

Financial Statements

(7th Fiscal Period: From February 1, 2015 to July 31, 2015)

(6th Fiscal Period: From August 1, 2014 to January 31, 2015)

Independent Auditor's Report

Balance Sheet

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KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Balance Sheet

As of July 31, 2015 and January 31, 2015

	Seventh Fiscal Period as of July 31, 2015	Sixth Fiscal Period as of January 31, 2015
	(in thousands of yen)	
ASSETS		
Current assets		
Cash and deposits	¥5,058,518	¥3,061,918
Cash and deposits in trust	3,666,427	2,988,577
Operating accounts receivable	18,522	44,655
Prepaid expenses	4,001	11,250
Deferred tax assets	195	17
Consumption taxes receivable	35,168	56,429
Other	1,757	13,533
Total current assets	8,784,588	6,176,379
Noncurrent assets		
Property, plant and equipment		
Land	1,798,041	2,787,377
Buildings in trust	61,497,744	51,759,151
Accumulated depreciation	(2,945,300)	(2,158,714)
Buildings in trust, net	58,552,444	49,600,437
Structures in trust	384,396	330,640
Accumulated depreciation	(50,866)	(38,747)
Structures in trust, net	333,530	291,893
Machinery and equipment in trust	1,234,055	801,885
Accumulated depreciation	(90,545)	(62,886)
Machinery and equipment in trust, net	1,143,510	738,999
Tools, furniture and fixtures in trust	53,370	34,003
Accumulated depreciation	(1,695)	(975)
Tools, furniture and fixtures in trust, net	51,675	33,028
Land in trust	86,993,350	71,228,749
Total property, plant and equipment, net	148,872,550	124,680,483
Investments and other assets		
Investment securities	132,897	725,632
Lease and guarantee deposits	10,951	10,951
Long-term prepaid expenses	668,910	609,773
Other	-	2,777
Total investments and other assets	812,758	1,349,133
Total noncurrent assets	149,685,308	126,029,616
Deferred assets		
Deferred organization costs	13,598	18,812
Investment unit issuance costs	171,999	110,802
Total deferred assets	185,597	129,614
Total assets	¥158,655,493	¥132,335,609

	Seventh Fiscal Period as of July 31, 2015	Sixth Fiscal Period as of January 31, 2015
	(in thousands of yen)	
LIABILITIES		
Current liabilities		
Operating accounts payable	¥301,810	¥323,755
Short-term loans payable	3,200,000	3,200,000
Current portion of long-term loans payable	9,000,000	12,000,000
Accounts payable-other	192,209	140,139
Accrued expenses	14,495	16,159
Income taxes payable	42,141	698
Advances received	707,794	581,255
Deposits received	56,020	45,494
Total current liabilities	13,514,469	16,307,500
Noncurrent liabilities		
Long-term loans payable	61,300,000	55,900,000
Tenant leasehold and security deposits in trust	1,457,261	1,275,388
Total noncurrent liabilities	62,757,261	57,175,388
Total liabilities	76,271,730	73,482,888
NET ASSETS		
Unitholders' equity		
Unitholders' capital	80,132,379	57,121,702
Surplus		
Unappropriated retained earnings	2,254,663	1,739,609
Total surplus	2,254,663	1,739,609
Total unitholders' equity	82,387,042	58,861,311
Valuation and translation adjustments		
Deferred gains or losses on hedges	(3,279)	(8,590)
Total valuation and translation adjustments	(3,279)	(8,590)
Total net assets	82,383,763	58,852,721
Total liabilities and net assets	¥158,655,493	¥132,335,609

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Income and Retained Earnings

For the period from February 1, 2015 to July 31, 2015 and the period from August 1, 2014 to January 31, 2015

	Seventh Fiscal Period from February 1, 2015 to July 31, 2015	Sixth Fiscal Period from August 1, 2014 to January 31, 2015
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate	¥4,735,881	¥3,852,328
Other lease business revenue	434,129	314,913
Gain on sales of real estate property	124,110	-
Dividends income	8,334	74,276
Total operating revenues	5,302,454	4,241,517
Operating expenses		
Expenses related to rent business	1,952,263	1,583,002
Asset management fees	318,706	256,343
Asset custody fees	9,175	4,800
Administrative service fees	32,724	22,575
Directors' compensation	4,500	4,500
Other operating expenses	171,067	151,501
Total operating expenses	2,488,435	2,022,721
Operating income	2,814,019	2,218,796
Non-operating income		
Interest income	210	193
Interest on refund	116	9
Total non-operating income	326	202
Non-operating expenses		
Interest expenses	335,705	306,867
Derivatives-related expenses	7,497	11,992
Borrowing expenses	105,653	111,582
Amortization of deferred organization costs	5,214	5,301
Amortization of investment unit issuance costs	54,334	42,745
Total non-operating expenses	508,403	478,487
Ordinary income	2,305,942	1,740,511
Income before income taxes	2,305,942	1,740,511
Income taxes		
Current	51,578	958
Deferred	(178)	(5)
Total income taxes	51,400	953
Net income	2,254,542	1,739,558
Retained earnings brought forward	121	51
Unappropriated retained earnings	¥2,254,663	¥1,739,609

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Changes in Net Assets

For the period from February 1, 2015 to July 31, 2015 and the period from August 1, 2014 to January 31, 2015

	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Surplus					Deferred gains or losses on hedges	
	Unitholders' capital	Unappropriated retained earnings	Total surplus	Total unitholders' equity	Total net assets		
(in thousands of yen)							
Balance as of July 31, 2014	¥ 48,592,740	¥ 1,457,757	¥ 1,457,757	¥ 50,050,497	¥ (13,430)	¥	50,037,067
Changes of items during the period							
Issuance of new investment units	8,528,962	-	-	8,528,962	-	-	8,528,962
Dividends from surplus	-	(1,457,706)	(1,457,706)	(1,457,706)	-	-	(1,457,706)
Net income	-	1,739,558	1,739,558	1,739,558	-	-	1,739,558
Net changes of items other than unitholders' equity	-	-	-	-	4,840	-	4,840
Total changes of items during the period	8,528,962	281,852	281,852	8,810,814	4,840	-	8,815,654
Balance as of January 31, 2015	¥ 57,121,702	¥ 1,739,609	¥ 1,739,609	¥ 58,861,311	¥ (8,590)	¥	58,852,721
Changes of items during the period							
Issuance of new investment units	23,010,677	-	-	23,010,677	-	-	23,010,677
Dividends from surplus	-	(1,739,488)	(1,739,488)	(1,739,488)	-	-	(1,739,488)
Net income	-	2,254,542	2,254,542	2,254,542	-	-	2,254,542
Net changes of items other than unitholders' equity	-	-	-	-	5,311	-	5,311
Total changes of items during the period	23,010,677	515,054	515,054	23,525,731	5,311	-	23,531,042
Balance as of July 31, 2015	¥ 80,132,379	¥ 2,254,663	¥ 2,254,663	¥ 82,387,042	¥ (3,279)	¥	82,383,763

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

For the period from February 1, 2015 to July 31, 2015 and the period from August 1, 2014 to January 31, 2015

	Seventh Fiscal Period from February 1, 2015 to July 31, 2015	Sixth Fiscal Period from August 1, 2014 to January 31, 2015
(in thousands of yen)		
Net cash provided by (used in) operating activities		
Income before income taxes	¥2,305,942	¥1,740,511
Depreciation and amortization	827,084	659,452
Amortization of deferred organization costs	5,214	5,301
Amortization of investment unit issuance costs	54,334	42,745
Interest income	(210)	(193)
Interest expenses	335,705	306,867
Derivatives-related expenses	7,497	11,992
Decrease (increase) in operating accounts receivable	26,132	(24,363)
Decrease (increase) in consumption taxes refund receivable	21,261	(56,429)
Decrease (increase) in prepaid expenses	7,249	(7,462)
Increase (decrease) in operating accounts payable	(47,989)	43,948
Increase (decrease) in accounts payable-other	54,615	16,182
Increase (decrease) in accrued consumption taxes	-	(15,077)
Increase (decrease) in advances received	126,539	74,141
Decrease (increase) in long-term prepaid expenses	(59,137)	(99,837)
Decrease in property and equipment in trust due to sale	989,336	-
Other, net	13,294	1,586
Subtotal	4,666,866	2,699,364
Interest income received	210	193
Interest expenses paid	(337,369)	(297,665)
Income taxes paid	(698)	(676)
Net cash provided by (used in) operating activities	4,329,009	2,401,216
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(25,985,200)	(22,845,859)
Purchase of investment securities	(133,807)	-
Proceeds from investment securities	726,542	407,348
Payments for lease and guarantee deposits	-	(118)
Proceeds from collection of lease and guarantee deposits	-	150
Repayments of tenant leasehold and security deposits in trust	(161,160)	(99,027)
Proceeds from tenant leasehold and security deposits in trust	343,195	248,209
Net cash provided by (used in) investing activities	(25,210,430)	(22,289,297)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	-	3,200,000
Decrease in short-term loans payable	(6,500,000)	-
Proceeds from long-term loans payable	8,900,000	13,050,000
Decrease of long-term loans payable	-	(1,700,000)
Proceeds from issuance of investment units	22,895,147	8,488,323
Dividends paid	(1,739,276)	(1,457,048)
Net cash provided by (used in) financing activities	23,555,871	21,581,275
Net increase (decrease) in cash and cash equivalents	2,674,450	1,693,194
Cash and cash equivalents at the beginning of period	6,050,495	4,357,301
Cash and cash equivalents at the end of period	¥8,724,945	¥6,050,495

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Notes to Financial Statements

For the period from February 1, 2015 to July 31, 2015, and the period from August 1, 2014 to January 31, 2015

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Residential Investment Corporation (“the Investment Corporation”) was established on November 15, 2011 under the Act on Investment Trusts and Investment Corporations of Japan (“the Investment Trust Act”). On April 26, 2012, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange (Securities Code: 3278). During the seventh fiscal period, the Investment Corporation additionally issued 67,900 investment units on February 4, 2015 through public offerings, and 2,067 investment units on March 4, 2015 by way of a third-party allotment. As the result, as of July 31, 2015, the end of the seventh fiscal period, the number of investment units issued and outstanding totaled 349,089 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (Note) (“the Asset Management Company”). The Investment Corporation entrusts the Asset Management Company to manage its assets and, in collaboration with the Asset Management Company, the Investment Corporation strives to maximize cash distributions to unitholders by securing stable earnings and sustainable external growth. To this end, the Investment Corporation adopts the basic policy of conducting a dynamic and flexible investment and asset management stance that seeks to respond to its economic environment and market trends, and endeavors to ensure a timely response to opportunities.

During the seventh fiscal period, the Investment Corporation acquired 12 properties (total acquisition price of ¥24,711 million) and sold 1 property with a disposition price of ¥1,120 million. As the result, the Investment Corporation has a portfolio comprised of 103 properties (total acquisition price of ¥145,874 million) as of July 31, 2015, the end of the seventh fiscal period.

The occupancy rate of the overall portfolio (excluding land with leasehold interest) was 96.2% as of July 31, 2015, and 95.7% as of January 31, 2015. Furthermore, the occupancy rate of the overall portfolio (including land with leasehold interest) was 96.3% as of July 31, 2015 and 95.8% as of January 31, 2015.

During the seventh fiscal period, the Investment Corporation made new borrowings of ¥2,400 million upon acquiring properties in line with the public offering in February 2015 and made borrowings of ¥6,500 million for the repayment of debt matured during the current fiscal period. As a result, balance of borrowings as of the end of the seventh fiscal period (July 31, 2015) stood at ¥73,500 million.

The Investment Corporation has worked to extend and diversify maturities, including a 10 year maturity as for the borrowings made on April 30, 2015 (Series 14-D) for the first time.

Basis of Presentation

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

The accompanying financial statements are a translation of the audited financial statements of the Investment Corporation, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of the Investment Corporation 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 certain information that might not be required under Japanese GAAP but is presented herein as additional information.

The Investment Corporation fiscal period is a six-month period which ends at the end of January or July. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

Other securities without market value are stated using the moving average cost method. Equity investments in an anonymous association are stated, the amount equivalent to the corresponding equity interests including net amount of gain or loss from the anonymous association.

(B) Property and Equipment (including trust assets)

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

	From February 1, 2015 to July 31, 2015	From August 1, 2014 to January 31, 2015
Buildings	3-62 years	3-62 years
Structures	3-45 years	3-45 years
Machinery and equipment	8-30 years	8-30 years
Tools, furniture and fixtures	30 years	30 years

(C) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized by the straight-line method.

(D) Deferred Organization Costs

Deferred organization costs are amortized over a period of 5 years under the straight-line method.

(E) Unit Issuance Costs

Unit issuance costs are amortized over a period of 3 years under the straight-line method.

(F) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan, all relevant assets and liabilities in trust are recorded on the balance sheet and the statement of income and retained earnings.

(G) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease.

(H) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. These taxes are generally charged to operating expenses for the period, for the portion of such taxes corresponding to said period. Under Japanese tax regulations, the seller of the property is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥87,364 thousand and ¥20,557 thousand as of July 31, 2015 and January 31, 2015, respectively.

(I) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

(J) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.

(K) Derivative Financial Instruments

The Investment Corporation enters into derivative transactions to hedge risks prescribed in its Articles of Incorporation based on its risk management policies. The Investment Corporation hedges interest rate volatility risk of its interest payments on its borrowings by utilizing interest rate cap transactions and interest rate swap transactions as hedging instruments.

As for the method of assessment of the effectiveness of the hedge in the period from the inception of the hedge to the time of judgment of its effectiveness, the cumulative changes in cash flow of the hedged items and hedging instruments are compared and a judgment is made based on changed amount, etc. However, an assessment of the effectiveness of hedging activities is omitted in the case of interest rate swaps that meet the requirements for special treatment. Furthermore, assessment of the effectiveness of hedging activities is omitted in the case of interest rate caps that do not meet the requirements for special treatment as the important conditions regarding hedged items and hedging instruments are the same and are clearly expected to have the effect of limiting the impact of interest rate volatility within a certain range on an ongoing basis.

(L) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

(M) Presentation of Amounts

Amounts are truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts are rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. NET ASSETS

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Act. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Act.

4. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES AND GAIN ON SALES OF REAL ESTATE PROPERTY

Rental and other operating revenues and property-related expenses for the periods from February 1, 2015 to July 31, 2015 and from August 1, 2014 to January 31, 2015 consist of the following:

	From February 1, 2015 to July 31, 2015	From August 1, 2014 to January 31, 2015
(in thousands of yen)		
Rental and other operating revenues:		
Rental revenues	¥4,417,741	¥3,574,539
Rental revenues from limited proprietary rights of land	66,790	78,310
Common area charges	251,350	199,479
Subtotal	4,735,881	3,852,328
Others:		
Parking space rental revenues	175,099	136,659
Miscellaneous	259,030	178,254
Subtotal	434,129	314,913
Total rental and other operating revenues	¥5,170,010	¥4,167,241
Property-related expenses:		
Property management fees and facility management fees	¥368,881	¥298,259
Utilities	99,444	88,866
Taxes	261,546	213,045
Repairs and maintenance	182,979	166,537
Insurance	8,324	6,678
Trust fees	38,692	34,880
Depreciation	827,084	659,452
Others	165,313	115,285
Total property-related expenses	¥1,952,263	¥1,583,002
Gain on sales of real estate property:		
Nichii Home Tama Plaza(Land with leasehold interest)		
Revenue from sale of real estate property	¥1,120,000	-
Cost of real estate property	989,336	-
Other sales expenses	6,554	-
Gain on sales of real estate property	¥124,110	-

5. UNITHOLDERS' EQUITY

Total number of authorized investment units and total number of investment units issued and outstanding are as follows:

	From February 1, 2015 To July 31, 2015	From August 1, 2014 to January 31, 2015
Total number of authorized investment units	5,000,000	5,000,000
Total number of investment units issued and outstanding	349,089	279,122

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of July 31, 2015 and January 31, 2015:

	As of July 31, 2015	As of January 31, 2015
	(in thousands of yen)	
Cash and deposits	¥5,058,518	¥3,061,918
Cash and deposits in trust	3,666,427	2,988,577
Cash and cash equivalents	¥8,724,945	¥6,050,495

7. LEASES

The Investment Corporation, as lessor, has entered into leases whereby fixed monthly rents are due in advance with a lease term of generally two years for residential properties. The future minimum rental revenues under existing non-cancelable operating leases as of July 31, 2015 and January 31, 2015 are as follows:

	As of July 31, 2015	As of January 31, 2015
	(in thousands of yen)	
Due in 1 year	¥692,766	¥685,382
Due after 1 year	5,193,660	6,609,000
Total	¥5,886,426	¥7,294,382

8. FINANCIAL INSTRUMENTS

(A). Overview

(1) Policy for financial instruments

The Investment Corporation procures funds for asset acquisitions, repairs, payment of distributions, repayment of loans, etc. through loans from financial institutions, issuance of investment units and other means. With regard to the procurement of interest-bearing debts, the Investment Corporation ensures that it can effectively combine stable long-term funds with flexible short-term funds. Management of surplus funds is undertaken through various bank deposits focusing on safety, liquidity and effectiveness. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and other risks and does not enter into derivative transactions for speculative or trading purposes.

(2) Types of financial instruments and related risk

Bank deposits are for managing the Investment Corporation's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer and interest rate fluctuation risk.

Borrowings, which are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 9 years and 9 months as of July 31, 2015, the end of the seventh fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

(3) Risk management for financial instruments

a. Credit risk

While bank deposits are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited, such risk is monitored by deposits in non-interest bearing ordinary savings accounts or with financial institutions with credit ratings above a certain level. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer and interest rate fluctuation risk. To manage this credit risk, the Investment Corporation regularly evaluates the results of operations and the financial condition of the issuer, etc. In utilizing derivatives, the Investment Corporation aims to mitigate counterparty risk such as by transacting with financial institutions with favorable ratings.

b. Market risk

While borrowings with floating rates are exposed to interest rate volatility risk, such risk is monitored by adjusting the rate of the balance of borrowings with floating rates against the total borrowings according to the financial environment, interest rate forecasts by continuous monitoring, etc. and by using derivatives, etc. A risk management policy is established with regard to the execution and management of derivatives and such transactions are conducted based on this policy.

c. Liquidity risk

Though borrowings are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by diversifying financial institutions. Liquidity risk is also managed by such means as regularly checking the balance of cash reserves.

(4) Supplementary explanation of the estimated fair value of financial instruments

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

(B). Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet and estimated fair value are shown in the following table.

As of July 31, 2015

	Carrying amount	Estimated fair value	Difference
	(in thousands of yen)		
(1) Cash and deposits	¥5,058,518	¥5,058,518	¥ -
(2) Cash and deposits in trust	3,666,427	3,666,427	-
Subtotal	8,724,945	8,724,945	-
(1) Short-term loans payable	3,200,000	3,200,000	-
(2) Current portion of long-term loans payable	9,000,000	9,000,000	-
(3) Long-term loans payable	61,300,000	60,738,783	(561,217)
Subtotal	73,500,000	72,938,783	(561,217)
Derivative transactions	¥1,757	¥1,757	¥ -

As of January 31, 2015

	Carrying amount	Estimated fair value	Difference
	(in thousands of yen)		
(1) Cash and deposits	¥ 3,061,918	¥ 3,061,918	¥ -
(2) Cash and deposits in trust	2,988,577	2,988,577	-
Subtotal	6,050,495	6,050,495	-
(1) Short-term loans payable	3,200,000	3,200,000	-
(2) Current portion of long-term loans payable	12,000,000	12,000,000	-
(3) Long-term loans payable	55,900,000	56,487,757	587,757
Subtotal	71,100,000	71,687,757	587,757
Derivative transactions	¥3,943	¥3,943	¥ -

Note 1: Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions

Assets

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

Since these items are settled in a short period of time, their carrying amount approximates fair value.

Liabilities

(1) Short-term loans payable

Since these items are settled in a short period of time with floating interest rates, their carrying amount approximates fair value.

(2) Current portion of long-term loans payable and (3) Long-term loans payable

Among these items, the fair value of loans payable with fixed interest rates is calculated based on the present value, which is the total amount of principal and interest discounted by the estimated interest rate to be applied in the event that the Investment Corporation conducts new borrowings of the same type. As for the fair value of loans payable with floating interest rates, it is based on the carrying amount since market interest rates are reflected in the short term and the fair value is believed to approximate the carrying amount as the credit standing of the Investment Corporation has not changed significantly since the loans were made. (However, the fair value of long-term loans payable subject to the special treatment for interest-rate swaps is based on the present value of the total of principal and interest, accounted for together with the applicable interest-rate swaps, discounted by the estimated interest rate to be applied in the event that the Investment Corporation conducts new borrowings of the same type.)

Derivative transactions

Please refer to Note "9 DERIVATIVE TRANSACTIONS".

Note 2: Financial instruments whose fair values are recognized to be extremely difficult to grasp

(in thousands of yen)

Classification	As of July 31, 2015	As of January 31, 2015
Investment securities *	132,897	725,632

*Fair values of investment securities are not subject to disclosure of fair value as they have no market value and their fair values are recognized to be extremely difficult to grasp.

Note 3: Redemption schedule for financial assets with maturities

As of July 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Cash and deposits	¥5,058,518	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	3,666,427	-	-	-	-	-
Total	¥8,724,945	¥ -	¥ -	¥ -	¥ -	¥ -

As of January 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Cash and deposits	¥3,061,918	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	2,988,577	-	-	-	-	-
Total	¥6,050,495	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable

As of July 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Short-term loans payable	¥ 3,200,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	9,000,000	8,500,000	11,000,000	11,000,000	1,500,000	29,300,000
Total	¥ 12,200,000	¥ 8,500,000	¥ 11,000,000	¥ 11,000,000	¥ 1,500,000	¥ 29,300,000

As of January 31, 2015

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Short-term loans payable	¥ 3,200,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	12,000,000	12,000,000	11,000,000	11,000,000	1,500,000	20,400,000
Total	¥ 15,200,000	¥ 12,000,000	¥ 11,000,000	¥ 11,000,000	¥ 1,500,000	¥ 20,400,000

9. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate cap transactions and interest-rate swap transactions as of July 31, 2015 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥3,500,000	¥ -	¥1,757	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥56,800,000	¥56,800,000	*	-
	Total		¥60,300,000	¥56,800,000	¥1,757	-

*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable.

The contract amount and the fair value of interest-rate cap transactions and interest-rate swap transactions as of January 31, 2015 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥3,500,000	¥3,943	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥47,900,000	¥47,900,000	*	-
	Total		¥57,900,000	¥51,400,000	¥3,943	-

*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable.

10. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 35%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥2,181 million and ¥1,740 million for the periods ended July 31, 2015 and January 31, 2015, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on the Investment Corporation's income were 2.23% and 0.05% for the periods ended July 31, 2015 and January 31, 2015, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From February 1, 2015 To July 31, 2015	From August 1, 2014 to January 31, 2015
Statutory tax rate	37.11%	34.16%
Deductible cash distributions	(35.10)	(34.14)
Others	0.22	0.03
Effective tax rate	2.23%	0.05%

The significant components of deferred tax assets and liabilities as of July 31, 2015 and January 31, 2015 are as follows:

	As of July 31, 2015	As of January 31, 2015
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥4,026	¥17
Deferred gains or losses on hedges	1,059	2,933
Subtotal deferred tax assets	5,085	2,950
Valuation allowance	4,890	2,933
Total deferred tax assets	¥195	¥17

11. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

Seventh Fiscal Period (February 1, 2015 to July 31, 2015) and Sixth Fiscal Period (August 1, 2014 to January 31, 2015): Not applicable

2. Affiliated companies and other

Seventh Fiscal Period (February 1, 2015 to July 31, 2015) and Sixth Fiscal Period (August 1, 2014 to January 31, 2015): Not applicable

3. Fellow subsidiary companies and other

Seventh Fiscal Period (February 1, 2015 to July 31, 2015) and Sixth Fiscal Period (August 1, 2014 to January 31, 2015): Not applicable

4. Directors, major individual unitholders and other

Seventh Fiscal Period (February 1, 2015 to July 31, 2015) and Sixth Fiscal Period (August 1, 2014 to January 31, 2015): Not applicable

12. INVESTMENT AND RENTAL PROPERTIES

The Investment Corporation owns real estate for rental purposes in the Tokyo Metropolitan Area and other regional areas for the purpose of generating rental revenues.

The book value and fair value concerning the above real estate for rental purposes are as follows.

	Seventh Fiscal Period from February 1, 2015 to July 31, 2015	Sixth Fiscal Period from August 1, 2014 to January 31, 2015
	(in thousands of yen)	
Book value		
Balance at the beginning of period	¥124,680,483	¥102,505,449
Changes during the period	24,192,067	22,175,034
Balance at the end of period	148,872,550	124,680,483
Fair value at the end of period	¥163,849,000	¥135,048,000

Note 1: Book value excludes accumulated depreciation from acquisition costs.

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the seventh fiscal period, principal increases were the acquisition of real estate trust beneficiary interests in 12 properties totaling ¥25,861,909 thousand and the principal decreases were the disposition of real estate trust beneficiary interests in 1 property (¥989,336 thousand) and depreciation ¥827,084 thousand and during the sixth fiscal period, principal increases were the acquisition of real estate trust beneficiary interests in 11 properties totaling ¥22,772,392 thousand and the principal decrease was depreciation ¥659,452 thousand.

Note 3: The fair value is the appraisal value or the survey value determined by outside appraisers.

Income and loss in the fiscal periods ended July 31, 2015 and January 31, 2015 for real estate for rental purposes is listed in Note "4. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES".

13. SEGMENT INFORMATION

Segment information for the period ended from February 1, 2015 to July 31, 2015 and from August 1, 2014 to January 31, 2015 is as follows:

(A) Segment information

Disclosure is omitted because the real estate leasing business is the Investment Corporation's sole business and it has no reportable segment subject to disclosure.

(B) Related information

(1) Information about each product and service

Disclosure is omitted because net sales to external customers for a single product/service category account for over 90% of the operating revenue on the statement of income and retained earnings.

(2) Information about each geographic area

(a) Net sales

Disclosure is omitted because net sales to external customers in Japan account for over 90% of the operating revenue on the statement of income and retained earnings.

(b) Property, plant and equipment

Disclosure is omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information about each major customer

Disclosure is omitted because net sales to a single external customer account for less than 10% of the operating revenue on the statement of income and retained earnings.

14. PER UNIT INFORMATION

	From February 1, 2015 to July 31, 2015	From August 1, 2014 to January 31, 2015
Net asset value per unit	¥235,996	¥210,849
Net income per unit	¥6,485	¥6,258
Weighted average number of units (units)	347,610	277,932

The weighted average number of units outstanding of 347,610 and 277,932 were used for the computation of the amount of net income per unit as of July 31, 2015 and January 31, 2015.

Net income per unit after adjusting for residual units is not included because there were no residual investment units.

The basis for calculating net income per unit is as follows:

	From February 1, 2015 to July 31, 2015	From August 1, 2014 to January 31, 2015
Net income (in thousands of yen)	¥2,254,542	¥1,739,558
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥2,254,542	¥1,739,558
Weighted average number of units during the period (units)	347,610	277,932

15. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

16. SECURITIES PORTFOLIO

Securities portfolio consists of the following as of July 31, 2015:

- (1) Stock
Not applicable

- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 2)	Gain (Loss) on valuation	Remarks
Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Bohemian as operator (Note 1)	—	132,897	—	—	132,897	—	
Total		—	132,897	—	—	132,897	—	

Note 1: TK property fund owns the real estate beneficiary interests in trust for “KDX Residence Azabu Sendaizaka,” “KDX Residence Nishi-azabu,” “KDX Residence Bunkyo Yushima,” “KDX Residence Waseda Tsurumaki,” “KDX Residence Kamishakujii,” “KDX Residence Sumiyoshi,” “KDX Residence Urayasu,” “KDX Residence Noborito,”

Note 2: The appraisal is stated at the book value.

Securities portfolio consists of the following as of January 31, 2015:

- (1) Stock
Not applicable

- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 3)	Gain (Loss) on valuation	Remarks
Silent Partnership Equity Interests	Equity interests in TK property fund with G. K. Creek Investment II as operator (Note 1)	—	573,226	—	—	573,226	—	
	Equity interests in TK property fund with G. K. Creek Investment III as operator (Note 2)	—	152,406	—	—	152,406	—	
Total		—	725,632	—	—	725,632	—	

Note 1: TK property fund owns the real estate beneficiary interests in trust for “D-Wing Harbor View Tower,” “Mitezza Iriya,” “Regalo Minami-kusatsu,” and “Crane Mansion Tsurumi.

Note 2: TK property fund owns the real estate beneficiary interests in trust for “KDX Residence Tachikawa,” “KDX Residence Seijo,” and “KDX Residence Akihabara.”

Note 3: The appraisal is stated at the bookvalue.

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of July 31, 2015:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥2,787,377	¥ -	¥ 989,336	¥1,798,041	¥ -	¥ -	¥1,798,041	Note3
Sub total	2,787,377	-	989,336	1,798,041	-	-	1,798,041	
Buildings in trust	51,759,151	9,738,593	-	61,497,744	2,945,300	786,586	58,552,444	
Structures in trust	330,640	53,756	-	384,396	50,866	12,120	333,530	
Machinery and equipment in trust	801,885	432,170	-	1,234,055	90,545	27,659	1,143,510	
Tools, furniture and fixtures in trust	34,003	19,367	-	53,370	1,695	719	51,675	
Land in trust	71,228,749	16,753,937	989,336	86,993,350	-	-	86,993,350	Note3
Sub total	124,154,428	26,997,823	989,336	150,162,915	3,088,406	827,084	147,074,509	
Total	¥126,941,805	¥26,997,823	¥ 1,978,672	¥151,960,956	¥3,088,406	¥827,084	¥148,872,550	

Note1 : The amount of increase during the period is primarily attributable to the acquisition of the real estate properties and capital expenditures.

Note2 : The amount of decrease during the period is primarily attributable to the sales of the real estate property.

Note3 : Because the ownership of Nichii home Tama Plaza (Land with leasehold interest) was changed from real estate to the trust beneficiary interest, land is decreased and land in trust is increased.

Property, plant and equipment consists of the following as of January 31, 2015:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥2,787,377	¥ -	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,787,377	-	-	2,787,377	-	-	2,787,377	
Buildings in trust	42,534,812	9,224,339	-	51,759,151	2,158,714	631,399	49,600,437	
Structures in trust	297,243	33,397	-	330,640	38,747	10,679	291,893	
Machinery and equipment in trust	689,478	112,407	-	801,885	62,886	16,922	738,999	
Tools, furniture and fixtures in trust	19,407	14,777	181	34,003	975	452	33,028	
Land in trust	57,779,010	13,449,739	-	71,228,749	-	-	71,228,749	
Sub total	101,319,950	22,834,659	181	124,154,428	2,261,322	659,452	121,893,106	
Total	¥104,107,327	¥22,834,659	¥ 181	¥126,941,805	¥2,261,322	¥659,452	¥124,680,483	

Note : The amount of increase during the period is primarily attributable to the acquisition of the real estate properties and capital expenditures.

18. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consists of the following as of July 31, 2015

Classification	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
Lender								
(in thousands of yen)								
Short-term loans payable	Aozora Bank, Ltd.	¥1,600,000	¥ -	¥ -	¥1,600,000	0.480%	August 31, 2015	(Note 6) Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	1,600,000	-	-	1,600,000	0.480%	August 31, 2015	
	Sub total	¥3,200,000	-	-	¥3,200,000			
Current portion of long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	2,000,000	-	1.063%	April 30, 2015	(Note 6) Unsecured/ Non-guaranteed
	Aozora Bank, Ltd.	2,000,000	-	2,000,000	-			
	Resona Bank, Ltd.	1,500,000	-	1,500,000	-			
	Sumitomo Mitsui Banking Corporation	1,000,000	-	1,000,000	-	1.044%	April 30, 2016	
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000			
	Sumitomo Mitsui Banking Corporation	1,750,000	-	-	1,750,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500,000	-	-	1,500,000			
	Aozora Bank, Ltd.	500,000	-	-	500,000			
	Resona Bank, Ltd.	500,000	-	-	500,000	0.580%	August 31, 2015	
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000			
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000			
Mizuho Bank, Ltd.	250,000	-	-	250,000				
Sub total	15,500,000	-	6,500,000	9,000,000				

	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000		
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.787%	August 31, 2016
	Resona Bank, Ltd.	500,000	-	-	500,000		
	Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000		
	Mizuho Bank, Ltd.	500,000	-	-	500,000		
Long-term loans payable	Sumitomo Mitsui Banking Corporation	4,000,000	-	-	4,000,000		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,500,000	-	-	2,500,000		
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000		
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000	0.910%	August 31, 2017
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000		
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000		
	Mizuho Bank, Ltd.	500,000	-	-	500,000		
	Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000	1.052%	August 31, 2018
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000		
Resona Bank, Ltd.	500,000	-	-	500,000			

(Note 6) Unsecured/ Non-guaranteed

Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000		
Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000		
Mizuho Bank, Ltd.	250,000	-	-	250,000		
Development Bank of Japan Inc.	3,000,000	-	-	3,000,000	1.088% (Note 5)	August 31, 2018
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	1.109%	January 31, 2021
Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021
Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021
Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022
Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022
Resona Bank, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022
Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,100,000	-	-	1,100,000		
Mizuho Bank, Ltd.	600,000	-	-	600,000		
Aozora Bank, Ltd.	350,000	-	-	350,000	0.916%	August 7, 2021
Resona Bank, Ltd.	300,000	-	-	300,000		
The Mizuho Trust and Banking Co., Limited	300,000	-	-	300,000		
Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.996% (Note 5)	August 7, 2021

Sumitomo Mitsui Banking Corporation	400,000	-	-	400,000		
The Bank of Tokyo-Mitsubishi UFJ ,Ltd.	400,000	-	-	400,000		
Mizuho Bank, Ltd.	300,000	-	-	300,000	1.254%	August 7, 2023
Resona Bank, Ltd.	200,000	-	-	200,000		
The Mizuho Trust and Banking Co., Limited	200,000	-	-	200,000		
Aozora Bank, Ltd.	150,000	-	-	150,000		
Development Bank of Japan Inc.	500,000	-	-	500,000	1.320% (Note 5)	August 7, 2023
Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000	0.945%	August 31, 2021
The Bank of Tokyo-Mitsubishi UFJ ,Ltd.	600,000	-	-	600,000	0.945%	August 31, 2021
Aozora Bank, Ltd.	500,000	-	-	500,000	0.945%	August 31, 2021
Mizuho Bank, Ltd.	950,000	-	-	950,000	1.083%	November 30, 2022
Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	0.804%	November 30, 2020
Mitsubishi UFJ Trust and Banking Corporation	1,500,000	-	-	1,500,000	0.689%	November 30, 2019
Sumitomo Mitsui Banking Corporation	-	1,200,000	-	1,200,000	0.875%	January 31, 2022
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,200,000	-	1,200,000	1.105%	January 31, 2024
Aozora Bank, Ltd.	-	2,000,000	-	2,000,000	0.875%	April 30, 2022
Resona Bank, Ltd.	-	1,500,000	-	1,500,000	0.987%	April 30, 2023
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,000,000	-	2,000,000	1.100%	April 30, 2024

Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	1.265%	April 30, 2025
Sub total	52,400,000	8,900,000	-	61,300,000		
Total	¥71,100,000	¥8,900,000	¥6,500,000	¥73,500,000		

Note1 : Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled for the next five years after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
	(in thousands of yen)			
Long-term loans payable	¥8,500,000	¥11,000,000	¥11,000,000	¥1,500,000

Note 2: Borrowings listed in the current portion of long-term payable were listed in long-term payable in the previous fiscal period.

Note 3: All debts except for the following Note5 are borrowing at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions and interest rate cap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps and interest rate caps are indicated.

Note 5: Borrowings is applied at a fixed rate.

Note 6: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

Short-term debt and long-term debt consists of the following as of January 31, 2015:

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
Short-term loans payable	Aozora Bank, Ltd.	¥ -	¥1,600,000	¥ -	¥1,600,000	0.482%	August 31, 2015	(Note 6)	Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	-	1,600,000	-	1,600,000	0.482%	August 31, 2015		
	Sub total	-	¥3,200,000	-	¥3,200,000				
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	600,000	-	600,000	-			(Note 6)	Unsecured/ Non-guaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600,000	-	600,000	-	0.546%	August 31, 2014		
	Aozora Bank, Ltd.	500,000	-	500,000	-				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000				
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	1.060%	April 30, 2015		
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000				
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000				
	Sumitomo Mitsui Banking Corporation (Note 2)	1,750,000	-	-	1,750,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	1,500,000	-	-	1,500,000				
	Aozora Bank, Ltd. (Note 2)	500,000	-	-	500,000	0.590%	August 31, 2015		
	Resona Bank, Ltd. (Note 2)	500,000	-	-	500,000				
	Sumitomo Mitsui Trust Bank, Limited (Note 2)	500,000	-	-	500,000				
Mizuho Trust & Banking Co., Ltd. (Note 2)	500,000	-	-	500,000					

	Mizuho Bank, Ltd. (Note 2)	250,000	-	-	250,000			
	Sub total	13,700,000	-	1,700,000	12,000,000			
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.047%	April 30, 2016	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000			
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000			
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000			
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.787%	August 31, 2016	(Note 6) Unsecured/ Non- guaranteed
	Resona Bank, Ltd.	500,000	-	-	500,000			
	Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000			
	Mizuho Bank, Ltd.	500,000	-	-	500,000			
Long-term loans payable	Sumitomo Mitsui Banking Corporation	4,000,000	-	-	4,000,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,500,000	-	-	2,500,000			
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000			
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000	0.910%	August 31, 2017	
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000			
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000			
	Mizuho Bank, Ltd.	500,000	-	-	500,000			
	Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000	1.052%	August 31, 2018	

The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000		
Aozora Bank, Ltd.	1,000,000	-	-	1,000,000		
Resona Bank, Ltd.	500,000	-	-	500,000		
Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000		
Mizuho Trust & Banking Co., Ltd	500,000	-	-	500,000		
Mizuho Bank, Ltd.	250,000	-	-	250,000		
Development Bank of Japan Inc.	3,000,000	-	-	3,000,000	1.088% (Note 5)	August 31, 2018
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	1.109%	January 31, 2021
Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021
Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021
Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022
Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022
Resona Bank, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022
Sumitomo Mitsui Banking Corporation	-	1,100,000	-	1,100,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,100,000	-	1,100,000	0.916%	August 7, 2021
Mizuho Bank, Ltd.	-	600,000	-	600,000		
Aozora Bank, Ltd.	-	350,000	-	350,000		

Resona Bank, Ltd.	-	300,000	-	300,000		
The Mizuho Trust and Banking Co., Limited	-	300,000	-	300,000		
Development Bank of Japan Inc.	-	1,000,000	-	1,000,000	0.996% (Note 5)	August 7, 2021
Sumitomo Mitsui Banking Corporation	-	400,000	-	400,000		
The Bank of Tokyo-Mitsubishi UFJ ,Ltd.	-	400,000	-	400,000		
Mizuho Bank, Ltd.	-	300,000	-	300,000		
Resona Bank, Ltd.	-	200,000	-	200,000	1.254%	August 7, 2023
The Mizuho Trust and Banking Co., Limited	-	200,000	-	200,000		
Aozora Bank, Ltd.	-	150,000	-	150,000		
Development Bank of Japan Inc.	-	500,000	-	500,000	1.320% (Note 5)	August 7, 2023
Sumitomo Mitsui Banking Corporation	-	600,000	-	600,000	0.945%	August 31, 2021
The Bank of Tokyo-Mitsubishi UFJ ,Ltd.	-	600,000	-	600,000	0.945%	August 31, 2021
Aozora Bank, Ltd.	-	500,000	-	500,000	0.945%	August 31, 2021
Mizuho Bank, Ltd.	-	950,000	-	950,000	1.083%	November 30, 2022
Sumitomo Mitsui Banking Corporation	-	2,000,000	-	2,000,000	0.804%	November 30, 2020
Mitsubishi UFJ Trust and Banking Corporation	-	1,500,000	-	1,500,000	0.689%	November 30, 2019
Sub total	42,850,000	13,050,000	-	55,900,000		
Total	¥56,550,000	¥16,250,000	¥1,700,000	¥71,100,000		

Note 1 : Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled for the next five years after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
	(in thousands of yen)			
Long-term loans payable	¥12,000,000	¥11,000,000	¥11,000,000	¥1,500,000

Note 2: Borrowings listed in the current portion of long-term payable were listed in long-term payable in the previous fiscal period.

Note 3: All debts except for the following Note 5 are borrowing at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions and interest rate cap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps and interest rate caps are indicated.

Note 5: Borrowings is applied at a fixed rate.

Note 6: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

19. DISTRIBUTIONS

	Seventh Fiscal Period (From February 1, 2015 to July 31, 2015)	Sixth Fiscal Period (From August 1, 2014 to January 31, 2015)
I. Retained earnings at the end of period	¥2,254,662,743	¥1,739,608,641
II. Total distributions	¥2,180,758,983	¥1,739,488,304
Distributions per unit	¥6,247	¥6,232
III. Retained earnings brought forward to the next period	¥73,903,760	¥120,337

Method of calculating distribution amount

In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, of the ¥124,110,143 in gain on sale of real estate property, net of tax, reported as unappropriated retained earnings will be allocated to internal reserves, and of the remaining amount, the Investment Corporation has decided that it shall distribute ¥2,180,758,983 which is the maximum integral multiple of 349,089 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the seventh fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.

In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥1,739,488,304 which is the maximum integral multiple to 279,122 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the sixth fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.

Independent Auditor's Report

The Board of Directors
Kenedix Residential Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Investment Corporation, which comprise the balance sheet as at July 31, 2015, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal 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 Kenedix Residential Investment Corporation as at July 31, 2015, and its financial performance and cash flows for the fiscal periods then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

October 29, 2015
Tokyo, Japan