

Financial Section

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Financial Summary (Unaudited)

Historical Operating Trends
For the 20th–24th Fiscal Periods

Period	Unit	20th Period (as of Apr. 30, 2015)	21st Period (as of Oct. 31, 2015)	22nd Period (as of Apr. 30, 2016)	23rd Period (as of Oct. 31, 2016)	24th Period (as of Apr. 30, 2017)
Operating revenues	mn yen	14,130	13,740	14,362	13,491	15,039
(Rental revenues)	mn yen	12,836	13,226	12,812	13,429	13,327
Operating expenses	mn yen	7,593	7,800	8,260	7,703	9,137
(Property-related expenses)	mn yen	6,377	6,668	6,533	6,754	6,527
Operating income	mn yen	6,537	5,940	6,102	5,788	5,901
Ordinary income	mn yen	5,111	4,565	4,816	4,603	4,751
Net income (a)	mn yen	5,110	4,564	4,815	4,601	4,750
Total assets (b) (Period-on-period change)	mn yen %	407,799 (+5.1)	407,217 (-0.1)	408,813 (+0.4)	413,031 (+1.0)	410,166 (-0.7)
Interest-bearing debt (c) (Period-on-period change)	mn yen %	174,600 (-7.0)	174,100 (-0.3)	175,100 (+0.6)	178,100 (+1.7)	174,600 (-2.0)
Unitholders' equity (d) (Period-on-period change)	mn yen %	211,951 (+17.2)	211,914 (-0.0)	212,555 (+0.3)	212,825 (+0.1)	212,986 (+0.1)
Unitholders' capital (Period-on-period change)	mn yen %	206,199 (+16.7)	206,199 (0.0)	206,199 (0.0)	206,199 (0.0)	206,199 (0.0)
Number of investment units issued and outstanding (e)	unit	404,885	404,885	404,885	404,885	404,885
Unitholders' equity per unit (d)/(e)	yen	523,484	523,394	524,977	525,644	526,041
Total distribution (f)	mn yen	4,600	4,170	4,335	4,601	4,750
Distribution per unit (f)/(e)	yen	11,363	10,300	10,707	11,365	11,733
(Earnings distributed per unit)	yen	11,363	10,300	10,707	11,365	11,733
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.3 (2.6)	1.1 (2.2)	1.2 (2.4)	1.1 (2.2)	1.2 (2.3)
Return on net assets (annualized) (Notes 2 and 3)	%	2.6 (5.2)	2.2 (4.3)	2.3 (4.6)	2.2 (4.3)	2.2 (4.5)
Net assets ratio at end of period (d)/(b) (Period-on-period change)	%	52.0 (+5.4)	52.0 (+0.1)	52.0 (-0.0)	51.5 (-0.5)	51.9 (+0.4)
Interest-bearing debt ratio at end of period (c)/(b) (Period-on-period change)	%	42.8 (-5.5)	42.8 (-0.1)	42.8 (+0.1)	43.1 (+0.3)	42.6 (-0.6)
Payout ratio (Note 4) (f)/(a)	%	90.0	91.3	90.0	99.9	99.9
Other references						
Number of properties	properties	97	97	97	99	97
Total leasable floor area	m ²	453,999.44	453,681.06	457,774.90	462,533.92	459,567.57
Occupancy ratio at end of period	%	96.5	94.9	96.9	96.9	97.9
Depreciation expenses for the period	mn yen	2,221	2,218	2,230	2,274	2,288
Capital expenditures for the period	mn yen	329	469	1,120	1,165	1,018
Leasing NOI (Net Operating Income) (Note 5)	mn yen	8,680	8,775	8,509	8,949	9,088
FFO (Funds From Operation) (Note 6)	mn yen	6,909	6,487	6,302	6,877	7,034
FFO per unit (Note 7)	yen	17,065	16,023	15,565	16,985	17,373

Notes: 1. Return on assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100

2. Annualized values for the 20th Fiscal Period are calculated based on a period of 181 days, 184 days for the 21st Fiscal Period, 182 days for the 22nd Fiscal Period, 184 days for the 23rd Fiscal Period, 181 days for the 24th Fiscal Period.

3. Return on net assets = Net income / ((Total net assets at beginning of period + Total net assets at end of period) / 2) × 100

4. Payout ratio is rounded down to the first decimal place.

5. Leasing NOI = Rental revenues – Property-related expenses + Depreciation expenses for the period

6. FFO = Net income + Depreciation expenses for the period – Gain on sale of real estate property + Loss on sale of real estate property

7. FFO per unit = FFO / Number of investment units issued and outstanding (figures below ¥1 rounded down)



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Independent Auditor's Report

The Board of Directors
Kenedix Office Investment Corporation

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young ShinNihon LLC

July 28, 2017
Tokyo, Japan

Balance Sheets

Kenedix Office Investment Corporation
As of April 30, 2017 and October 31, 2016

	In thousands of yen	
	As of April 30, 2017	As of October 31, 2016
Assets		
Current assets:		
Cash and bank deposits (Notes 3 and 13)	¥ 23,832,680	¥ 20,710,565
Operating accounts receivable	329,429	330,775
Other current assets (Note 8)	85,513	115,403
Total current assets	24,247,623	21,156,743
Property, plant and equipment, at cost: (Notes 4 and 15)		
Buildings and structures (Note 6)	136,208,100	138,160,941
Machinery and equipment	2,078,516	2,091,284
Tools, furniture and fixtures	535,315	524,435
Accumulated depreciation	(30,793,020)	(29,568,985)
Land	274,731,449	277,637,658
Construction in progress	2,183	—
Net property, plant and equipment	382,762,544	388,845,334
Investments and other assets:		
Leasehold right (Note 15)	639,104	351,685
Investment securities (Note 13)	1,087,688	1,093,584
Investment corporation bond issuance costs	31,016	36,498
Investment unit issuance costs	19,277	54,159
Other assets	1,379,132	1,493,754
Total investments and other assets	3,156,218	3,029,682
Total assets	¥410,166,386	¥413,031,761
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Operating accounts and other payables	¥ 1,414,407	¥ 1,614,589
Short-term loans payable and current portion of long-term loans payable (Notes 5, 13 and 14)	26,750,000	22,700,000
Current portion of investment corporation bonds (Notes 5 and 13)	1,500,000	4,500,000
Deposits received	69,924	2,896
Advances received	2,170,062	2,143,523
Other current liabilities	673,815	422,783
Total current liabilities	32,578,209	31,383,793
Non-current liabilities:		
Investment corporation bonds (Notes 5 and 13)	4,800,000	4,800,000
Long-term loans payable (Notes 5, 13 and 14)	141,550,000	146,100,000
Tenant leasehold and security deposits	18,251,916	17,921,592
Other non-current liabilities	—	977
Total non-current liabilities	164,601,916	168,822,570
Total liabilities	197,180,125	200,206,363
Net Assets		
Unitholders' equity		
Unitholders' capital	206,199,945	206,199,945
Units authorized: 2,000,000 units		
Units issued and outstanding: 404,885 units		
As of April 30, 2017, and October 31, 2016, respectively		
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	2,024,673	2,024,673
Unappropriated retained earnings	4,750,760	4,601,756
Total surplus	6,775,433	6,626,429
Total unitholders' equity	212,975,379	212,826,375
Valuation and translation adjustments		
Deferred gains or losses on hedges (Note 14)	10,882	(977)
Total valuation and translation adjustments	10,882	(977)
Total net assets (Note 9)	212,986,261	212,825,397
Total liabilities and net assets	¥410,166,386	¥413,031,761

See accompanying notes to the financial statements.

Statements of Income and Retained Earnings

Kenedix Office Investment Corporation

For the period from November 1, 2016 to April 30, 2017 and the period from May 1, 2016 to October 31, 2016

	In thousands of yen	
	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Operating revenues:		
Rent revenue - real estate (Note 11)	¥13,327,605	¥13,429,773
Gain on sale of real estate property (Note 11)	1,662,787	—
Dividends income	48,643	61,739
Total operating revenues	15,039,036	13,491,513
Operating expenses:		
Expenses related to rent business (Note 11)	6,527,688	6,754,675
Loss on sale of real estate property (Note 11)	1,657,160	—
Asset management fees	766,673	755,591
Administrative service and custodian fees	78,232	78,143
Other operating expenses	107,363	114,926
Total operating expenses	9,137,118	7,703,337
Operating income	5,901,917	5,788,175
Non-operating expenses:		
Interest expenses	885,690	941,102
Financing-related expenses	153,773	176,510
Amortization of investment unit issuance costs	34,882	56,481
Amortization of investment corporation bond issuance costs	5,481	5,879
Others, net	70,319	5,082
Total non-operating expenses	1,150,147	1,185,056
Ordinary income	4,751,770	4,603,119
Income before income taxes	4,751,770	4,603,119
Income taxes (Note 8)	1,248	1,363
Net income	4,750,521	4,601,756
Retained earnings brought forward	238	—
Unappropriated retained earnings	¥ 4,750,760	¥ 4,601,756

See accompanying notes to the financial statements.

Statements of Changes in Net Assets

Kenedix Office Investment Corporation

For the period from November 1, 2016 to April 30, 2017 and the period from May 1, 2016 to October 31, 2016

	In thousands of yen						
	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Unitholders' capital	Surplus			Total unitholders' equity	Deferred gains or losses on hedges	
Voluntary retained earnings		Unappropriated retained earnings	Total surplus				
	Reserve for reduction entry						
Balance as of April 30, 2016	¥206,199,946	¥1,544,522	¥4,815,255	¥6,359,777	¥212,559,723	¥(4,328)	¥212,555,395
Changes during the fiscal period							
Provision of reserve for reduction entry	—	480,151	(480,151)	—	—	—	—
Dividends of surplus	—	—	(4,335,103)	(4,335,103)	(4,335,103)	—	(4,335,103)
Net income	—	—	4,601,756	4,601,756	4,601,756	—	4,601,756
Net changes of items other than unitholder's equity	—	—	—	—	—	3,350	3,350
Total changes during the fiscal period	—	480,151	(213,499)	266,652	266,652	3,350	270,002
Balance as of October 31, 2016	¥206,199,945	¥2,024,673	¥4,601,756	¥6,626,429	¥212,826,375	¥(977)	¥212,825,397
Changes during the fiscal period							
Dividends of surplus	—	—	(4,601,518)	(4,601,518)	(4,601,518)	—	(4,601,518)
Net income	—	—	4,750,521	4,750,521	4,750,521	—	4,750,521
Net changes of items other than unitholder's equity	—	—	—	—	—	11,859	11,859
Total changes during the fiscal period	—	—	149,003	149,003	149,003	11,859	160,863
Balance as of April 30, 2017	¥206,199,945	¥2,024,673	¥4,750,760	¥6,775,433	¥212,975,379	¥10,882	¥212,986,261

See accompanying notes to the financial statements.

Statements of Cash Flows

Kenedix Office Investment Corporation

For the period from November 1, 2016 to April 30, 2017 and the period from May 1, 2016 to October 31, 2016

	In thousands of yen	
	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Cash Flows from Operating Activities:		
Income before income taxes	¥ 4,751,770	¥ 4,603,119
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,479,628	2,508,463
Interest income	(35)	(38)
Interest expenses	885,690	941,102
Changes in assets and liabilities:		
Decrease (increase) in operating accounts receivable	1,346	11,011
Decrease (increase) in consumption taxes receivable	—	53,578
Increase (decrease) in accrued consumption taxes	254,234	343,665
Increase (decrease) in operating accounts and other payables	(278,398)	287,690
Increase (decrease) in advances received	24,264	29,973
Decrease in property and equipment due to sale	19,474,995	—
Others, net	75,620	(351,949)
Subtotal	27,669,115	8,426,615
Interest income received	35	38
Interest expenses paid	(885,563)	(953,601)
Income taxes paid	(843)	(805)
Net cash provided by (used in) operating activities	26,782,743	7,472,246
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(15,667,977)	(6,173,576)
Purchase of intangible assets	(293,196)	—
Proceeds from tenant leasehold and security deposits	1,350,759	1,065,383
Payments of tenant leasehold and security deposits	(949,034)	(918,051)
Payments of restricted bank deposits in trust	(289,809)	—
Proceeds from restricted bank deposits in trust	—	552,921
Net cash provided by (used in) investing activities	(15,849,258)	(5,473,322)
Cash Flows from Financing Activities:		
Increase in short-term loans payable	4,000,000	—
Decrease in short-term loans payable	(1,500,000)	(1,000,000)
Proceeds from long-term loans payable	6,200,000	16,500,000
Repayments of long-term loans payable	(9,200,000)	(12,500,000)
Redemption of investment corporation bonds	(3,000,000)	—
Payments of investment corporation bond issuance costs	—	(4,010)
Dividends paid	(4,601,179)	(4,334,422)
Net cash provided by (used in) financing activities	(8,101,179)	(1,338,432)
Net increase (decrease) in cash and cash equivalents	2,832,305	660,491
Cash and cash equivalents at the beginning of period	19,836,034	19,175,542
Cash and cash equivalents at the end of period (Note 3)	¥22,668,339	¥19,836,034

See accompanying notes to the financial statements.

Notes to Financial Statements

Kenedix Office Investment Corporation

For the period from November 1, 2016 to April 30, 2017 and the period from May 1, 2016 to October 31, 2016

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Office Investment Corporation (“the Investment Corporation”) is a real estate investment corporation whose units are listed on the Tokyo Stock Exchange. The Investment Corporation is engaged in ownership and operation of selected office buildings, residential and retail properties in Japan, with a focus on mid-sized office buildings in the Tokyo Metropolitan Area. The Investment Corporation was incorporated on May 6, 2005 as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through seven public offerings and other means including global offerings. Pursuant to the Investment Trust Law, the Investment Corporation is externally managed by a registered asset management company, Kenedix Real Estate Fund Management, Inc. (“the Asset Management Company”), a subsidiary of Kenedix, Inc. (“Kenedix”). In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.

During the period ended October 31, 2016, the Investment Corporation acquired two office buildings (KDX Shin-Nihonbashi Ekimae Building: acquisition price of ¥3,829 million, KDX Edo-dori Building: acquisition price of ¥1,350 million) located in the Tokyo Metropolitan Area.

During the period ended April 30, 2017, the Investment Corporation acquired three office buildings (ARK Mori Building: acquisition price of ¥4,169 million, Nishi-Shinbashi TS Building: acquisition price of ¥8,400 million, BR Gotanda: acquisition price of ¥2,200 million) and sold five office buildings (BUREX Toranomon: initial acquisition price of ¥1,750 million, KDX Nihonbashi Kabutocho Building: initial acquisition price of ¥11,270 million, KDX Roppongi 228 Building: initial acquisition price of ¥3,300 million, KDX Kanda Misaki-cho Building: initial acquisition price of ¥1,380 million, and KDX Gobancho Building: initial acquisition price of ¥1,951 million (with a total disposition price of ¥19,910 million)). At the end of the twenty-third and twenty-fourth fiscal periods, the Investment Corporation had total unitholders’ capital of ¥206,200 million with 404,885 investment units outstanding, respectively. The Investment Corporation owned a portfolio of 99 properties (consisting of 94 office buildings, one residential property, three central urban retail properties and one other property), 97 properties (consisting of 92 office buildings, one residential property, three central urban retail properties and one other property) with total acquisition prices of ¥398,350 million and ¥393,468 million at the end of the twenty-third and twenty-fourth fiscal periods, respectively. The occupancy ratios were approximately 96.9% and 97.9% at the end of the twenty-third and twenty-fourth fiscal periods, respectively.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act of Japan, the Financial Instruments and Exchange Law of Japan and related regulations, and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of the International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are basically a translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by the Investment Corporation and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made to the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation’s fiscal period is a six-month period that ends at the end of April and the end of October each year. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Concerning silent partnership (tokumei kumiai, “TK”) interests, the method of incorporating the amount of equity equivalent to the portion that corresponds to the net gain or loss of the TK is adopted.

(B) Property, plant and Equipment

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

	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Buildings and structures	2-49 years	2-49 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-20 years	3-20 years

(C) Investment Unit Issuance Costs

Investment unit issuance costs are amortized over a period of three years under the straight-line method.

(D) Investment corporation bond Issuance Costs

Investment corporation bond issuance costs are amortized over a maturity period under the straight-line method.

(E) 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 assets and liabilities in trust are recorded in the relevant balance sheets and statements of income and retained earnings.

(F) Leasehold Right

Fixed term leaseholds on the building and special agreements on building sales are amortized over a contractual period of 48 years and 9 months under the straight-line method.

(G) Revenue Recognition

Operating revenues consist of rental revenues including base rents, common area charges, and other operating revenues, which include utility charge reimbursements, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period.

(H) Taxes on Property, plant 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 the said period. Under Japanese tax rules, the seller of property at the time of disposal 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 generally 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 ¥32,698 thousand and ¥13,334 thousand as of April 30, 2017 and October 31, 2016, respectively. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

(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 utilizes interest-rate swap and interest-rate cap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap and interest-rate cap contracts because these contracts met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-swap and interest-rate cap contracts if they met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap and interest-rate cap contract is added to or deducted from the interest on the assets or liabilities for which the swap and cap contract was executed. The hedge effectiveness for the interest-rate swap and interest-rate cap contract is assessed each fiscal period except for those that meet the criteria of special treatment.

(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) Rounding of Amounts Presented

Amounts of less than one thousand yen have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan. Unless otherwise noted, amounts of twenty-fourth fiscal and twenty-third fiscal period are rounded down respectively, and ratios are rounded off in the accompanying financial statements.

Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of April 30, 2017 and October 31, 2016

	In thousands of yen	
	As of April 30, 2017	As of October 31, 2016
Cash and bank deposits	¥23,832,680	¥20,710,565
Restricted bank deposits in trust (Note)	(1,164,340)	(874,531)
Cash and cash equivalents in trust	¥22,668,339	¥19,836,034

Note: Restricted bank in trust deposits are retained for repayment of tenant leasehold and security deposits in trust.

4. SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

	In millions of yen					
	As of April 30, 2017			As of October 31, 2016		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Buildings and structures	¥136,208	¥29,506	¥106,701	¥138,160	¥28,327	¥109,833
Machinery and equipment	2,078	992	1,085	2,091	956	1,134
Tools, furniture and fixtures	535	293	242	524	284	239
Land	274,731	—	274,731	277,637	—	277,637
Construction in progress	2	—	2	—	—	—
Total	¥413,555	¥30,793	¥382,762	¥418,414	¥29,568	¥388,845

5. SHORT-TERM LOANS PAYABLE, LONG-TERM LOANS PAYABLE AND INVESTMENT CORPORATION BONDS

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of April 30, 2017:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term loans payable	November 30, 2016	November 30, 2017	0.33%	¥ 2,000
	December 28, 2016	December 28, 2017	0.33%	500
	January 31, 2017	January 31, 2018	0.33%	500
	March 31, 2017	March 31, 2018	0.33%	1,000
Current portion of long-term loans payable	June 29, 2012	June 30, 2017	1.29%	1,500
	July 29, 2016	July 31, 2017	0.38%	1,000
	August 2, 2016	August 31, 2017	0.38%	1,000
	August 2, 2016	August 31, 2017	0.23%	1,000
	September 21, 2012	September 21, 2017	1.16%	5,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	October 31, 2012	October 31, 2017	1.10%	2,500
	November 12, 2010	November 12, 2017	2.02%	2,300
	December 1, 2010	November 12, 2017	2.21%	700
	December 28, 2012	December 28, 2017	1.09%	500
	December 28, 2012	December 29, 2017	1.09%	500
	January 16, 2017	January 31, 2018	0.28%	500
	March 12, 2014	March 12, 2018	0.75%	2,250
March 26, 2013	March 26, 2018	1.04%	1,000	
March 26, 2013	March 26, 2018	1.04%	1,000	
Subtotal				26,750
Long-term loans payable	March 28, 2012	March 28, 2019	1.77%	¥ 1,400
	March 28, 2012	March 28, 2019	1.77%	1,000
	October 31, 2012	October 31, 2018	1.25%	2,500
	July 31, 2013	July 31, 2018	0.56%	500
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	500
	August 19, 2013	August 19, 2018	0.97%	500
	August 19, 2013	August 19, 2018	0.95%	500
	August 30, 2013	August 31, 2018	1.08%	700
	August 30, 2013	August 31, 2018	1.08%	500
August 30, 2013	August 31, 2018	1.08%	300	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	August 30, 2013	August 31, 2020	1.42%	¥ 1,500
	September 30, 2013	September 30, 2019	1.06%	1,800
	September 30, 2013	September 30, 2019	1.06%	900
	October 31, 2013	October 31, 2018	0.89%	500
	November 12, 2013	November 12, 2018	0.82%	1,000
	November 12, 2013	November 12, 2020	1.07%	2,000
	November 12, 2013	November 12, 2020	1.07%	500
	November 29, 2013	November 30, 2018	0.84%	200
	November 29, 2013	November 30, 2020	1.12%	1,000
	November 29, 2013	November 30, 2020	1.12%	900
	January 10, 2014	January 31, 2021	1.21%	1,300
	January 31, 2014	January 31, 2020	0.93%	3,700
	January 31, 2014	January 31, 2021	1.13%	2,300
	March 12, 2014	March 31, 2019	0.78%	450
	March 12, 2014	March 12, 2020	0.92%	1,800
	March 12, 2014	March 12, 2023	1.36%	1,800
	March 20, 2014	March 12, 2020	0.91%	3,000
	March 20, 2014	September 20, 2021	1.01%	4,000
	March 20, 2014	March 20, 2022	1.20%	3,000
	March 20, 2014	March 12, 2023	1.35%	2,000
	March 31, 2014	March 31, 2019	0.76%	2,500
	April 22, 2014	October 31, 2020	0.95%	2,900
	July 10, 2014	July 10, 2019	0.64%	500
	July 10, 2014	July 10, 2021	0.90%	2,000
	July 10, 2014	July 10, 2021	0.90%	500
	July 14, 2014	July 31, 2019	0.68%	1,000
	July 31, 2014	July 31, 2019	0.62%	1,000
	July 31, 2014	July 31, 2020	0.74%	2,700
	July 31, 2014	October 31, 2020	0.76%	300
	July 31, 2014	July 31, 2022	1.01%	2,200
	August 29, 2014	July 31, 2019	0.65%	1,000
	September 1, 2014	August 31, 2021	0.89%	800
	September 1, 2014	August 31, 2021	0.89%	500
	September 3, 2014	August 31, 2022	0.98%	1,000
	September 3, 2014	August 31, 2022	0.98%	950
	September 22, 2014	September 30, 2020	0.80%	2,700
	September 30, 2014	September 30, 2021	0.89%	1,000
	October 31, 2014	October 31, 2021	0.80%	3,000
	October 31, 2014	October 31, 2023	1.07%	2,000
	October 31, 2014	October 31, 2023	1.13%	1,500
	October 31, 2014	October 31, 2023	1.07%	1,000
	October 31, 2014	October 31, 2024	1.26%	2,000
	October 31, 2014	October 31, 2024	1.26%	1,000
	January 30, 2015	January 31, 2021	0.71%	1,500
	January 30, 2015	January 31, 2025	1.16%	1,500
	February 18, 2015	February 28, 2022	0.91%	1,250
	February 18, 2015	February 28, 2022	0.91%	350
	February 18, 2015	February 29, 2024	1.16%	1,700
	February 18, 2015	February 28, 2025	1.31%	1,250
	February 27, 2015	February 28, 2025	1.15%	2,100
March 12, 2015	February 28, 2025	1.22%	1,000	
March 31, 2015	March 31, 2025	1.27%	2,500	
April 30, 2015	April 30, 2022	0.83%	2,300	
August 31, 2015	August 31, 2022	0.87%	500	
August 31, 2015	August 31, 2022	0.87%	500	
August 31, 2015	August 31, 2022	0.87%	500	
August 31, 2015	August 31, 2022	0.87%	500	
August 31, 2015	August 31, 2022	0.87%	500	
August 31, 2015	August 31, 2022	0.87%	500	
September 30, 2015	September 30, 2024	1.07%	2,000	
October 30, 2015	October 31, 2024	0.99%	1,000	
October 30, 2015	October 30, 2025	1.11%	2,500	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	October 30, 2015	October 30, 2025	1.12%	¥ 2,500
	October 30, 2015	October 30, 2025	1.11%	2,000
	October 30, 2015	October 30, 2025	1.11%	1,500
	November 12, 2015	November 30, 2025	1.17%	1,000
	January 29, 2016	January 31, 2022	0.59%	2,500
	January 29, 2016	January 31, 2022	0.64%	500
	January 29, 2016	January 29, 2026	1.07%	2,000
	January 29, 2016	January 29, 2026	1.02%	1,800
	February 18, 2016	February 18, 2026	1.00%	1,000
	February 18, 2016	February 18, 2026	1.00%	500
	March 30, 2016	March 31, 2019	0.17%	1,000
	March 31, 2016	March 31, 2026	0.90%	1,000
	April 28, 2016	April 30, 2024	0.65%	2,000
	April 28, 2016	April 30, 2026	0.84%	2,000
	April 28, 2016	April 30, 2026	0.87%	1,000
	July 29, 2016	July 31, 2026	0.61%	1,500
	August 2, 2016	July 31, 2026	0.54%	1,000
	October 31, 2016	October 31, 2018	0.33%	1,000
	October 31, 2016	October 31, 2024	0.67%	1,000
	October 31, 2016	October 31, 2026	0.73%	4,000
	October 31, 2016	October 31, 2026	0.88%	2,500
	October 31, 2016	October 31, 2026	0.83%	1,500
	October 31, 2016	October 31, 2026	0.76%	1,000
	December 12, 2016	November 30, 2026	0.98%	500
	December 28, 2016	December 28, 2026	0.95%	1,500
	January 16, 2017	January 31, 2027	0.86%	500
January 31, 2017	January 31, 2027	0.85%	700	
March 28, 2017	March 31, 2027	0.85%	500	
Subtotal				141,550
Current portion of investment corporation bonds	March 8, 2012	September 8, 2017	2.00%	¥ 1,500
Subtotal				1,500
Investment corporation bonds	September 12, 2013	September 12, 2018	1.00%	¥ 1,800
	July 25, 2014	July 25, 2024	1.18%	2,000
	April 28, 2016	April 28, 2028	0.90%	1,000
Subtotal				4,800
Total				¥174,600

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of October 31, 2016:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term loans payable	March 31, 2016	March 31, 2017	0.41%	¥ 1,500
Current portion of long-term loans payable	November 12, 2015	November 30, 2016	0.41%	2,000
	December 10, 2012	December 12, 2016	0.98%	500
	December 28, 2012	December 28, 2016	1.01%	2,000
	January 15, 2013	January 15, 2017	0.97%	1,000
	January 31, 2014	January 31, 2017	0.67%	1,200
	March 28, 2012	March 28, 2017	1.36%	500
	June 29, 2012	June 30, 2017	1.29%	1,500
	July 29, 2016	July 31, 2017	0.38%	1,000
	August 2, 2016	August 31, 2017	0.38%	1,000
	August 2, 2016	August 31, 2017	0.23%	1,000
	September 21, 2012	September 21, 2017	1.16%	5,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	September 21, 2012	September 21, 2017	1.16%	1,000
	October 31, 2012	October 31, 2017	1.10%	2,500
Subtotal				22,700
Long-term loans payable	November 12, 2010	November 12, 2017	2.02%	¥ 2,300
	December 1, 2010	November 12, 2017	2.21%	700
	March 28, 2012	March 28, 2019	1.77%	1,400
	March 28, 2012	March 28, 2019	1.77%	1,000
	October 31, 2012	October 31, 2018	1.25%	2,500
	December 28, 2012	December 28, 2017	1.09%	500
	December 28, 2012	December 29, 2017	1.09%	500

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	March 26, 2013	March 26, 2018	1.04%	¥ 1,000
	March 26, 2013	March 26, 2018	1.04%	1,000
	July 31, 2013	July 31, 2018	0.56%	500
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	1,000
	August 19, 2013	August 19, 2018	0.95%	500
	August 19, 2013	August 19, 2018	0.97%	500
	August 19, 2013	August 19, 2018	0.95%	500
	August 30, 2013	August 31, 2018	1.08%	700
	August 30, 2013	August 31, 2018	1.08%	500
	August 30, 2013	August 31, 2018	1.08%	300
	August 30, 2013	August 31, 2020	1.42%	1,500
	September 30, 2013	September 30, 2019	1.06%	1,800
	September 30, 2013	September 30, 2019	1.06%	900
	October 31, 2013	October 31, 2018	0.89%	500
	November 12, 2013	November 12, 2018	0.82%	1,000
	November 12, 2013	November 12, 2020	1.07%	2,000
	November 12, 2013	November 12, 2020	1.07%	500
	November 29, 2013	November 30, 2018	0.84%	200
	November 29, 2013	November 30, 2020	1.12%	1,000
	November 29, 2013	November 30, 2020	1.12%	900
	January 10, 2014	January 31, 2021	1.21%	1,300
	January 31, 2014	January 31, 2020	0.93%	3,700
	January 31, 2014	January 31, 2021	1.13%	2,300
	March 12, 2014	March 12, 2018	0.75%	2,250
	March 12, 2014	March 31, 2019	0.78%	450
	March 12, 2014	March 12, 2020	0.92%	1,800
	March 12, 2014	March 12, 2023	1.36%	1,800
	March 20, 2014	March 12, 2020	0.91%	3,000
	March 20, 2014	September 20, 2021	1.01%	4,000
	March 20, 2014	March 20, 2022	1.20%	3,000
	March 20, 2014	March 12, 2023	1.35%	2,000
	March 31, 2014	March 31, 2019	0.76%	2,500
	April 22, 2014	October 31, 2020	0.95%	2,900
	July 10, 2014	July 10, 2019	0.64%	500
	July 10, 2014	July 10, 2021	0.90%	2,000
	July 10, 2014	July 10, 2021	0.90%	500
	July 14, 2014	July 31, 2019	0.68%	1,000
	July 31, 2014	July 31, 2019	0.62%	1,000
	July 31, 2014	July 31, 2020	0.74%	2,700
	July 31, 2014	October 31, 2020	0.76%	300
	July 31, 2014	July 31, 2022	1.01%	2,200
	August 29, 2014	July 31, 2019	0.65%	1,000
	September 1, 2014	August 31, 2021	0.89%	800
	September 1, 2014	August 31, 2021	0.89%	500
	September 3, 2014	August 31, 2022	0.98%	1,000
	September 3, 2014	August 31, 2022	0.98%	950
	September 22, 2014	September 30, 2020	0.80%	2,700
	September 30, 2014	September 30, 2021	0.89%	1,000
	October 31, 2014	October 31, 2021	0.80%	3,000
October 31, 2014	October 31, 2023	1.07%	2,000	
October 31, 2014	October 31, 2023	1.13%	1,500	
October 31, 2014	October 31, 2023	1.07%	1,000	
October 31, 2014	October 31, 2024	1.26%	2,000	
October 31, 2014	October 31, 2024	1.26%	1,000	
January 30, 2015	January 31, 2021	0.71%	1,500	
January 30, 2015	January 31, 2025	1.16%	1,500	
February 18, 2015	February 28, 2022	0.91%	1,250	
February 18, 2015	February 28, 2022	0.91%	350	
February 18, 2015	February 29, 2024	1.16%	1,700	
February 18, 2015	February 28, 2025	1.31%	1,250	
February 27, 2015	February 28, 2025	1.15%	2,100	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	March 12, 2015	February 28, 2025	1.22%	¥ 1,000
	March 31, 2015	March 31, 2025	1.27%	2,500
	April 30, 2015	April 30, 2022	0.83%	2,300
	August 31, 2015	August 31, 2022	0.87%	500
	August 31, 2015	August 31, 2022	0.87%	500
	August 31, 2015	August 31, 2022	0.87%	500
	August 31, 2015	August 31, 2022	0.87%	500
	August 31, 2015	August 31, 2022	0.87%	500
	August 31, 2015	August 31, 2022	0.87%	500
	September 30, 2015	September 30, 2024	1.07%	2,000
	October 30, 2015	October 31, 2024	0.99%	1,000
	October 30, 2015	October 30, 2025	1.11%	2,500
	October 30, 2015	October 30, 2025	1.12%	2,500
	October 30, 2015	October 30, 2025	1.11%	2,000
	October 30, 2015	October 30, 2025	1.11%	1,500
	November 12, 2015	November 30, 2025	1.17%	1,000
	January 29, 2016	January 31, 2022	0.59%	2,500
	January 29, 2016	January 31, 2022	0.64%	500
	January 29, 2016	January 29, 2026	1.07%	2,000
	January 29, 2016	January 29, 2026	1.02%	1,800
	February 18, 2016	February 18, 2026	1.00%	1,000
	February 18, 2016	February 18, 2026	1.00%	500
	March 30, 2016	March 31, 2019	0.17%	1,000
	March 31, 2016	March 31, 2026	0.90%	1,000
	April 28, 2016	April 30, 2024	0.65%	2,000
	April 28, 2016	April 30, 2026	0.84%	2,000
	April 28, 2016	April 30, 2026	0.87%	1,000
	July 29, 2016	July 31, 2026	0.61%	1,500
	August 2, 2016	July 31, 2026	0.54%	1,000
	October 31, 2016	October 31, 2018	0.33%	1,000
	October 31, 2016	October 31, 2024	0.67%	1,000
	October 31, 2016	October 31, 2026	0.73%	4,000
October 31, 2016	October 31, 2026	0.88%	2,500	
October 31, 2016	October 31, 2026	0.83%	1,500	
October 31, 2016	October 31, 2026	0.76%	1,000	
Subtotal				146,100
Current portion of investment corporation bonds	March 15, 2007	March 15, 2017	2.37%	¥ 3,000
	March 8, 2012	September 8, 2017	2.00%	1,500
Subtotal				4,500
Investment corporation bonds	September 12, 2013	September 12, 2018	1.00%	¥ 1,800
	July 25, 2014	July 25, 2024	1.18%	2,000
	April 28, 2016	April 28, 2028	0.90%	1,000
Subtotal				4,800
Total				¥178,100

6. REDUCTION ENTRY

The amount of reduction entry of property, plant and equipment acquired by government subsidy

	In thousands of yen	
	As of April 30, 2017	As of October 31, 2016
Buildings and structures	¥26,230	¥26,230

7. PER UNIT INFORMATION

	Yen	
	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Net asset value per unit	¥526,041	¥525,644
Net income per unit	¥ 11,733	¥ 11,365
Weighted average number of units (units)	404,885	404,885

The weighted average number of units outstanding of 404,885 as of April 30, 2017 and October 31, 2016, respectively was used for the computation of the amount of net income per unit. Net income per unit after adjusting for residual units is not included because there were no residual investment units.

8. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 32%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute 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. The Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥4,750 million and ¥4,601 million for the periods ended April 30, 2017, and October 31, 2016. Therefore such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.03% for the fiscal periods ended April 30, 2017 and October 31, 2016. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Statutory tax rate	31.74%	31.74%
Deductible cash distributions	(31.73)	(31.73)
Others	0.02	0.02
Effective tax rate	0.03%	0.03%

The significant components of deferred tax assets and liabilities as of April 30, 2017 and October 31, 2016 are as follows:

	In thousands of yen	
	As of April 30, 2017	As of October 31, 2016
Deferred tax assets:		
Enterprise tax payable	¥ 30	¥ 39
Deferred gains or losses on hedges	—	310
Amortization of leasehold rights	3,154	2,908
Subtotal deferred tax assets	3,185	3,257
Valuation allowance	(3,154)	(3,218)
Total deferred tax assets	¥ 30	¥ 39

9. 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.

10. RELATED-PARTY TRANSACTIONS

(1) Parent company, major corporate unitholders' and other

Twenty-fourth Fiscal Period (November 1, 2016 to April 30, 2017) and Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016):
Not applicable

(2) Affiliated companies and other

Twenty-fourth Fiscal Period (November 1, 2016 to April 30, 2017) and Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016):
Not applicable

(3) Fellow subsidiary companies and other

Twenty-fourth Fiscal Period (November 1, 2016 to April 30, 2017) and Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016):
Not applicable

(4) Directors, major individual unitholders' and other

Twenty-fourth Fiscal Period (November 1, 2016 to April 30, 2017) and Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016):
Not applicable

11. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY

Rent revenue - real estate, expenses related to rent business, gain and loss on sale of real estate property for the periods from November 1, 2016 to April 30, 2017 and from May 1, 2016 to October 31, 2016 consist of the following:

	In thousands of yen	
	From November 1, 2016 to April 30, 2017	From May 1, 2016 to October 31, 2016
Rental and other operating revenues:		
Rent revenue - real estate:		
Rental revenues	¥ 9,701,842	¥ 9,450,736
Common area charges	1,870,827	1,911,609
Subtotal	11,572,669	11,362,345
Others:		
Parking space rental revenues	499,611	490,492
Utility charge reimbursement	978,129	1,136,867
Miscellaneous	277,195	440,067
Subtotal	1,754,936	2,067,427
Total rent revenue - real estate	¥13,327,605	¥13,429,773
Property-related expenses:		
Expenses related to rent business:		
Property management fees and facility management fees	¥ 1,315,879	¥ 1,280,694
Depreciation	2,288,632	2,274,750
Utilities	1,006,582	1,110,302
Taxes	1,122,460	1,111,203
Insurance	18,202	18,018
Repairs and maintenance	436,606	582,716
Trust fees	32,832	32,348
Others	306,493	344,639
Total expenses related to rent business	¥ 6,527,688	¥ 6,754,675
Gain on sale of real estate property:		
Revenue from sale of investment property	¥14,840,000	—
Cost of investment property	12,839,023	—
Other sales expenses	338,188	—
Gain on sale of real estate property	¥ 1,662,787	—
Loss on sale of real estate property:		
Revenue from sale of investment property	¥ 5,070,000	—
Cost of investment property	6,635,971	—
Other sales expenses	91,189	—
Loss on sale of real estate property	¥ 1,657,160	—

12. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease terms of generally two years for office buildings and residential properties and with lease terms ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of April 30, 2017 and October 31, 2016 are as follows:

	In thousands of yen	
	As of April 30, 2017	As of October 31, 2016
Due within one year	¥ 1,679,760	¥ 1,444,094
Due after one year	9,345,602	9,350,987
Total	¥11,025,363	¥10,795,081

13. FINANCIAL INSTRUMENTS

Twenty-fourth Fiscal Period (from November 1, 2016 to April 30, 2017)

(A) Overview

(1) Policy for financial instruments

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of investment corporation bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest rate conditions and cash flows.

(2) Types of financial instruments and related risk

Investment securities, which are Japanese silent partnership (tokumei kumiai, "TK") interests, are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Loans payable and investment corporation bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of approximately 11 years following the accounting date. Although a certain portion of said liabilities are subject to interest rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap and interest-rate cap transactions) in order to reduce such risk.

Interest-rate swap and interest-rate cap transactions are used as derivative financial instruments. Utilizing interest-rate swap and interest-rate cap transaction, the Investment Corporation fixes its interest expense for long-term loans payable bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see Note 2(K) "Derivative Financial Instruments".

(3) Risk management for financial instruments

(a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap and interest-rate cap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

(b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with procurement of funds

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. 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 as of April 30, 2017 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to *2 below).

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
(1) Cash and bank deposits	¥ 23,832,680	¥ 23,832,680	¥ —
Subtotal	23,832,680	23,832,680	—
(1) Short-term loans payable	4,000,000	4,000,000	—
(2) Current portion of investment corporation bonds	1,500,000	1,508,940	8,940
(3) Current portion of long-term loans payable	22,750,000	22,791,356	41,356
(4) Investment corporation bonds	4,800,000	4,874,082	74,082
(5) Long-term loans payable	141,550,000	142,700,464	1,150,464
Subtotal	¥174,600,000	¥175,874,843	¥1,274,843
Derivative transactions (*)	10,882	10,882	—

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing net liability position.

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

Assets

(1) Cash and bank deposits

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

Liabilities

(1) Short-term loans payable

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

(2) Current portion of investment corporation bonds and (4) Investment corporation bonds

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

(3) Current portion of long-term loans payable and (5) Long-term loans payable

The fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term loans payable bearing interest at a variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with the applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

Derivative Transactions

Please refer to Note 14 "DERIVATIVE TRANSACTIONS".

*2: Financial instruments for which it is extremely difficult to determine the fair value

Classification	Carrying value (In thousands of yen)
Investment securities	¥1,087,688

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above TK interests are not included in the preceding table.

*3: Redemption schedule for receivables

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥23,832,680
Total	¥23,832,680

*4: Redemption schedule for loans payable and investment corporation bonds

	In thousands of yen					
	Due within 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
Short-term loans payable	¥ 4,000,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	1,500,000	1,800,000	—	—	—	3,000,000
Long-term loans payable	¥22,750,000	¥17,050,000	¥14,700,000	¥19,600,000	¥21,700,000	¥68,500,000

(A) Overview

(1) Policy for financial instruments

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of investment corporation bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest rate conditions and cash flows.

(2) Types of financial instruments and related risk

Investment securities, which are Japanese silent partnership (tokumei kumiai, "TK") interests, are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Loans payable and investment corporation bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of approximately 11 years and 6 months following the accounting date. Although a certain portion of said liabilities are subject to interest rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap and interest-rate cap transactions) in order to reduce such risk.

Interest-rate swap and interest-rate cap transactions are used as derivative financial instruments. Utilizing interest-rate swap and interest-rate cap transaction, the Investment Corporation fixes its interest expense for long-term loans payable bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see Note 2(K) "Derivative Financial Instruments".

(3) Risk management for financial instruments

(a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap and interest-rate cap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

(b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with procurement of funds

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. 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 as of October 31, 2016 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Refer to *2 below).

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
(1) Cash and bank deposits	¥ 20,710,565	¥ 20,710,565	¥ —
Subtotal	20,710,565	20,710,565	—
(1) Short-term loans payable	1,500,000	1,500,000	—
(2) Current portion of investment corporation bonds	4,500,000	4,543,560	43,560
(3) Current portion of long-term loans payable	21,200,000	21,253,983	53,983
(4) Investment corporation bonds	4,800,000	4,905,396	105,396
(5) Long-term loans payable	146,100,000	148,414,755	2,314,755
Subtotal	¥178,100,000	¥180,617,694	¥2,517,694
Derivative transactions(*)	(977)	(977)	—

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing net liability position.

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

Assets

(1) Cash and bank deposits

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

Liabilities

(1) Short-term loans payable

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

(2) Current portion of investment corporation bonds and (4) Investment corporation bonds

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

(3) Current portion of long-term loans payable and (5) Long-term loans payable

The fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term loans payable bearing interest at a variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with the applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

Derivative Transactions

Please refer to Note 14 "DERIVATIVE TRANSACTIONS".

***2: Financial instruments for which it is extremely difficult to determine the fair value**

Classification	Carrying value (In thousands of yen)
Investment securities	¥1,093,584

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above TK interests are not included in the preceding table.

***3: Redemption schedule for receivables**

	Due within 1 year or less (In thousands of yen)
Cash and bank deposits	¥20,710,565
Total	¥20,710,565

***4: Redemption schedule for loans payable and investment corporation bonds**

	In thousands of yen					
	Due within 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
Short-term loans payable	¥ 1,500,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	4,500,000	1,800,000	—	—	—	3,000,000
Long-term loans payable	¥21,200,000	¥17,750,000	¥13,750,000	¥18,600,000	¥21,300,000	¥74,700,000

14. DERIVATIVE TRANSACTIONS

The following summarizes the contracted amount and the fair value of interest-rate swap and the interest-rate cap contracts as of April 30, 2017:

(1) Hedge accounting not applied

Not applicable

(2) Hedge accounting applied

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen)		Fair value (In thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Principle method	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	¥ 3,700,000	¥ 3,700,000	¥10,882	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	102,150,000	97,400,000	*	
Special treatment of interest-rate caps	Interest-rate caps transaction	Long-term loans payable	500,000	500,000	*	
Total			¥106,350,000	¥101,600,000	¥10,882	

(*) Interest-rate swaps and interest-rate caps 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 following summarizes the contracted amount and the fair value of interest-rate swap and the interest-rate cap contracts as of October 31, 2016:

(1) Hedge accounting not applied

Not applicable

(2) Hedge accounting applied

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen)		Fair value (In thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Principle method	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	¥ 2,500,000	¥ 2,500,000	¥(977)	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	103,350,000	99,650,000	*	
Special treatment of interest-rate caps	Interest-rate caps transaction	Long-term loans payable	500,000	500,000	*	
Total			¥106,350,000	¥102,650,000	¥(977)	

(*) Interest-rate swaps and interest-rate caps 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.

15. INVESTMENT AND RENTAL PROPERTIES

Twenty-fourth Fiscal Period (from November 1, 2016 to April 30, 2017)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo Metropolitan Area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

Carrying Value (In thousands of yen)			Fair value As of April 30, 2017 (In thousands of yen)	
As of October 31, 2016	Net change	As of April 30, 2017		
¥389,197,020	¥(5,795,370)	¥383,401,649	¥416,550,000	

*1: The carrying value represents the acquisition cost less accumulated depreciation.

*2: The fair value is the appraisal value or the survey value determined by outside appraisers.

*3: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increase/decrease factors were the acquisition of 3 properties totaling ¥14,942,506 thousand, the sales of 5 properties totaling ¥19,474,995 thousand and depreciation amounting in ¥2,288,632 thousand.

Income and loss in the fiscal period ended April 30, 2017 for real estate for rental purposes is listed in Note 11. "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY".

Twenty-third Fiscal Period (from May 1, 2016 to October 31, 2016)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo Metropolitan Area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

As of April 30, 2016	Carrying Value (In thousands of yen)		Fair value As of October 31, 2016 (In thousands of yen)
	Net change	As of October 31, 2016	
¥385,085,254	¥4,111,765	¥389,197,020	¥414,605,000

*1: The carrying value represents the acquisition cost less accumulated depreciation.

*2: The fair value is the appraisal value or the survey value determined by outside appraisers. The fair value of KDX Nihonbashi Kabutocho Building and BUREX Toranomon are calculated based on the sales price of ¥12,400,000 thousand under the sales and purchase agreement dated November 1, 2016 and the sales price of ¥2,440,000 thousand under the sales and purchase agreement dated December 1, 2016, respectively.

*3: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increase/decrease factors were the acquisition of 3 properties totaling ¥14,942,506 thousand, the sales of 5 properties totaling ¥19,474,995 thousand and depreciation amounting in ¥2,288,632 thousand.

Income and loss in the fiscal period ended October 31, 2016 for real estate for rental purposes is listed in Note 11. "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY".

16. SEGMENT AND RELATED INFORMATION

Twenty-fourth Fiscal Period (from November 1, 2016 to April 30, 2017)

(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.

Twenty-third Fiscal Period (from May 1, 2016 to October 31, 2016)

(A) Segment Information

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.

(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.

17. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable