

Financial Section

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Financial Summary (Unaudited)

Historical Operating Trends
For the 23rd–27th Fiscal Periods

| Period | Unit | 23rd Period (as of Oct. 31, 2016) | 24th Period (as of Apr. 30, 2017) | 25th Period (as of Oct. 31, 2017) | 26th Period (as of Apr. 30, 2018) | 27th Period (as of Oct. 31, 2018) |
|---|-----------------|---|---|---|---|---|
| Operating revenues | millions of yen | 13,491 | 15,039 | 13,901 | 14,823 | 15,420 |
| (Rental revenues) | millions of yen | 13,429 | 13,327 | 13,840 | 14,222 | 14,802 |
| Operating expenses | millions of yen | 7,703 | 9,137 | 8,244 | 7,974 | 8,271 |
| (Property-related expenses) | millions of yen | 6,754 | 6,527 | 6,720 | 6,977 | 7,105 |
| Operating income | millions of yen | 5,788 | 5,901 | 5,657 | 6,848 | 7,148 |
| Ordinary income | millions of yen | 4,603 | 4,751 | 4,590 | 5,829 | 6,109 |
| Net income (a) | millions of yen | 4,601 | 4,750 | 4,588 | 5,828 | 6,107 |
| Total assets (b) | millions of yen | 413,031 | 410,166 | 414,933 | 422,993 | 437,221 |
| (Period-on-period change) | % | (+1.0) | (−0.7) | (+1.2) | (+1.9) | (+3.4) |
| Interest-bearing debt (c) | millions of yen | 178,100 | 174,600 | 179,600 | 185,850 | 183,050 |
| (Period-on-period change) | % | (+1.7) | (−2.0) | (+2.9) | (+3.5) | (−1.5) |
| Unitholders' equity (d) | millions of yen | 212,825 | 212,986 | 212,851 | 213,642 | 229,313 |
| (Period-on-period change) | % | (+0.1) | (+0.1) | (−0.1) | (+0.4) | (+7.3) |
| Unitholders' capital | millions of yen | 206,199 | 206,199 | 206,199 | 206,199 | 220,970 |
| (Period-on-period change) | % | (0.0) | (0.0) | (0.0) | (0.0) | (+7.2) |
| Number of investment units issued and outstanding (e) | unit | 404,885 | 404,885 | 404,885 | 404,885 | 428,510 |
| Unitholders' equity per unit (d)/(e) | yen | 525,644 | 526,041 | 525,708 | 527,661 | 535,141 |
| Total distribution (f) | millions of yen | 4,601 | 4,750 | 5,061 | 5,247 | 5,766 |
| Distribution per unit (f)/(e) | yen | 11,365 | 11,733 | 12,500 | 12,960 | 13,458 |
| (Earnings distributed per unit) | yen | 11,365 | 11,733 | 12,500 | 12,960 | 13,458 |
| (Distribution in excess of earnings per unit) | yen | — | — | — | — | — |
| Return on assets (annualized) (Notes 1 and 2) | % | 1.1 (2.2) | 1.2 (2.3) | 1.1 (2.2) | 1.4 (2.8) | 1.4 (2.8) |
| Return on net assets (annualized) (Notes 2 and 3) | % | 2.2 (4.3) | 2.2 (4.5) | 2.2 (4.3) | 2.7 (5.5) | 2.8 (5.5) |
| Net assets ratio at end of period (d)/(b) | % | 51.5 | 51.9 | 51.3 | 50.5 | 52.4 |
| (Period-on-period change) | % | (−0.5) | (+0.4) | (−0.6) | (−0.8) | (+1.9) |
| Interest-bearing debt ratio at end of period (c)/(b) | % | 43.1 | 42.6 | 43.3 | 43.9 | 41.9 |
| (Period-on-period change) | % | (+0.3) | (−0.6) | (+0.7) | (+0.7) | (−2.1) |
| Payout ratio (Note 4) (f)/(a) | % | 99.9 | 99.9 | 110.2 | 90.0 | 94.4 |
| Other references | | | | | | |
| Number of properties | properties | 99 | 97 | 98 | 97 | 97 |
| Total leasable floor area | m ² | 462,533.92 | 459,567.57 | 456,932.16 | 466,031.33 | 471,041.45 |
| Occupancy ratio at end of period | % | 96.9 | 97.9 | 99.1 | 99.0 | 99.1 |
| Depreciation expenses for the period | millions of yen | 2,274 | 2,288 | 2,293 | 2,295 | 2,358 |
| Capital expenditures for the period | millions of yen | 1,165 | 1,018 | 953 | 886 | 925 |
| Leasing NOI (Net Operating Income) (Note 5) | millions of yen | 8,949 | 9,088 | 9,413 | 9,539 | 10,055 |
| FFO (Funds From Operation) (Note 6) | millions of yen | 6,877 | 7,034 | 7,451 | 7,574 | 7,934 |
| FFO per unit (Note 7) | yen | 16,985 | 17,373 | 18,404 | 18,708 | 18,516 |

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 23rd Fiscal Period are calculated based on a period of 184 days, 181 days for the 24th Fiscal Period, 184 days for the 25th Fiscal Period, 181 days for the 26th Fiscal Period and 184 days for the 27th 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 properties + Loss on sale of real estate properties

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 October 31, 2018, 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, 2018, 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, 2019
Tokyo, Japan

Balance Sheet

Kenedix Office Investment Corporation
As of October 31, 2018

| | In thousands of yen | |
|--|------------------------|----------------------|
| | As of October 31, 2018 | As of April 30, 2018 |
| Assets | | |
| Current assets: | | |
| Cash and deposits (Notes 3 and 14) | ¥ 14,050,532 | ¥ 13,033,326 |
| Cash and deposits in trust (Notes 3 and 14) | 10,973,654 | 10,444,809 |
| Operating accounts receivable | 360,261 | 308,217 |
| Prepaid expenses | 111,536 | 76,768 |
| Consumption taxes receivable | — | 166,118 |
| Other | 14,606 | 17,350 |
| Total current assets | 25,510,591 | 24,046,590 |
| Non-current assets: | | |
| Property, plant and equipment (Notes 4 and 16) | | |
| Buildings | 17,693,312 | 17,943,798 |
| Accumulated depreciation | (5,316,656) | (5,111,557) |
| Buildings, net | 12,376,655 | 12,832,241 |
| Structures | 32,618 | 32,618 |
| Accumulated depreciation | (13,848) | (12,973) |
| Structures, net | 18,770 | 19,645 |
| Machinery and equipment | 421,857 | 411,649 |
| Accumulated depreciation | (235,745) | (223,927) |
| Machinery and equipment, net | 186,111 | 187,722 |
| Tools, furniture and fixtures | 86,586 | 83,593 |
| Accumulated depreciation | (54,482) | (51,767) |
| Tools, furniture and fixtures, net | 32,103 | 31,825 |
| Land | 27,520,902 | 29,504,025 |
| Buildings in trust (Note 7) | 122,006,776 | 118,523,178 |
| Accumulated depreciation | (27,897,343) | (26,581,425) |
| Buildings in trust, net | 94,109,432 | 91,941,753 |
| Structures in trust | 353,520 | 345,717 |
| Accumulated depreciation | (159,867) | (162,368) |
| Structures in trust, net | 193,653 | 183,349 |
| Machinery and equipment in trust | 1,623,898 | 1,592,359 |
| Accumulated depreciation | (708,259) | (719,408) |
| Machinery and equipment in trust, net | 915,639 | 872,951 |
| Tools, furniture and fixtures in trust | 476,862 | 466,546 |
| Accumulated depreciation | (293,197) | (278,421) |
| Tools, furniture and fixtures in trust, net | 183,665 | 188,125 |
| Land in trust | 272,828,051 | 259,908,839 |
| Construction in progress in trust | 2,933 | 83 |
| Total property, plant and equipment, net | 408,367,919 | 395,670,563 |
| Intangible assets (Note 4) | | |
| Leasehold right (Note 16) | 285,257 | 285,257 |
| Leasehold right in trust (Note 16) | 351,524 | 352,298 |
| Other | 2,889 | 3,501 |
| Total intangible assets | 639,671 | 641,057 |
| Investments and other assets | | |
| Investment securities (Note 14) | 1,114,806 | 1,090,336 |
| Lease and guarantee deposits | 10,000 | 10,000 |
| Lease and guarantee deposits in trust | 122,889 | 122,889 |
| Long-term prepaid expenses | 1,256,374 | 1,306,980 |
| Other (Notes 9, 14, and 15) | 113,111 | 61,130 |
| Total investments and other assets | 2,617,181 | 2,591,336 |
| Total non-current assets | 411,624,771 | 398,902,957 |
| Deferred assets: | | |
| Investment corporation bond issuance costs | 39,860 | 44,019 |
| Investment unit issuance costs | 45,855 | — |
| Total deferred assets | 85,715 | 44,019 |
| Total assets | ¥437,221,079 | ¥422,993,568 |

See accompanying notes to the financial statements.

In thousands of yen

| | As of October 31, 2018 | As of April 30, 2018 |
|--|------------------------|----------------------|
| Liabilities | | |
| Current liabilities: | | |
| Operating accounts payable | ¥ 1,341,577 | ¥ 1,453,036 |
| Short-term loans payable (Notes 6 and 14) | 6,000,000 | 6,000,000 |
| Current portion of investment corporation bonds (Notes 6 and 14) | — | 1,800,000 |
| Current portion of long-term loans payable (Notes 6, 14 and 15) | 13,750,000 | 17,050,000 |
| Accounts payable-other | 775,971 | 291,560 |
| Accrued expenses | 62,766 | 79,639 |
| Income taxes payable | 795 | 682 |
| Accrued consumption taxes | 193,775 | 118,583 |
| Advances received | 2,364,110 | 2,340,180 |
| Deposits received | 2,311 | 2,568 |
| Total current liabilities | 24,491,309 | 29,136,251 |
| Non-current liabilities: | | |
| Investment corporation bonds (Notes 6 and 14) | 6,000,000 | 6,000,000 |
| Long-term loans payable (Notes 6, 14 and 15) | 157,300,000 | 155,000,000 |
| Tenant leasehold and security deposits | 1,953,387 | 2,050,835 |
| Tenant leasehold and security deposits in trust | 18,150,520 | 17,164,250 |
| Other (Notes 14 and 15) | 12,281 | — |
| Total non-current liabilities | 183,416,189 | 180,215,086 |
| Total liabilities | 207,907,498 | 209,351,337 |
| Net Assets | | |
| Unitholders' equity: | | |
| Unitholders' capital | 220,970,508 | 206,199,945 |
| Surplus: | | |
| Voluntary retained earnings | | |
| Reserve for reduction entry | 2,134,387 | 1,552,849 |
| Total voluntary retained earnings | 2,134,387 | 1,552,849 |
| Unappropriated retained earnings | 6,107,886 | 5,828,847 |
| Total surplus | 8,242,273 | 7,381,696 |
| Total unitholders' equity | 229,212,781 | 213,581,642 |
| Valuation and translation adjustments: | | |
| Deferred gains or losses on hedges (Notes 14 and 15) | 100,798 | 60,587 |
| Total valuation and translation adjustments | 100,798 | 60,587 |
| Total net assets (Note 10) | 229,313,580 | 213,642,230 |
| Total liabilities and net assets | ¥437,221,079 | ¥422,993,568 |

Statement of Income and Retained Earnings

Kenedix Office Investment Corporation
For the period from May 1, 2018 to October 31, 2018

| | In thousands of yen | |
|--|---|--|
| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
| Operating revenues | | |
| Rent revenue - real estate (Note 12) | ¥12,730,773 | ¥12,351,730 |
| Other lease business revenue (Note 12) | 2,071,972 | 1,870,367 |
| Gain on sale of real estate properties (Note 12) | 532,490 | 550,142 |
| Dividends income | 85,219 | 50,882 |
| Total operating revenues | 15,420,456 | 14,823,123 |
| Operating expenses | | |
| Expenses related to rent business (Note 12) | 7,105,951 | 6,977,998 |
| Asset management fees | 978,238 | 802,855 |
| Directors' compensation | 8,400 | 8,400 |
| Asset custody fees | 22,689 | 22,448 |
| Administrative service fees | 56,337 | 55,699 |
| Audit fees | 11,800 | 11,800 |
| Other operating expenses | 88,304 | 95,549 |
| Total operating expenses | 8,271,721 | 7,974,751 |
| Operating income | 7,148,734 | 6,848,372 |
| Non-operating income | | |
| Interest income | 66 | 38 |
| Dividends and redemption-prescription | 788 | 481 |
| Interest on refund | 330 | 232 |
| Total non-operating income | 1,185 | 752 |
| Non-operating expenses | | |
| Interest expenses | 833,921 | 818,187 |
| Interest expenses on investment corporation bonds | 30,783 | 32,780 |
| Financing-related expenses | 133,349 | 132,774 |
| Amortization of investment corporation bond issuance costs | 4,159 | 4,506 |
| Amortization of investment unit issuance costs | 9,171 | — |
| Other non-operating expenses | 29,411 | 30,930 |
| Total non-operating expenses | 1,040,795 | 1,019,178 |
| Ordinary income | 6,109,124 | 5,829,946 |
| Income before income taxes | 6,109,124 | 5,829,946 |
| Income taxes (Note 9) | | |
| Current | 1,240 | 1,101 |
| Deferred | (2) | (3) |
| Total income taxes | 1,238 | 1,098 |
| Net income | 6,107,886 | 5,828,847 |
| Unappropriated retained earnings | ¥ 6,107,886 | ¥ 5,828,847 |

See accompanying notes to the financial statements.

Statement of Changes in Net Assets

Kenedix Office Investment Corporation
For the period from May 1, 2018 to October 31, 2018

| | In thousands of yen | | | | | | |
|---|----------------------|-----------------------------|----------------------------------|--------------------|---------------------------|---------------------------------------|---------------------|
| | Unitholders' equity | | | | | Valuation and translation adjustments | |
| | Unitholders' capital | Surplus | | | Total unitholders' equity | Deferred gains or losses on hedges | Total net assets |
| | | Reserve for reduction entry | Unappropriated retained earnings | Total surplus | | | |
| Balance as of October 31, 2017 | ¥206,199,945 | ¥2,024,673 | ¥ 4,589,238 | ¥ 6,613,911 | ¥212,813,857 | ¥ 37,549 | ¥212,851,406 |
| Changes during the fiscal period | | | | | | | |
| Reversal of reserve for reduction entry | — | (471,824) | 471,824 | — | — | — | — |
| Dividends of surplus | — | — | (5,061,062) | (5,061,062) | (5,061,062) | — | (5,061,062) |
| Net income | — | — | 5,828,847 | 5,828,847 | 5,828,847 | — | 5,828,847 |
| Net changes of items other than unitholders' equity | — | — | — | — | — | 23,038 | 23,038 |
| Total changes during the fiscal period | — | (471,824) | 1,239,609 | 767,785 | 767,785 | 23,038 | 790,823 |
| Balance as of April 30, 2018 (Note 5) | ¥206,199,945 | ¥1,552,849 | ¥ 5,828,847 | ¥ 7,381,696 | ¥213,581,642 | ¥ 60,587 | ¥213,642,230 |
| Changes during the fiscal period | | | | | | | |
| Issuance of new investment units | 14,770,562 | — | — | — | 14,770,562 | — | 14,770,562 |
| Provision of reserve for reduction entry | — | 581,538 | (581,538) | — | — | — | — |
| Dividends of surplus | — | — | (5,247,309) | (5,247,309) | (5,247,309) | — | (5,247,309) |
| Net income | — | — | 6,107,886 | 6,107,886 | 6,107,886 | — | 6,107,886 |
| Net changes of items other than unitholders' equity | — | — | — | — | — | 40,211 | 40,211 |
| Total changes during the fiscal period | 14,770,562 | 581,538 | 279,038 | 860,576 | 15,631,139 | 40,211 | 15,671,350 |
| Balance as of October 31, 2018 (Note 5) | ¥220,970,508 | ¥2,134,387 | ¥ 6,107,886 | ¥ 8,242,273 | ¥229,212,781 | ¥100,798 | ¥229,313,580 |

See accompanying notes to the financial statements.

Statement of Cash Flows

Kenedix Office Investment Corporation
For the period from May 1, 2018 to October 31, 2018

| | In thousands of yen | |
|--|---|--|
| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
| Cash flows from operating activities: | | |
| Income before income taxes | ¥ 6,109,124 | ¥ 5,829,946 |
| Depreciation | 2,358,994 | 2,295,920 |
| Amortization of long-term prepaid expenses | 133,099 | 132,517 |
| Interest income | (66) | (38) |
| Interest expenses | 864,704 | 850,967 |
| Amortization of investment unit issuance costs | 9,171 | — |
| Amortization of investment corporation bond issuance costs | 4,159 | 4,506 |
| Decrease (increase) in operating accounts receivable | (52,044) | 6,548 |
| Decrease (increase) in consumption taxes receivable | 166,118 | (75,223) |
| Decrease (increase) in prepaid expenses | (34,767) | 33,815 |
| Increase (decrease) in operating accounts payable | (34,206) | 136,298 |
| Increase (decrease) in accounts payable-other | 322,777 | 4,491 |
| Increase (decrease) in accrued consumption taxes | 75,192 | (34,684) |
| Increase (decrease) in advances received | 23,930 | 99,644 |
| Increase (decrease) in deposits received | (257) | (29,078) |
| Decrease in property, plant and equipment due to sale | 2,230,835 | — |
| Decrease in property, plant and equipment in trust due to sale | 4,483,951 | 9,056,075 |
| Decrease (increase) in long-term prepaid expenses | (82,492) | (165,883) |
| Other, net | (61,519) | 3,823 |
| Subtotal | 16,516,704 | 18,149,649 |
| Interest income received | 66 | 38 |
| Interest expenses paid | (881,064) | (837,734) |
| Income taxes paid | (692) | (766) |
| Net cash provided by (used in) operating activities | 15,635,014 | 17,311,186 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (150,523) | (101,142) |
| Purchases of property, plant and equipment in trust | (21,870,082) | (25,402,604) |
| Repayments of tenant leasehold and security deposits | (140,072) | (14,666) |
| Proceeds from tenant leasehold and security deposits | 55,327 | 29,581 |
| Repayments of tenant leasehold and security deposits in trust | (213,521) | (553,418) |
| Proceeds from tenant leasehold and security deposits in trust | 1,561,793 | 1,295,016 |
| Payments of restricted deposits in trust | (13,149) | (686,767) |
| Proceeds from restricted deposits in trust | 2,829 | 45,721 |
| Net cash provided by (used in) investing activities | (20,767,399) | (25,388,281) |
| Cash flows from financing activities: | | |
| Increase in short-term loans payable | 2,000,000 | 4,000,000 |
| Decrease in short-term loans payable | (2,000,000) | (4,000,000) |
| Proceeds from long-term loans payable | 8,500,000 | 15,000,000 |
| Repayments of long-term loans payable | (9,500,000) | (8,750,000) |
| Redemption of investment corporation bonds | (1,800,000) | — |
| Proceeds of investment unit issuance | 14,715,536 | — |
| Dividends paid | (5,247,420) | (5,061,692) |
| Net cash provided by (used in) financing activities | 6,668,115 | 1,188,307 |
| Net increase (decrease) in cash and cash equivalents | 1,535,730 | (6,888,787) |
| Cash and cash equivalents at the beginning of period | 21,746,685 | 28,635,473 |
| Cash and cash equivalents at the end of period (Note 3) | ¥ 23,282,416 | ¥ 21,746,685 |

See accompanying notes to the financial statements.

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 the ownership and operation of selected office buildings 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 eight public 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, 2018, the Investment Corporation acquired two office buildings (Mitsubishijuku Yokohama Building: acquisition price of ¥14,720 million, and JN Building: acquisition price of ¥9,500 million) and sold one residential property (Residence Charmante Tsukishima: initial acquisition price of ¥5,353 million) and two office buildings (KDX Ikejiri-Oohashi Building: initial acquisition price of ¥2,400 million, and KDX Shin-Yokohama 214 Building: initial acquisition price of ¥2,200 million) with a disposition price of ¥9,730 million.

During the period ended October 31, 2018, the Investment Corporation acquired one office building (CROSS PLACE Hamamatsucho: acquisition price of ¥20,700 million) and sold one office building (KDX Hamamatsucho Dai-2 Building: initial acquisition price of ¥2,200 million) and one central urban retail property (Frame Jinnan-zaka (49.0% of quasi co-ownership interest): initial acquisition price of ¥4,851 million (Note)) with a disposition price of ¥7,297 million.

At the end of the twenty-sixth fiscal period (fiscal period ended April 30, 2018), the Investment Corporation had total unitholders’ capital of ¥206,199 million with 404,885 investment units outstanding. At the end of the twenty-seventh fiscal period (fiscal period ended October 31, 2018), the Investment Corporation had total unitholders’ capital of ¥220,970 million with 428,510 investment units outstanding. The Investment Corporation owned a portfolio of 97 properties (consisting of 95 office buildings, one central urban retail property and one other property) and 97 properties (consisting of 95 office buildings, one central urban retail property and one other property) with total acquisition prices of ¥407,235 million and ¥420,884 million at the end of the twenty-sixth and twenty-seventh fiscal periods, respectively. The occupancy ratios were approximately 99.0% and 99.1% at the end of the twenty-sixth and twenty-seventh fiscal periods, respectively. (Note) The acquisition price is an amount equivalent to 49.0% of quasi co-ownership interest in ¥9,900 million, which is the acquisition price of the entire building initially acquired.

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 (including trust assets)

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, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
|-------------------------------|--------------------------------------|---|
| Buildings | 2–49 years | 2–49 years |
| Structures | 2–45 years | 2–45 years |
| Machinery and equipment | 3–17 years | 3–17 years |
| Tools, furniture and fixtures | 3–20 years | 3–20 years |

(C) Intangible Assets (including trust assets)

Intangible assets are amortized by the straight-line method.

Leasehold right: Fixed-term land leasehold is amortized over a contractual period of 48 years and 9 months under the straight-line method.

(D) Long-term Prepaid Expenses

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

(E) Investment Unit Issuance Costs

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

(F) Investment Corporation Bond Issuance Costs

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

(G) 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.

(H) Revenue Recognition

Operating revenues consist of rental revenues including base rents, common area charges and other operating revenues, which include utility charge reimbursement, 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.

(I) 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 ¥28,631 thousand and ¥53,876 thousand as of October 31, 2018 and April 30, 2018, 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.

(J) 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.

(K) 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.

(L) 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-rate swap and interest-rate cap contracts if they met the criteria for hedging accounting under this treatment. 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.

(M) 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.

(N) Presentation of Amounts

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 the twenty-seventh and twenty-sixth fiscal periods 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.

(O) Notes on Changes in Presentation or Classification

As the Investment Corporation started application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the fiscal period under review, changes are made to present deferred tax assets under investments and other assets and deferred tax liabilities under non-current liabilities.

As a result, ¥29 thousand of deferred tax assets which was included in "other" under "current assets" in the balance sheets of the previous fiscal period is included in "other" under "investments and other assets."

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of October 31, 2018 and April 30, 2018.

| | In thousands of yen | |
|-------------------------------------|------------------------|----------------------|
| | As of October 31, 2018 | As of April 30, 2018 |
| Cash and deposits | ¥14,050,532 | ¥13,033,326 |
| Cash and deposits in trust | 10,973,654 | 10,444,809 |
| Restricted deposits in trust (Note) | (1,741,770) | (1,731,450) |
| Cash and cash equivalents in trust | ¥23,282,416 | ¥21,746,685 |

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

4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets consist of the following as of October 31, 2018.

| Type of asset | In thousands of yen | | | | | | | | Remarks |
|--|------------------------------------|----------------------------|----------------------------|------------------------------|--------------------------|-----------------------------|----------------------------------|---------------|---------|
| | Balance at the beginning of period | Increase during the period | Decrease during the period | Balance at the end of period | Depreciation | | Net balance at the end of period | | |
| | | | | | Accumulated depreciation | Depreciation for the period | | | |
| Buildings | ¥ 17,943,798 | ¥ 91,535 | ¥ 342,022 | ¥ 17,693,312 | ¥ 5,316,656 | ¥ 299,675 | ¥ 12,376,655 | Note 2 | |
| Structures | 32,618 | — | — | 32,618 | 13,848 | 875 | 18,770 | | |
| Machinery and equipment | 411,649 | 10,207 | — | 421,857 | 235,745 | 11,818 | 186,111 | | |
| Tools, furniture and fixtures | 83,593 | 3,532 | 540 | 86,586 | 54,482 | 2,987 | 32,103 | | |
| Land | 29,504,025 | — | 1,983,122 | 27,520,902 | — | — | 27,520,902 | Note 2 | |
| Subtotal | 47,975,686 | 105,275 | 2,325,684 | 45,755,276 | 5,620,733 | 315,356 | 40,134,543 | | |
| Buildings in trust | ¥118,523,178 | ¥ 4,974,504 | ¥1,490,907 | ¥122,006,776 | ¥27,897,343 | ¥1,962,090 | ¥ 94,109,432 | Notes 1 and 2 | |
| Structures in trust | 345,717 | 23,362 | 15,559 | 353,520 | 159,867 | 10,615 | 193,653 | | |
| Machinery and equipment in trust | 1,592,359 | 108,240 | 76,701 | 1,623,898 | 708,259 | 51,309 | 915,639 | | |
| Tools, furniture and fixtures in trust | 466,546 | 15,822 | 5,506 | 476,862 | 293,197 | 18,235 | 183,665 | | |
| Land in trust | 259,908,839 | 16,539,695 | 3,620,482 | 272,828,051 | — | — | 272,828,051 | Notes 1 and 2 | |
| Construction in progress in trust | 83 | 2,850 | — | 2,933 | — | — | 2,933 | | |
| Subtotal | 380,836,725 | 21,664,475 | 5,209,158 | 397,292,042 | 29,058,667 | 2,042,251 | 368,233,375 | | |
| Total property, plant and equipment | 428,812,411 | 21,769,751 | 7,534,843 | 443,047,319 | 34,679,400 | 2,357,607 | 408,367,919 | | |
| Leasehold right | ¥ 290,050 | ¥ — | ¥ — | ¥ 290,050 | ¥ 4,792 | ¥ — | ¥ 285,257 | | |
| Leasehold right in trust | 363,784 | — | — | 363,784 | 12,260 | 774 | 351,524 | | |
| Other | 6,123 | — | — | 6,123 | 3,234 | 612 | 2,889 | | |
| Total intangible assets | 659,958 | — | — | 659,958 | 20,287 | 1,386 | 639,671 | | |
| Total | ¥429,472,370 | ¥21,769,751 | ¥7,534,843 | ¥443,707,278 | ¥34,699,687 | ¥2,358,994 | ¥409,007,590 | | |

Note 1: The amount of increase during the period is primarily attributable to the acquisition of the one real estate property.

Note 2: The amount of decrease during the period is primarily attributable to the sales of the two real estate properties.

Property, plant and equipment and intangible assets consist of the following as of April 30, 2018.

| | | In thousands of yen | | | | | | | | |
|-------------------------------|--|------------------------------------|----------------------------|----------------------------|------------------------------|--------------------------|-----------------------------|----------------------------------|---------------|--|
| Type of asset | | Balance at the beginning of period | Increase during the period | Decrease during the period | Balance at the end of period | Depreciation | | Net balance at the end of period | Remarks | |
| | | | | | | Accumulated depreciation | Depreciation for the period | | | |
| Property, plant and equipment | Buildings | ¥ 17,814,001 | ¥ 129,797 | ¥ — | ¥ 17,943,798 | ¥ 5,111,557 | ¥ 298,559 | ¥ 12,832,241 | | |
| | Structures | 32,618 | — | — | 32,618 | 12,973 | 884 | 19,645 | | |
| | Machinery and equipment | 403,054 | 8,595 | — | 411,649 | 223,927 | 11,581 | 187,722 | | |
| | Tools, furniture and fixtures | 83,593 | — | — | 83,593 | 51,767 | 2,826 | 31,825 | | |
| | Land | 29,504,025 | — | — | 29,504,025 | — | — | 29,504,025 | | |
| | Subtotal | 47,837,294 | 138,392 | — | 47,975,686 | 5,400,225 | 313,850 | 42,575,460 | | |
| | Buildings in trust | ¥116,597,709 | ¥ 5,999,351 | ¥ 4,073,882 | ¥118,523,178 | ¥26,581,425 | ¥1,900,544 | ¥ 91,941,753 | Notes 1 and 2 | |
| | Structures in trust | 373,778 | 2,965 | 31,026 | 345,717 | 162,368 | 10,607 | 183,349 | | |
| | Machinery and equipment in trust | 1,752,248 | 70,522 | 230,411 | 1,592,359 | 719,408 | 51,647 | 872,951 | | |
| | Tools, furniture and fixtures in trust | 463,275 | 8,169 | 4,898 | 466,546 | 278,421 | 17,884 | 188,125 | | |
| | Land in trust | 246,626,638 | 19,360,002 | 6,077,802 | 259,908,839 | — | — | 259,908,839 | Notes 1 and 2 | |
| | Construction in progress in trust | 1,142 | — | 1,059 | 83 | — | — | 83 | | |
| | Subtotal | 365,814,792 | 25,441,011 | 10,419,079 | 380,836,725 | 27,741,622 | 1,980,683 | 353,095,102 | | |
| | Total property, plant and equipment | 413,652,086 | 25,579,404 | 10,419,079 | 428,812,411 | 33,141,848 | 2,294,534 | 395,670,563 | | |
| | Intangible assets | Leasehold right | ¥ 290,050 | ¥ — | ¥ — | ¥ 290,050 | ¥ 4,792 | ¥ — | ¥ 285,257 | |
| | | Leasehold right in trust | 363,784 | — | — | 363,784 | 11,486 | 774 | 352,298 | |
| | | Other | 6,123 | — | — | 6,123 | 2,622 | 612 | 3,501 | |
| Total intangible assets | 659,958 | — | — | 659,958 | 18,900 | 1,386 | 641,057 | | | |
| Total | ¥414,312,045 | ¥25,579,404 | ¥10,419,079 | ¥429,472,370 | ¥33,160,748 | ¥2,295,920 | ¥396,311,621 | | | |

Note 1: The amount of increase during the period is primarily attributable to the acquisition of the two real estate properties.

Note 2: The amount of decrease during the period is primarily attributable to the sales of the three real estate properties.

5. UNITHOLDERS' EQUITY

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

| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
|---|---|--|
| Total number of authorized investment units | 2,000,000 | 2,000,000 |
| Total number of investment units issued and outstanding | 428,510 | 404,885 |

6. 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, 2018:

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|--|-------------------|---------------------|--------------------------------|-------------------------------|
| Short-term loans payable | November 30, 2017 | November 30, 2018 | 0.36% | ¥ 2,000,000 |
| | January 31, 2018 | January 31, 2019 | 0.31% | 500,000 |
| | January 31, 2018 | January 31, 2019 | 0.36% | 500,000 |
| | March 30, 2018 | March 29, 2019 | 0.36% | 1,000,000 |
| | July 31, 2018 | July 31, 2019 | 0.36% | 1,000,000 |
| | August 31, 2018 | August 31, 2019 | 0.32% | 1,000,000 |
| Subtotal | | | | 6,000,000 |
| Current portion of long-term loans payable | November 12, 2013 | November 12, 2018 | 0.82% | ¥ 1,000,000 |
| | November 29, 2013 | November 30, 2018 | 0.84% | 200,000 |
| | March 28, 2012 | March 28, 2019 | 1.77% | 1,400,000 |
| | March 28, 2012 | March 28, 2019 | 1.77% | 1,000,000 |
| | March 12, 2014 | March 31, 2019 | 0.78% | 450,000 |
| | March 31, 2014 | March 31, 2019 | 0.76% | 2,500,000 |

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|--|--------------------|---------------------|--------------------------------|-------------------------------|
| Current portion of long-term loans payable | March 30, 2016 | March 31, 2019 | 0.17% | ¥ 1,000,000 |
| | July 10, 2014 | July 10, 2019 | 0.64% | 500,000 |
| | July 14, 2014 | July 31, 2019 | 0.68% | 1,000,000 |
| | July 31, 2014 | July 31, 2019 | 0.62% | 1,000,000 |
| | August 29, 2014 | July 31, 2019 | 0.65% | 1,000,000 |
| | September 30, 2013 | September 30, 2019 | 1.06% | 1,800,000 |
| | September 30, 2013 | September 30, 2019 | 1.06% | 900,000 |
| Subtotal | | | | 13,750,000 |
| Long-term loans payable | August 30, 2013 | August 31, 2020 | 1.42% | ¥ 1,500,000 |
| | November 12, 2013 | November 12, 2020 | 1.07% | 2,000,000 |
| | November 12, 2013 | November 12, 2020 | 1.07% | 500,000 |
| | November 29, 2013 | November 30, 2020 | 1.12% | 1,000,000 |
| | November 29, 2013 | November 30, 2020 | 1.12% | 900,000 |
| | January 10, 2014 | January 31, 2021 | 1.21% | 1,300,000 |
| | January 31, 2014 | January 31, 2020 | 0.93% | 3,700,000 |
| | January 31, 2014 | January 31, 2021 | 1.13% | 2,300,000 |
| | March 12, 2014 | March 12, 2020 | 0.92% | 1,800,000 |
| | March 12, 2014 | March 12, 2023 | 1.36% | 1,800,000 |
| | March 20, 2014 | March 12, 2020 | 0.91% | 3,000,000 |
| | March 20, 2014 | September 20, 2021 | 1.01% | 4,000,000 |
| | March 20, 2014 | March 20, 2022 | 1.20% | 3,000,000 |
| | March 20, 2014 | March 12, 2023 | 1.35% | 2,000,000 |
| | April 22, 2014 | October 31, 2020 | 0.95% | 2,900,000 |
| | July 10, 2014 | July 10, 2021 | 0.90% | 2,000,000 |
| | July 10, 2014 | July 10, 2021 | 0.90% | 500,000 |
| | July 31, 2014 | July 31, 2020 | 0.74% | 2,700,000 |
| | July 31, 2014 | October 31, 2020 | 0.76% | 300,000 |
| | July 31, 2014 | July 31, 2022 | 1.01% | 2,200,000 |
| | September 1, 2014 | August 31, 2021 | 0.89% | 800,000 |
| | September 1, 2014 | August 31, 2021 | 0.89% | 500,000 |
| | September 3, 2014 | August 31, 2022 | 0.98% | 1,000,000 |
| | September 3, 2014 | August 31, 2022 | 0.98% | 950,000 |
| | September 22, 2014 | September 30, 2020 | 0.80% | 2,700,000 |
| | September 30, 2014 | September 30, 2021 | 0.89% | 1,000,000 |
| | October 31, 2014 | October 31, 2021 | 0.80% | 3,000,000 |
| | October 31, 2014 | October 31, 2023 | 1.07% | 2,000,000 |
| | October 31, 2014 | October 31, 2023 | 1.13% | 1,500,000 |
| | October 31, 2014 | October 31, 2023 | 1.07% | 1,000,000 |
| | October 31, 2014 | October 31, 2024 | 1.26% | 2,000,000 |
| | October 31, 2014 | October 31, 2024 | 1.26% | 1,000,000 |
| | January 30, 2015 | January 31, 2021 | 0.71% | 1,500,000 |
| | January 30, 2015 | January 31, 2025 | 1.16% | 1,500,000 |
| | February 18, 2015 | February 28, 2022 | 0.91% | 1,250,000 |
| | February 18, 2015 | February 28, 2022 | 0.91% | 350,000 |
| | February 18, 2015 | February 29, 2024 | 1.16% | 1,700,000 |
| | February 18, 2015 | February 28, 2025 | 1.31% | 1,250,000 |
| | February 27, 2015 | February 28, 2025 | 1.15% | 2,100,000 |
| | March 12, 2015 | February 28, 2025 | 1.22% | 1,000,000 |
| March 31, 2015 | March 31, 2025 | 1.27% | 2,500,000 | |
| April 30, 2015 | April 30, 2022 | 0.83% | 2,300,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| August 31, 2015 | August 31, 2022 | 0.87% | 500,000 | |
| September 30, 2015 | September 30, 2024 | 1.07% | 2,000,000 | |
| October 30, 2015 | October 31, 2024 | 0.99% | 1,000,000 | |
| October 30, 2015 | October 30, 2025 | 1.11% | 1,500,000 | |

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|-------------------------|--------------------|---------------------|--------------------------------|-------------------------------|
| Long-term loans payable | October 30, 2015 | October 30, 2025 | 1.11% | ¥ 2,000,000 |
| | October 30, 2015 | October 30, 2025 | 1.11% | 2,500,000 |
| | October 30, 2015 | October 30, 2025 | 1.12% | 2,500,000 |
| | November 12, 2015 | November 30, 2025 | 1.17% | 1,000,000 |
| | January 29, 2016 | January 31, 2022 | 0.59% | 2,500,000 |
| | January 29, 2016 | January 31, 2022 | 0.64% | 500,000 |
| | January 29, 2016 | January 29, 2026 | 1.07% | 2,000,000 |
| | January 29, 2016 | January 29, 2026 | 1.02% | 1,800,000 |
| | February 18, 2016 | February 18, 2026 | 1.00% | 1,000,000 |
| | February 18, 2016 | February 18, 2026 | 1.00% | 500,000 |
| | March 31, 2016 | March 31, 2026 | 0.90% | 1,000,000 |
| | April 28, 2016 | April 30, 2024 | 0.65% | 2,000,000 |
| | April 28, 2016 | April 30, 2026 | 0.84% | 2,000,000 |
| | April 28, 2016 | April 30, 2026 | 0.87% | 1,000,000 |
| | July 29, 2016 | July 31, 2026 | 0.61% | 1,500,000 |
| | August 2, 2016 | July 31, 2026 | 0.54% | 1,000,000 |
| | October 31, 2016 | October 31, 2024 | 0.67% | 1,000,000 |
| | October 31, 2016 | October 31, 2026 | 0.88% | 2,500,000 |
| | October 31, 2016 | October 31, 2026 | 0.76% | 1,000,000 |
| | October 31, 2016 | October 31, 2026 | 0.73% | 4,000,000 |
| | October 31, 2016 | October 31, 2026 | 0.83% | 1,500,000 |
| | December 12, 2016 | November 30, 2026 | 0.98% | 500,000 |
| | December 28, 2016 | December 28, 2026 | 0.95% | 1,500,000 |
| | January 16, 2017 | January 31, 2027 | 0.86% | 500,000 |
| | January 31, 2017 | January 31, 2027 | 0.85% | 700,000 |
| | March 28, 2017 | March 31, 2027 | 0.85% | 500,000 |
| | June 30, 2017 | June 30, 2027 | 0.85% | 1,500,000 |
| | August 10, 2017 | July 28, 2027 | 0.80% | 3,500,000 |
| | August 31, 2017 | August 31, 2023 | 0.54% | 1,000,000 |
| | September 21, 2017 | March 31, 2024 | 0.56% | 1,000,000 |
| | September 21, 2017 | September 30, 2025 | 0.68% | 1,500,000 |
| | September 21, 2017 | March 31, 2027 | 0.73% | 1,000,000 |
| | September 21, 2017 | September 21, 2027 | 0.87% | 1,000,000 |
| | September 21, 2017 | September 30, 2027 | 0.85% | 2,500,000 |
| | October 31, 2017 | October 31, 2027 | 0.81% | 2,500,000 |
| | November 13, 2017 | November 13, 2027 | 0.93% | 3,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.90% | 1,400,000 |
| | December 7, 2017 | November 30, 2027 | 0.82% | 1,200,000 |
| | December 7, 2017 | November 30, 2027 | 0.97% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.94% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.87% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.90% | 800,000 |
| | December 7, 2017 | November 30, 2027 | 0.87% | 600,000 |
| | December 28, 2017 | December 28, 2025 | 0.74% | 500,000 |
| | December 28, 2017 | December 28, 2026 | 0.88% | 500,000 |
| | December 28, 2017 | December 28, 2027 | 0.86% | 500,000 |
| | March 12, 2018 | March 31, 2028 | 0.91% | 1,500,000 |
| | March 26, 2018 | March 31, 2027 | 0.81% | 1,000,000 |
| | March 26, 2018 | March 31, 2028 | 0.90% | 1,000,000 |
| | July 31, 2018 | July 31, 2028 | 0.99% | 500,000 |
| August 20, 2018 | August 31, 2025 | 0.70% | 500,000 | |
| August 20, 2018 | August 31, 2028 | 1.00% | 1,000,000 | |
| August 20, 2018 | August 31, 2028 | 1.00% | 1,000,000 | |
| August 20, 2018 | August 31, 2028 | 1.00% | 500,000 | |
| August 20, 2018 | August 31, 2028 | 0.97% | 500,000 | |
| August 31, 2018 | August 31, 2025 | 0.70% | 500,000 | |
| August 31, 2018 | August 31, 2025 | 0.72% | 300,000 | |
| August 31, 2018 | August 31, 2028 | 1.01% | 700,000 | |
| October 31, 2018 | October 31, 2028 | 1.01% | 1,500,000 | |

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|------------------------------|------------------|---------------------|--------------------------------|-------------------------------|
| Long-term loans payable | October 31, 2018 | October 31, 2028 | 0.91% | ¥ 1,000,000 |
| | October 31, 2018 | October 31, 2028 | 1.01% | 500,000 |
| Subtotal | | | | 157,300,000 |
| Investment corporation bonds | July 25, 2014 | July 25, 2024 | 1.18% | ¥ 2,000,000 |
| | April 28, 2016 | April 28, 2028 | 0.90% | 1,000,000 |
| | July 19, 2017 | July 19, 2022 | 0.26% | 1,000,000 |
| | July 19, 2017 | July 16, 2027 | 0.64% | 2,000,000 |
| Subtotal | | | | 6,000,000 |
| Total | | | | ¥183,050,000 |

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of April 30, 2018:

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|--|--------------------|---------------------|--------------------------------|-------------------------------|
| Short-term loans payable | July 31, 2017 | July 31, 2018 | 0.35% | ¥ 1,000,000 |
| | August 31, 2017 | August 31, 2018 | 0.30% | 1,000,000 |
| | November 30, 2017 | November 30, 2018 | 0.35% | 2,000,000 |
| | January 31, 2018 | January 31, 2019 | 0.31% | 500,000 |
| | January 31, 2018 | January 31, 2019 | 0.36% | 500,000 |
| | March 30, 2018 | March 29, 2019 | 0.36% | 1,000,000 |
| Subtotal | | | | 6,000,000 |
| Current portion of long-term loans payable | July 31, 2013 | July 31, 2018 | 0.57% | ¥ 500,000 |
| | August 19, 2013 | August 19, 2018 | 0.95% | 1,000,000 |
| | August 19, 2013 | August 19, 2018 | 0.95% | 1,000,000 |
| | August 19, 2013 | August 19, 2018 | 0.95% | 500,000 |
| | August 19, 2013 | August 19, 2018 | 0.95% | 500,000 |
| | August 19, 2013 | August 19, 2018 | 0.97% | 500,000 |
| | August 30, 2013 | August 31, 2018 | 1.08% | 700,000 |
| | August 30, 2013 | August 31, 2018 | 1.08% | 500,000 |
| | August 30, 2013 | August 31, 2018 | 1.08% | 300,000 |
| | October 31, 2012 | October 31, 2018 | 1.25% | 2,500,000 |
| | October 31, 2013 | October 31, 2018 | 0.89% | 500,000 |
| | October 31, 2016 | October 31, 2018 | 0.35% | 1,000,000 |
| | November 12, 2013 | November 12, 2018 | 0.82% | 1,000,000 |
| | November 29, 2013 | November 30, 2018 | 0.84% | 200,000 |
| | March 28, 2012 | March 28, 2019 | 1.77% | 1,400,000 |
| | March 28, 2012 | March 28, 2019 | 1.77% | 1,000,000 |
| | March 12, 2014 | March 31, 2019 | 0.78% | 450,000 |
| March 31, 2014 | March 31, 2019 | 0.76% | 2,500,000 | |
| March 30, 2016 | March 31, 2019 | 0.17% | 1,000,000 | |
| Subtotal | | | | 17,050,000 |
| Long-term loans payable | August 30, 2013 | August 31, 2020 | 1.42% | ¥ 1,500,000 |
| | September 30, 2013 | September 30, 2019 | 1.06% | 1,800,000 |
| | September 30, 2013 | September 30, 2019 | 1.06% | 900,000 |
| | November 12, 2013 | November 12, 2020 | 1.07% | 2,000,000 |
| | November 12, 2013 | November 12, 2020 | 1.07% | 500,000 |
| | November 29, 2013 | November 30, 2020 | 1.12% | 1,000,000 |
| | November 29, 2013 | November 30, 2020 | 1.12% | 900,000 |
| | January 10, 2014 | January 31, 2021 | 1.21% | 1,300,000 |
| | January 31, 2014 | January 31, 2020 | 0.93% | 3,700,000 |
| | January 31, 2014 | January 31, 2021 | 1.13% | 2,300,000 |
| | March 12, 2014 | March 12, 2020 | 0.92% | 1,800,000 |
| | March 12, 2014 | March 12, 2023 | 1.36% | 1,800,000 |
| | March 20, 2014 | March 12, 2020 | 0.91% | 3,000,000 |
| | March 20, 2014 | September 20, 2021 | 1.01% | 4,000,000 |
| | March 20, 2014 | March 20, 2022 | 1.20% | 3,000,000 |
| | March 20, 2014 | March 12, 2023 | 1.35% | 2,000,000 |
| | April 22, 2014 | October 31, 2020 | 0.95% | 2,900,000 |
| July 10, 2014 | July 10, 2019 | 0.64% | 500,000 | |

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|-------------------------|--------------------|---------------------|--------------------------------|-------------------------------|
| Long-term loans payable | July 10, 2014 | July 10, 2021 | 0.90% | ¥ 2,000,000 |
| | July 10, 2014 | July 10, 2021 | 0.90% | 500,000 |
| | July 14, 2014 | July 31, 2019 | 0.68% | 1,000,000 |
| | July 31, 2014 | July 31, 2019 | 0.62% | 1,000,000 |
| | July 31, 2014 | July 31, 2020 | 0.74% | 2,700,000 |
| | July 31, 2014 | October 31, 2020 | 0.76% | 300,000 |
| | July 31, 2014 | July 31, 2022 | 1.01% | 2,200,000 |
| | August 29, 2014 | July 31, 2019 | 0.65% | 1,000,000 |
| | September 1, 2014 | August 31, 2021 | 0.89% | 800,000 |
| | September 1, 2014 | August 31, 2021 | 0.89% | 500,000 |
| | September 3, 2014 | August 31, 2022 | 0.98% | 1,000,000 |
| | September 3, 2014 | August 31, 2022 | 0.98% | 950,000 |
| | September 22, 2014 | September 30, 2020 | 0.80% | 2,700,000 |
| | September 30, 2014 | September 30, 2021 | 0.89% | 1,000,000 |
| | October 31, 2014 | October 31, 2021 | 0.80% | 3,000,000 |
| | October 31, 2014 | October 31, 2023 | 1.07% | 2,000,000 |
| | October 31, 2014 | October 31, 2023 | 1.13% | 1,500,000 |
| | October 31, 2014 | October 31, 2023 | 1.07% | 1,000,000 |
| | October 31, 2014 | October 31, 2024 | 1.26% | 2,000,000 |
| | October 31, 2014 | October 31, 2024 | 1.26% | 1,000,000 |
| | January 30, 2015 | January 31, 2021 | 0.71% | 1,500,000 |
| | January 30, 2015 | January 31, 2025 | 1.16% | 1,500,000 |
| | February 18, 2015 | February 28, 2022 | 0.91% | 1,250,000 |
| | February 18, 2015 | February 28, 2022 | 0.91% | 350,000 |
| | February 18, 2015 | February 29, 2024 | 1.16% | 1,700,000 |
| | February 18, 2015 | February 28, 2025 | 1.31% | 1,250,000 |
| | February 27, 2015 | February 28, 2025 | 1.15% | 2,100,000 |
| | March 12, 2015 | February 28, 2025 | 1.22% | 1,000,000 |
| | March 31, 2015 | March 31, 2025 | 1.27% | 2,500,000 |
| | April 30, 2015 | April 30, 2022 | 0.83% | 2,300,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | August 31, 2015 | August 31, 2022 | 0.87% | 500,000 |
| | September 30, 2015 | September 30, 2024 | 1.07% | 2,000,000 |
| | October 30, 2015 | October 31, 2024 | 0.99% | 1,000,000 |
| | October 30, 2015 | October 30, 2025 | 1.11% | 1,500,000 |
| | October 30, 2015 | October 30, 2025 | 1.11% | 2,000,000 |
| | October 30, 2015 | October 30, 2025 | 1.11% | 2,500,000 |
| | October 30, 2015 | October 30, 2025 | 1.12% | 2,500,000 |
| | November 12, 2015 | November 30, 2025 | 1.17% | 1,000,000 |
| | January 29, 2016 | January 31, 2022 | 0.59% | 2,500,000 |
| | January 29, 2016 | January 31, 2022 | 0.64% | 500,000 |
| | January 29, 2016 | January 29, 2026 | 1.07% | 2,000,000 |
| | January 29, 2016 | January 29, 2026 | 1.02% | 1,800,000 |
| | February 18, 2016 | February 18, 2026 | 1.00% | 1,000,000 |
| | February 18, 2016 | February 18, 2026 | 1.00% | 500,000 |
| | March 31, 2016 | March 31, 2026 | 0.90% | 1,000,000 |
| April 28, 2016 | April 30, 2024 | 0.65% | 2,000,000 | |
| April 28, 2016 | April 30, 2026 | 0.84% | 2,000,000 | |
| April 28, 2016 | April 30, 2026 | 0.87% | 1,000,000 | |
| July 29, 2016 | July 31, 2026 | 0.61% | 1,500,000 | |
| August 2, 2016 | July 31, 2026 | 0.54% | 1,000,000 | |
| October 31, 2016 | October 31, 2024 | 0.67% | 1,000,000 | |
| October 31, 2016 | October 31, 2026 | 0.88% | 2,500,000 | |
| October 31, 2016 | October 31, 2026 | 0.76% | 1,000,000 | |
| October 31, 2016 | October 31, 2026 | 0.73% | 4,000,000 | |

| Classification | Drawdown date | Last repayment date | Weighted-average interest rate | Balance (In thousands of yen) |
|---|--------------------|---------------------|--------------------------------|----------------------------------|
| Long-term loans payable | October 31, 2016 | October 31, 2026 | 0.83% | ¥ 1,500,000 |
| | December 12, 2016 | November 30, 2026 | 0.98% | 500,000 |
| | December 28, 2016 | December 28, 2026 | 0.95% | 1,500,000 |
| | January 16, 2017 | January 31, 2027 | 0.86% | 500,000 |
| | January 31, 2017 | January 31, 2027 | 0.85% | 700,000 |
| | March 28, 2017 | March 31, 2027 | 0.85% | 500,000 |
| | June 30, 2017 | June 30, 2027 | 0.85% | 1,500,000 |
| | August 10, 2017 | July 28, 2027 | 0.80% | 3,500,000 |
| | August 31, 2017 | August 31, 2023 | 0.54% | 1,000,000 |
| | September 21, 2017 | March 31, 2024 | 0.56% | 1,000,000 |
| | September 21, 2017 | September 30, 2025 | 0.68% | 1,500,000 |
| | September 21, 2017 | March 31, 2027 | 0.73% | 1,000,000 |
| | September 21, 2017 | September 21, 2027 | 0.87% | 1,000,000 |
| | September 21, 2017 | September 30, 2027 | 0.85% | 2,500,000 |
| | October 31, 2017 | October 31, 2027 | 0.81% | 2,500,000 |
| | November 13, 2017 | November 13, 2027 | 0.93% | 3,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.90% | 1,400,000 |
| | December 7, 2017 | November 30, 2027 | 0.82% | 1,200,000 |
| | December 7, 2017 | November 30, 2027 | 0.97% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.94% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.87% | 1,000,000 |
| | December 7, 2017 | November 30, 2027 | 0.90% | 800,000 |
| | December 7, 2017 | November 30, 2027 | 0.87% | 600,000 |
| | December 28, 2017 | December 28, 2027 | 0.86% | 500,000 |
| | December 28, 2017 | December 28, 2025 | 0.74% | 500,000 |
| | December 28, 2017 | December 28, 2026 | 0.88% | 500,000 |
| | March 12, 2018 | March 31, 2028 | 0.91% | 1,500,000 |
| | March 26, 2018 | March 31, 2027 | 0.81% | 1,000,000 |
| | March 26, 2018 | March 31, 2028 | 0.90% | 1,000,000 |
| | Subtotal | | | |
| Current portion of investment corporation bonds | September 12, 2013 | September 12, 2018 | 1.00% | ¥ 1,800,000 |
| Subtotal | | | | 1,800,000 |
| Investment corporation bonds | July 25, 2014 | July 25, 2024 | 1.18% | ¥ 2,000,000 |
| | April 28, 2016 | April 28, 2028 | 0.90% | 1,000,000 |
| | July 19, 2017 | July 19, 2022 | 0.26% | 1,000,000 |
| | July 19, 2017 | July 16, 2027 | 0.64% | 2,000,000 |
| Subtotal | | | | 6,000,000 |
| Total | | | | ¥185,850,000 |

7. REDUCTION ENTRY

The amount of reduction entry of property, plant and equipment acquired by government subsidy is as follows:

| | In thousands of yen | |
|--------------------|------------------------|----------------------|
| | As of October 31, 2018 | As of April 30, 2018 |
| Buildings in trust | ¥26,230 | ¥26,230 |

8. PER UNIT INFORMATION

| | Yen | |
|--|--------------------------------------|---|
| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
| Net asset value per unit | ¥535,141 | ¥527,661 |
| Net income per unit | ¥ 14,373 | ¥ 14,396 |
| Weighted-average number of units (units) | 424,933 | 404,885 |

The weighted-average number of units outstanding of 424,933 and 404,885 as of October 31, 2018 and April 30, 2018, 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.

9. 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 ¥5,766 million and ¥5,247 million for the fiscal periods ended October 31, 2018 and April 30, 2018, respectively. 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 0.02% for the fiscal periods ended October 31, 2018 and April 30, 2018, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate.

| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
|--|---|--|
| Statutory tax rate | 31.51% | 31.74% |
| Deductible cash distributions | (29.74) | (28.57) |
| Provision of reserve for reduction entry | (1.76) | (3.17) |
| Others | 0.01 | 0.02 |
| Effective tax rate | 0.02% | 0.02% |

The significant components of deferred tax assets and liabilities as of October 31, 2018 and April 30, 2018 are as follows:

| | In thousands of yen | |
|---------------------------------|------------------------|----------------------|
| | As of October 31, 2018 | As of April 30, 2018 |
| Deferred tax assets: | | |
| Enterprise tax payable | ¥ 30 | ¥ 29 |
| Amortization of leasehold right | 3,873 | 3,628 |
| Subtotal | 3,904 | 3,657 |
| Valuation allowance | (3,873) | (3,628) |
| Total deferred tax assets | ¥ 30 | ¥ 29 |

10. 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.

11. RELATED-PARTY TRANSACTIONS

(A) Parent Company, Major Corporate Unitholders and Other

Twenty-seventh fiscal period (From May 1, 2018 to October 31, 2018) and Twenty-sixth fiscal period (From November 1, 2017 to April 30, 2018):

Not applicable

(B) Affiliated Companies and Other

Twenty-seventh fiscal period (From May 1, 2018 to October 31, 2018) and Twenty-sixth fiscal period (From November 1, 2017 to April 30, 2018):

Not applicable

(C) Fellow Subsidiary Companies and Other

Twenty-seventh fiscal period (From May 1, 2018 to October 31, 2018) and Twenty-sixth fiscal period (From November 1, 2017 to April 30, 2018):

Not applicable

(D) Directors, Major Individual Unitholders and Other

Twenty-seventh fiscal period (From May 1, 2018 to October 31, 2018) and Twenty-sixth fiscal period (From November 1, 2017 to April 30, 2018):

Not applicable

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

Rent revenue - real estate, expenses related to rent business, and gain and loss on sale of real estate property for the fiscal periods from May 1, 2018 to October 31, 2018 and from November 1, 2017 to April 30, 2018 consist of the following:

| | In thousands of yen | |
|---|---|--|
| | From May 1, 2018 to October 31, 2018 | From November 1, 2017 to April 30, 2018 |
| Rental and other operating revenues: | | |
| Rent revenue - real estate: | | |
| Rental revenues | ¥10,893,102 | ¥10,509,225 |
| Common area charges | 1,837,671 | 1,842,504 |
| Subtotal | 12,730,773 | 12,351,730 |
| Others: | | |
| Parking space rental revenues | 519,171 | 513,392 |
| Utility charge reimbursement | 1,230,853 | 1,054,416 |
| Miscellaneous | 321,947 | 302,558 |
| Subtotal | 2,071,972 | 1,870,367 |
| Total rent revenue - real estate | ¥14,802,746 | ¥14,222,098 |
| Property-related expenses: | | |
| Expenses related to rent business: | | |
| Property management fees and facility management fees | ¥ 1,378,278 | ¥ 1,355,289 |
| Depreciation | 2,358,382 | 2,295,308 |
| Utilities | 1,241,455 | 1,102,668 |
| Taxes | 1,225,685 | 1,148,754 |
| Insurance | 19,886 | 19,318 |
| Repairs and maintenance | 568,517 | 767,074 |
| Trust fees | 32,791 | 32,748 |
| Others | 280,955 | 256,837 |
| Total expenses related to rent business | ¥ 7,105,951 | ¥ 6,977,998 |
| Gain on sale of real estate properties: | | |
| Revenue from sale of investment properties | ¥ 7,297,000 | ¥ 9,730,000 |
| Cost of investment properties | 6,714,787 | 9,056,075 |
| Other sales expenses | 49,722 | 123,782 |
| Gain on sale of real estate properties | ¥ 532,490 | ¥ 550,142 |

13. 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. The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2018 and April 30, 2018 are as follows:

| | In thousands of yen | |
|---------------------|------------------------|----------------------|
| | As of October 31, 2018 | As of April 30, 2018 |
| Due within one year | ¥1,621,774 | ¥1,446,246 |
| Due after one year | 5,956,433 | 5,943,183 |
| Total | ¥7,578,208 | ¥7,389,430 |

14. FINANCIAL INSTRUMENTS

Twenty-seventh fiscal period (from May 1, 2018 to October 31, 2018)

(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 10 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 transactions, 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 (L) "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, 2018 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 deposits | ¥ 14,050,532 | ¥ 14,050,532 | ¥ — |
| (2) Cash and deposits in trust | 10,973,654 | 10,973,654 | — |
| Subtotal | 25,024,186 | 25,024,186 | — |
| (1) Short-term loans payable | 6,000,000 | 6,000,000 | — |
| (2) Current portion of investment corporation bonds | — | — | — |
| (3) Current portion of long-term loans payable | 13,750,000 | 13,768,881 | 18,881 |
| (4) Investment corporation bonds | 6,000,000 | 6,050,100 | 50,100 |
| (5) Long-term loans payable | 157,300,000 | 157,675,962 | 375,962 |
| Subtotal | ¥183,050,000 | ¥183,494,943 | ¥444,943 |
| Derivative transactions (*) | 100,798 | 100,798 | — |

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing the 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 deposits and (2) Cash and deposits in trust

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 15 "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 | ¥1,114,806 |

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 deposits | ¥14,050,532 |
| Cash and deposits in trust | 10,973,654 |
| Total | ¥25,024,186 |

*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 | ¥ 6,000,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Investment corporation bonds | — | — | — | 1,000,000 | — | 5,000,000 |
| Long-term loans payable | 13,750,000 | 18,600,000 | 21,300,000 | 17,050,000 | 9,300,000 | 91,050,000 |
| Total | ¥19,750,000 | ¥18,600,000 | ¥21,300,000 | ¥18,050,000 | ¥9,300,000 | ¥96,050,000 |

Twenty-sixth fiscal period (from November 1, 2017 to April 30, 2018)

(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 10 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 transactions, 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 (L) "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.

(B) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet as of April 30, 2018 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 deposits | ¥ 13,033,326 | ¥ 13,033,326 | ¥ — |
| (2) Cash and deposits in trust | 10,444,809 | 10,444,809 | — |
| Subtotal | 23,478,136 | 23,478,136 | — |
| (1) Short-term loans payable | 6,000,000 | 6,000,000 | — |
| (2) Current portion of investment corporation bonds | 1,800,000 | 1,804,644 | 4,644 |
| (3) Current portion of long-term loans payable | 17,050,000 | 17,088,337 | 38,337 |
| (4) Investment corporation bonds | 6,000,000 | 6,057,000 | 57,000 |
| (5) Long-term loans payable | 155,000,000 | 155,280,513 | 280,513 |
| Subtotal | ¥185,850,000 | ¥186,230,495 | ¥380,495 |
| Derivative transactions (*) | 60,587 | 60,587 | — |

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing the 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 deposits and (2) Cash and deposits in trust

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 15 "DERIVATIVE TRANSACTIONS."

(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.

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

| Classification | Carrying value (In thousands of yen) |
|-----------------------|--------------------------------------|
| Investment securities | ¥1,090,336 |

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 deposits | ¥13,033,326 |
| Cash and deposits in trust | 10,444,809 |
| Total | ¥23,478,136 |

*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 | ¥ 6,000,000 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Investment corporation bonds | 1,800,000 | — | — | — | 1,000,000 | 5,000,000 |
| Long-term loans payable | 17,050,000 | 14,700,000 | 19,600,000 | 21,700,000 | 10,950,000 | 88,050,000 |
| Total | ¥24,850,000 | ¥14,700,000 | ¥19,600,000 | ¥21,700,000 | ¥11,950,000 | ¥93,050,000 |

15. DERIVATIVE TRANSACTIONS

The following summarizes the contracted amount and the fair value of interest-rate swap contracts as of October 31, 2018:

(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 | ¥ 23,900,000 | ¥ 23,900,000 | ¥100,798 | 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 | 93,900,000 | 82,550,000 | * | |
| Total | | | ¥117,800,000 | ¥106,450,000 | ¥100,798 | |

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

The following summarizes the contracted amount and the fair value of interest-rate swap and interest-rate cap contracts as of April 30, 2018:

(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 | ¥ 17,900,000 | ¥ 17,900,000 | ¥60,587 | 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 | 97,400,000 | 88,750,000 | * | |
| Special treatment of interest-rate caps | Interest-rate caps transaction | Long-term loans payable | 500,000 | — | * | |
| Total | | | ¥115,800,000 | ¥106,650,000 | ¥60,587 | |

(*1) 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.

16. INVESTMENT AND RENTAL PROPERTIES

Twenty-seventh fiscal period (from May 1, 2018 to October 31, 2018)

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, 2018 | Net change | As of October 31, 2018 | As of October 31, 2018 (In thousands of yen) |
| ¥396,308,119 | ¥12,696,581 | ¥409,004,701 | ¥465,637,000 |

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

*2: Fair value at the end of the fiscal period is the appraisal value determined by outside appraisers. Fair value at the end of the fiscal period under review of Frame Jinnan-zaka (51.0% of quasi co-ownership interest) that was sold on November 1, 2018 is calculated based on the sale price (¥5,253,000 thousand) in the transaction agreement on May 14, 2018.

*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 one property totaling ¥20,841,117 thousand, the sales of two properties totaling ¥6,714,787 thousand and depreciation amounting to ¥2,358,382 thousand.

Income and loss in the fiscal period ended October 31, 2018 for real estate for rental purposes is listed in Note 12 "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, AND GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY."

Twenty-sixth fiscal period (from November 1, 2017 to April 30, 2018)

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, 2017 | Net change | As of April 30, 2018 | As of April 30, 2018 (In thousands of yen) |
| ¥382,081,158 | ¥14,226,960 | ¥396,308,119 | ¥442,773,000 |

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

*2: Fair value at the end of the fiscal period is the appraisal value determined by outside appraisers. Fair value at the end of the fiscal period under review of KDX Hamamatsucho Dai-2 Building and Frame Jinnan-zaka (49.0% of quasi co-ownership interest) that were sold on July 2, 2018 and Frame Jinnan-zaka (51.0% of quasi co-ownership interest) that is scheduled to be sold on November 1, 2018 are calculated based on the sale price (¥12,550,000 thousand) in the transaction agreement on May 14, 2018.

*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 two properties totaling ¥24,692,691 thousand, the sales of three properties totaling ¥9,056,075 thousand and depreciation amounting to ¥2,295,308 thousand.

Income and loss in the fiscal period ended April 30, 2018 for real estate for rental purposes is listed in Note 12 "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, AND GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY."

17. SEGMENT AND RELATED INFORMATION

Twenty-seventh fiscal period (from May 1, 2018 to October 31, 2018)

(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 revenues 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 revenues 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 revenues on the statement of income and retained earnings.

Twenty-sixth fiscal period (from November 1, 2017 to April 30, 2018)

(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 revenues 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 revenues 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 revenues on the statement of income and retained earnings.

18. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

19. DISTRIBUTIONS

Yen

| | Twenty-seventh fiscal period (From May 1, 2018 to October 31, 2018) | Twenty-sixth fiscal period (From November 1, 2017 to April 30, 2018) |
|--|---|---|
| I. Retained earnings at the end of period | ¥6,107,886,067 | ¥5,828,847,806 |
| II. Total distributions | ¥5,766,887,580 | ¥5,247,309,600 |
| Distributions per unit | ¥ 13,458 | ¥ 12,960 |
| III. Voluntary reserve (provision) | | |
| Provision of reserve for reduction entry | ¥ 340,998,487 | ¥ 581,538,206 |
| IV. Retained earnings brought forward to the next period | — | — |
| Method of calculating distribution amount | <p>In accordance with the policy stipulated in Article 35 (1) of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation, and shall be up to the amount of its profits as the ceiling. Following this policy, the Investment Corporation has decided that, of the amount remaining after the provision of reserve for reduction entry as stipulated in Article 66-2 of the Act on Special Measures Concerning Taxation is deducted from unappropriated retained earnings, it shall distribute the outstanding ¥5,766,887,580 as profit distribution.</p> <p>In addition, the Investment Corporation decided not to distribute cash in excess of distributable profit, stipulated in Article 35 (2) of its Articles of Incorporation.</p> | <p>In accordance with the policy stipulated in Article 35 (1) of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Act on Special Measures Concerning Taxation, and shall be up to the amount of its profits as the ceiling. Following this policy, the Investment Corporation has decided that, of the amount remaining after the provision of reserve for reduction entry as stipulated in Article 66-2 of the Act on Special Measures Concerning Taxation is deducted from unappropriated retained earnings, it shall distribute the outstanding ¥5,247,309,600 as profit distribution.</p> <p>In addition, the Investment Corporation decided not to distribute cash in excess of distributable profit, stipulated in Article 35 (2) of its Articles of Incorporation.</p> |