

# Financial Section

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## Financial Summary (Unaudited)

Historical Operating Trends  
For the 19th–23rd Fiscal Periods

Period	Unit	19th Period (as of Oct. 31, 2014)	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)
Operating revenues	mn yen	12,928	14,130	13,740	14,362	13,491
(Rental revenues)	mn yen	11,295	12,836	13,226	12,812	13,429
Operating expenses	mn yen	7,899	7,593	7,800	8,260	7,703
(Property-related expenses)	mn yen	5,557	6,377	6,668	6,533	6,754
Operating income	mn yen	5,028	6,537	5,940	6,102	5,788
Ordinary income	mn yen	3,570	5,111	4,565	4,816	4,603
Net income (a)	mn yen	3,569	5,110	4,564	4,815	4,601
Total assets (b) (Period-on-period change)	mn yen %	388,169 (+9.3)	407,799 (+5.1)	407,217 (-0.1)	408,813 (+0.4)	413,031 (+1.0)
Interest-bearing debt (c) (Period-on-period change)	mn yen %	187,685 (+11.9)	174,600 (-7.0)	174,100 (-0.3)	175,100 (+0.6)	178,100 (+1.7)
Unitholders' equity (d) (Period-on-period change)	mn yen %	180,844 (+6.3)	211,951 (+17.2)	211,914 (-0.0)	212,555 (+0.3)	212,825 (+0.1)
Unitholders' capital (Period-on-period change)	mn yen %	176,632 (+6.2)	206,199 (+16.7)	206,199 (0.0)	206,199 (0.0)	206,199 (0.0)
Number of investment units issued and outstanding (e)	unit	355,010	404,885	404,885	404,885	404,885
Unitholders' equity per unit (d)/(e)	yen	509,407	523,484	523,394	524,977	525,644
Total distribution (f)	mn yen	3,571	4,600	4,170	4,335	4,601
Distribution per unit (f)/(e)	yen	10,060	11,363	10,300	10,707	11,365
(Earnings distributed per unit)	yen	10,060	11,363	10,300	10,707	11,365
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.0 (1.9)	1.3 (2.6)	1.1 (2.2)	1.2 (2.4)	1.1 (2.2)
Return on net assets (annualized) (Notes 2 and 3)	%	2.0 (4.0)	2.6 (5.2)	2.2 (4.3)	2.3 (4.6)	2.2 (4.3)
Net assets ratio at end of period (d)/(b) (Period-on-period change)	%	46.6 (-1.3)	52.0 (+5.4)	52.0 (+0.1)	52.0 (-0.0)	51.5 (-0.5)
Interest-bearing debt ratio at end of period (c)/(b) (Period-on-period change)	%	48.4 (+1.1)	42.8 (-5.5)	42.8 (-0.1)	42.8 (+0.1)	43.1 (+0.3)
Payout ratio (Note 4) (f)/(a)	%	100.0	90.0	91.3	90.0	99.9
<b>Other references</b>						
Number of properties	properties	94	97	97	97	99
Total leasable floor area	m <sup>2</sup>	437,233.24	453,999.44	453,681.06	457,774.90	462,533.92
Occupancy ratio at end of period	%	95.6	96.5	94.9	96.9	96.9
Depreciation expenses for the period	mn yen	2,022	2,221	2,218	2,230	2,274
Capital expenditures for the period	mn yen	550	329	469	1,120	1,165
Leasing NOI (Net Operating Income) (Note 5)	mn yen	7,760	8,680	8,775	8,509	8,949
FFO (Funds From Operation) (Note 6)	mn yen	7,116	6,909	6,487	6,302	6,877
FFO per unit (Note 7)	yen	20,045	17,065	16,023	15,565	16,985

- Notes:
- Return on assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100
  - Annualized values for the 19th Fiscal Period are calculated based on a period of 184 days, 181 days for the 20th Fiscal Period, 184 days for the 21st Fiscal Period, 182 days for the 22nd Fiscal Period, 184 days for the 23rd Fiscal Period.
  - Return on net assets = Net income / ((Total net assets at beginning of period + Total net assets at end of period) / 2) × 100
  - Payout ratio is rounded down to the first decimal place.
  - Leasing NOI = Rental revenues – Property-related expenses + Depreciation expenses for the period
  - FFO = Net income + Depreciation expenses for the period – Gain on sale of real estate property + Loss on sale of real estate property
  - FFO per unit = FFO / Number of investment units issued and outstanding (figures below ¥1 rounded down)
  - Where applicable, figures are rounded down to the nearest million.



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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 October 31, 2016, 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 October 31, 2016, 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*

January 30, 2017  
Tokyo, Japan

# Balance Sheets

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

	In thousands of yen	
	As of October 31, 2016	As of April 30, 2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and bank deposits (Notes 3 and 13)	¥ 20,710,565	¥ 20,602,996
Operating accounts receivable	330,775	341,787
Consumption taxes receivable	—	53,578
Other current assets (Note 8)	115,403	59,744
<b>Total current assets</b>	<b>21,156,743</b>	<b>21,058,105</b>
<b>Property, plant and equipment, at cost: (Notes 4 and 15)</b>		
Buildings and structures (Note 6)	138,160,941	136,422,576
Machinery and equipment	2,091,284	2,041,893
Tools, furniture and fixtures	524,435	514,082
Accumulated depreciation	(29,568,985)	(27,295,009)
Land	277,637,658	273,049,253
<b>Net property, plant and equipment</b>	<b>388,845,334</b>	<b>384,732,795</b>
<b>Investments and other assets:</b>		
Leasehold right (Note 15)	351,685	352,460
Investment securities (Note 13)	1,093,584	1,089,761
Investment corporation bond issuance costs	36,498	42,378
Investment unit issuance costs	54,159	110,641
Other assets	1,493,754	1,427,315
<b>Total investments and other assets</b>	<b>3,029,682</b>	<b>3,022,554</b>
<b>Total assets</b>	<b>¥413,031,761</b>	<b>¥408,813,455</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Operating accounts and other payables	¥ 1,614,589	¥ 1,170,894
Short-term loans payable and current portion of long-term loans payable (Notes 5 and 13)	22,700,000	22,200,000
Current portion of investment corporation bonds (Notes 5 and 13)	4,500,000	3,000,000
Deposits received	2,896	54,160
Advances received	2,143,523	2,115,825
Other current liabilities	422,783	91,257
<b>Total current liabilities</b>	<b>31,383,793</b>	<b>28,632,136</b>
<b>Non-current liabilities:</b>		
Investment corporation bonds (Notes 5 and 13)	4,800,000	6,300,000
Long-term loans payable (Notes 5 and 13)	146,100,000	143,600,000
Tenant leasehold and security deposits	17,921,592	17,721,596
Other non-current liabilities	977	4,328
<b>Total non-current liabilities</b>	<b>168,822,570</b>	<b>167,625,924</b>
<b>Total liabilities</b>	<b>200,206,363</b>	<b>196,258,060</b>
<b>Net Assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	206,199,945	206,199,946
Units authorized:2,000,000 units		
Units issued and outstanding:404,885 units		
As of October 31, 2016 and April 30, 2016, respectively		
<b>Surplus</b>		
Voluntary retained earnings		
Reserve for reduction entry	2,024,673	1,544,522
Unappropriated retained earnings	4,601,756	4,815,255
<b>Total surplus</b>	<b>6,626,429</b>	<b>6,359,777</b>
<b>Total unitholders' equity</b>	<b>212,826,375</b>	<b>212,559,723</b>
Valuation and translation adjustments		
Deferred gains or losses on hedges (Note 14)	(977)	(4,328)
<b>Total valuation and translation adjustments</b>	<b>(977)</b>	<b>(4,328)</b>
<b>Total net assets (Note 9)</b>	<b>212,825,397</b>	<b>212,555,395</b>
<b>Total liabilities and net assets</b>	<b>¥413,031,761</b>	<b>¥408,813,455</b>

## Statements of Income and Retained Earnings

Kenedix Office Investment Corporation

For the period from May 1, 2016 to October 31, 2016 and the period from November 1, 2015 to April 30, 2016

	In thousands of yen	
	From May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 2016
<b>Operating revenues:</b>		
Rent revenue - real estate (Note 11)	¥13,429,773	¥12,812,029
Gain on sale of real estate property (Note 11)	—	1,510,169
Dividends income	61,739	40,015
Total operating revenues	13,491,513	14,362,213
<b>Operating expenses:</b>		
Expenses related to rent business (Note 11)	6,754,675	6,533,203
Loss on sale of real estate property (Note 11)	—	766,005
Asset management fees	755,591	759,990
Administrative service and custodian fees	78,143	78,413
Other operating expenses	114,926	122,520
Total operating expenses	7,703,337	8,260,131
<b>Operating income</b>	<b>5,788,175</b>	<b>6,102,082</b>
<b>Non-operating expenses:</b>		
Interest expenses	941,102	993,892
Financing-related expenses	176,510	183,756
Amortization of investment unit issuance costs	56,481	56,481
Amortization of investment corporation bond issuance costs	5,879	5,263
Others, net	5,082	46,171
Total non-operating expenses	1,185,056	1,285,563
<b>Ordinary income</b>	<b>4,603,119</b>	<b>4,816,519</b>
Income before income taxes	4,603,119	4,816,519
Income taxes (Note 8)	1,363	1,264
<b>Net income</b>	<b>4,601,756</b>	<b>4,815,255</b>
<b>Unappropriated retained earnings</b>	<b>¥ 4,601,756</b>	<b>¥ 4,815,255</b>

See accompanying notes to the financial statements.

## Statements of Changes in Net Assets

Kenedix Office Investment Corporation

For the period from May 1, 2016 to October 31, 2016 and the period from November 1, 2015 to April 30, 2016

	In thousands of yen						
	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Unitholders' capital	Surplus			Total unitholders' equity		
		Voluntary retained earnings	Unappropriated retained earnings	Total surplus		Deferred gains or losses on hedges	
Reserve for reduction entry							
<b>Balance as of October 31, 2015</b>	<b>¥206,199,946</b>	<b>¥1,150,495</b>	<b>¥ 4,564,342</b>	<b>¥ 5,714,837</b>	<b>¥211,914,783</b>		—
Changes during the fiscal period							
Provision of reserve for reduction entry	—	394,027	(394,027)	—	—	—	—
Dividends of surplus	—	—	(4,170,315)	(4,170,315)	(4,170,315)	—	(4,170,315)
Net income	—	—	4,815,255	4,815,255	4,815,255	—	4,815,255
Net changes of items other than unitholder's equity	—	—	—	—	—	(4,328)	(4,328)
Total changes during the fiscal period	—	394,027	250,913	644,940	644,940	(4,328)	640,612
<b>Balance as of April 30, 2016</b>	<b>¥206,199,946</b>	<b>¥1,544,522</b>	<b>¥ 4,815,255</b>	<b>¥ 6,359,777</b>	<b>¥212,559,723</b>	<b>¥(4,328)</b>	<b>¥212,555,395</b>
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
<b>Balance as of October 31, 2016</b>	<b>¥206,199,945</b>	<b>¥2,024,673</b>	<b>¥ 4,601,756</b>	<b>¥ 6,626,429</b>	<b>¥212,826,375</b>	<b>¥( 977)</b>	<b>¥212,825,397</b>

See accompanying notes to the financial statements.

# Statements of Cash Flows

Kenedix Office Investment Corporation

For the period from May 1, 2016 to October 31, 2016 and the period from November 1, 2015 to April 30, 2016

	In thousands of yen	
	From May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income taxes	¥4,603,119	¥4,816,519
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,508,463	2,470,695
Interest income	(38)	(697)
Interest expenses	941,102	993,892
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in Operating accounts receivable	11,011	(3,500)
Decrease (increase) in Consumption taxes receivable	53,578	(53,578)
Increase (decrease) in Accrued consumption taxes	343,665	(407,556)
Increase (decrease) in Operating accounts and other payables	287,690	(203,532)
Increase (decrease) in Advances received	29,973	157,163
Decrease in property, plant and equipment due to sale	—	14,591,896
Others, net	(351,949)	(123,666)
Subtotal	8,426,615	22,237,636
Interest income received	38	697
Interest expenses paid	(953,601)	(989,130)
Income taxes paid	(805)	(869)
<b>Net cash provided by (used in) operating activities</b>	<b>7,472,246</b>	<b>21,248,334</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(6,173,576)	(20,403,242)
Purchase of intangible assets	—	(5,913)
Proceeds from tenant leasehold and security deposits	1,065,383	1,851,210
Payments of tenant leasehold and security deposits	(918,051)	(1,496,099)
Payments of restricted bank deposits in trust	—	(600,262)
Proceeds from restricted bank deposits in trust	552,921	—
<b>Net cash provided by (used in) investing activities</b>	<b>(5,473,322)</b>	<b>(20,654,306)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in short-term loans payable	—	1,500,000
Decrease in short-term loans payable	(1,000,000)	(1,500,000)
Proceeds from long-term loans payable	16,500,000	18,300,000
Repayments of long-term loans payable	(12,500,000)	(18,300,000)
Proceeds from issuance of investment corporation bonds	—	990,472
Payments of investment corporation bond issuance costs	(4,010)	—
Dividends paid	(4,334,422)	(4,169,538)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,338,432)</b>	<b>(3,179,066)</b>
Net increase (decrease) in cash and cash equivalents	660,491	(2,585,038)
Cash and cash equivalents at the beginning of period	19,175,542	21,760,581
<b>Cash and cash equivalents at the end of period (Note3)</b>	<b>¥19,836,034</b>	<b>¥19,175,543</b>

See accompanying notes to the financial statements.

# Notes to Financial Statements

Kenedix Office Investment Corporation

For the period from May 1, 2016 to October 31, 2016 and the period from November 1, 2015 to April 30, 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 April 30, 2016, the Investment Corporation acquired one office buildings (Nittochi Toranomom Building: acquisition price of ¥15,550 million) located in the Tokyo Metropolitan Area, one office building (Nichigin-mae KD Building: acquisition price of ¥3,500 million) located in Other Regional Areas, and sold KDX Toranomom Building (initial acquisition price of ¥4,400 million) and Toranomom Toyo Building (initial acquisition price of ¥9,850 million) (with a total combined disposition price of ¥15,420 million).

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.

At the end of the twenty-second and twenty-third 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 97 properties (consisting of 92 office buildings, one residential property, three central urban retail properties and one other property), 99 properties (consisting of 94 office buildings, one residential property, three central urban retail properties and one other property) with total acquisition prices of ¥393,171 million and ¥398,350 million at the end of the twenty-second and twenty-third fiscal periods, respectively. The occupancy ratios were approximately 96.9% at the end of the twenty-second and twenty-third fiscal periods.

### 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 May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 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 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 ¥13,334 thousand and ¥83,802 thousand as of October 31, 2016 and April 30, 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 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-third fiscal and twenty-second fiscal period are rounded down and rounded off, 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 October 31, 2016 and April 30, 2016

	In thousands of yen	
	As of October 31, 2016	As of April 30, 2016
Cash and bank deposits	¥20,710,565	¥20,602,996
Restricted bank deposits in trust (Note)	(874,531)	(1,427,453)
Cash and cash equivalents in trust	¥19,836,034	¥19,175,543

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 October 31, 2016			As of April 30, 2016		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Buildings and structures	¥138,160	¥28,327	¥109,833	¥136,423	¥26,134	¥110,289
Machinery and equipment	2,091	956	1,134	2,042	895	1,147
Tools, furniture and fixtures	524	284	239	514	266	248
Land	277,637	—	277,637	273,049	—	273,049
<b>Total</b>	<b>¥418,414</b>	<b>¥29,568</b>	<b>¥388,845</b>	<b>¥412,028</b>	<b>¥27,295</b>	<b>¥384,733</b>

### 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 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
Subtotal	October 31, 2012	October 31, 2017	1.10%	2,500
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
	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



Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	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	
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	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	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			
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

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of April 30, 2016:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term loans payable	July 31, 2015	July 31, 2016	0.51%	¥ 1,000
	March 31, 2016	March 31, 2017	0.45%	1,500
Current portion of long-term loans payable	July 31, 2013	July 29, 2016	0.57%	1,500
	December 26, 2011	October 31, 2016	1.42%	2,500
	December 26, 2011	October 31, 2016	1.44%	2,500
	December 26, 2011	October 31, 2016	1.44%	2,000
	October 31, 2012	October 31, 2016	1.06%	2,500
	October 31, 2012	October 31, 2016	1.05%	1,500
	November 12, 2015	November 30, 2016	0.49%	2,000
	March 28, 2012	March 28, 2017	1.36%	500
	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
Subtotal				22,200
Long-term loans payable	November 12, 2010	November 12, 2017	2.02%	¥ 2,300

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	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
	June 29, 2012	June 30, 2017	1.29%	1,500
	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
	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
	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	0.67%	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	0.95%	500
	August 19, 2013	August 19, 2018	0.97%	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, 2020	1.12%	1,000
	November 29, 2013	November 30, 2020	1.12%	900
	November 29, 2013	November 30, 2018	0.84%	200
	January 10, 2014	January 31, 2021	1.21%	1,300
	January 31, 2014	January 31, 2021	1.13%	2,300
	January 31, 2014	January 31, 2020	0.93%	3,700
	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	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term loans payable	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%	1,500
	October 30, 2015	October 30, 2025	1.11%	2,000
	October 30, 2015	October 30, 2025	1.11%	2,500
	October 30, 2015	October 30, 2025	1.12%	2,500
	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	
Subtotal				143,600
Current portion of Investment corporation bonds	March 15, 2007	March 15, 2017	2.37%	¥ 3,000
Subtotal				3,000
Investment corporation bonds	March 8, 2012	September 8, 2017	2.00%	¥ 1,500
	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				6,300
Total				¥175,100

## 6. REDUCTION ENTRY

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

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

## 7. PER UNIT INFORMATION

	Yen	
	From May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 2016
Net asset value per unit	¥525,644	¥524,977
Net income per unit	¥ 11,365	¥ 11,893
Weighted average number of units (units)	404,885	404,885

The weighted average number of units outstanding of 404,885 as of October 31, 2016 and April 30, 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 ¥4,601 million and ¥4,335 million (deducting ¥480 million as the provision of reserve for reduction entry) for the periods ended October 31, 2016, and April 30, 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 October 31, 2016 and April 30, 2016. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 2016
Statutory tax rate	31.74%	32.31%
Deductible cash distributions	(31.73)	(29.08)
Provision of reserve for reduction entry	—	(3.22)
Others	0.02	0.02
Effective tax rate	0.03%	0.03%

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

	In thousands of yen	
	As of October 31, 2016	As of April 30, 2016
Deferred tax assets:		
Enterprise tax payable	¥ 39	¥ 31
Deferred gains or losses on hedges	310	1,374
Amortization of leasehold rights	2,908	2,663
Subtotal deferred tax assets	3,257	4,068
Valuation allowance	(3,218)	4,037
Total deferred tax assets	¥ 39	¥ 31

## 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-third Fiscal Period (May 1, 2016 to October 31, 2016) and Twenty-second Fiscal Period (November 1, 2015 to April 30, 2016):  
Not applicable

## (2) AFFILIATED COMPANIES AND OTHER

Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016) and Twenty-second Fiscal Period (November 1, 2015 to April 30, 2016):  
Not applicable

## (3) FELLOW SUBSIDIARY COMPANIES AND OTHER

Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016) and Twenty-second Fiscal Period (November 1, 2015 to April 30, 2016):  
Not applicable

## (4) DIRECTORS, MAJOR INDIVIDUAL UNITHOLDERS' AND OTHER

Twenty-third Fiscal Period (May 1, 2016 to October 31, 2016) and Twenty-second Fiscal Period (November 1, 2015 to April 30, 2016):  
Not applicable

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

Rental and other operating revenues, property-related expenses, gain and loss on sale of real estate property for the periods from May 1, 2016 to October 31, 2016 and from November 1, 2015 to April 30, 2016 consist of the following:

	In thousands of yen	
	From May 1, 2016 to October 31, 2016	From November 1, 2015 to April 30, 2016
<b>Rental and other operating revenues:</b>		
Rent revenue - real estate:		
Rental revenues	¥ 9,450,736	¥ 9,117,586
Common area charges	1,911,609	1,930,493
Subtotal	11,362,345	11,048,079
Others:		
Parking space rental revenues	490,492	471,916
Utility charge reimbursement	1,136,867	990,852
Miscellaneous	440,067	301,182
Subtotal	2,067,427	1,763,950
Total rent revenue - real estate	13,429,773	12,812,029
<b>Property-related expenses:</b>		
Expenses related to rent business:		
Property management fees and facility management fees	1,280,694	1,251,483
Depreciation	2,274,750	2,230,747
Utilities	1,110,302	1,071,935
Taxes	1,111,203	1,112,600
Insurance	18,018	17,492
Repairs and maintenance	582,716	451,262
Trust fees	32,348	32,130
Others	344,639	365,554
Total expenses related to rent business	¥ 6,754,675	6,533,203
<b>Gain on sale of real estate property:</b>		
Revenue from sale of investment property	—	11,470,000
Cost of investment property	—	9,899,061
Other sales expenses	—	60,770
Gain on sale of real estate property	—	1,510,169
<b>Loss on sale of real estate property:</b>		
Revenue from sale of investment property	—	3,950,000
Cost of investment property	—	4,692,834
Other sales expenses	—	23,171
Loss on sale of real estate property	—	¥ 766,005

## 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 October 31, 2016 and April 30, 2016 are as follows:

	In thousands of yen	
	As of October 31, 2016	As of April 30, 2016
Due within one year	¥ 1,444,094	¥ 1,486,303
Due after one year	9,350,987	9,544,086
Total	¥10,795,081	¥11,030,389

## 13. FINANCIAL INSTRUMENTS

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

### (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 Investment corporation bonds (including current portion of investment corporation bonds)	9,300,000	9,448,956	148,956
③ Long-term loans payable (including current portion of long-term loans payable)	167,300,000	169,668,738	2,368,738
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 Investment corporation bonds

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

##### ③ 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



## (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 corporate 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 12 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, 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	¥ 20,602,996	¥ 20,602,996	¥ —
Subtotal	20,602,996	20,602,996	—
① Short-term loans payable	2,500,000	2,500,000	—
② Investment corporation bonds (including current portion of investment corporation bonds)	9,300,000	9,486,050	186,050
③ Long-term loans payable (including current portion of long-term loans payable)	163,300,000	165,889,327	2,589,327
Subtotal	¥175,100,000	¥177,875,377	¥2,775,377
Derivative Transactions (*)	(4,328)	(4,328)	—

(\*) 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 Investment corporation bonds

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

③ 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	¥1,089,761

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	¥20,602,996
Total	¥20,602,996

**\*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	¥ 2,500,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	3,000,000	1,500,000	1,800,000	—	—	3,000,000
Long-term loans payable	¥19,700,000	¥19,250,000	¥16,050,000	¥14,700,000	¥19,600,000	¥74,000,000

## 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 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.

The following summarizes the contracted amount and the fair value of interest-rate swap and the interest-rate cap contracts as of April 30, 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	¥ 1,000,000	¥ 1,000,000	¥(4,328)	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	109,350,000	102,150,000	*	
Special treatment of interest-rate caps	Interest-rate caps transaction	Long-term loans payable	2,000,000	500,000	*	
Total			¥112,350,000	¥103,650,000	¥(4,328)	

(\*) 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-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:

Carrying value (In thousands of yen)			Fair value As of October 31, 2016 (In thousands of yen)
As of April 30, 2016	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 increases and decreases were the acquisition of two properties totaling ¥5,221,373 thousand and depreciation amounting to ¥2,274,750 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".

Twenty-second Fiscal Period (from November 1, 2015 to April 30, 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:

Carrying value (In thousands of yen)		Fair value As of April 30, 2016 (In thousands of yen)	
As of October 31, 2015	Net change	As of April 30, 2016	
¥381,466,641	¥3,618,614	¥385,085,255	¥402,555,000

\*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 increases and decreases were the acquisition of two properties totaling ¥19,321,019 thousand, the sale of two properties totaling ¥14,591,896 thousand and depreciation amounting to ¥2,230,747 thousand.

Income and loss in the fiscal period ended April 30, 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-third Fiscal Period (from May 1, 2016 to October 31, 2016)

### (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 earning.

#### (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 earning.

##### (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 earning.

Twenty-second Fiscal Period (November 1, 2015 to April 30, 2016)

### (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 earning.

#### (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 earning.

##### (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 earning.

## 17. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable.