

Japan Real Estate Investment Corporation
SEMIANNUAL REPORT
September 2019

For the period from April 1, 2019 to September 30, 2019

The Strengths of Japan Real Estate Investment Corporation

Steady Growth of Dividends

Actual dividend per unit for the September 2019 period:

JPY 10,197

Forecast dividend per unit for the March 2020 period:

JPY 10,300

Collaboration with Sponsors

Expertise of

Mitsubishi Estate Co., Ltd.

and Mitsui & Co., Ltd. is being fully utilized

Profile

Japan Real Estate Investment Corporation (the “Company”) was established as one of the first real estate investment corporations in Japan following revisions to the Act on Investment Trusts and Investment Corporations of Japan, as amended, or the ITA. Its investments focus primarily on office buildings, and it is aiming to maintain geographic diversity while seeking stable growth and dividends in the medium to long term. The Company was listed on the Tokyo Stock Exchange on September 10, 2001 (Securities Code: 8952).

Note: Investment corporations, including the Company, are special legal entities incorporated and operated under the ITA. Accordingly, the “units” of such investment corporations, including the units of the Company, are governed by the ITA and represent the equity interests in such investment corporations, which may differ in certain material respects from the “shares” governed by the Corporation Law of Japan and representing the equity interests in Japanese ordinary corporations incorporated and operated under the Corporation Law 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 units of the Company. “Unitholders” of the Company may be construed accordingly. Each investor and reader should consult their own legal, tax, and other advisors regarding all Japanese legal, tax, and other consequences of an investment in the units of the Company, with specific reference to their own legal, tax, and other situations, and any recent changes in applicable laws and guidelines or their interpretation.

Steady Growth of Quality Portfolio

As of September 30, 2019

Total acquisition price:
JPY 1.023 trillion

Maintains **73** properties

The first listed J-REIT,
showing steady performance for 36 consecutive periods

Sound Financial Base

As of September 30, 2019

Highest level of credit ratings for a J-REIT:
A+ from S&P, **A1** from Moody's, **AA** from R&I

Long-term interest-bearing debt ratio*: **96.5%**

LTV (Interest-bearing debt / Total assets): **40.4%**

* (Long-term loans [including current portion of long-term loans] + Investment corporation bonds) / Total interest-bearing debt

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To Our Unitholders

In the fiscal period ended September 30, 2019, Japan Real Estate Investment Corporation (the “Company”) realized robust internal growth. As a result, the Company was able to significantly increase dividends per unit to JPY 10,197, up JPY 500 compared with the previous period. The Company successfully raised rental revenue through upward rent revisions, since the office leasing market continued to be favorable owing to corporate demand for comfortable and productive office environments. Going forward, the Company will focus on increasing rental income of existing buildings. At the same time, the Company will keep its efforts to acquire new properties to achieve higher dividend growth.

Business Performance for the September 2019 Period

Summary of Financial Results and Cash Dividends

During the September 2019 period (April 1, 2019 to September 30, 2019), Japan Real Estate Investment Corporation recorded a 6.5% increase in operating revenues compared with the previous period, to JPY 35.1 billion. On the earnings front, operating profit increased 13.4%, to JPY 16.4 billion. After deducting expenses for interest payments on loans and other costs, ordinary profit increased 14.5%, to JPY 15.3 billion, and profit increased 11.3%, to JPY 14.9 billion.

Turning to dividends, the Company will make cash distributions using accounting profits based on the dividend policy outlined in Article 32-1(2) of the Company’s Articles of Incorporation, in an amount that exceeds 90% of earnings available for dividends as required by Article 67-15 of the Special Taxation Measures Act. Based on this policy, the Company decided that the total amount of dividends, under the application of Article 65-7 “Exceptions of the Taxation in case of the Replacement by Purchase of Specific Asset” of the Special Taxation Measures Act, making reduction entries, and also to secure retained earnings brought forward, is JPY 14,124,986,370 for the period under review, which is a multiple of 1,385,210—the number of units outstanding as of September 30, 2019. Accordingly, the dividend per investment unit is JPY 10,197.

Operating Environment and Performance

During the September 2019 period (April 1, 2019 to September 30, 2019), the Japanese economy weakened in exports due to the influence of overseas commerce issues. However, the recovery of employment and income conditions continued, and corporate revenue showed

steady improvement.

In the market for leased office space, the trend of lowering vacancy rates continued, and tenant attraction for newly constructed buildings was favorably developed due to the high demand for office space. In addition, the gentle increase of rent levels continued not only in the Tokyo metropolitan area but also nationwide. The Company steadily accumulated increasing earnings as a result of the more proactive rent revisions and the realization of higher rents upon tenant replacements due to the favorable rental market.

In the investment market for real estate, favorable conditions for the financing environment continued, and transaction yields were still at a low level against the backdrop of domestic and overseas investors’ desire to actively invest with the challenging acquisition environment.

Under such market conditions, the Company made sound investments under the Investment Guideline of providing stable dividends to unitholders, which was set forth at the time of the Company’s listing on the TSE and remains unchanged to this date. Accordingly, the Company was able to provide a dividend at JPY 10,197, which is an increase of JPY 500 compared with the previous period.

In the market for leased office space in the fiscal period under review, as a result of our efforts to improve occupancy rates through meticulous property leasing, the Company successfully maintained and achieved an occupancy rate of 99.3% as of September 30, 2019.

As for property acquisitions and dispositions, on September 30, 2019, the Company disposed of a 50.0% quasi-co-ownership interest of the trust beneficiary right of Kawasaki Isago Building (Kawasaki-City, Kanagawa) for JPY 3.078 billion. The disposition of the interest

took place in two steps, and an additional 50.0% quasi-co-ownership interest of the trust beneficiary right of Kawasaki Isago Building was disposed of for JPY 3.078 billion on December 20, 2019.

As a result of the above, the Company's portfolio at the end of the fiscal period under review, September 30, 2019, consisted of 73 properties, with a total acquisition price of JPY 1.023 trillion. Net rentable floor area stood at 852,509 m² with 1,500 tenants in total.

Note: LINK SQUARE SHINJUKU (land with leasehold interest), whose building ownership was disposed of on August 23, 2013, and Shibuya Cross Tower (land with leasehold interest), whose building ownership was disposed of on January 18, 2018, are included in the above number of properties and total acquisition price, but are not included in net rentable floor area or total number of tenants. This applies to all relevant instances in subsequent pages.

The name of LINK SQUARE SHINJUKU (land with leasehold interest) was changed from Shinjuku South Gate Project (tentative name) (land with leasehold interest) on August 26, 2019.

Finance Activities

According to its financial policy, the Company aims to maintain the LTV ratio (ratio of interest-bearing debt to total assets) at 30% to 40%, and strives to maintain a sound and conservative financial profile by the staggering of maturities, extension of durations, and diversification of stable lenders among other possibilities, taking into consideration the borrowing costs and existing relationships with lenders.

Concerning new loans related to property acquisition and the refinancing of existing loans, the Company carries out loans strategically and flexibly after giving close consideration to the above-mentioned means, as well as the possibility of repayment with funds procured from issuing new investment units.

As a result of the above financing activities, as of September 30, 2019, the Company's total interest-bearing debt was JPY 389.9 billion, the same level as that of the end of the previous period. This amount consists of long-term loans totaling JPY 343.5 billion (including the current portion of long-term loans totaling JPY 46.5 billion), short term loans totaling JPY 13.5 billion, and investment corporation bonds totaling JPY 32.9 billion. The current LTV ratio stands at 40.4%.

The Company's credit ratings as of September 30, 2019 were as follows:

Rating Agency	Credit Rating
S&P Global Ratings Japan Inc.	Long-term: A+; Short-term: A-1; Outlook: Stable
Moody's Japan K.K.	Rating: A1; Outlook: Stable
Rating and Investment Information, Inc.	Rating: AA; Outlook: Stable

Summary of Property Disposition

Kawasaki Isago Building



Property and Transaction Summary

- **Location:** Kawasaki City, Kanagawa Prefecture
- **Site area:** 1,594.50m²
(total land area for the building site)
- **Floor area of building:** 9,623.83m²
(total floor space for the entire building)
- **Structure:** Steel-framed reinforced concrete structure, flat roof
- **Floors:** Above ground: 12 floors,
Below ground: 1 floor
- **Completion:** December 1990
- **Acquisition date / Acquisition price:** September 25, 2001 / JPY 3,375 million
- **Disposition date / Disposition price:** September 30, 2019 / JPY 3,078 million
December 20, 2019 / JPY 3,078 million
- **Type of ownership:** Land: Ownership
Building: Ownership
- **Buyer:** Undisclosed

Outlook

Operating Environment

The Japanese economy is expected to follow a course of moderate recovery as a result of further improving conditions for employment and income, as well as various financial policies in force. However, due to the influence of the trend of trade issues on the world economy, the uncertainty of overseas economies, and the influence of changes in the financial capital market, the Company considers that it is necessary to give close attention to these downward risks.

In the market for leased office space, especially regarding the increase in office space supply in the Tokyo metropolitan area, the demand of the new supply properties is still high, and business performance is expected to maintain a high level in the future. The Company expects that occupancy rates will maintain a high level for the time being, and the gentle upward trend in rents will continue.

Regarding the investment market for real estate, low interest rates and positive investor confidence have still been prevailing and transactions carried out at stronger valuation are anticipated to continue. Therefore, it is important to continue to be proactive in searching for new properties while paying close attention to market trends.

Property Management

Based on the conditions stated above, the Company will adhere to the following management policies in order to maintain and improve profitability.

- (i) Strengthen relationships of trust with existing tenants
The Company has contracts with numerous property management companies. Each property management company has developed relationships of trust with their tenants through their daily diligence in managing their respective properties over the years. The Company will work to further solidify these relationships by anticipating tenants' needs and providing tailored services to bolster tenant satisfaction, thereby maintaining and improving occupancy rates and raising the rent levels.
- (ii) Fill vacancies promptly
In cooperation with the property management companies mentioned above and their leasing brokers, the Company will actively seek the most appropriate tenants for each property, based on

location and features, in order to fill current and anticipated vacancies without delay. Furthermore, the Company will work to identify additional needs for floor area among the existing tenants.

- (iii) Stabilize revenues and earnings
With the aim of stabilizing revenues and earnings, the Company will endeavor to promote fixed lease agreements and secure long-term leasing with its large-scale tenants.
- (iv) Reduce management costs
The Company has introduced sound competitive principles to a number of property management companies so that they perpetually review and improve their management systems and cost structures. Along with this, the Company endeavors to ensure and enhance tenant satisfaction.

Property Acquisitions and Dispositions

The Company has adopted the following policies for acquiring properties.

- (i) To access property information quickly, the Company continues to enhance its property information channels while working to develop new channels.
- (ii) In its acquisition activities, the Company continues to meticulously monitor and examine economic, physical, and legal factors, including rights-related issues, when selecting properties. In particular, with regard to the structure of buildings, the Company requires buildings to meet or exceed new earthquake-resistant standards, verifies the need for renovations by capturing current conditions accurately based on engineering reports, and exclusively targets properties capable of maintaining a competitive edge in terms of the facilities they offer over the medium to long term.
- (iii) In accordance with its acquisition policies, the Company shall maintain its portfolio so that 70% or more of the portfolio properties are located within the Tokyo metropolitan area, with the remaining 30% or fewer located in other major cities.
Under these policies, the Company will continue to acquire highly competitive properties. At the same time, in order to



Yutaka Yanagisawa (Left)

Executive Director of Japan Real Estate Investment Corporation

Naoki Umeda (Right)

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

further improve the quality of its portfolio, the Company will remain open to the replacement of portfolio properties with due consideration at the right time.

Financial Policy

The Company has adopted the following financial policies.

- (i) In principle, the Company shall maintain an LTV ratio (including investment corporation bonds) below 65%. To ensure an even lower interest-bearing debt ratio, the Company adopts the conservative target level of 30% to 40%.
- (ii) The Company shall set the ceiling for the combined total of loans and investment corporation bonds at JPY 1 trillion.
- (iii) When obtaining a loan, the Company shall only negotiate with qualified institutional investors (limited to those defined under Article 67-15 of the Special Taxation Measures Act) before executing a loan agreement.
- (iv) With the purpose of maintaining liquidity at an appropriate level, the Company may establish preliminary borrowing frameworks such as overdraft agreements and commitment line agreements, or may conclude preliminary contracts for loans, as needed.
- (v) The Company aims for the best possible execution of financial transactions by negotiating with numerous financial institutions.

Performance Forecasts for the March 2020 and September 2020 period

The Company's forecasts for the March 2020 period (October 1, 2019 to March 31, 2020) are as follows: operating revenues totaling JPY 35.2 billion, operating profit totaling JPY 16.5 billion, ordinary profit totaling JPY 15.5 billion, and profit totaling JPY 15.0 billion. The Company plans to declare a per-unit cash dividend of JPY 10,300.

The Company's forecasts for the September 2020 period (April 1, 2020 to September 30, 2020) are as follows: operating revenues totaling JPY 34.1 billion, operating profit totaling JPY 15.4 billion, ordinary profit totaling JPY 14.4 billion, and profit totaling JPY 14.4 billion. The Company plans to declare a per-unit cash dividend of JPY 10,400.

Operating revenues, operating profit, ordinary profit, profit, and cash dividend per unit might vary depending on changes that could occur in the market situation.

Yutaka Yanagisawa

Executive Director of Japan Real Estate Investment Corporation

Naoki Umeda

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

Financial Highlights

	In millions of JPY				
	For the period from April 1, 2019 to September 30, 2019	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2018 to September 30, 2018	For the period from October 1, 2017 to March 31, 2018	For the period from April 1, 2017 to September 30, 2017
Operating revenues	35,164	33,022	33,066	31,955	31,718
Operating profit	16,494	14,548	14,578	13,596	13,178
Ordinary profit	15,390	13,441	13,348	12,362	11,921
Profit	14,945	13,431	13,273	12,291	11,909
Net operating income (NOI) (Note 1)	23,104	22,603	22,401	21,566	21,275
Funds from operations (FFO) (Note 2)	19,795	19,831	19,451	18,652	18,466
FFO multiple (Times) (Note 3)	25.4	22.7	21.3	19.3	19.2
Cash distribution	14,124	13,432	13,152	12,223	11,909
Number of units	1,385,210	1,385,210	1,385,210	1,309,310	1,309,310
Dividend per unit (JPY)	10,197	9,697	9,495	9,336	9,096

Notes: 1. NOI = Property-related revenues – Property-related expenses (excluding Depreciation)

2. FFO = Profit + Depreciation – Gain (Loss) on sales of real estate properties

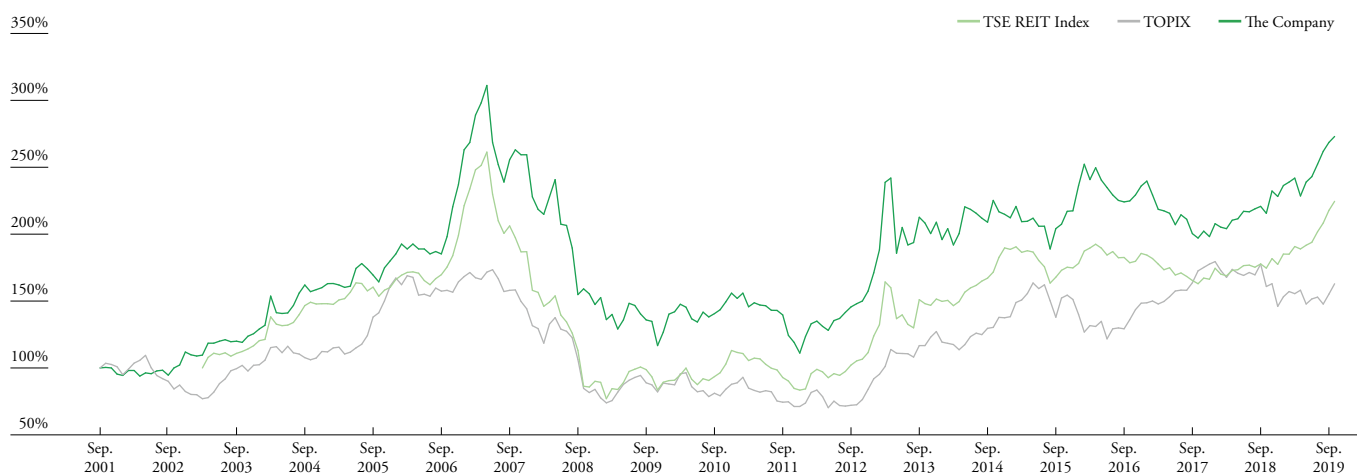
3. FFO multiple = Unit price at end of the respective term / FFO per unit (Annualized)

(Annualized portion of the calculation given in Note 2 and Note 3 assumes a fiscal period of 183 days for the period ended September 30, 2017, 182 days for the period ended March 31, 2018, 183 days for the period ended September 30, 2018, 182 days for the period ended March 31, 2019, and 183 days for the period ended September 30, 2019.)

Top 10 Unitholders As of September 30, 2019

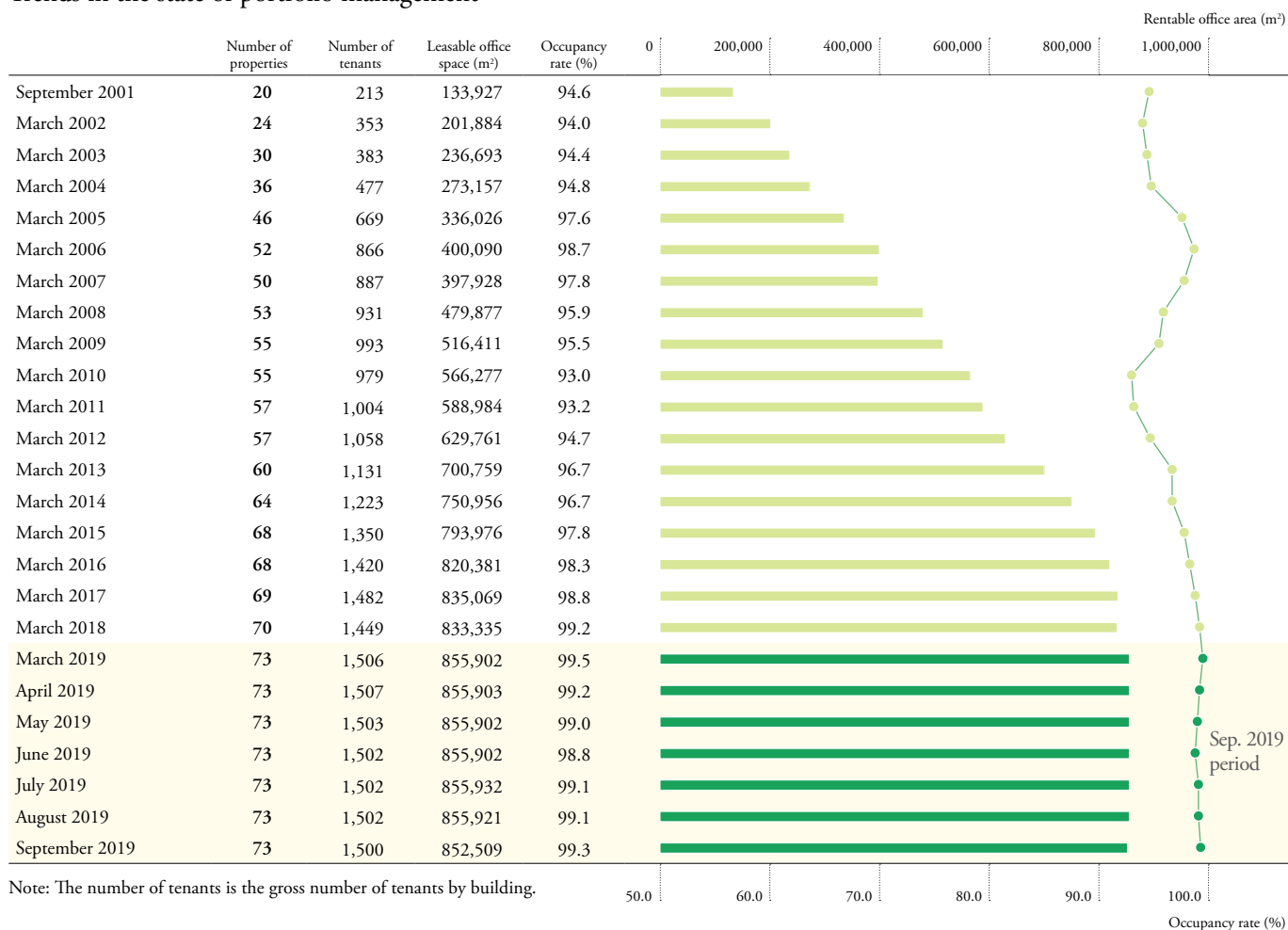
Company	Units	% of total units outstanding
Japan Trustee Services Bank, Ltd. (Shintaku Acc.)	273,844	19.77%
The Master Trust Bank of Japan, Ltd. (Shintaku Acc.)	219,818	15.87%
The Nomura Trust and Banking Co., Ltd. (Toshin Acc.)	55,734	4.02%
Trust & Custody Services Bank, Ltd. (Toshin Acc.)	50,053	3.61%
STATE STREET BANK WEST CLIENT - TREATY 505234	45,431	3.28%
JPMorgan Securities Japan Co., Ltd.	19,039	1.37%
STATE STREET BANK AND TRUST COMPANY 505103	17,520	1.26%
Mitsubishi Estate Co., Ltd.	17,120	1.24%
JP MORGAN CHASE BANK 385771	16,293	1.18%
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	16,064	1.16%

Unit Price Performance



Portfolio Highlights

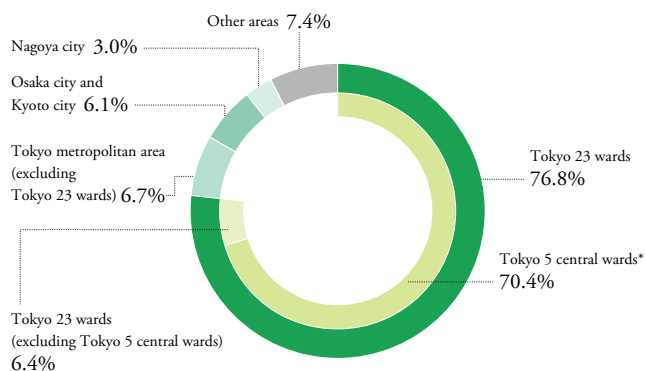
Trends in the state of portfolio management



Portfolio breakdown As of September 30, 2019

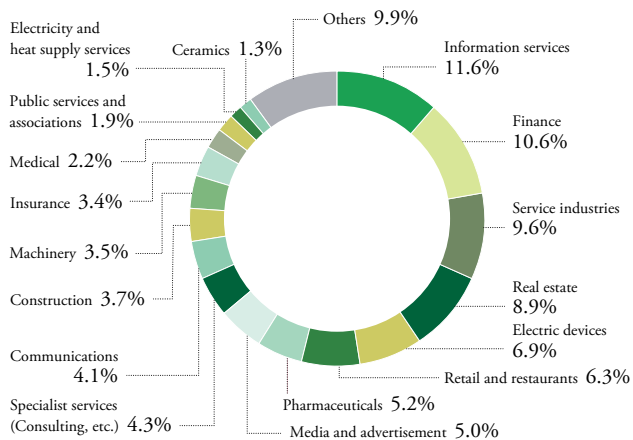
Properties by geographic region

(Percentage based on acquisition price)



Tenants by industry type

(Percentage based on leased office space)



* Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku, Shibuya-ku

Approach to ESG

Sustainability Policy

Japan Real Estate Asset Management Co., Ltd. (JRE-AM), which manages the Company's assets, believes that asset management focused on ESG is essential to the sustainable improvement of asset value.

The ESG Office, a dedicated team for ESG, is driving the Company's ESG initiatives in accordance with its Sustainability Policy.

Such initiatives include an enhancement of disclosure of the Company's ESG-related information, an acquisition of environmental certifications and evaluations from external organizations, participation in international initiatives, and more.

We disclose ESG-related information on our Company website in a timely manner.

Please refer to our website for further information

<https://www.j-re.co.jp/en/esg/index.html>



Sustainability Policy

- 1/ Contribution to creating a low-carbon society
- 2/ Contribution to creating a recycling-oriented society
- 3/ Contribution to creating a society in harmony with nature
- 4/ Enhancement of safety and security
- 5/ Initiatives aimed at officers and employees
- 6/ Collaboration with external stakeholders
- 7/ Information disclosure and obtaining environmental certifications



International Initiatives

In 2018, JRE-AM became a signatory to the following international initiatives:

Became Signatory in April 2018*

United Nations Global Compact (UNGC)



* Mitsubishi Estate Co., Ltd., JRE-AM's parent company became a signatory of the UNGC. Accordingly, JRE-AM has participated in this initiative as a member of Mitsubishi Estate Group.

Became Signatory in August 2018

Principles for Responsible Investment (PRI)



United Nations Environment Programme Finance Initiative (UNEP FI)



2019 PRI Assessment Result

JRE-AM reported on the status of its ESG integration practice and has received the following assessment result as below.

Module	Score
Strategy & Governance	A+
Property	A

Note: The rating system has 6 ranks (A+, A, B, C, D, E)

JRE-AM has expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, established by the Financial Stability Board (FSB). We are evaluating the risks and opportunities that various climate change scenarios present to all of our properties.



See here for details
<https://www.j-re.co.jp/en/esg/climate.html>

External Evaluation and Certification

“1st” among the office sector in Japan under the GRESB Real Estate Assessment

JRE received the following evaluations under the GRESB Real Estate Assessment and GRESB Public Disclosure conducted in 2019.

	GRESB Real Estate Assessment		GRESB Public Disclosure
Content of the Assessment	Evaluates ESG performance in terms of “management & policy” and “implementation & measurement”	Relative assessment based on the total score (GRESB Rating)	Evaluates the level of ESG disclosure
Rating	Green Star (Highest rating)	5 Star ★★★★★ (Highest rating) 	A (Highest rating) 

Participation in the CDP’s Climate Change Program

The CDP is an international NPO which works on behalf of a great number of institutional investors to collect and subsequently analyze information on business risks and opportunities emerging due to greenhouse gas emissions and climate change. In 2018, the CDP conducted the survey on behalf of more than 650 institutional investors representing more than 87 trillion U.S. dollars in managed assets, and approximately 7,000 companies globally including approximately 300 companies in Japan have responded.

The Company participated in the CDP’s Climate Change Program for the first time in 2018 and received the “B” designation, which is, according to the CDP, higher than the Sector Average (B-) and the Regional Average (C). The rating system has 8 ranks (A, A-, B, B-, C, C-, D, D-).

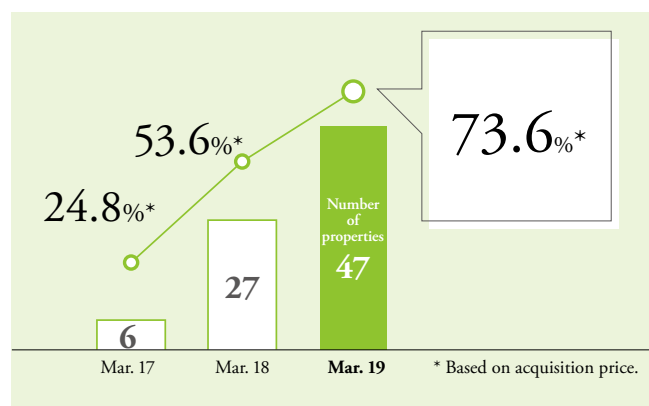


DBJ Green Building

Green Building-Certified Properties in the Portfolio

We are focusing on improving the sustainability of the Company’s entire portfolio. As of the end of March 2019, about three-quarters of the Company’s portfolio is green certified. Going forward, the Company will continue to acquire environmental certifications and evaluations, such as the DBJ Green Building Certification.

Green building-certified properties in the portfolio

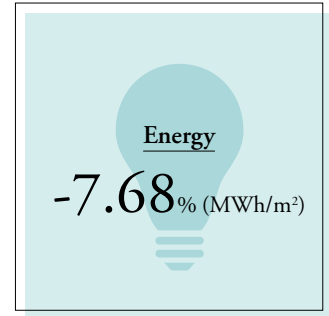
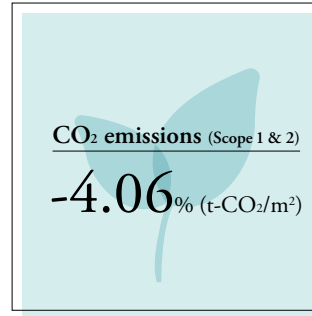
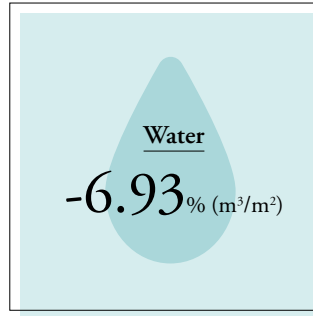


Environmental Performance

We will continue upgrading our building equipment to highly efficient equipment as well as adapting our energy sources to more environmentally friendly energy to further improve environmental performance.

Note: Obtained third-party assurance (by Ernst & Young ShinNihon LLC) on energy consumption, greenhouse gas emissions, and water usage data.

Intensity: FY2018 vs. FY2013



Social Responsibility

For Stakeholders

Sustainability Guide to Promote Owner and Tenant Collaboration

JRE has created a Sustainability Guide and distributed it to tenants, aiming to promote close collaboration with them.

This Sustainability Guide introduces the activities that we can do in the office, mainly from the viewpoints of the “environment” and “tenant well-being.”

We will team up with our tenants and endeavor to co-create a sustainable society with them.

Raising ESG Awareness of Our Stakeholders

We offer ESG training for our business partners, master lessees and property managers, among others, for the purpose of raising stakeholder awareness.



Implemented in May 2019

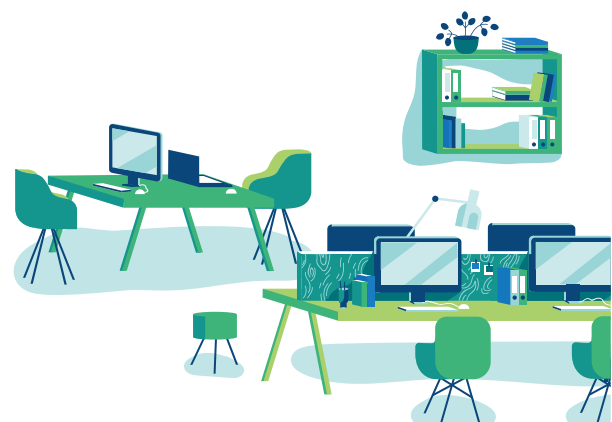
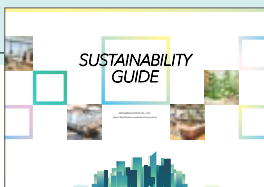
Number of participating companies 20

Number of participants 167

Sustainability Guide Contents

- Toward a Sustainable Society
- Our Thoughts
- Case 1: Example of a Large-scale Office
- Case 2: Small- and Medium-sized Office
- Case 3: Creating New Spaces in the Current Office
- What We Can Do Now

Please refer to the following link for the Sustainability Guide
https://www.j-re.co.jp/assets/pdf/en-sustainability_guide.pdf



For Communities

Resilience for Communities

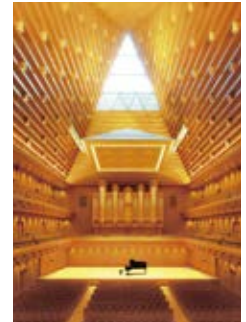
As part of our efforts to strengthen our relationship with local communities, we have established systems to host stranded commuters in the event of a disaster. These systems have been put in place at such properties as Akasaka Park Building. In addition, we have concluded an agreement with Chiyoda Ward to establish a system for hosting stranded commuters at Otemachi Financial City North Tower. Furthermore, we have designated a water well and regional warehouse for disaster control. We also participate in disaster control drills. Through these efforts, we are contributing to local communities by offering locations to help people in the event of disasters.



Supporting Cultural and Artistic Activities

Tokyo Opera City has two museums, six theatres/halls, and an art gallery. It includes a concert hall with a wooden interior and one of the world's best acoustic systems as well as the New National Theatre, where operas, plays, modern dances, dramas, and other contemporary performing arts are performed for the public.

We support the Tokyo Opera City Cultural Foundation which plans and organizes the musical performances and art exhibitions that take place in the Concert Hall, the Recital Hall, and the Art Gallery of Tokyo Opera City.



For Employees

Learning and Development for All Employees

Based on the idea that all employees should be professionals with a high degree of specialization, JRE-AM encourages all our employees, i.e., permanent employees, contract employees, and seconded employees, to participate in a variety of training programs.

JRE-AM provides its own training programs that are associated with the REIT industry, compliance, etc. and designed to develop employee skills and deepen their professionalism. In addition, JRE-AM encourages its employees to participate in a variety of training programs offered by sponsors.

For more details on JRE-AM's sponsors' personnel development systems, please refer to the following websites.



Mitsubishi Estate:

<http://www.mec.co.jp/e/csr/employees/index.html>

Mitsui & Co.:

<https://www.mitsui.com/jp/en/sustainability/social/resources/rearing/index.html>

Support for Career Enrichment, Qualifications, and Licenses

For all of its employees, JRE-AM subsidizes the expenses of various training programs or sessions such as fund management, logical thinking skills, financial accounting, organizational management, coaching, compliance, and more. In addition, JRE-AM also subsidizes the expenses of obtaining qualifications and licenses such as ARES Certified Master, Certified Building Administrator, Real Estate Transaction Agent, among others.

Creating a Productive and Employee-friendly Workplace

JRE-AM moved to its new office, Otemachi Park Building, in December 2017.

We promoted workplace reform by relocating our office. As a result, we accelerated work efficiency and improved productivity.

Office Design Promoting Internal Communication

Coinciding with its office relocation, JRE-AM has shifted to a free-address work environment. The new office features a spacious communal area and various types of furniture such as standing desks and balance chairs. JRE-AM aims to create an environment that facilitates communication and work-style reforms as we believe they are key to improving productivity. JRE-AM's office was selected for the "DSA Design Space Award 2018" by the Japan Design Space Association.

For more details on the DSA Design Space Award, please refer to the following website.



Japan Design Space Association

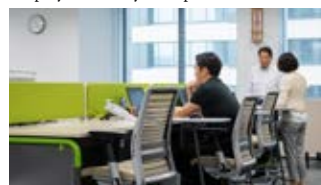
http://www.dsa.or.jp/design/english/award/index_en.html



Employee-friendly workplace



Free-address work environment



Standing desks



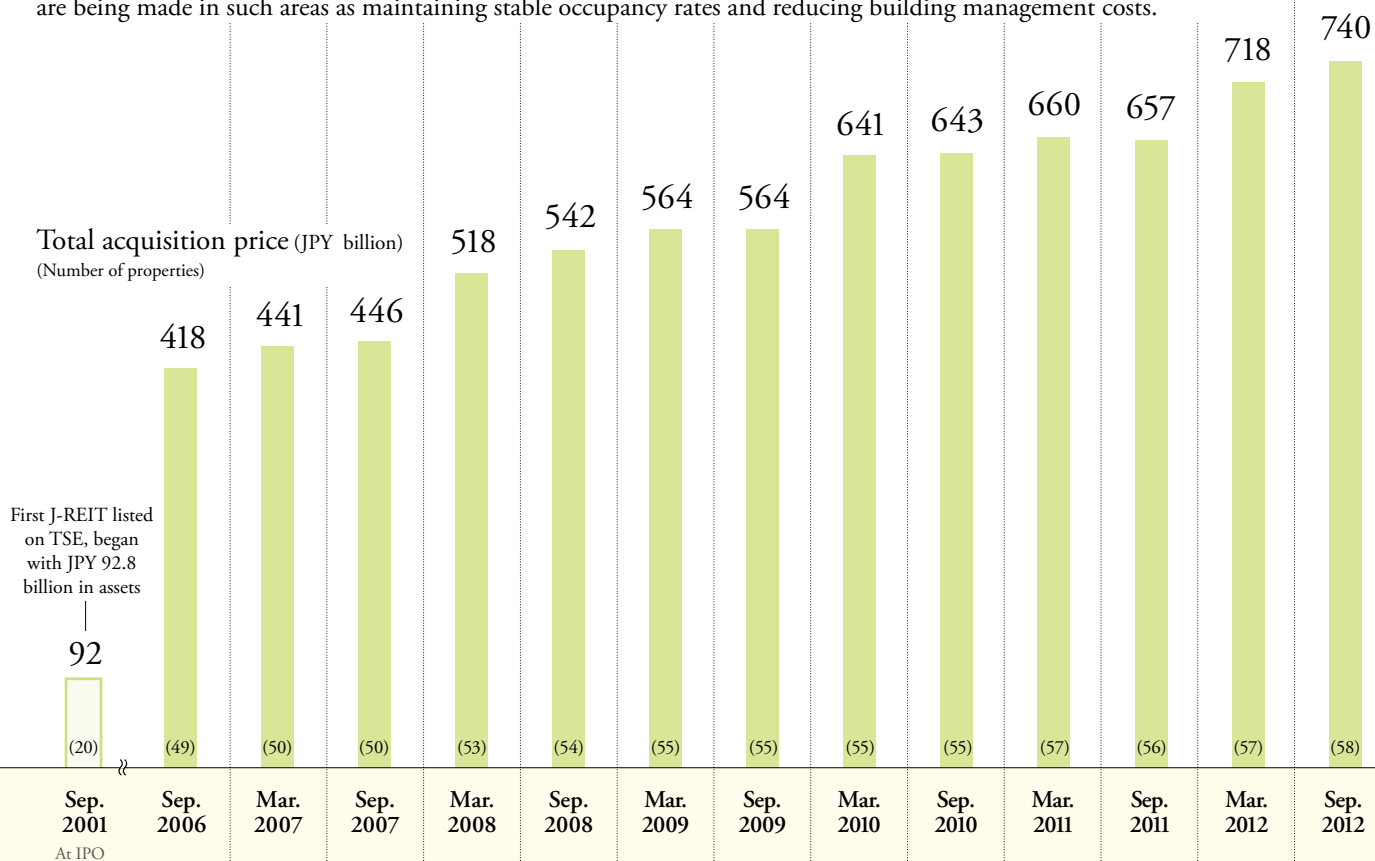
Conference rooms where table tennis can be played

Asset Size, Property Acquisitions, and Performance Trends

Occupancy rate (%)

94.6 98.2 97.8 98.7 95.9 96.1 95.5 93.3 93.0 92.4 93.2 94.6 94.7 95.5

In September 2001, the Company became the first J-REIT in Japan listed on the Tokyo Stock Exchange. Since then, the Company has targeted stable management to fulfill its goal of maintaining or increasing dividend per unit over the medium to long term. The Company's growth is based on external growth strategies that aim to increase earnings through the acquisition and transfer of properties, as well as internal growth strategies that seek to optimize earnings from properties already held. The size of the Company's assets (total acquisition price) has grown from JPY 92.8 billion at IPO to JPY 1.023 trillion as of the period ended September 30, 2019 due to the steady achievement of external growth strategies. However, in terms of internal growth strategies, ongoing efforts are being made in such areas as maintaining stable occupancy rates and reducing building management costs.



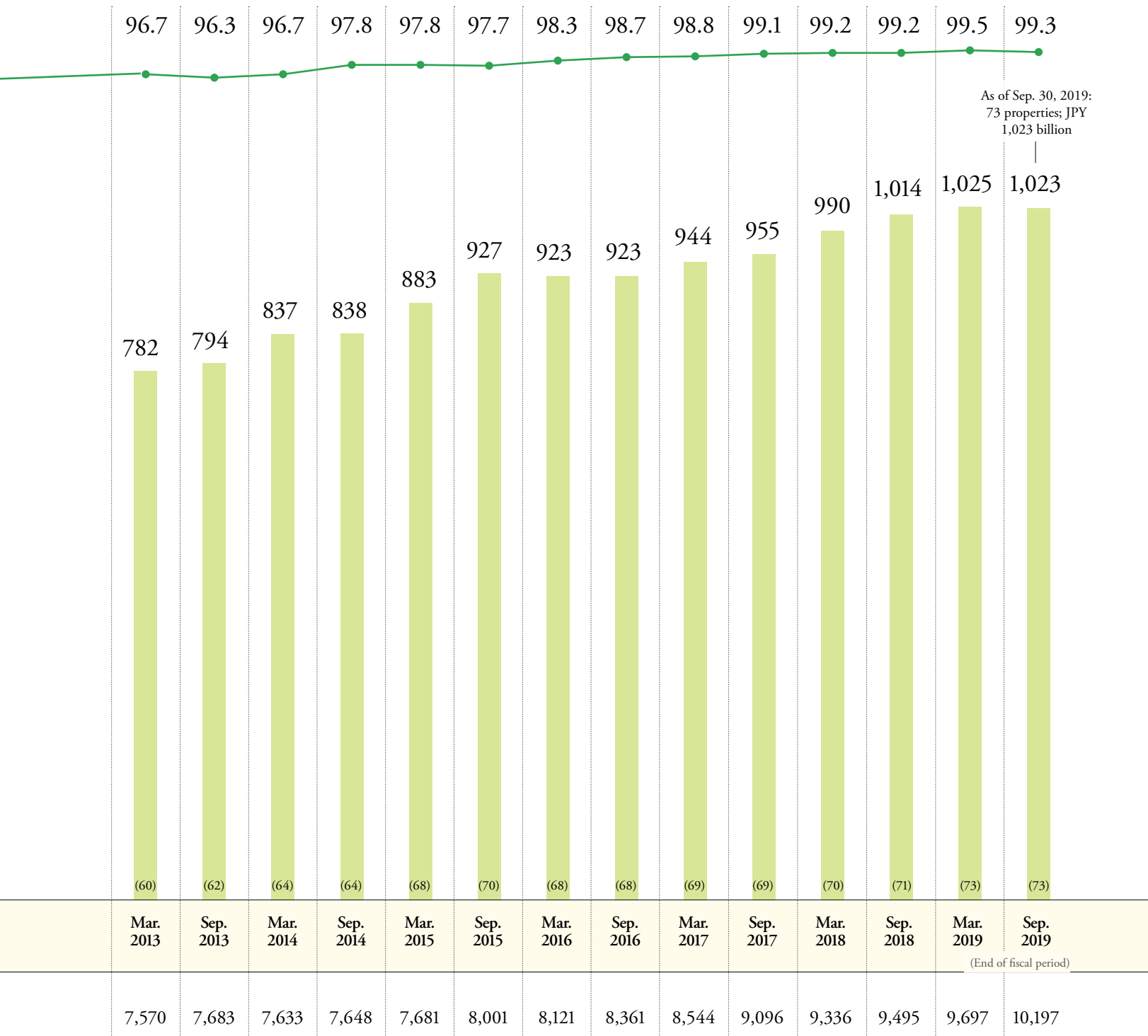
Dividend per unit* (JPY)

8,651 8,760 9,250 14,611 9,536 9,510 9,599 9,021 8,314 7,821 7,925 8,095 7,850

Listing and issuance of units

Sep. 2001: Listed on TSE as first J-REIT
 Sep. 2001: IPO
 Oct. 2006: Fourth Follow-On
 Mar. 2008: Fifth Follow-On
 Dec. 2009: Sixth Follow-On
 Feb. 2012: Seventh Follow-On
 Oct. 2012: Eighth Follow-On

* The Company implemented a 2-for-1 split of each investment unit as of January 1, 2014. The figures for the March 2002 through September 2013 periods have taken the split into account.



Apr. 2014
Ninth Follow-On

Apr. 2015
Tenth Follow-On

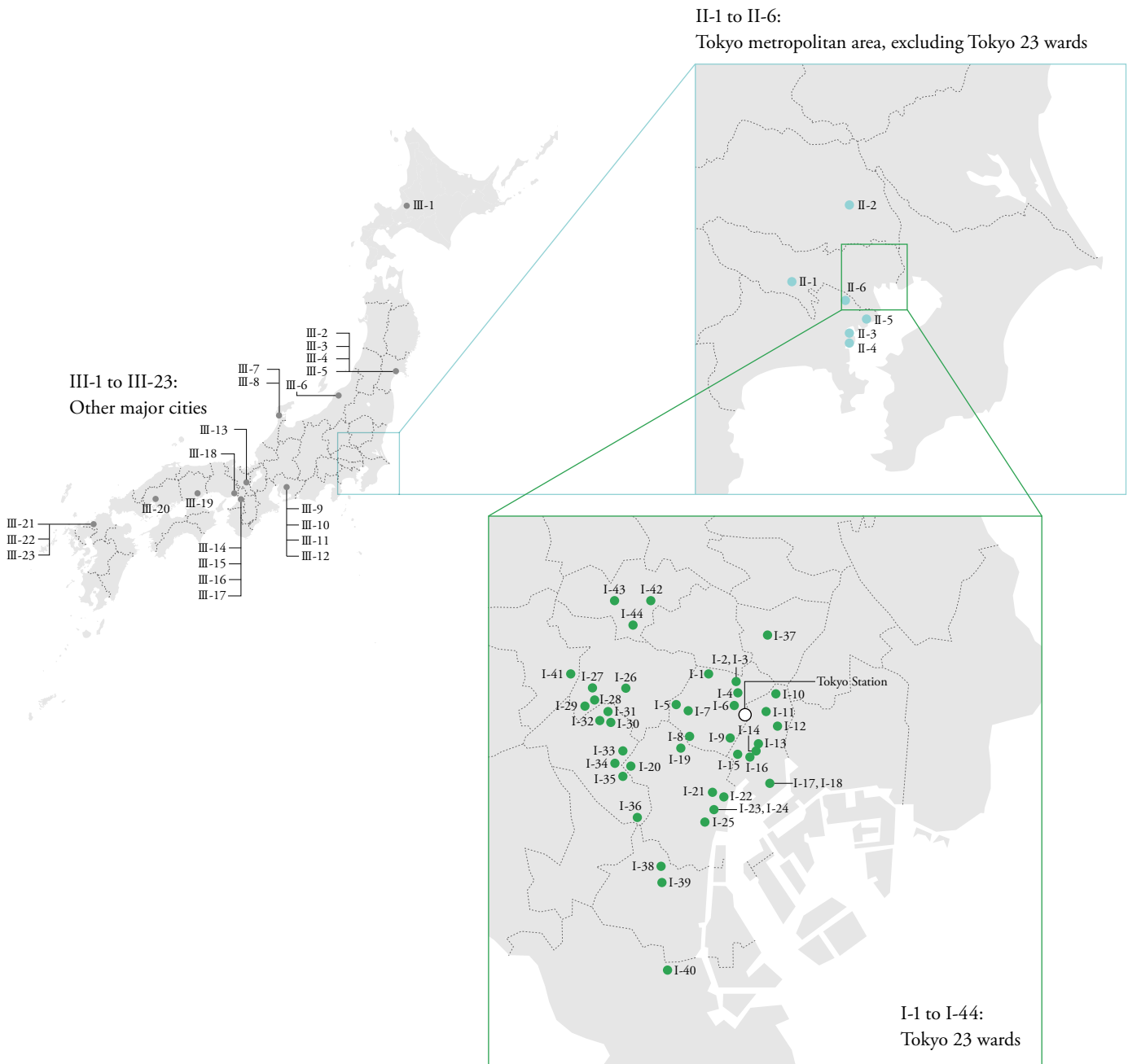
Apr. 2018
Eleventh
Follow-On

Major tenant roster

Name of tenant	Name of property	Rented office area (m ²)	% of total rented office area
MUFG Bank, Ltd.	Harumi Front (also includes 3 other buildings)	33,912	4.0%
Not disclosed*	Kitanomaru Square (also includes 3 other buildings)	22,581	2.7%
Not disclosed*	Osaki Front Tower (also includes 2 other buildings)	21,493	2.5%
NTT Communications Corporation	Shiodome Building	16,243	1.9%
SQUARE ENIX HOLDINGS CO., LTD.	Shinjuku Eastside Square	13,438	1.6%
HAKUHODO DY HOLDINGS INCORPORATED	Akasaka Park Building (also includes 1 other building)	13,403	1.6%
Mitsubishi UFJ Trust and Banking Corporation	Mitsubishi UFJ Trust and Banking Building	10,598	1.3%
JGC Corporation	MM Park Building (also includes 1 other building)	10,246	1.2%
TOTO LTD.	Shiodome Building (also includes 1 other building)	9,694	1.1%
Minato Mirai 21 District Heating and Cooling Co., Ltd.	Queen's Tower A	9,536	1.1%

* Not disclosed due to tenant's request

Location of portfolio properties



Overview of Portfolio Properties

As of September 30, 2019

Tokyo 23 wards



Kitanomaru Square

● I-1

Location:	Chiyoda-ku, Tokyo
Site area:	5,821.03m ²
Floor area of building:	57,279.20m ²
Ownership:	100.0%
Completion:	January 2006



MD Kanda Building

● I-2

Location:	Chiyoda-ku, Tokyo
Site area:	1,085.83m ²
Floor area of building:	8,185.11m ²
Ownership:	100.0%
Completion:	February 1998



Kandabashi Park Building

● I-3

Location:	Chiyoda-ku, Tokyo
Site area:	1,218.56m ²
Floor area of building:	9,370.25m ²
Ownership:	56.76%
Completion:	July 1993



Otemachi Financial City North Tower

● I-4

Location:	Chiyoda-ku, Tokyo
Site area:	14,108.16m ²
Floor area of building:	239,769.07m ²
Ownership:	3.39%
Completion:	October 2012



Nibancho Garden

● I-5

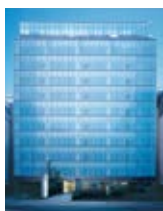
Location:	Chiyoda-ku, Tokyo
Site area:	10,992.13m ²
Floor area of building:	57,031.06m ²
Ownership:	31.35%
Completion:	April 2004



Mitsubishi UFJ Trust and Banking Building

● I-6

Location:	Chiyoda-ku, Tokyo
Site area:	8,100.39m ²
Floor area of building:	108,171.67m ²
Ownership:	19.38%
Completion:	February 2003



Burex Kojimachi Building

● I-7

Location:	Chiyoda-ku, Tokyo
Site area:	967.67m ²
Floor area of building:	6,526.64m ²
Ownership:	100.0%
Completion:	January 2005



Sanno Grand Building

● I-8

Location:	Chiyoda-ku, Tokyo
Site area:	3,663.93m ²
Floor area of building:	33,875.95m ²
Ownership:	99.0%
Completion:	September 1966



Yurakucho Denki Building

● I-9

Location:	Chiyoda-ku, Tokyo
Site area:	5,749.91m ²
Floor area of building:	70,287.65m ²
Ownership:	10.78%
Completion:	September 1975



Kodenmachi Shin-Nihonbashi Building

● I-10

Location:	Chuo-ku, Tokyo
Site area:	773.28m ²
Floor area of building:	5,822.88m ²
Ownership:	100.0%
Completion:	November 1991



Front Place Nihonbashi

● I-11

Location:	Chuo-ku, Tokyo
Site area:	1,381.52m ²
Floor area of building:	11,672.55m ²
Ownership:	100.0%
Completion:	February 2014



Kyodo Building (Kayabacho 2Chome)

● I-12

Location:	Chuo-ku, Tokyo
Site area:	754.26m ²
Floor area of building:	5,505.80m ²
Ownership:	100.0%
Completion:	April 1991



Burex Kyobashi Building

● I-13

Location:	Chuo-ku, Tokyo
Site area:	756.03m ²
Floor area of building:	5,470.54m ²
Ownership:	100.0%
Completion:	February 2002



Ginza 1Chome East Building

● I-14

Location:	Chuo-ku, Tokyo
Site area:	702.41m ²
Floor area of building:	4,976.85m ²
Ownership:	100.0%
Completion:	May 2008



Ginza Sanwa Building

● I-15

Location:	Chuo-ku, Tokyo
Site area:	1,119.27m ²
Floor area of building:	8,851.00m ²
Ownership:	70.95%
Completion:	October 1982



Ryoshin Ginza East Mirror Building

● I-16

Location:	Chuo-ku, Tokyo
Site area:	864.91m ²
Floor area of building:	5,751.68m ²
Ownership:	100.0%
Completion:	October 1998



Harumi Front

● I-17

Location:	Chuo-ku, Tokyo
Site area:	7,250.15m ²
Floor area of building:	45,458.90m ²
Ownership:	100.0%
Completion:	February 2012



Harumi Center Building

● I-18

Location:	Chuo-ku, Tokyo
Site area:	4,664.63m ²
Floor area of building:	26,447.27m ²
Ownership:	100.0%
Completion:	November 2006



Akasaka Park Building

● I-19

Location:	Minato-ku, Tokyo
Site area:	14,198.20m ²
Floor area of building:	97,489.16m ²
Ownership:	100.0%
Completion:	July 1993



Aoyama Crystal Building

● I-20

Location:	Minato-ku, Tokyo
Site area:	989.30m ²
Floor area of building:	8,094.36m ²
Ownership:	100.0%
Completion:	December 1982



Clover Shiba-koen

● I-21

Location:	Minato-ku, Tokyo
Site area:	528.58m ²
Floor area of building:	3,496.01m ²
Ownership:	100.0%
Completion:	February 2006



Shiodome Building

● I-22

Location:	Minato-ku, Tokyo
Site area:	12,054.22m ²
Floor area of building:	115,930.83m ²
Ownership:	55.0%
Completion:	December 2007



Shiba 2Chome Daimon Building

● I-23

Location:	Minato-ku, Tokyo
Site area:	2,820.90m ²
Floor area of building:	16,235.10m ²
Ownership:	100.0%
Completion:	March 1984



Cosmo Kanasugibashi Building

● I-24

Location:	Minato-ku, Tokyo
Site area:	758.54m ²
Floor area of building:	5,420.93m ²
Ownership:	100.0%
Completion:	March 1992



Tamachi Front Building

● I-25

Location:	Minato-ku, Tokyo
Site area:	747.31m ²
Floor area of building:	5,747.80m ²
Ownership:	100.0%
Completion:	July 2014



Shinjuku Eastside Square

● I-26

Location:	Shinjuku-ku, Tokyo
Site area:	25,320.28m ²
Floor area of building:	167,245.46m ²
Ownership:	31.0%
Completion:	March 2012



Shinjuku Front Tower

● I-27

Location:	Shinjuku-ku, Tokyo
Site area:	9,628.17m ²
Floor area of building:	92,092.30m ²
Ownership:	27.25%
Completion:	August 2011



Shinwa Building

● I-28

Location:	Shinjuku-ku, Tokyo
Site area:	822.00m ²
Floor area of building:	8,291.69m ²
Ownership:	100.0%
Completion:	November 1989



Tokyo Opera City Building

● I-29

Location:	Shinjuku-ku, Tokyo
Site area:	18,236.94m ²
Floor area of building:	232,996.81m ²
Ownership:	31.33%
Completion:	July 1996



Front Place Minami-Shinjuku

● I-30

Location:	Shibuya-ku, Tokyo
Site area:	1,040.80m ²
Floor area of building:	5,982.36m ²
Ownership:	100.0%
Completion:	September 2015

LINK SQUARE SHINJUKU (Land with leasehold interest)

● I-31

Location:	Shibuya-ku, Tokyo
Site area:	1,497.52m ²
Floor area of building:	—
Ownership:	—
Completion:	—



Jingumae Media Square Building

● I-34

Location:	Shibuya-ku, Tokyo
Site area:	2,124.59m ²
Floor area of building:	9,420.42m ²
Ownership:	100.0%
Completion:	March 1998



TIXTOWER UENO

● I-37

Location:	Taito-ku, Tokyo
Site area:	2,412.80m ²
Floor area of building:	23,727.48m ²
Ownership:	94.04%
Completion:	July 2010



Omori-Eki Higashiguchi Building

● I-40

Location:	Ota-ku, Tokyo
Site area:	2,199.30m ²
Floor area of building:	14,095.34m ²
Ownership:	100.0%
Completion:	July 1989



Ikebukuro 2Chome Building

● I-43

Location:	Toshima-ku, Tokyo
Site area:	397.26m ²
Floor area of building:	3,157.51m ²
Ownership:	100.0%
Completion:	May 1990



Yoyogi 1Chome Building

● I-32

Location:	Shibuya-ku, Tokyo
Site area:	1,755.75m ²
Floor area of building:	10,778.10m ²
Ownership:	100.0%
Completion:	October 2003

Shibuya Cross Tower (Land with leasehold interest)

● I-35

Location:	Shibuya-ku, Tokyo
Site area:	5,153.45m ²
Floor area of building:	—
Ownership:	—
Completion:	—



Higashi-Gotanda 1Chome Building

● I-38

Location:	Shinagawa-ku, Tokyo
Site area:	1,539.95m ²
Floor area of building:	6,460.39m ²
Ownership:	100.0%
Completion:	July 2004



Harmony Tower

● I-41

Location:	Nakano-ku, Tokyo
Site area:	10,020.52m ²
Floor area of building:	72,729.31m ²
Ownership:	38.38%
Completion:	March 1997



Ikebukuro YS Building

● I-44

Location:	Toshima-ku, Tokyo
Site area:	1,384.56m ²
Floor area of building:	7,464.64m ²
Ownership:	100.0%
Completion:	December 1989



Jingumae Terrace

● I-33

Location:	Shibuya-ku, Tokyo
Site area:	839.66m ²
Floor area of building:	4,359.20m ²
Ownership:	100.0%
Completion:	December 1987



Ebisu Neonato

● I-36

Location:	Shibuya-ku, Tokyo
Site area:	5,005.70m ²
Floor area of building:	36,598.38m ²
Ownership:	44.72%
Completion:	October 1994



Osaki Front Tower

● I-39

Location:	Shinagawa-ku, Tokyo
Site area:	3,684.38m ²
Floor area of building:	23,673.92m ²
Ownership:	100.0%
Completion:	June 2005



Otsuka Higashi- Ikebukuro Building

● I-42

Location:	Toshima-ku, Tokyo
Site area:	2,121.39m ²
Floor area of building:	9,531.28m ²
Ownership:	100.0%
Completion:	November 1987

Tokyo metropolitan area, excluding Tokyo 23 wards



Hachioji First Square

• II-1

Location:	Hachioji, Tokyo
Site area:	2,989.33m ²
Floor area of building:	18,329.98m ²
Ownership:	80.40%
Completion:	July 1996



Saitama Urawa Building

• II-2

Location:	Saitama, Saitama Prefecture
Site area:	1,533.06m ²
Floor area of building:	6,258.59m ²
Ownership:	100.0%
Completion:	March 1990



MM Park Building

• II-3

Location:	Yokohama, Kanagawa Prefecture
Site area:	6,825.77m ²
Floor area of building:	49,037.51m ²
Ownership:	100.0%
Completion:	December 2007



Queen's Tower A

• II-4

Location:	Yokohama, Kanagawa Prefecture
Site area:	44,406.40m ²
Floor area of building:	498,282.77m ²
Ownership:	11.11%
Completion:	June 1997



Kawasaki Isago Building

• II-5

Location:	Kawasaki, Kanagawa Prefecture
Site area:	1,594.50m ²
Floor area of building:	9,623.83m ²
Ownership:	50.0%
Completion:	December 1990



Musashi Kosugi STM Building

• II-6

Location:	Kawasaki, Kanagawa Prefecture
Site area:	3,552.15m ²
Floor area of building:	22,839.61m ²
Ownership:	34.32%
Completion:	October 1990

Other major cities



8-3 Square Kita Building

• III-1

Location:	Sapporo, Hokkaido
Site area:	5,541.60m ²
Floor area of building:	16,096.97m ²
Ownership:	100.0%
Completion:	December 2006



Jozenji Park Building

• III-2

Location:	Sendai, Miyagi Prefecture
Site area:	1,566.68m ²
Floor area of building:	7,648.53m ²
Ownership:	50.0%
Completion:	January 1993



Higashi Nibancho Square

• III-3

Location:	Sendai, Miyagi Prefecture
Site area:	3,191.27m ²
Floor area of building:	27,680.45m ²
Ownership:	100.0%
Completion:	July 2008



Sendai Honcho Honma Building

• III-4

Location:	Sendai, Miyagi Prefecture
Site area:	1,437.47m ²
Floor area of building:	8,247.50m ²
Ownership:	100.0%
Completion:	November 1991



AER

• III-5

Location:	Sendai, Miyagi Prefecture
Site area:	6,591.05m ²
Floor area of building:	73,186.57m ²
Ownership:	55.35%
Completion:	March 1998



Daido Seimei Niigata Building

• III-6

Location:	Niigata, Niigata Prefecture
Site area:	875.05m ²
Floor area of building:	5,327.23m ²
Ownership:	100.0%
Completion:	October 1998



Kanazawa Park Building

• III-7

Location:	Kanazawa, Ishikawa Prefecture
Site area:	6,642.71m ²
Floor area of building:	43,481.20m ²
Ownership:	89.0%
Completion:	October 1991



Kanazawa Kamitsutsumicho Building

• III-8

Location:	Kanazawa, Ishikawa Prefecture
Site area:	1,561.80m ²
Floor area of building:	9,619.96m ²
Ownership:	100.0%
Completion:	August 2009



Nishiki Park Building

• III-9

Location:	Nagoya, Aichi Prefecture
Site area:	2,170.45m ²
Floor area of building:	25,091.91m ²
Ownership:	71.74%
Completion:	August 1995



Nagoya Hirokoji Place

• III-10

Location:	Nagoya, Aichi Prefecture
Site area:	2,401.43m ²
Floor area of building:	15,947.29m ²
Ownership:	100.0%
Completion:	December 2004



Nagoya Hirokoji Building

• III-11

Location:	Nagoya, Aichi Prefecture
Site area:	4,095.81m ²
Floor area of building:	33,377.73m ²
Ownership:	100.0%
Completion:	May 1987



Nagoya Misono Building

• III-12

Location:	Nagoya, Aichi Prefecture
Site area:	805.04m ²
Floor area of building:	5,348.00m ²
Ownership:	100.0%
Completion:	September 1991



Shijo Karasuma Center Building

• III-13

Location:	Kyoto, Kyoto Prefecture
Site area:	1,371.16m ²
Floor area of building:	9,185.98m ²
Ownership:	100.0%
Completion:	January 2010



Umeda Square Building

• III-14

Location:	Osaka, Osaka Prefecture
Site area:	1,652.88m ²
Floor area of building:	18,673.28m ²
Ownership:	100.0%
Completion:	July 1995



Shin-Fujita Building

• III-15

Location:	Osaka, Osaka Prefecture
Site area:	6,159.61m ²
Floor area of building:	45,411.31m ²
Ownership:	100.0%
Completion:	April 1995



Sakaisujihonmachi Building

• III-16

Location:	Osaka, Osaka Prefecture
Site area:	2,036.22m ²
Floor area of building:	17,145.59m ²
Ownership:	100.0%
Completion:	October 1992



Midosuji Daiwa Building

• III-17

Location:	Osaka, Osaka Prefecture
Site area:	3,044.65m ²
Floor area of building:	31,213.27m ²
Ownership:	100.0%
Completion:	September 1991



Amagasaki Front Building

• III-18

Location:	Amagasaki, Hyogo Prefecture
Site area:	3,975.20m ²
Floor area of building:	24,055.58m ²
Ownership:	100.0%
Completion:	October 2008



Lit City Building

• III-19

Location:	Okayama, Okayama Prefecture
Site area:	7,596.44m ²
Floor area of building:	52,653.19m ²
Ownership:	24.60%
Completion:	June 2005



NHK Hiroshima Broadcasting Center Building

• III-20

Location:	Hiroshima, Hiroshima Prefecture
Site area:	3,296.46m ²
Floor area of building:	35,217.28m ²
Ownership:	48.75%
Completion:	August 1994



Tosei Tenjin Building

• III-21

Location:	Fukuoka, Fukuoka Prefecture
Site area:	1,221.31m ²
Floor area of building:	5,588.57m ²
Ownership:	100.0%
Completion:	March 1992



Tenjin Crystal Building

• III-22

Location:	Fukuoka, Fukuoka Prefecture
Site area:	1,835.17m ²
Floor area of building:	10,432.04m ²
Ownership:	100.0%
Completion:	August 1993



Hinode Tenjin Building

• III-23

Location:	Fukuoka, Fukuoka Prefecture
Site area:	1,452.15m ²
Floor area of building:	12,527.07m ²
Ownership:	74.48%
Completion:	August 1987

Note: Concerning real estate or trust beneficiary rights of real estate of which the Company is a partial owner through co-ownership, or compartmentalized building units, or quasi-co-ownership, the figures for “Site area” and “Floor area of building” represent total site area and total floor area for the entire building.

Financial Section

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Selected Financial Data

	Millions of yen				
	For the period from April 1, 2019 to September 30, 2019	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2018 to September 30, 2018	For the period from October 1, 2017 to March 31, 2018	For the period from April 1, 2017 to September 30, 2017
Operating revenues	35,164	33,022	33,066	31,955	31,718
Operating expenses	18,669	18,473	18,487	18,358	18,539
Operating profit	16,494	14,548	14,578	13,596	13,178
Ordinary profit	15,390	13,441	13,348	12,362	11,921
Profit before income taxes	15,390	13,441	13,348	12,362	11,921
Profit	14,945	13,431	13,273	12,291	11,909
Total assets	966,390	963,676	956,645	935,560	906,507
Interest-bearing debt	389,993	389,993	384,493	403,993	375,500
Net assets	512,770	511,256	510,978	470,703	470,321
Unitholders' capital	497,241	497,241	497,241	458,016	458,016
Number of units	1,385,210	1,385,210	1,385,210	1,309,310	1,309,310
Net assets per unit (Yen)	370,174	369,082	368,881	359,505	359,213
Cash distribution	14,124	13,432	13,152	12,223	11,909
Dividend payout ratio (Note 1)	94.5%	100.0%	99.1%	99.5%	100.0%
Dividend per unit (Yen)	10,197	9,697	9,495	9,336	9,096
Net operating income (NOI)	23,104	22,603	22,401	21,566	21,275
Funds from operations (FFO)	19,795	19,831	19,451	18,652	18,466
Return on assets (ROA) (Note 2)	1.6%	1.4%	1.4%	1.3%	1.3%
	(3.2% annualized)	(2.8% annualized)	(2.8% annualized)	(2.7% annualized)	(2.6% annualized)
Return on equity (ROE) (Note 3)	2.9%	2.6%	2.6%	2.6%	2.5%
	(5.8% annualized)	(5.3% annualized)	(5.2% annualized)	(5.2% annualized)	(5.1% annualized)
EOP equity ratio (Note 4)	53.1%	53.1%	53.4%	50.3%	51.9%
EOP interest-bearing debt ratio on total assets (Note 5)	40.4%	40.5%	40.2%	43.2%	41.4%
FFO multiple (Times)	25.4	22.7	21.3	19.3	19.2
Debt service coverage ratio (Times) (Note 6)	21.4	19.6	18.5	16.9	16.1

Notes: 1. Dividend payout ratio = Dividend per unit / Profit per unit × 100

For the period ended September 30, 2018, as new investment units were issued, the ratio was calculated as follows:

Cash distribution / Profit × 100

2. ROA = Ordinary profit / Average of Total assets during the period × 100

3. ROE = Profit / Average of Net assets during the period × 100

(Annualized portion of the calculation given in Note 2 and Note 3 assumes a fiscal period of 183 days for the period ended September 30, 2017, 182 days for the period ended March 31, 2018, 183 days for the period ended September 30, 2018, 182 days for the period ended March 31, 2019 and 183 days for the period ended September 30, 2019.)

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

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

6. Debt service coverage ratio = Profit before Interest, Taxes, Depreciation and Amortization / Interest expenses

7. The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) from the period ended September 30, 2018, and the reclassified amount due to the change was reflected to the total assets for the period ended March 31, 2018.

Balance Sheets

As of March 31, 2019 and September 30, 2019

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
ASSETS		
Current assets		
Cash and deposits	18,333,626	26,723,523
Cash and deposits in trust	6,049,324	6,881,014
Operating accounts receivable	403,661	324,798
Prepaid expenses	303,936	310,203
Other	27,349	42,664
Total current assets	25,117,897	34,282,203
Non-current assets		
Property, plant and equipment		
Buildings	254,165,807	254,826,921
Accumulated depreciation	(94,674,805)	(98,967,794)
Buildings, net	159,491,001	155,859,126
Structures	2,986,067	2,987,203
Accumulated depreciation	(925,182)	(973,424)
Structures, net	2,060,884	2,013,779
Machinery and equipment	3,353,312	3,358,886
Accumulated depreciation	(2,342,903)	(2,437,315)
Machinery and equipment, net	1,010,408	921,570
Tools, furniture and fixtures	457,745	468,865
Accumulated depreciation	(313,936)	(326,598)
Tools, furniture and fixtures, net	143,808	142,266
Land	458,625,391	458,682,518
Construction in progress	3,317	6,527
Buildings in trust	103,203,658	102,939,399
Accumulated depreciation	(27,987,992)	(29,445,798)
Buildings in trust, net	75,215,666	73,493,601
Structures in trust	998,400	991,213
Accumulated depreciation	(297,385)	(319,524)
Structures in trust, net	701,015	671,688
Machinery and equipment in trust	1,071,048	1,041,321
Accumulated depreciation	(787,277)	(772,373)
Machinery and equipment in trust, net	283,770	268,947
Tools, furniture and fixtures in trust	72,883	72,594
Accumulated depreciation	(38,496)	(41,559)
Tools, furniture and fixtures in trust, net	34,386	31,035
Land in trust	230,532,021	229,768,734
Construction in progress in trust	7,979	28,540
Total property, plant and equipment	928,109,652	921,888,337
Intangible assets		
Land leasehold interests	5,675,045	5,659,215
Land leasehold interests in trust	444,160	444,160
Easement	828,095	828,095
Other	7,938	6,221
Total intangible assets	6,955,239	6,937,692
Investments and other assets		
Investment securities	577,168	577,168
Leasehold and guarantee deposits	1,573,847	1,573,847
Long-term prepaid expenses	118,528	61,263
Other	1,138,615	991,603
Total investments and other assets	3,408,160	3,203,883
Total non-current assets	938,473,052	932,029,913
Deferred assets		
Investment corporation bond issuance costs	85,568	78,188
Total deferred assets	85,568	78,188
Total Assets	963,676,518	966,390,305

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
LIABILITIES		
Current liabilities		
Operating accounts payable	1,834,640	1,600,860
Short-term borrowings	8,500,000	13,500,000
Current portion of long-term borrowings	49,000,000	46,500,000
Accounts payable - other	1,705,853	1,801,587
Accrued expenses	429,796	429,676
Income taxes payable	11,401	8,895
Accrued consumption taxes	598,810	991,141
Advances received	3,338,764	3,295,905
Other	8,920	7,924
Total current liabilities	65,428,189	68,135,991
Non-current liabilities		
Investment corporation bonds	32,993,175	32,993,175
Long-term borrowings	299,500,000	297,000,000
Deposits received from tenants	53,863,645	54,419,220
Deferred tax liabilities	289,105	722,903
Asset retirement obligations	345,493	348,974
Total non-current liabilities	386,991,419	385,484,272
Total Liabilities	452,419,608	453,620,264
NET ASSETS		
Unitholders' equity		
Unitholders' capital	497,241,216	497,241,216
Surplus		
Voluntary retained earnings		
Reserve for tax purpose reduction entry	550,359	548,259
Total voluntary retained earnings	550,359	548,259
Unappropriated retained earnings	13,465,334	14,980,566
Total surplus	14,015,693	15,528,825
Total unitholders' equity	511,256,909	512,770,041
Total Net Assets	511,256,909	512,770,041
Total Liabilities and Net Assets	963,676,518	966,390,305

Statements of Income and Retained Earnings

For the six months ended March 31, 2019 and September 30, 2019

Thousands of yen

	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Operating revenues		
Rent revenues	32,783,783	33,522,024
Other lease business revenues	238,662	58,189
Gain on sales of real estate properties	—	1,583,993
Total operating revenues	33,022,445	35,164,207
Operating expenses		
Expenses related to lease business	16,819,683	16,909,983
Asset management fee	1,296,545	1,409,620
Asset custody fee	62,191	63,120
Administrative service fees	132,759	132,329
Directors' compensations	7,800	7,800
Commission expenses	90,962	83,212
Other operating expenses	64,004	63,900
Total operating expenses	18,473,946	18,669,967
Operating profit	14,548,499	16,494,240
Non-operating income		
Interest income	152	134
Dividend income	—	11,681
Reversal of distributions payable	2,581	1,347
Other	2,676	0
Total non-operating income	5,410	13,163
Non-operating expenses		
Interest expenses	906,390	907,457
Interest expenses on investment corporation bonds	161,833	163,799
Amortization of investment corporation bond issuance costs	6,457	7,379
Other	37,875	38,147
Total non-operating expenses	1,112,557	1,116,783
Ordinary profit	13,441,352	15,390,620
Profit before income taxes	13,441,352	15,390,620
Income taxes – current	11,423	11,309
Income taxes – deferred	(1,128)	433,798
Total income taxes	10,294	445,107
Profit	13,431,058	14,945,513
Retained earnings brought forward	34,276	35,053
Unappropriated retained earnings	13,465,334	14,980,566

Statements of Changes in Unitholders' Equity

For the six months ended March 31, 2019 and September 30, 2019

For the period from October 1, 2018 to March 31, 2019

	Unitholders' equity							Thousands of yen
	Unitholders' capital	Surplus					Total unitholders' equity	Total net assets
		Voluntary retained earnings			Unappropriated retained earnings	Total surplus		
		Reserve for tax purpose reduction entry	Reserve for special account for tax purpose reduction entry	Total voluntary retained earnings				
Balance at beginning of the period	497,241,216	413,528	16,307	429,835	13,307,368	13,737,204	510,978,420	510,978,420
Changes in items during the period								
Provision of reserve for tax purpose reduction entry		138,488		138,488	(138,488)	—	—	—
Reversal of reserve for tax purpose reduction entry		(1,657)		(1,657)	1,657	—	—	—
Reversal of reserve for special account for tax purpose reduction entry			(16,307)	(16,307)	16,307	—	—	—
Dividends of surplus					(13,152,568)	(13,152,568)	(13,152,568)	(13,152,568)
Profit					13,431,058	13,431,058	13,431,058	13,431,058
Total changes in items during the period	—	136,831	(16,307)	120,523	157,965	278,489	278,489	278,489
Balance at end of the period	497,241,216	550,359	—	550,359	13,465,334	14,015,693	511,256,909	511,256,909

For the period from April 1, 2019 to September 30, 2019

	Unitholders' equity						Thousands of yen
	Unitholders' capital	Surplus				Total unitholders' equity	Total net assets
		Voluntary retained earnings		Unappropriated retained earnings	Total surplus		
		Reserve for tax purpose reduction entry	Total voluntary retained earnings				
Balance at beginning of the period	497,241,216	550,359	550,359	13,465,334	14,015,693	511,256,909	511,256,909
Changes in items during the period							
Reversal of reserve for tax purpose reduction entry		(2,100)	(2,100)	2,100	—	—	—
Dividends of surplus				(13,432,381)	(13,432,381)	(13,432,381)	(13,432,381)
Profit				14,945,513	14,945,513	14,945,513	14,945,513
Total changes in items during the period	—	(2,100)	(2,100)	1,515,232	1,513,131	1,513,131	1,513,131
Balance at end of the period	497,241,216	548,259	548,259	14,980,566	15,528,825	512,770,041	512,770,041

Statements of Cash Distributions

For the six months ended March 31, 2019 and September 30, 2019

	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
	Amount (Yen)	Amount (Yen)
I Retained earnings	13,465,334,195	14,980,566,219
II Reversal of voluntary retained earnings		
Reversal of reserve for tax purpose reduction entry	2,100,289	2,099,020
III Cash distribution	13,432,381,370	14,124,986,370
(Dividend per investment unit)	(9,697)	(10,197)
IV Voluntary retained earnings		
Provision of reserve for tax purpose reduction entry	—	822,033,757
V Retained earnings brought forward	35,053,114	35,645,112

Computation Method for Determining Dividends

The Company will make cash distributions using accounting profits based on the cash distribution policy outlined in Article 32-1(2) of the Company's Articles of Incorporation, in an amount that exceeds 90% of the "amount of distributable profit" as set forth in Article 67-15 of the Special Taxation Measures Act. Based on this policy, the Company has decided that the total amount of dividends, which is set not to exceed the unappropriated retained earnings and also to secure retained earnings brought forward, is ¥13,432,381,370 for the period under review, which is a multiple of 1,385,210 — the number of units outstanding as of March 31, 2019. Furthermore, the Company does not pay out dividends that exceed accounting profits as outlined in Article 32-1(3) of the Company's Articles of Incorporation.

The Company will make cash distributions using accounting profits based on the cash distribution policy outlined in Article 32-1(2) of the Company's Articles of Incorporation, in an amount that exceeds 90% of the "amount of distributable profit" as set forth in Article 67-15 of the Special Taxation Measures Act. Based on this policy, the Company has decided that the total amount of dividends, under the application of Article 65-7 "Exceptions of the Taxation in case of the Replacement by Purchase of Specific Assets" of the Special Taxation Measures Act, making reduction entries, and also which is set not to exceed the unappropriated retained earnings and to secure retained earnings brought forward, is ¥14,124,986,370 for the period under review, which is a multiple of 1,385,210 — the number of units outstanding as of September 30, 2019. Furthermore, the Company does not pay out dividends that exceed accounting profits as outlined in Article 32-1(3) of the Company's Articles of Incorporation.

Statements of Cash Flows

For the six months ended March 31, 2019 and September 30, 2019

	Thousands of yen	
	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Cash flows from operating activities		
Profit before income taxes	13,441,352	15,390,620
Depreciation	6,402,235	6,435,380
Amortization of investment corporation bond issuance costs	6,457	7,379
Dividend income	—	(11,681)
Interest income	(152)	(134)
Interest expenses	1,068,224	1,071,256
Decrease (increase) in operating accounts receivable	(34,563)	78,863
Decrease (increase) in supplies	—	(663)
Decrease (increase) in prepaid expenses	32,071	(6,267)
Decrease in property, plant and equipment in trust due to sale	—	1,423,739
Increase (decrease) in operating accounts payable	(662,311)	75,370
Increase (decrease) in accounts payable - other	(1,778)	153,831
Increase (decrease) in accrued consumption taxes	459,018	392,331
Increase (decrease) in accrued expenses	131	(131)
Increase (decrease) in advances received	138,635	(42,859)
Decrease (increase) in long-term prepaid expenses	106,250	57,265
Other, net	(202,162)	(86,664)
Subtotal	20,753,408	24,937,637
Interest and dividends received	116	11,871
Interest paid	(1,079,304)	(1,071,245)
Income taxes paid	(9,181)	(13,815)
Net cash provided by (used in) operating activities	19,665,038	23,864,447
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,197,475)	(757,328)
Purchase of property, plant and equipment in trust	(961,265)	(1,020,222)
Proceeds from refund of leasehold and guarantee deposits	—	2,680
Refund of leasehold and guarantee deposits received	(997,779)	(995,148)
Proceeds from leasehold and guarantee deposits received	2,007,931	1,556,781
Net cash provided by (used in) investing activities	(12,148,589)	(1,213,237)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,000,000	10,500,000
Repayments of short-term borrowings	(16,000,000)	(5,500,000)
Proceeds from long-term borrowings	18,000,000	10,500,000
Repayments of long-term borrowings	(9,500,000)	(15,500,000)
Proceeds from issuance of investment corporation bonds	10,000,000	—
Payments of investment corporation bond issuance costs	(50,315)	—
Distributions paid	(13,150,767)	(13,429,623)
Net cash provided by (used in) financing activities	(7,701,082)	(13,429,623)
Net increase (decrease) in cash and cash equivalents	(184,632)	9,221,586
Cash and cash equivalents at beginning of the period	24,567,583	24,382,950
Cash and cash equivalents at end of the period	24,382,950	33,604,537

Notes to Financial Statements

March 31, 2019 and September 30, 2019

1. Organization and Basis of Presentation

Organization

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

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

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

As of September 30, 2019, the Company owned a portfolio of 73 office properties with an aggregate of approximately 852,509 m² of leasable space.

Basis of presenting financial statements

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

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

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

2. Summary of Significant Accounting Policies

Investment securities

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

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

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

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

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

The Company reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of its fixed assets may not be recoverable. According to the standard set by the Accounting Standards Board of Japan (“ASBJ”), companies are required to recognize an impairment loss in their statements of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (i) the fair market value of the asset, net of disposition costs, and (ii) the present value of

future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

Intangible assets

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

Leased assets

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

Deferred charges

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

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

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

Revenue recognition

Revenues from leasing of office space are recognized as rent 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 income during the period. The sellers of the properties are liable for property taxes for the calendar year including the period from the date of purchase by the Company through the end of the year since the taxes are imposed on the owner registered on the record as of January 1 based on the assessment made by the local government. The Company pays the amount equivalent to the property taxes to the sellers applicable to the period since acquisition and includes the amount equivalent to the taxes in the purchase price of each property and capitalizes it as a cost of the property.

Consumption taxes

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

Cash and cash equivalents

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

Hedge accounting

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

For interest-rate swaps and currency swaps that qualify for hedge accounting and meet certain criteria provided under Japanese GAAP, however, the Company applies special accounting treatment. Under such special accounting treatment, the differentials paid or received under the swap agreements are recognized and included in interest expense of the hedged loans, and the interest-rate swaps and currency

swaps are not required to be separately valued. For interest-rate swaps and currency swaps that meet the specific criteria for such special accounting treatment, ongoing assessments of hedge effectiveness are not required and hence not performed.

3. New Accounting Standards Issued but not Yet Effective

New accounting standards and implementation guidance to be adopted in the future are as follows:

- Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, Accounting Standard for Revenue Recognition, issued on March 30, 2018
- ASBJ Guidance No. 30, Implementation Guidance on Accounting Standard for Revenue Recognition, issued on March 30, 2018

(1) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) have jointly developed the new and comprehensive accounting standard for revenue recognition, and have published “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. As IFRS 15 shall be adopted in the IFRS-based financial statements for periods beginning on or after January 1, 2018, and in the U.S. GAAP-based financial statements for periods beginning after December 15, 2017, ASBJ has developed and published the comprehensive accounting standard and implementation guidance for revenue recognition accordingly.

As the basic policy of ASBJ for the development of new accounting standard for revenue recognition, from the point of view of the comparability between the financial statements based on IFRS or U.S. GAAP and Japanese GAAP as a benefit for the consistency with IFRS 15, the accounting standard in Japan has been established while adopting the basic principle of IFRS 15, and in the case that there is an item that the actual practice conducted in Japan is considered, the alternate treatments are added within the scope not to fail the comparability.

(2) Date of the adoption

The Company will adopt the accounting standard and implementation guidance from the beginning of the fiscal period ending September 30, 2021.

(3) Impact of the adoption of the respective accounting standards

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its financial statements.

- ASBJ Statement No. 30, Accounting Standard for Fair Value Measurement, issued on July 4, 2019
- ASBJ Guidance No. 31, Implementation Guidance on Accounting Standard for Fair Value Measurement, issued on July 4, 2019

(1) Overview

IASB and FASB have established detailed guidance regarding fair value measurement (IFRS 13 “Fair Value Measurement” by IASB and Topic 820 “Fair Value Measurement” by FASB). ASBJ repeatedly considered the guidance regarding fair value of financial instruments and disclosures in order to improve the comparability with such international accounting standards, and issued Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement.

(2) Date of the adoption

The Company will adopt the accounting standard and implementation guidance from the beginning of the fiscal period ending September 30, 2021.

(3) Impact of the adoption of the respective accounting standards

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its financial statements.

4. Commitment Line Agreement

As of March 31, 2019 and September 30, 2019

The Company has signed commitment line agreements with three banks.

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
Total amount of commitment line agreement	60,000,000	60,000,000
Debt financing balance	—	—
Balance	60,000,000	60,000,000

5. Financial Instruments

1. Status of financial instruments

(1) Policies for dealing financial instruments

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

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

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

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

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

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

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

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

Loans and investment corporation bonds involve liquidity risk at the time of maturity. To manage such liquidity risk, the Company implements measures such as (i) maintaining and strengthening its ability to access equity markets to secure funds, (ii) maintaining commitment lines with major financial institutions (There is no amount outstanding under the facility as of March 31, 2019 and September 30, 2019) and (iii) preparing monthly financial plans.

(3) Supplementary note regarding fair value of financial instruments

The fair values of financial instruments presented in this report are based on their market value, and in cases where market values are not available, reasonably calculated values are presented. Since calculation of fair value is based on certain assumptions, the fair value could differ depending on the assumptions used. In addition, the contract value of derivative transactions, which is presented in Section 6. "Derivative Transactions", is not an exact representation of market risk attributable to derivative transactions.

2. Fair value of financial instruments

Fair value of financial instruments, their values carried on the balance sheets and the differences between them as of March 31, 2019 and September 30, 2019 are as follows.

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

	Thousands of yen		
	As of March 31, 2019		
	Book value*	Fair value*	Difference*
(1) Cash and deposits	18,333,626	18,333,626	—
(2) Cash and deposits in trust	6,049,324	6,049,324	—
(3) Short-term borrowings	(8,500,000)	(8,500,000)	—
(4) Current portion of long-term borrowings	(49,000,000)	(49,196,138)	(196,138)
(5) Investment corporation bonds	(32,993,175)	(34,636,903)	(1,643,728)
(6) Long-term borrowings	(299,500,000)	(303,623,135)	(4,123,135)
(7) Derivative transactions	—	—	—

* Liabilities are shown in parentheses.

	Thousands of yen		
	As of September 30, 2019		
	Book value*	Fair value*	Difference*
(1) Cash and deposits	26,723,523	26,723,523	—
(2) Cash and deposits in trust	6,881,014	6,881,014	—
(3) Short-term borrowings	(13,500,000)	(13,500,000)	—
(4) Current portion of long-term borrowings	(46,500,000)	(46,590,431)	(90,431)
(5) Investment corporation bonds	(32,993,175)	(34,481,445)	(1,488,270)
(6) Long-term borrowings	(297,000,000)	(300,056,730)	(3,056,730)
(7) Derivative transactions	—	—	—

* Liabilities are shown in parentheses.

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

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

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

(3) Short-term borrowings

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

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

For loans with floating interest rates, since the interest rates on such loans reflect market rates reasonably well over the short term and their book values are good approximations of their fair values, the book values are presented as their fair values. (However, the fair values of floating-rate long-term loans (please refer to Section 6. "Derivative Transactions, (2) Derivatives designated as hedging instruments") hedged by an interest-rate and currency swap subject to integrated treatment or by an interest-rate swap subject to special accounting treatment are calculated by discounting the aggregated principal and interest on such loans using reasonable estimates of the rates that would be applicable if the Company were to refinance the existing loans for the remaining period to maturity under the prevailing market condition.) The fair values of long-term loans with fixed interest rates are calculated by discounting the aggregated amounts of the principal and the interest of the loans by the rates that are reasonably estimated to be applicable if the Company were to refinance the existing loans for the remaining period to maturity.

(5) Investment corporation bonds

Their fair values are based on reference prices published by a financial data provider where available. When reference prices are not available, their fair values are calculated by discounting the aggregate of the principal and interest by nominal rates assumed applicable if the loans were refinanced for the duration of the current maturity. (However, the fair values of investment corporation bonds (please refer to Section 6. "Derivative Transactions, (2) Derivatives designated as hedging instruments") hedged by a currency swap subject to allocation treatment are calculated by discounting the aggregate of the principal and interest integrated with the currency swap by nominal rates assumed applicable if the loans were refinanced for the duration of the current maturity.)

(7) Derivative transactions

Please refer to Section 6. "Derivative Transactions".

2. Financial instruments whose fair values cannot be reliably measured

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
(1) Non-listed stock *1	577,168	577,168
(2) Deposits received from tenants *2	53,863,645	54,419,220

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

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

3. Redemption schedule for monetary claims after the closing date

	Thousands of yen					
	As of March 31, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	18,333,626	—	—	—	—	—
Cash and deposits in trust	6,049,324	—	—	—	—	—
Total	24,382,950	—	—	—	—	—

	Thousands of yen					
	As of September 30, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Cash and deposits	26,723,523	—	—	—	—	—
Cash and deposits in trust	6,881,014	—	—	—	—	—
Total	33,604,537	—	—	—	—	—

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

	Thousands of yen					
	As of March 31, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term borrowings	8,500,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	10,000,000	22,993,175
Long-term borrowings	49,000,000	41,000,000	51,700,000	48,500,000	39,500,000	118,800,000
Total	57,500,000	41,000,000	51,700,000	48,500,000	49,500,000	141,793,175

	Thousands of yen					
	As of September 30, 2019					
	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Short-term borrowings	13,500,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	10,000,000	22,993,175
Long-term borrowings	46,500,000	52,200,000	51,000,000	48,500,000	42,300,000	103,000,000
Total	60,000,000	52,200,000	51,000,000	48,500,000	52,300,000	125,993,175

6. Derivative Transactions

(1) Derivatives not designated as hedging instruments

As of March 31, 2019

“Not applicable”

As of September 30, 2019

“Not applicable”

(2) Derivatives designated as hedging instruments

As of March 31, 2019

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

Derivative accounting method	Type of derivative transaction	Hedged item	Contract value		Fair value	Measurement of fair value
				Over one year		
Special Treatment for interest-rate swap	Receive floating, pay fixed interest-rate swap transactions	Long-term borrowings	63,300,000	57,300,000	*1	—
Integrated Treatment (Special Treatment and Allocation Treatment) for interest-rate and currency swap	Receive floating USD, pay fixed JPY, interest-rate and currency swap transactions (with initial and final exchange)	Long-term borrowings	10,000,000	10,000,000	*1	—
Allocation Treatment for currency swap	Receive fixed USD, pay fixed JPY, currency swap transactions (with initial and final exchange)	Investment corporation bonds	2,993,175	2,993,175	*2	—

Thousands of yen

As of September 30, 2019

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

Derivative accounting method	Type of derivative transaction	Hedged item	Contract value		Fair value	Measurement of fair value
				Over one year		
Special Treatment for interest-rate swap	Receive floating, pay fixed interest-rate swap transactions	Long-term borrowings	63,300,000	57,300,000	*1	—
Integrated Treatment (Special Treatment and Allocation Treatment) for interest-rate and currency swap	Receive floating USD, pay fixed JPY, interest-rate and currency swap transactions (with initial and final exchange)	Long-term borrowings	10,000,000	10,000,000	*1	—
Allocation Treatment for currency swap	Receive fixed USD, pay fixed JPY, currency swap transactions (with initial and final exchange)	Investment corporation bonds	2,993,175	2,993,175	*2	—

Thousands of yen

*1. The derivative transactions eligible for Special Treatment for interest-rate swap and Integrated Treatment (Special Treatment for interest-rate swap and Allocation Treatment for currency swap) are accounted for as integral parts of the hedged loans, and the fair value of those derivative transactions is included in that of the underlying long-term borrowings as of March 31, 2019 and September 30, 2019. Please refer to Note 1 of “2. Fair value of financial instruments” under Section 5. “Financial Instruments”, as well as subheadings (4) and (6) concerning derivative transactions.

*2. Currency swap transactions eligible for allocation treatment are accounted for as integrated parts of the hedged investment corporation bonds, and the fair value of the currency swap transactions is included in that of the underlying investment bonds as of March 31, 2019 and September 30, 2019. Please refer to Note 1 of “2. Fair value of financial instruments” under Section 5. “Financial Instruments”, as well as subheading (5) concerning derivative transactions.

7. Property, Plant and Equipment and Intangible Assets

Changes in Property, plant and equipment and Intangible assets for the six months ended September 30, 2019 are as follows:

Type of Asset		Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Accumulated depreciation Accumulated amortization		Net balance at the end of the period	Remarks
						Depreciation and amortization			
Property, plant and equipment	Buildings	254,165,807	661,113	—	254,826,921	98,967,794	4,292,988	155,859,126	—
	Structures	2,986,067	1,136	—	2,987,203	973,424	48,241	2,013,779	—
	Machinery and equipment	3,353,312	5,573	—	3,358,886	2,437,315	94,411	921,570	—
	Tools, furniture and fixtures	457,745	11,120	—	468,865	326,598	12,662	142,266	—
	Land	458,625,391	57,127	—	458,682,518	—	—	458,682,518	—
	Construction in progress	3,317	3,210	—	6,527	—	—	6,527	—
	Buildings in trust	103,203,658	848,580	1,112,839	102,939,399	29,445,798	1,922,161	73,493,601	—
	Structures in trust	998,400	886	8,073	991,213	319,524	25,324	671,688	—
	Machinery and equipment in trust	1,071,048	6,147	35,874	1,041,321	772,373	14,703	268,947	—
	Tools, furniture and fixtures in trust	72,883	1,319	1,608	72,594	41,559	3,859	31,035	—
	Land in trust	230,532,021	—	763,287	229,768,734	—	—	229,768,734	—
	Construction in progress in trust	7,979	34,925	14,364	28,540	—	—	28,540	—
	Subtotal	1,055,477,633	1,631,141	1,936,047	1,055,172,727	133,284,389	6,414,353	921,888,337	
Intangible assets	Land leasehold interests	5,933,601	—	—	5,933,601	274,386	15,829	5,659,215	—
	Land leasehold interests in trust	444,160	—	—	444,160	—	—	444,160	—
	Easement	828,095	—	—	828,095	—	—	828,095	—
	Other	17,169	—	—	17,169	10,948	1,716	6,221	—
	Subtotal	7,223,027	—	—	7,223,027	285,334	17,546	6,937,692	
Total	1,062,700,660	1,631,141	1,936,047	1,062,395,754	133,569,724	6,431,899	928,826,030		

8. Borrowings

The condition of loans by financial institutions as of September 30, 2019 is as follows.

	Classification	Drawdown date	Balance at beginning of current period (¥ thousand)	Balance at end of current period (¥ thousand)	Average interest rate*1 (%)	Repayment date	Repayment method	Use of proceeds	Notes
	Lender								
Short-term borrowings	Mizuho Bank, Ltd.	April 3, 2018	5,500,000	—	0.1027	April 3, 2019	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	Sumitomo Mitsui Trust Bank, Limited	December 26, 2018	1,300,000	1,300,000	0.10568	December 26, 2019			
	Sumitomo Mitsui Trust Bank, Limited	March 29, 2019	1,700,000	1,700,000	0.10545	March 30, 2020			
	Mizuho Bank, Ltd.	April 3, 2019	—	5,500,000	0.10631	April 3, 2020			
	MUFG Bank, Ltd.	September 2, 2019	—	5,000,000	0.1154	September 2, 2020			
	Subtotal		8,500,000	13,500,000					
Long-term borrowings	Sumitomo Mitsui Trust Bank, Limited	May 29, 2015	5,000,000	—	0.2075	May 29, 2019	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	MUFG Bank, Ltd.	September 1, 2015	5,000,000	—	0.200	September 2, 2019			
	Sumitomo Mitsui Trust Bank, Limited	September 26, 2011	5,500,000	—	1.160	September 26, 2019			
	The Hiroshima Bank, Ltd.	October 1, 2014	3,000,000	3,000,000	0.31575	October 1, 2019 *3			
	Mizuho Bank, Ltd.	November 1, 2011	6,000,000	6,000,000	1.2075	November 1, 2019 *3			
	Mizuho Bank, Ltd.	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019 *3			
	MUFG Bank, Ltd.	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019 *3			
	MUFG Bank, Ltd.	November 15, 2011	3,000,000	3,000,000	1.13875	November 15, 2019 *3			
	The Gunma Bank, Ltd.	November 17, 2014	1,000,000	1,000,000	0.316	November 18, 2019 *3			
	The Yamanashi Chuo Bank, Ltd.	December 15, 2014	2,000,000	2,000,000	0.266	December 16, 2019 *3			
	Shinkin Central Bank	January 7, 2013	2,000,000	2,000,000	0.71375	January 7, 2020 *3			
	MUFG Bank, Ltd.	January 15, 2013	5,500,000	5,500,000	0.710	January 15, 2020 *3			
	Shinkin Central Bank	January 15, 2013	5,000,000	5,000,000	0.710	January 15, 2020 *3			
	MUFG Bank, Ltd.	June 15, 2012	4,000,000	4,000,000	0.9525	June 15, 2020 *3			
	Sumitomo Mitsui Trust Bank, Limited	June 15, 2012	4,000,000	4,000,000	0.9525	June 15, 2020 *3			
	Sumitomo Mitsui Trust Bank, Limited	June 15, 2015	3,000,000	3,000,000	0.3425	June 15, 2020 *3			
	Tokio Marine & Nichido Fire Insurance Co., Ltd.	July 3, 2017	2,000,000	2,000,000	0.100	July 3, 2020 *3			
	The Yamaguchi Bank, Ltd.	October 29, 2012	2,000,000	2,000,000	0.800	October 29, 2020			
	MUFG Bank, Ltd.	December 21, 2012	5,000,000	5,000,000	0.80125	December 21, 2020			
	MUFG Bank, Ltd.	December 21, 2012	5,000,000	5,000,000	0.80125	December 21, 2020			
MUFG Bank, Ltd.	January 15, 2013	5,500,000	5,500,000	0.83625	January 15, 2021				
MUFG Bank, Ltd.	January 31, 2014	4,000,000	4,000,000	0.64225	January 29, 2021				
The Bank of Fukuoka, Ltd.	January 31, 2014	2,500,000	2,500,000	0.63849	January 29, 2021				
Sumitomo Mitsui Trust Bank, Limited	January 31, 2014	2,000,000	2,000,000	0.62575	January 29, 2021				
The Iyo Bank, Ltd.	March 24, 2014	2,000,000	2,000,000	0.6035	March 24, 2021				

	Classification	Drawdown date	Balance at beginning of current period (¥ thousand)	Balance at end of current period (¥ thousand)	Average interest rate*1 (%)	Repayment date	Repayment method	Use of proceeds	Notes
	Lender								
Long-term borrowings	MUFG Bank, Ltd.	April 4, 2017	5,000,000	5,000,000	0.00646 *4	April 5, 2021	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	MUFG Bank, Ltd.	April 24, 2013	5,000,000	5,000,000	0.775	April 26, 2021			
	Mizuho Bank, Ltd.	June 15, 2012	4,000,000	4,000,000	1.07375	June 15, 2021			
	Sumitomo Mitsui Trust Bank, Limited	December 26, 2016	3,700,000	3,700,000	0.1913	June 28, 2021			
	Sumitomo Mitsui Banking Corporation	January 19, 2018	5,000,000	5,000,000	0.16255	July 20, 2021			
	The Bank of Fukuoka, Ltd.	August 31, 2017	1,500,000	1,500,000	0.1325	August 31, 2021			
	The Iyo Bank, Ltd.	October 1, 2014	1,000,000	1,000,000	0.46525	October 1, 2021			
	The Chugoku Bank, Limited	October 1, 2014	1,000,000	1,000,000	0.4725	October 1, 2021			
	The Daishi Bank, Ltd.	November 14, 2014	1,800,000	1,800,000	0.463	November 15, 2021			
	Sony Bank Incorporated		1,400,000	1,400,000					
	The Toho Bank, Ltd.		1,400,000	1,400,000					
	The Hokuetsu Bank, Ltd.		1,400,000	1,400,000					
	The Shinkumi Federation Bank		1,000,000	1,000,000					
	The Akita Bank, Ltd.		900,000	900,000					
	The Gunma Bank, Ltd.		900,000	900,000					
	The 77 Bank, Ltd.		900,000	900,000					
	The Tochigi Bank, Ltd.		900,000	900,000					
	The Fukui Bank, Ltd.		900,000	900,000					
	The Bank of Iwate, Ltd.		500,000	500,000					
	The Higo Bank, Ltd.		500,000	500,000					
	The Yamagata Bank, Ltd.		500,000	500,000					
	The Nishi-Nippon City Bank, Ltd.	June 17, 2014	2,000,000	2,000,000	0.621	December 17, 2021			
	Sumitomo Mitsui Banking Corporation	January 7, 2013	2,000,000	2,000,000	0.980	January 7, 2022			
	Mizuho Bank, Ltd.	January 15, 2013	5,000,000	5,000,000	0.96625	January 17, 2022			
	The Norinchukin Bank	January 31, 2014	3,500,000	3,500,000	0.757	January 31, 2022			
	Mizuho Bank, Ltd.	April 24, 2013	3,000,000	3,000,000	0.87375	April 25, 2022			
	MUFG Bank, Ltd.	June 15, 2012	4,000,000	4,000,000	1.1975	June 15, 2022			
	MUFG Bank, Ltd.	June 15, 2012	2,500,000	2,500,000	1.2725	June 15, 2022			
	Shinsei Bank, Limited	June 15, 2012	2,500,000	2,500,000	1.2725	June 15, 2022			
	The Norinchukin Bank	June 17, 2014	3,000,000	3,000,000	0.6785	June 17, 2022			
	The Gunma Bank, Ltd.	August 10, 2015	1,000,000	1,000,000	0.3925	August 10, 2022			
	The Shinkumi Federation Bank		1,000,000	1,000,000					
	The Daishi Bank, Ltd.		1,000,000	1,000,000					
The Chugoku Bank, Limited	1,000,000		1,000,000						
The Toho Bank, Ltd.	1,000,000		1,000,000						
The Fukui Bank, Ltd.	1,000,000		1,000,000						
The Tochigi Bank, Ltd.	500,000		500,000						
MUFG Bank, Ltd.	September 1, 2015	2,000,000	2,000,000	0.47125	September 1, 2022				
The Hachijuni Bank, Ltd.	December 20, 2017	1,000,000	1,000,000	0.1863	December 20, 2022				

	Classification	Drawdown date	Balance at beginning of current period (¥ thousand)	Balance at end of current period (¥ thousand)	Average interest rate*1 (%)	Repayment date	Repayment method	Use of proceeds	Notes
	Lender								
Long-term borrowings	Development Bank of Japan Inc.	January 7, 2013	3,000,000	3,000,000	1.115	January 6, 2023	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	The Daishi Bank, Ltd.	January 7, 2016	1,500,000	1,500,000	0.2802	January 10, 2023			
	The 77 Bank, Ltd.	January 10, 2018	1,000,000	1,000,000	0.205	January 10, 2023			
	The Hachijuni Bank, Ltd.	January 15, 2016	1,000,000	1,000,000	0.265	January 16, 2023			
	The Iyo Bank, Ltd.	January 15, 2016	1,000,000	1,000,000	0.265	January 16, 2023			
	Sumitomo Mitsui Trust Bank, Limited	January 17, 2018	3,000,000	3,000,000	0.210	January 17, 2023			
	Development Bank of Japan Inc.	January 31, 2014	5,000,000	5,000,000	0.9325	January 31, 2023			
	The Yamaguchi Bank, Ltd.	March 25, 2013	1,000,000	1,000,000	0.945	March 24, 2023			
	The Bank of Fukuoka, Ltd.	March 24, 2015	2,000,000	2,000,000	0.5125	March 24, 2023			
	The Norinchukin Bank	March 25, 2015	3,500,000	3,500,000	0.46825	March 27, 2023			
	The Chugoku Bank, Limited	March 26, 2018	2,000,000	2,000,000	0.1988	March 27, 2023			
	Sumitomo Mitsui Banking Corporation	November 29, 2018	3,000,000	3,000,000	0.1694	May 29, 2023			
	Sumitomo Mitsui Trust Bank, Limited	November 29, 2018	3,000,000	3,000,000	0.1694	May 29, 2023			
	MUFG Bank, Ltd.	June 1, 2017	12,000,000	12,000,000	0.000 *4	June 1, 2023			
	The Chugoku Bank, Limited	June 15, 2015	3,000,000	3,000,000	0.61175	June 15, 2023			
	The Bank of Fukuoka, Ltd.	June 15, 2017	2,500,000	2,500,000	0.2388	June 15, 2023			
	MUFG Bank, Ltd.	December 19, 2014	10,000,000	10,000,000	0.42375 *5	December 19, 2023			
	MUFG Bank, Ltd.	March 26, 2018	5,000,000	5,000,000	0.02152 *4	March 26, 2024			
	The Hachijuni Bank, Ltd.	March 26, 2018	1,000,000	1,000,000	0.2338	March 26, 2024			
	Sumitomo Mitsui Trust Bank, Limited	May 29, 2019	—	5,000,000	0.075	May 29, 2024			
	The Iyo Bank, Ltd.	June 15, 2017	2,500,000	2,500,000	0.275	June 17, 2024			
	The Hachijuni Bank, Ltd.	June 15, 2017	1,000,000	1,000,000	0.275	June 17, 2024			
	MUFG Bank, Ltd.	September 1, 2015	3,500,000	3,500,000	0.630	September 2, 2024			
	Sumitomo Mitsui Trust Bank, Limited	September 2, 2015	3,800,000	3,800,000	0.536	September 2, 2024			
	The Norinchukin Bank	September 1, 2017	5,000,000	5,000,000	0.240	September 2, 2024			
	Sumitomo Mitsui Trust Bank, Limited	September 26, 2019	—	5,500,000	0.105	September 26, 2024			
	Taiyo Life Insurance Company	October 1, 2014	2,000,000	2,000,000	0.7825	October 1, 2024			
	Mizuho Bank, Ltd.	October 1, 2015	2,500,000	2,500,000	0.5575	October 1, 2024			
	MUFG Bank, Ltd.	June 1, 2018	10,000,000	10,000,000	0.2544	December 2, 2024			
	The Ashikaga Bank, Ltd.	January 9, 2018	1,000,000	1,000,000	0.285	January 9, 2025			
	Mizuho Trust & Banking Co., Ltd.	March 2, 2015	3,000,000	3,000,000	0.5585	March 3, 2025			
	MUFG Bank, Ltd.	March 26, 2018	2,000,000	2,000,000	0.2725	March 26, 2025			
	Development Bank of Japan Inc.	March 30, 2017	5,000,000	5,000,000	0.315	March 31, 2025			
	Taiyo Life Insurance Company	May 29, 2015	1,500,000	1,500,000	0.7375	May 29, 2025			
	Sumitomo Mitsui Trust Bank, Limited	August 31, 2018	3,000,000	3,000,000	0.320	August 29, 2025			
	Development Bank of Japan Inc.	September 1, 2015	7,000,000	7,000,000	0.7175	September 1, 2025			
	Mizuho Bank, Ltd.	December 26, 2016	5,000,000	5,000,000	0.3625	December 26, 2025			
	MUFG Bank, Ltd.	February 26, 2018	6,500,000	6,500,000	0.3413	February 26, 2026			
	Mizuho Bank, Ltd.	March 27, 2018	5,500,000	5,500,000	0.300	March 27, 2026			
	Shinkin Central Bank	March 30, 2017	5,000,000	5,000,000	0.360	March 30, 2026			
The Norinchukin Bank	January 23, 2019	4,000,000	4,000,000	0.1988	July 23, 2026				
Shinkin Central Bank	September 1, 2017	5,000,000	5,000,000	0.3188	September 1, 2026				
MUFG Bank, Ltd.	October 31, 2016	3,000,000	3,000,000	0.240	October 30, 2026				

	Classification	Drawdown date	Balance at beginning of current period (¥ thousand)	Balance at end of current period (¥ thousand)	Average interest rate*1 (%)	Repayment date	Repayment method	Use of proceeds	Notes
	Lender								
Long-term borrowings	Mizuho Bank, Ltd.	December 21, 2016	5,000,000	5,000,000	0.415	December 21, 2026	Bullet	*2	Unsecured Unguaranteed Unsubordinated
	Shinkin Central Bank	January 23, 2019	5,000,000	5,000,000	0.2213	January 25, 2027			
	Shinkin Central Bank	April 24, 2018	6,000,000	6,000,000	0.3675	April 26, 2027			
	The Jyoy Bank, Ltd.	January 9, 2018	1,000,000	1,000,000	0.4188	January 11, 2028			
	Sumitomo Mitsui Banking Corporation	January 19, 2018	3,000,000	3,000,000	0.4338	January 19, 2028			
	Mizuho Bank, Ltd.	March 30, 2018	4,000,000	4,000,000	0.3963	March 30, 2028			
	MUFG Bank, Ltd.	March 30, 2018	4,000,000	4,000,000	0.3963	March 30, 2028			
	Taiyo Life Insurance Company	March 30, 2018	1,000,000	1,000,000	0.3963	March 30, 2028			
	The Yamanashi Chuo Bank, Ltd.	March 26, 2019	2,000,000	2,000,000	0.3688	March 26, 2031			
	Sumitomo Life Insurance Company	March 26, 2019	1,000,000	1,000,000	0.505	March 27, 2034			
		Subtotal		348,500,000	343,500,000				
	Total		357,000,000	357,000,000					

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

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

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

*4. These are floating rate borrowings which are not swapped into fixed rates.

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

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

Outstanding investment corporation bonds as of September 30, 2019 are as follows.

Securities	Date of issue	Balance at beginning of current period (¥ thousand)	Balance at end of current period (¥ thousand)	Interest rate (%)	Repayment period	Repayment method	Use of proceeds	Notes
4th unsecured investment corporation bond	September 29, 2005	10,000,000	10,000,000	2.56	September 29, 2025	Bullet	*1	*2
10th unsecured investment corporation bond	March 30, 2017	10,000,000	10,000,000	0.3975	March 30, 2027	Bullet	*1	*2 *3
11th unsecured investment corporation bond	October 26, 2017	2,993,175	2,993,175	0.2788	October 26, 2027	Bullet	*1	*2 *3 *4
12th unsecured investment corporation bond (Japan Real Estate Investment Green Bonds)	November 1, 2018	10,000,000	10,000,000	0.23	November 1, 2023	Bullet	*1	*2
Total		32,993,175	32,993,175					

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

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

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

*4. For the purpose of avoiding foreign currency risk with respect to foreign currency investment corporation bonds, the Company engages in currency swap transactions to fix the exchange rates. Considering the effects of the currency swap transactions, the balances and interest rates are reflected in the schedule.

10. Net Assets

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

11. Income Taxes

The Company is subject to Japanese corporate income taxes on all of its taxable income. However, under the Special Taxation Measures Act, an investment corporation is allowed to deduct dividends of accounting profits, or dividend distributions, paid to unitholders from its taxable income if certain tax requirements are satisfied. Such tax requirements include dividend distributions in excess of 90% of its earnings available for dividends for the fiscal period as stipulated by Article 67-15 of the Special Taxation Measures Act. The significant components of deferred tax assets and liabilities as of March 31, 2019 and September 30, 2019 were as follows:

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
Deferred tax assets:		
Accrued enterprise tax	952	942
Amortization of a term leasehold interest	89,460	94,937
Asset retirement obligations	119,540	120,745
	209,953	216,624
Valuation allowance	(107,516)	(114,197)
Total deferred tax assets	102,437	102,427
Deferred tax liabilities:		
Asset retirement obligations	101,484	101,484
Reserve for advanced depreciation of non-current assets	290,057	723,845
Total deferred tax liabilities	391,542	825,330
Net deferred tax liabilities	289,105	722,903

The reconciliation of tax rate difference between the adjusted statutory tax rate and the effective tax rate as of March 31, 2019 and September 30, 2019 was as follows:

	As of March 31, 2019	As of September 30, 2019
Statutory tax rate	34.59%	34.59%
Deductible dividend distribution	(34.57%)	(31.75%)
Change in valuation allowance	0.05%	0.04%
Others	0.01%	0.00%
Effective tax rate	0.08%	2.89%

12. Related Party Transactions

For the six months ended March 31, 2019 and September 30, 2019

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

(1) Parent Company and Major Corporation Unitholders

For the period from October 1, 2018 to March 31, 2019

“Not applicable”

For the period from April 1, 2019 to September 30, 2019

“Not applicable”

(2) Affiliated Companies

For the period from October 1, 2018 to March 31, 2019

“Not applicable”

For the period from April 1, 2019 to September 30, 2019

“Not applicable”

(3) Sister Companies

For the period from October 1, 2018 to March 31, 2019

“Not applicable”

For the period from April 1, 2019 to September 30, 2019

“Not applicable”

(4) Directors and Major Individual Unitholders

For the period from October 1, 2018 to March 31, 2019

“Not applicable”

For the period from April 1, 2019 to September 30, 2019

“Not applicable”

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

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

For the period from October 1, 2018 to March 31, 2019 (Unaudited)

Type of relationship	Name of transaction partner	Type of business	Percentage of units held	Transaction details	Transaction amount (¥ thousand)	Accounting item	Balance at end of the period (¥ thousand)
Interested party	Mitsubishi Estate Co., Ltd.	Real estate	1.235%	Rent revenue	14,135,801	—	19,187,779
				Security deposit increase	675,614	Deposits received from tenants	
				Security deposit return	152,591		
Interested party	Mitsubishi Jisho Property Management Co., Ltd.	Real estate management	—	Property management expenses	2,277,094	—	—
Asset custody company	Sumitomo Mitsui Trust Bank, Limited	Bank	—	Proceeds from long-term borrowings	3,000,000	Long-term borrowings	36,000,000
				Repayments of long-term borrowings	3,000,000		

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

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

For the period from April 1, 2019 to September 30, 2019 (Unaudited)

Type of relationship	Name of transaction partner	Type of business	Percentage of units held	Transaction details	Transaction amount (¥ thousand)	Accounting item	Balance at end of the period (¥ thousand)
Interested party	Mitsubishi Estate Co., Ltd.	Real estate	1.235%	Rent revenue	14,277,898	—	19,391,744
				Security deposit increase	459,342	Deposits received from tenants	
				Security deposit return	255,377		
Interested party	Mitsubishi Jisho Property Management Co., Ltd.	Real estate management	—	Property management expenses	2,331,533	—	—
Asset custody company	Sumitomo Mitsui Trust Bank, Limited	Bank	—	Proceeds from long-term borrowings	10,500,000	Long-term borrowings	36,000,000
				Repayments of long-term borrowings	10,500,000		

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

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

13. Segment Information

For the six months ended March 31, 2019 and September 30, 2019

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

Information on products and services

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

Information on geographic area

(1) Revenue

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

(2) Property and equipment

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

Information on major clients

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

14. Asset Retirement Obligations

For the six months ended March 31, 2019 and September 30, 2019

Asset retirement obligations reported on balance sheets

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

Change in the asset retirement obligations for the six months ended March 31, 2019 and September 30, 2019 consisted of the following:

	Thousands of yen	
	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Balance at the beginning of the period	342,047	345,493
Increase in tangible fixed assets	—	—
Accretion expense	3,446	3,480
Balance at the end of the period	345,493	348,974

15. Investment and Rental Property

For the six months ended March 31, 2019 and September 30, 2019

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

The book values on balance sheets as of March 31, 2019 and September 30, 2019 and the fair values as of March 31, 2019 and September 30, 2019 are as follows:

Thousands of yen			
Book value		Fair value	
As of September 30, 2018	Change during the period *1	As of March 31, 2019	As of March 31, 2019
927,908,805	7,148,915	935,057,721	1,178,420,000

Thousands of yen			
Book value		Fair value	
As of March 31, 2019	Change during the period *2	As of September 30, 2019	As of September 30, 2019
935,057,721	(6,237,260)	928,820,461	1,204,238,234

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

2. Significant changes

*1. As for the increases/decreases for the period, the major reason for the increases was the acquisition of Front Place Minami-Shinjuku (¥9,358,058 thousand) and Daido Seimei Niigata Building (¥1,856,065 thousand). The major reason for decreases was by depreciation.

*2. As for the increases/decreases for the period, the major reasons for the decreases were the disposition of a 50% quasi-co-ownership interest of Kawasaki Isago Building (¥1,423,739 thousand) and by depreciation.

3. Fair values as of March 31, 2019 and September 30, 2019 are defined as the appraised values provided by an external qualified professional appraiser. As of September 30, 2019, Kawasaki Isago Building (50% quasi-co-ownership interest), for which the disposition agreement was made dated September 19, 2019, was valued at the disposition price.

Profits and losses related to investment and rental property are listed in Section 17. "Breakdown of Property-Related Revenues and Expenses".

16. Per Unit Information

The following table summarizes information about net assets per unit and profit per unit as of March 31, 2019 and September 30, 2019 and for the periods then ended, respectively:

	Yen	
	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Net assets per unit	369,082	370,174
Profit per unit	9,696	10,789

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

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

	Thousands of yen	
	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Profit	13,431,058	14,945,513
Amount not attributable to normal unitholders	—	—
Profit applicable to normal investment units	13,431,058	14,945,513
Average number of units	1,385,210 units	1,385,210 units

17. Breakdown of Property-Related Revenues and Expenses

For the six months ended March 31, 2019 and September 30, 2019

	Thousands of yen	
	For the period from October 1, 2018 to March 31, 2019	For the period from April 1, 2019 to September 30, 2019
Property-Related Revenues	33,022,445	33,580,214
Rent revenues	32,783,783	33,522,024
Rental revenues	26,261,656	27,114,478
Common service charges	2,965,802	2,845,225
Parking revenues	768,945	774,730
Other rental revenues	2,787,379	2,787,590
Other lease business revenues	238,662	58,189
Cancellation charges	159,038	35,524
Other miscellaneous revenues	79,623	22,665
Property-Related Expenses	16,819,683	16,909,983
Expenses related to lease business	16,819,683	16,909,983
Property management expenses	3,691,389	3,637,328
Utilities expenses	2,493,875	2,570,022
Property and other taxes	3,021,982	3,256,368
Casualty insurance	50,421	50,398
Repairing expenses	979,805	767,963
Depreciation	6,400,633	6,433,778
Other rental expenses	181,576	194,123
Property-Related Profits	16,202,762	16,670,230

18. Breakdown of Gain on Sales of Real Estate Properties

For the period from October 1, 2018 to March 31, 2019

“Not applicable”

For the period from April 1, 2019 to September 30, 2019

	Thousands of yen
Kawasaki Isago Building (50% quasi-co-ownership interest)	
Revenue from sale of real estate property	3,078,234
Cost of real estate property sold	1,423,739
Other sales expenses	70,500
Gain on sales of real estate properties	1,583,993

19. Changes in Unitholders' Equity

For the six months ended March 31, 2019 and September 30, 2019

Total number of investment units issuable and number of units outstanding	As of March 31, 2019	As of September 30, 2019
Total number of investment units issuable	4,000,000 units	4,000,000 units
Number of units outstanding	1,385,210 units	1,385,210 units

20. Supplemental Cash Flow Information

Cash and cash equivalents

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2019 and September 30, 2019:

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
Cash and deposits	18,333,626	26,723,523
Cash and deposits in trust	6,049,324	6,881,014
Time deposits with maturities of more than three months	—	—
Cash and cash equivalents	24,382,950	33,604,537

21. Leases

1. Leased assets under finance lease transactions that do not transfer ownership of the leased assets to the lessees are capitalized and depreciated by the straight-line method over the lease term with no residual value. Such capitalized leased assets primarily consist of tools, furniture and fixtures.
2. The Company, as a lessor, owns office buildings under leases and earns rent income. As of March 31, 2019 and September 30, 2019, the future lease revenues under the non-cancelable operating leases are as follows:

	Thousands of yen	
	As of March 31, 2019	As of September 30, 2019
Due within one year	23,071,955	24,263,634
Due after one year	50,642,134	52,576,964
Total	73,714,090	76,840,598

22. Subsequent Events

For the six months ended September 30, 2019

“Not applicable”



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Independent Auditor's Report

The Board of Directors
Japan Real Estate Investment Corporation

We have audited the accompanying financial statements of Japan Real Estate Investment Corporation, which comprise the balance sheet as at September 30, 2019, and the statements of income and retained earnings, changes in unitholders' equity, cash distributions, and cash flows for the six month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Japan Real Estate Investment Corporation as at September 30, 2019, and its financial performance and cash flows for the six month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

December 20, 2019
Tokyo, Japan

Other Information

1. Risk Factors

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

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

In addition, JRE is subject to the following risks:

- risks related to increasing operating costs;
- risks related to JRE’s dependence on the efforts of the AIFM’s key personnel;
- risks related to the restrictive covenants under debt financing arrangements;
- risks related to entering into forward commitment contracts;
- risks related to third party leasehold interests in the land underlying JRE properties;
- risks related to holding the property in the form of stratified ownership interests (*kubun shoyū*) or co-ownership interests (*kyōyū-mochibun*);
- risks related to holding the property through trust beneficiary interests;
- risks related to properties not in operation (including properties under development);
- risks related to the defective title, design, construction, or other defects or problems in the properties;
- risks related to impairment losses related to the properties;
- risks related to tenant leasehold deposits and/or security deposits;
- risks related to tenant’s default as a result of financial difficulty or insolvency;
- risks related to the insolvency of master lessee;
- risks related to the insolvency of a property seller following the purchase of a property by AIF;
- risks related to relying on expert appraisals and engineering, environmental and seismic reports as well as industry and market data;
- risks related to the presence of hazardous or toxic substances in the properties, or the failure to properly remediate such substances;
- risks related to strict environmental liabilities for the properties;
- risks related to the amendment of applicable administrative laws and local ordinances;
- risks related to infringing a third party’s intellectual property rights;
- risks related to holding interests in properties through preferred shares of special purpose companies (*tokutei mokuteki kaisha*);
- risks related to holding Japanese anonymous association (*tokumei kumiai*) interests;
- risks related to investments in trust beneficiary interests;
- risks related to the tight supervision by regulatory authorities and compliance with applicable rules and regulations;

- risks related to tax authority disagreement with the AIFM's interpretations of Japanese tax laws and regulations;
- risks related to being unable to benefit from reductions in certain real estate taxes enjoyed by qualified J-REITs;
- risks related to changes in Japanese tax laws; and
- risk of dilution as a result of further issuances of units.

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

(1) Material Changes in Information Listed in Article 23 of AIFMD during the Financial Period covered by the Report (six-month fiscal period ended September 30, 2019)

None.

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

Beginning April 1, 2018 and ending March 31, 2019

1. Remuneration for Asset Manager Directors

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

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

2. Remuneration for Asset Manager Corporate Auditors

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

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

	Directors		Corporate Auditors		Total	
	Number of person(s) remunerated	Remuneration	Number of person(s) remunerated	Remuneration	Number of person(s) remunerated	Remuneration
Remuneration based on resolutions of the General Meeting of Shareholders of Asset Manager	2	JPY 36 million	0	JPY 0 million	2	JPY 36 million

3. Remuneration for Asset Manager Employees

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

	All employees			
	Number of employees	Remuneration		
		Total	Fixed	Variable
Remuneration based on compensation rules	40	JPY 362 million	JPY 234 million	JPY 128 million

4. Conflicts of Interest

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

Corporate Data

As of September 30, 2019

Executives

Executive Director: Yutaka Yanagisawa
Supervisory Directors: Tomohiro Okanoya
Hiroaki Takano

Paid-in Capital

JPY 497,241,216,000

Number of Units Outstanding

1,385,210

Number of Unitholders

13,887

Stock Listing

Tokyo Stock Exchange

Securities Code

8952

LEI (Legal Entity Identifier)

3538003YAIR3CBGJJ928

Type of Investment Corporation

Closed-end corporate type fund

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

Auditor

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower
Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan

Incorporation

May 11, 2001

Executive Office

Japan Real Estate Investment Corporation
1-1-1, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan

For further information, please contact:
Japan Real Estate Asset Management Co., Ltd.
Planning Department
Tel: 81-3-3211-7951
E-mail: j-rea-inquiry@j-rea.co.jp

This semiannual report includes translations of documents originally filed under the Japanese Financial Instruments 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 the Company'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 the Company. Actual results may differ substantially from the projections depending on a number of factors.

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