J-REIT SYSTEM***

Set out below, in further detail, is the role shareholders of the investment corporation play in the J-REIT system. In particular, we would like to present a description of certain principal rights of the shareholders of an investment corporation under the Investment Trust Law, which is in effect as of March 31, 2003. This summary does not purport to be a comprehensive description of all of the rights of the shareholders under Japanese law that may be relevant to an investment decision on the shares of the Company.

**Voting Rights** A shareholder with one or more shares is entitled to one vote for each share. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority vote cast in writing or through proxies who are also shareholders. Shareholders who do not attend and/or do not exercise their voting rights at the general meeting of shareholders will be deemed to be in agreement with proposals submitted at the meeting.

Except in certain minor circumstances, the voting rights of shareholders apply to the following resolutions:

Appointment and dismissal of executive director, supervisory directors and independent auditors; approval of the execution or termination of the asset management agreement with an asset management company; consolidation of shares; mergers; dissolution; amendment to the Articles of Incorporation; and any other matters so required by the Investment Trust Law, any other law or the Articles of Incorporation.

### **Other Rights of Shareholders**

In addition to the rights set out above, shareholders have the following rights:

Dividends upon resolution of the board of directors;  
Derivative action;  
Right to sue for annulment of resolutions;  
Right to request bar on the executive director to prevent misconduct;  
Right to void newly issued shares;  
Right to sue for the nullification of merger;  
Right to make submissions to shareholders' meetings;  
Right to convene a general meeting of shareholders;  
Right to request the appointment of an inspector;  
Right to request the removal of directors;  
Right to request for the dissolution of an investment corporation; and  
Right to inspect books.

**Consolidation or Split of Shares** An investment corporation may (i) consolidate shares upon resolution of the general meeting of shareholders, or (ii) split shares into a greater number of shares upon resolution of the board of directors.

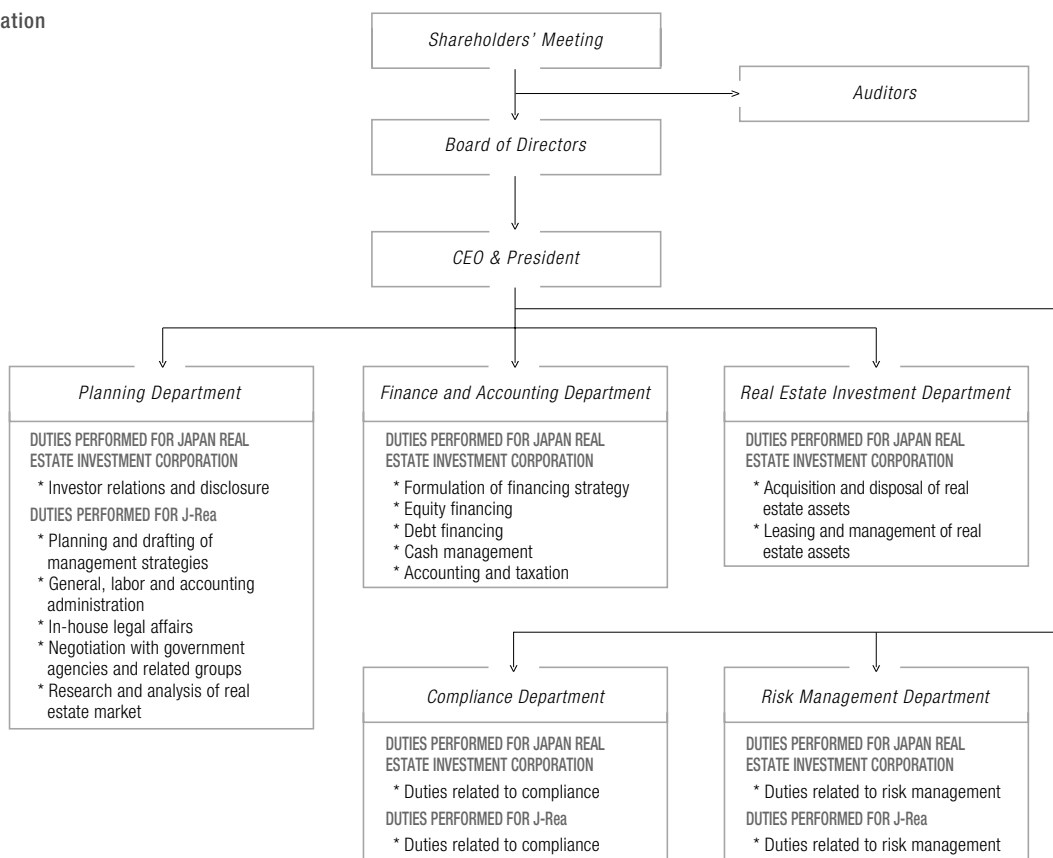
**No Redemption/Repurchase of Shares** As an investment corporation is a closed-end J-REIT, shareholders are not entitled to request for redemption/repurchase of their shares from an investment corporation.

**Issue of Additional Shares and Subscription Rights** Shareholders have no pre-emptive rights with respect to issuance of additional shares. Shares may be issued at the times and upon the terms approved by resolution of the board of directors.

**Liquidation** In the event of liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the numbers of shares held.

## Profile of J-Rea (Asset Management Company)

### Organization



### Principal Shareholders

Shareholder	Address	Numbers of Shares	Percentage
Mitsubishi Estate Co., Ltd.	6-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	102,855	36%
The Tokio Marine and Fire Insurance Co., Ltd.	2-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo	77,142	27%
The Dai-ichi Mutual Life Insurance Company	13-1, Yuraku-cho, 1-chome, Chiyoda-ku, Tokyo	77,142	27%
Mitsui & Co., Ltd.	2-1, Otemachi, 1-chome, Chiyoda-ku, Tokyo	28,571	10%
	Total	285,710	100%

## ***Corporate Data***

As of March 31, 2003

### **Executives**

Executive Director : Yoneichiro Baba

Supervisory Directors : Tsunaya Kawamura  
Kenji Kusakabe

### **Paid-in Capital**

¥112,152,420,000

### **Number of Shares Issued**

225,400

### **Number of Shareholders**

15,520

### **Stock Listing**

Tokyo Stock Exchange

### **Securities Code**

8952

### **Transfer Agent**

The Sumitomo Trust & Banking Co., Ltd.

5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

### **Certified Public Accountants**

Shin Nihon & Co.

Hibiya Kokusai Bldg.

2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan

### **Incorporation**

May 11, 2001

### **Executive Office**

Japan Real Estate Investment Corporation

3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-0005, Japan

For further information, please contact :

Japan Real Estate Asset Management Co., Ltd.

Planning Department, Manager

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This semiannual report includes translations of documents originally filed under the Securities and Exchange Law of Japan. This report was prepared in English solely for the convenience of readers outside Japan and should not be considered as a disclosure statement. The original Japanese documents shall take precedence in the event of any discrepancies arising from the translations or interpretations contained in this report.

Estimates for Japan Real Estate Investment Corporation's future operating results contained in this semiannual report are forward-looking statements and are based on information currently available to the Company and its asset management company and are subject to risks and uncertainties. Consequently, these projections should not be relied upon as the sole basis for evaluating Japan Real Estate Investment Corporation. Actual results may differ substantially from the projections depending on a number of factors.

<http://www.j-re.co.jp>